London Transport

Annual Report
31 March 2003

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Chairman's Statement

Each year for the past three years, London Transport has stood poised on the brink of an exciting new era – a time of great change and great challenge to create a transport network for London that will, once again, be the envy of the world.

Now the task can begin – with control of London Underground finally passing to London's governing body for transport: Transport for London (TfL).

This transfer of power involves one of the UK's most important assets and both sides have played an important part in the handover, ensuring that the final stages of transition run smoothly in preparation for the much-needed regeneration to come.

London Transport's commitment to the Public Private Partnership (PPP) secured the funding that is required to rebuild the Tube following years of decay, delay and under-investment. Transport for London's role will now be to fulfil the vision of a fully-integrated transport network, serving the whole capital – and accessible to all.

Work on this huge landmark project is already under way, with the Infraco partners now able to put in place long-established plans for a top-to-bottom transformation of the Tube. It will take time to recover from the long years of under funding. The new investment – around £16 billion over the next 15 years – will deliver the service that customers rightly demand: more trains, greater reliability, more comfortable journeys, better stations and the safest possible system – with first signs of improvement coming in the next few months.

This big step forward builds on London Underground's steady improvement – and increased grant for investment – over the past year, with figures showing an underlying upward trend in service performance

It has not been all positive news over the last 12 months, however, and events both overseas and here in London have affected the business and the way the Underground operates.

Britain's busiest railway has been slightly less busy, with passenger counts down – part of the overall reduction in travel caused by the war in Iraq, an increased threat of terrorism and the SARs epidemic.

Closer to home, the biggest problem was the derailment at Chancery Lane that put the Central line out of full use for eleven weeks. Hundreds of thousands of our customers were inconvenienced, and for this we are very sorry. Procedures are now in place to prevent such a long closure happening again.

But as LT comes to the end of a long, productive life, it should be remembered for the good times and the good things it has done for the great city it has so proudly served – and also for the hard work and dedication of its directors, managers and staff.

Now the task at hand is for TfL to finish the job we have started – building the world class Tube our great city deserves.

Sir Malcolm Bates
Chairman
7 July 2003

Operating and Financial Review

Introduction

The lengthy service suspensions that followed the derailment at Chancery Lane (see below) had a major impact on London Underground's results for the year. Performance was also depressed by three 24-hour strikes by some Underground staff, which resulted in a total shutdown of the system on one day and only extremely limited services operating on the other two days.

Chancery Lane Derailment

On 25 January 2003, a Central line train became derailed near Chancery Lane station, fortunately with no serious injuries to the 500 or so customers on board. Initial suspicions as to the cause – confirmed on subsequent investigation – were that a motor had become detached from its mountings beneath the train. London Underground therefore took a decision to suspend services on the line (and the Waterloo & City line, which uses the same type of trains) while changes were made to the bolts and brackets that secure the motors. With 32 motors on each of the 85-strong train fleet, and each motor secured by four bolts and two brackets, this represented a major fleet modification and as such was a lengthy process. Services recommenced on the Waterloo & City line in mid-February and limited shuttle services on sections of the Central line were progressively introduced from mid-March. However, it was not until after the end of the year that services could be restored to all Central line destinations.

Customer Demand

An extensive network of replacement bus services was provided during the time that the Central line was suspended, or offering limited services, in order to help customers to undertake their journeys via other Underground or National Rail routes. Even so, it was inevitable that some customers would seek alternative means of transport or cancel their travel plans altogether. Taken together with the losses caused by industrial action, this meant that for the second successive year the number of journeys undertaken on the Underground fell compared with the previous year. In other respects, demand held up well, in particular leisure travel which continued its recovery from the events of 2001.

Service Performance

Total service volume was unchanged from the previous year at 65.4 million train kilometres, representing 91.1% of scheduled services. London Underground estimates that the exceptional factors noted above caused the loss of some 2.4 million train kilometres in the year, equivalent to 3.4% of scheduled services. Underlying performance therefore sustained the improvement seen in the final quarter of the previous year and exceeded the targets set by Government.

The disruption to train services was reflected in increased excess journey time, which averaged 4.22 minutes over the year compared with 3.44 minutes in 2001/02. Journey time also suffered as a result of the closure of 20 deep tube stations served only by lifts during 15 days of industrial action by the Fire Brigades Union. Again, if the effects of these exceptional factors are excluded, then underlying performance was better than both last year's result and the Government target.

The Northern line retained its position as one of London Underground's most reliable lines. Users of the line benefited from an improved timetable, introduced in July 2002, that increased service volume on the line by 12% and raised peak train frequency to 30 trains per hour at the south end of the line. Revised timetables designed to improve reliability were also introduced during the year on the Bakerloo, Piccadilly and the Sub-surface group of lines.

The train schedules now being operated are such that over most of the network, customers enjoy a "turn up and go" service. This means that, when services are running normally, no customer should have to wait for longer than ten minutes if they are at the far end of a line or five minutes if they are in the central ticket zones.

Operating and Financial Review

Investment in the Network

Supported by a substantially higher Government grant, the year 2002/03 saw the level of essential renewal and replacement of infrastructure and assets increase compared with recent years, although continuing uncertainty over the PPP start dates meant that it was not possible to meet our initial aspirations in all areas. Nevertheless, three of the five investment delivery targets set by Government were met.

Over £100 million was spent during the year on work to increase the capacity of LUL's King's Cross St Pancras station. As one of the largest rail interchange projects in Europe, the redevelopment will link the new Channel Tunnel Rail Link terminal to an expanded Underground station, including step-free access to all lines, and forms part of the wider regeneration of the area around King's Cross. A joint London Underground / Department for Transport project team is managing the project, which will continue until the end of 2006, with Metronet Rail SSL Limited carrying out the works.

In October 2002, London Underground's power station at Lots Road in Chelsea ceased operations after almost a century of continuous generation. This marked a major milestone in the 30-year Private Finance Initiative (PFI) contract with SEEBOARD Powerlink (SPL) under which they manage, maintain, develop and finance London Underground's power supply system. Power requirements are now met entirely from the National Grid, providing a more reliable and environmentally friendly power supply for the Underground. Proceeds from the sale of the Lots Road site will be used to improve the network for the benefit of London.

On 31 December 2002, the first stage of the long-awaited Public Private Partnership (PPP) was completed when the Tube Lines consortium signed a 30-year deal with London Underground for the maintenance and upgrade of the Jubilee, Northern and Piccadilly lines. Shortly after the year-end, on 4 April 2003, the Metronet consortium assumed responsibility for the maintenance and upgrade of the other two major sections of the Tube; the Bakerloo, Central, Waterloo & City and Victoria lines and the Sub-Surface lines. With the PPP now fully in place, London Underground can look forward to a sustained increase in investment in future years.

Customer Service Improvements

Completion of the PPP transactions represents the final stage in London Underground's move from being an infrastructure provider to a customer-focused service provider.

From June 2002, we extended the opening hours of our Customer Service Centre to 08:00 – 20:00, 7 days a week. Following the derailment at Chancery Lane, the opening hours were temporarily lengthened to 07:00 – 22:00 in order to provide customers with information on alternative travel arrangements and ticket refunds. The incident also highlighted the increasing importance of our website, 'thetube.com', as a means of communicating with our customers. After rising steadily at an average of around 5% per month over the past two years, the number of visits to the site increased by around 50% in the immediate post-derailment period.

Research undertaken to assess customers' views of the website showed that the overall opinion of it is still high with customers feeling that it has significantly improved since last year. Customer comments were taken into account in developing the new look for the site that was launched towards the end of March.

During the year, London Underground let new five-year contracts for the management of customer car parks at stations. The new operators will be responsible for operation of the car parks and will also be making substantial investment to improve lighting, fencing and surfaces. Car park security has already benefited from the Home Office funded project, 'Operation Hawkeye', a partnership between LUL and the British Transport Police providing CCTV coverage of every parking space. Latest figures show a 55% year on year reduction in crime in LUL station car parks.

Operating and Financial Review

Customer Service Improvements (Continued)

The year also saw the launch of *tube*, a magazine for monthly and annual travelcard holders that provides information about London and stories from behind the scenes at London Underground. So far there have been two issues, and feedback from customers has been positive.

In response to customer demand for the reinstatement of bins on the Underground, litter receptacles have been introduced at all 'above ground' stations where site conditions permit. These receptacles have been specifically designed to minimise security risks.

London Underground engages an independent market research agency to carry out a continuous face-to-face survey designed to measure the level of customer satisfaction with the service provided. This year's results showed improvement in customers' ratings for practically all aspects of the service, in particular the helpfulness and availability of Underground staff. As a result, the Government target for overall customer satisfaction was met.

Integration

Several initiatives are continuing for maintaining and improving the integration of transport in London. Many of these initiatives are in partnership with other transport providers and local authorities. Walthamstow Central continues into the next stage as a joint venture with Transport for London (TfL) and Network Rail creating an improved interchange between rail, underground and bus services. Plans for the construction of the East London Line Northern Extension are continuing and these will involve integration with other transport modes. Other projects are planned at Finsbury Park, Highbury & Islington and Golders Green. At main line termini, London Underground is working with Network Rail at Paddington and Euston to improve interchange facilities, creating greater capacity and accessibility and improved passenger service facilities. Work at King's Cross St Pancras is progressing to plan to meet the demands of the Channel Tunnel Rail Link. Feasibility work continues at Victoria Transport Interchange under the management of London Underground, jointly funded by TfL with the backing of several stakeholders. The study is assessing options for improved integration of services and congestion relief measures.

Passengers with Disabilities

Major works are in progress to provide step-free access facilities at eight stations, although they have not been commissioned as rapidly as planned. Fulham Broadway, Kilburn, Brixton, Hounslow East, East Ham and West Ham are due to be completed in 2003/04; and Earl's Court and King's Cross will follow in later years. Work has been completed at Willesden Junction and at Harrow & Wealdstone, which are owned by Railtrack and operated by Silverlink and are also served by the Bakerloo line. The Underground continues to work with Tube Lines and Metronet to implement low-cost 'quick wins' during station refurbishment and modernisation projects.

The Tube Access Guide, launched in February 2002, has proved to be a huge success, with over 1 million copies distributed. The guide is designed to help anyone who finds stairs or escalators difficult and includes a large print map of the Underground showing all stations with step-free access facilities and interchanges. It is available in leaflet racks at all Underground stations and on thetube.com website. A review is being carried out to identify further improvements to the Guide, based on feedback from its users.

London Underground's strategy for making the network more accessible over the next twenty years, 'Unlocking London for all', was formally published in May 2002 and circulated to interested parties as well as the general public. Consultation regarding the strategy is continuing and much useful feedback has been received.

Operating and Financial Review

Employee Involvement and Communications

During the year London Underground launched its new Vision, Mission and Values and promoted a new approach to the way the organisation works and behaves. This approach, known as "Breakout", encourages all staff, regardless of grade, area or background, to get involved in shaping the future and delivering real customer service improvements.

One of the resultant initiatives that is being taken forward is the provision of a helpdesk for staff that will be a "one stop" shop for answering questions or helping to find the right person in the organisation to help - rather like a customer service centre for staff.

The Group's Intranet is becoming an increasingly important medium for communication with staff. Information in the form of bulletins, organisation notices and the Teamtalk staff briefing pack is now distributed electronically, giving managers easier and quicker access and saving both printing and distribution costs. However while Intranet access has been available to office-based staff for some time, there have been few facilities for operational staff. This is changing with the provision of personal computers with network connections at locations that are accessible to train and station staff.

A new four weekly communications cycle includes a conference call for senior managers and smaller, more interactive briefing sessions for senior and middle managers that enable them to focus more closely on issues affecting our business and the service we provide for our customers. "Speak-up" sessions have also been introduced, where any member of staff can attend and put questions to a panel of Directors and senior managers about all aspects of the business.

Feedback from the new style events is very positive, particularly "Speak-up" where front line employees have welcomed the opportunity for open and frank discussions with members of the panel. Ideas generated from these sessions have already improved efficiency in certain areas.

London Underground's in house magazine, *on the move*, has been redesigned both in content, style and tone to better portray the diversity of our employees and the company Vision, Mission and Values.

Equality

London Transport aims to treat all its employees, and applicants for jobs fairly, to ensure that unfair discrimination does not occur at any stage of employment on any grounds, including: age, sex, race, ethnic or national origin, disability, religion, sexual orientation, marital or HIV status.

London Transport aims to promote equality by:

- Communicating the policy to all employees, agents, contractors, and job applicants.
- Developing and monitoring progress against equality targets.
- Dealing promptly with any complaints or grievances.
- Providing equality-related training and development, and
- Reviewing the impact on equality of other employment policies and practices.

London Underground was presented with the award to the public sector for its Ending Harassment Programme at the Opportunity Now Awards Ceremony in May 2002.

Operating and Financial Review

Financial Performance

The reduction in customer demand that resulted from the service disruption described above meant that revenue fell a little below that of the previous year. At the same time, the recent trend of planned increases in expenditure to improve customer service and on maintaining and renewing the network continued. Together these factors meant that the gross operating margin – a loss of some £421 million – worsened by £301 million compared with 2001/02. This was in line with the budget for the year which was agreed with Government. A breakdown of costs is given in note 3 on page 23.

Post Balance Sheet Events

As explained in note 24, on 4 April 2003 LUL sold its interest in Infraco Sub Surface Limited and Infraco BCV Limited.

Services were restored to all Central Line destinations on 12 April 2003 with a progressive increase in service frequencies through to the end of May 2003 when the full weekday timetable was reintroduced. This has led to a marked improvement in journey time, which is now back to the levels of early last year.

Revenue has however remained subdued in the new financial year. The consequences of the Central line service disruption, falling full time employment in Central London and the impact on tourism of security fears, the Iraq conflict and the weak dollar have meant that recovery has been slower than expected. However, London Underground considers that it holds sufficient risk funds to cover this and other risks that may materialise during the year.

A funding settlement has been secured from Government with appropriate assurances and provision for review, which for the current Comprehensive Spending Review period to 2004/05 will be sufficient to enable our PPP partners to begin the major programme of improvements that the system needs. Indications to date are that the partnership and the contractual arrangements that underpin it are working well.

In June, London Underground, with the support of the Managing Director Designate, submitted its full business plan to Transport for London for the years to 2008/09. This will form the basis of discussions with Government for determining the Greater London Authority (GLA) transport grant for the next Government Spending Review period.

London Transport and London Underground have worked closely with colleagues in Transport for London to facilitate the transfer of the business to the GLA, expected to occur in mid July 2003.

Corporate Governance

London Transport consults with Government on policy and holds regular meetings to review policy and performance. As far as it is appropriate for nationalised industries to do so, it complies with provisions of the Combined Code.

Statements on corporate governance and on the Corporation's responsibilities are on page 9. Disclosure of Board members' emoluments is on page 24.

Payment of Suppliers

London Transport supports the Government's view that large corporations should act responsibly by paying invoices promptly. Appropriate terms and conditions, which range from standard terms and conditions to those individually negotiated for large civil contracts, are agreed with suppliers. Payment is normally made in accordance with the agreed terms, providing the supplier has also complied with these terms (see Note 27 to the accounts).

London Regional Transport

Board Members

Non-executive Chairman

Sir Malcolm Bates

Non-executive members

Mr B Appleton CBE	
Ms K Bahl CBE	
Mr M J Callaghan	(appointed 24 April 2003)
Mr P Godier	(appointed 24 April 2003)
Mr D A Higgs	
Mr E A Wallis	

Ms F Low (Secretary)

The members of the London Regional Transport Board are appointed by the Secretary of State who determines their terms and conditions.

Direction given by the Secretary of State

The Secretary of State for Transport, Local Government and the Regions ("the Secretary of State"), with the approval of the Treasury and after consultation with London Regional Transport, in pursuance of Section 23 of the London Regional Transport Act 1984, hereby gives the following Direction:

1 The annual accounts, which it is the duty of London Regional Transport ("the Corporation") to prepare shall, in respect of the year ended 31 March 2001 and subsequent years, save as described in Schedule 1, comply with:
   i) the accounting and disclosure requirements of Companies Act 1985 currently in force;
   ii) the accounts disclosure requirements of paragraph 43 of chapter 12 of the FSA listing rules; and
   iii) generally accepted accounting practice in the United Kingdom (UK GAAP).

2 The annual accounts shall include the information set out in Schedule 2 to this Direction.

3 The Direction shall be reproduced in the annual accounts.

Ewan West
Signed by authority of the Secretary of State on 8 February 2001.
A Senior Civil Servant in the Department of Transport, Local Government and the Regions.

Schedule 1

1 The annual accounts referred to in paragraph 1 of the Direction will be prepared under Companies Act 1985 alternative accounting rules. The following accounting policies will be adopted:

   i) the carrying value of investments should be at their historical cost; and
   ii) the vested capital shall be reduced for the net assets vested in Transport for London.

2 The Profit and loss account shall be prepared in accordance with format 1 prescribed in the Companies Act 1985 and shall show the operating loss before grants.

3 The Balance sheet shall:

   i) be prepared in accordance with format 1 prescribed in the Companies Act 1985;
   ii) show Corporate capital and reserves on the face of the Balance sheet; and
   iii) present items A to J in format 1 so as to show the total of those items as "Net assets" separately from the totals of item K, i.e. "Capital and reserves".

Schedule 2

1 The supplementary information to the accounts shall include summarised Profit and loss accounts and Balance sheets of the Corporation's directly held major subsidiaries and a statement of the unit costs of the main operating subsidiaries.

2 The Notes to the accounts shall include:
   i) an analysis of sales revenue and profit or loss before grants over the principal activities; and
   ii) a statement of the Corporation's performance against external finance and other limits set by the Secretary of State.

Corporate Governance

Corporate Governance is concerned with how companies are directed and controlled and in particular with the role of the Board of Directors and the need to ensure a framework of effective accountability. The LT Board is committed to high standards of corporate governance.

The Combined Code

London Regional Transport (LT) is a statutory corporation reporting to the Secretary of State. This statement explains how LT has applied throughout the year ended 31 March 2003 the principles of good practice in corporate governance set out in the Combined Code issued by the Financial Services Authority, which the Secretary of State has directed the LT Board to follow.

The LT Board

Throughout 2002/03, the LT Board consisted of five non executive members who are independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgement. With effect from 24 April 2003, Mr Godier and Mr Callaghan were appointed as non executive members of the LT Board. The roles of the Board members are structured in such a way that no one individual or group dominates the LT Board's decision making process.

LT Board members are appointed by the Secretary of State who determines their terms and conditions of employment, including their remuneration, as set out on page 24. All Board members have access to the advice and services of the Secretary and Legal Director and independent professional advice is provided at the Corporation's expense in the course of their duties, if required.

The LT Board met monthly during the year, with additional meetings being held as required, and focused on strategy formulation, policy and control. The LT Board has a formal schedule of matters reserved to it and ensures that these are reviewed on a regular basis. At each of the scheduled meetings, the London Underground Limited (LUL) Managing Director reports on the Corporation's operations and performance, and the LUL Director of Finance reports on its financial position.

A corporate governance framework has been adopted by the LT Board which identifies roles and responsibilities. Within this framework, there is a high level framework of delegation, a formal schedule of matters that identifies which decisions are reserved for the LT Board and how and which decisions are delegated.

The Chairman of the Corporation is responsible for the conduct of the LT Board and is answerable to the Secretary of State for the direction and control of the Corporation. The Chairman and the LUL Managing Director have regular meetings with Ministers and officials to discuss strategic and operational issues including achievement of performance targets and the progress of major projects. The Chairman is also responsible for ensuring that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

The LUL Board

The LUL Managing Director is responsible to the LT Board for the strategic management of the Corporation within parameters set by the LT Board and is assisted in achieving this by the LUL Board. The LUL Board is chaired by an LT board member and comprises the LUL Executive Directors and an LT board member who has a special interest in safety and environment matters. During 2002/03, the LUL Board met monthly with additional meetings being held as required. The LUL Managing Director manages the business of LUL through monthly meetings of the LUL Executive Directors.

Corporate Governance

Delegating and working through committees

Risk management in the Corporation continues to be critical and the LT Board devotes appropriate time to considering the Corporation's significant risks. Accordingly, the LT Board and its principal subsidiary, LUL, have continued to maintain a number of committees, all of which operate within written terms of reference. Minutes or summaries of their meetings are submitted regularly to the LUL and LT Boards for review and consideration, supplemented, where appropriate, by oral reports from the committee chairman. The following committees have a principal interest in internal control and risk management:

Remuneration Committee

The Remuneration Committee's function is to review the remuneration structures and succession planning and retention arrangements on behalf of the LT Board in relation to LUL's Executive Directors and senior management. It also determines the remuneration packages of individual LUL Executive Directors having regard to individual responsibility and performance. The Committee met seven times during 2002/03 and is chaired by the LT Board Chairman.

Audit Committee

The Audit Committee reviews the scope and performance of internal and external audit, including their fees for audit and non-audit services, and receives regular reports from the external auditors and the Head of Audit. It monitors compliance with statutory requirements for financial reporting, reviews the external auditors' management letters covering findings from the annual audit, and reviews the Annual Report prior to it being submitted to the LT Board. The Committee conducts an annual review of Internal Audit's remit and workplan, and monitors the relationship with the external auditors and how they demonstrate their independence and manage conflicts of interest. The Committee acts as a forum for the discussion of risk, internal control and assurance matters and has through this contributed to the LT Board's review of the effectiveness of the system of internal control.

From April to October 2002, the Audit Committee consisted of three members, but following the resignation of Mr Higgs as Chairman and as a member of the Committee after the October 2002 meeting, it has consisted of two members, both of whom are LT board members. Ms Bahl took over the role of chairing the Committee with effect from the next meeting held in March 2003. As a consequence, the Committee membership since October 2002, has been less than that recommended in the Combined Code, but as the Corporation was entering a transitional phase with transfer to T*f*L planned for July 2003, no further action was deemed necessary. The Committee met four times during 2002/03.

Risk and Control Committee

The principal role of the Risk and Control Committee (RACC) is to oversee the effectiveness of the Corporation's system of internal control, covering all types of business risk and control. RACC met monthly during 2002/03, is chaired by the Director of Safety, Quality and Environment, and comprises six LUL Executive Directors and the Secretary and Legal Director.

RACC, at each meeting, receives reports from senior management responsible for the identification, evaluation and management of risks and how they are managed and controlled. This is to embed a risk-based system of control throughout the Corporation and across all its activities, and ensure that management action is focused on controlling business risks to an agreed residual level and safety risk as low as reasonably practicable. During the year, all the significant risks were reviewed and all major PFI and PPP projects and directorates reported to RACC on their risk, control and assurance arrangements.

The LUL Managing Director reports to the LT Audit Committee, the LT and LUL Boards each quarter on RACC's review of business risk, control and assurance matters and on the effectiveness of the Corporation's system of internal control.

Corporate Governance

Health, Safety and Environment Committee

The Health, Safety and Environment Committee is chaired by the LUL Managing Director and comprises ten members including an LT board member who has a special interest in safety and environment matters. The Committee, which met monthly in 2002/03, is responsible for ensuring the Corporation's obligations for health, safety and environment issues are met and trends and actions arising from enforcing authorities and investigations into serious incidents have been addressed.

The Statutory Railway Safety Case, version 3.11, has been approved by the LUL Board and accepted by the Health and Safety Executive, an independent Government body. It contains an analysis of the risks, controls, mitigating actions and responsible managers and includes an assessment of why the residual risks are acceptable. The Safety Review Group, chaired by the Director of Safety, Quality and Environment, met monthly during the year with additional meetings being held as required. It reviews the acceptability of the changes in safety risk arising from ongoing changes within the business and ensures that, where changes are material, they are reflected within the Railway Safety Case.

The Committee receives quarterly reports on safety performance, half yearly compliance reports on the Health, Safety and Environment Management System and Railway Safety Case (from a separate safety audit function which reports to the Director of Safety, Quality and Environment) and an annual report on the changing network safety risks over the year.

The LUL Managing Director reports to the LT Board twice a year on safety performance, the safety improvement programme, other safety issues and on specific health, safety and environment issues as and when necessary.

Pension fund

The assets of the LT Pension Fund are held separately from those of the Corporation and are under the control of the scheme's trustees. At 31 March 2003, there were 18 trustees on the Board of the LRT Pension Fund Trustee Company Ltd, nine nominated by the principal employer, five by transport unions and four by the LRT Pensions Consultative Council, which is itself directly elected by the members.

Asset management of the scheme is delegated to a number of fund managers and the trustees receive independent professional advice on the performance of the managers. The scheme is valued triennially on behalf of the trustees by the Scheme Actuary, Mark May of Watson Wyatt LLP, and reviewed by Bacon & Woodrow on behalf of the Corporation.

Corporate Governance

Internal control

The LT Board is responsible for the Corporation's system of internal control and for reviewing its effectiveness. However, it is important to note that the size and complexity of the Corporation's operations means that such a system can only provide reasonable and not absolute assurance against material mis-statement or loss.

An ongoing process for identifying, evaluating and managing the Corporation's significant risks has operated throughout the year and up to the date the Annual Report was approved. This requires continued review and development of a documented and auditable trail of accountability over all operations and for successive assurances to be provided at increasingly higher levels of management and finally to the LT Board.

The key features of the system of internal control include:

- A control environment with clearly defined organisational structures operating within a framework of statements on control, policies, standards and procedures covering every aspect of the business.
- Comprehensive business planning and four weekly performance, variance analysis and financial reporting including the annual preparation of detailed operational budgets for the year ahead and projections for future years. The Managing Directors of the infrastructure companies reported regularly to the LT Board on their achievements, performance and plans.
- Each LUL Executive Director being responsible, as the risk owner, for managing the risks assigned to them in the LUL Risk Register, for embedding risk management, control and assurance processes throughout their directorates and gaining assurance from other directorates over the management of cross directorate risks. The Directors provide an annual certificate of compliance which sets out how, throughout the year, the statements on control have been complied with, that control and assurance processes have operated effectively over the significant risks, obligations under PPP, PFI and other significant contracts have been met and details of any breaches to the statements on control, financial losses, legal or contract breaches or propriety issues.
- The infrastructure companies have established risk registers and appointed senior managers as risk owners to manage the risks assigned to them. The Managing Directors of the infrastructure companies are responsible for embedding risk management, control and assurance processes throughout their company and for agreeing the appropriate level of residual risk.
- The LT Board reviews at each meeting the strategic issues which have been allocated to it. RACC, as detailed above, reviews the significant business risks contained within the LUL Risk Register and the effectiveness of the related control and assurance processes.
- Quarterly and annual reports on legal compliance and contract breaches, financial losses and propriety, and an annual report on regulatory compliance to RACC.
- Review of the health, safety and environmental risks by the Health Safety and Environment Committee on behalf of the LUL Board to ensure that effective processes have been implemented to control these as low as reasonably practicable.
- Annual statements from each infrastructure company Managing Director that they had maintained an effective system of internal control throughout the year.
- Internal Audit providing independent assurance that the processes by which significant risks are identified, assessed and managed are appropriate and effective.

Corporate Governance

Annual review of the effectiveness of internal control

The LT Board has established a process for reviewing the effectiveness of the system of internal control through reports it, and the Board Committees, receive from Risk Owners. The Audit Committee, as described above, makes an important contribution to this assurance process. RACC, on behalf of the LT Board, undertook a formal annual assessment of the risk management and control arrangements on 30 April 2003 in order to form a view on the overall effectiveness of the system of internal control. This accords with the guidance contained in "Internal Control - Guidance for Directors on the Combined Code" – issued by the Institute of Chartered Accountants in England and Wales in September 1999.

Financial reporting and going concern

London Transport is required by the Direction given by the Secretary of State, which is set out on page 8, to prepare accounts which give a true and fair view of the profit or loss, cash flow and the state of affairs of the Corporation and its subsidiaries in respect of each accounting year. The LT Board approves suitable accounting policies, ensures they are applied consistently, and makes judgements and estimates that are reasonable and prudent.

The LT Board is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Corporation and which enable it to ensure that the financial statements comply with the Companies Act 1985, save as directed. It is also responsible for taking reasonable actions to safeguard the assets of the Corporation and its subsidiaries and to prevent and detect fraud and other irregularities.

The independent auditor's statement about its reporting responsibilities is set out on page 14.

The LT Board confirms that it is satisfied that the Corporation will have adequate resources to meet its liabilities for the foreseeable future. For this reason, it has adopted the going concern basis in preparing these financial statements.

Independent Auditors' Report

Report of the independent auditors to the Secretary of State for Transport on the Accounts of London Regional Transport

We have audited the accounts on pages 15 to 37.

This report is made solely to the corporation's members, as a body, in accordance with section 23 of the London Regional Transport Act 1984 and the Direction dated 8 February 2001 given by the Secretary of State for Transport ("the Direction"), to the Board members of London Regional Transport. Our audit work has been undertaken so that we might state to the corporation's members those matters we are required to state to them in 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 corporation and the corporation's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Board Members and Auditors

As described on page 13, the Board members are responsible for exercising the Corporation's responsibility for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. 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 are properly prepared in accordance with section 23 of the London Regional Transport Act 1984 and the Direction to the Board members of London Regional Transport. We also report to you if, in our opinion, the other information accompanying the accounts is not consistent with these accounts, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Board members' remuneration and transactions with the Group is not disclosed.

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

Basis of Audit Opinion

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 the Board members in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Corporation and the Group as at 31 March 2003 and of the result of the Group for the year then ended and have been properly prepared in accordance with section 23 of the London Regional Transport Act 1984 and the Direction to the Board members of London Regional Transport.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

7 July 2003

Group Profit and Loss Account

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Turnover	*2*	**1,246.2**	1,252.8
Cost of Operations before Depreciation and Grants	*2&3a*	**(1,667.1)**	(1,372.9)
Gross operating margin before depreciation and grants		**(420.9)**	(120.1)
Depreciation	*10a*	**(336.0)**	(343.6)
Operating Loss before Grants	*2*	**(756.9)**	(463.7)
Grants taken to the Profit and loss account	*7c*	**650.6**	355.1
Operating Loss after Grants		**(106.3)**	(108.6)
Loss on disposal of assets	*8*	**(15.4)**	(17.5)
Interest receivable	*9*	**1.2**	-
Interest payable and similar charges	*9*	**(1.8)**	-
Loss before Taxation	*4*	**(122.3)**	(126.1)
Taxation	*22*	**-**	-
Loss for the year		**(122.3)**	(126.1)
Realisation of accumulated revaluation surplus	*19*	**69.2**	60.7
Transfer from capital reserve	*19*	**53.1**	65.4
Retained Profit for the year		**-**	-

Balance Sheets

At 31 March	*note*	Group 2003 £m	Group 2002 £m	Corporation 2003 £m	Corporation 2002 £m
Fixed Assets					
Tangible fixed assets	*10*	**8,699.9**	8,673.9	**-**	-
Investment in subsidiaries	*11*	**-**	-	**466.1**	466.1
Total Fixed Assets		**8,699.9**	8,673.9	**466.1**	466.1
Current Assets					
Stocks	*12*	**15.1**	19.2	**-**	-
Debtors	*13*	**349.5**	220.9	**113.1**	111.2
Cash at bank and in hand	*14*	**16.8**	18.2	**-**	0.1
Total Current Assets		**381.4**	258.3	**113.1**	111.3
Creditors: amounts falling due within one year	*15*	**(683.5)**	(596.9)	**(0.2)**	(0.3)
Net Current Assets/(Liabilities)		**(302.1)**	(338.6)	**112.9**	111.0
Total Assets less Current Liabilities		**8,397.8**	8,335.3	**579.0**	577.1
Creditors: amounts falling due after more than one year	*16*	**(2.6)**	(23.2)	**-**	-
Provisions for liabilities and charges	*17*	**(77.4)**	(166.8)	**(25.0)**	(23.1)
Deferred grants	*18*	**(5,616.1)**	(5,329.7)	**-**	-
Net Assets		**2,701.7**	2,815.6	**554.0**	554.0
Capital and Reserves					
Corporate capital and reserves		**2,688.1**	2,802.0	**548.7**	548.7
Profit and loss account		**13.6**	13.6	**5.3**	5.3
Total Capital Employed	*19*	**2,701.7**	2,815.6	**554.0**	554.0

These accounts were approved by the Board on 7 July 2003 and signed on its behalf by

Sir Malcolm Bates
Chairman

Group Statement of Total Recognised Gains and Losses

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Loss for the year		**(122.3)**	(126.1)
Revaluation of tangible fixed assets	*10a*	**8.4**	18.0
Total Recognised Losses for the year		**(113.9)**	(108.1)

Note of Group Historical Cost Profits and Losses

Year ended 31 March	**2003** **£m**	2002 £m
Loss for the year	**(122.3)**	(126.1)
Realisation of revaluation on disposal of fixed assets	**20.0**	11.3
Difference between historical cost depreciation and actual depreciation charge included in the Group Profit and loss account	**49.2**	49.4
Historical Cost Loss for the year	**(53.1)**	(65.4)

Group Cash Flow Statement

Reconciliation of Operating Loss to Net Cash Inflow from Operating Activities

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Total operating loss before grants per Profit and loss account		**(756.9)**	(463.7)
Depreciation	*10a*	**336.0**	343.6
Decrease in stocks		**2.6**	0.7
(Increase) in debtors		**(87.4)**	(10.0)
Increase in creditors due within one year		**154.5**	71.3
(Decrease)/increase in creditors due after more than one year		**(1.8)**	2.3
(Decrease)/increase in provisions for liabilities and charges		**(2.2)**	5.4
Net cash inflow from operating activities		**(355.2)**	(50.4)

Group Cash Flow Statement

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Net cash (outflow) from operating activities		**(355.2)**	(50.4)
Returns on investments and servicing of finance			
Interest received		**1.2**	-
Interest paid		**(1.8)**	-
Net cash (outflow)		**(0.6)**	-
Capital expenditure and disposals			
Capital expenditure	*28a*	**(509.8)**	(478.5)
Receipts from sale of fixed assets		**2.2**	2.2
Receipts in advance		**-**	18.8
Net cash outflow from capital expenditure and disposals		**(507.6)**	(457.5)
Net cash outflow before financing		**(863.4)**	(507.9)
Financing and management of liquid resources			
Government grant	*7a*	**767.0**	483.0
Grant disbursements	*7b*	**(24.8)**	(23.5)
Contributions from third parties for capital expenditure	*28c*	**121.2**	48.4
Net cash inflow		**863.4**	507.9
Decrease in cash	*28b*	**-**	-

Notes to the Accounts

1 Accounting Policies

a) Form and Content of Accounts

The accounts of London Transport (the "Corporation") and its subsidiaries (the "Group") are prepared in form and content in accordance with sections 23(2), (3) and (4) of the London Regional Transport Act 1984 (the "Act") and as directed by the Secretary of State in his Direction, issued under sections 23(2) and (4) of the Act. The accounts are prepared under the historical cost convention, except as described in note 1(f) below, and in accordance with applicable accounting standards, save as directed.

b) Basis of Accounting

The Group accounts incorporate the accounts of London Transport and its subsidiaries; such accounts are made up to 31 March. The Corporation's investments in subsidiaries are stated at cost. Cost is equal to the book value of assets transferred from the Corporation at 30 March 1985 or on the date of acquisition where later.

c) Sales Revenue

Sales revenue comprises the value of sales of services or goods in the normal course of business (excluding Value Added Tax) and includes amounts receivable from the London Borough Councils and County Authorities in respect of free and reduced fare travel for the elderly and disabled. Revenue is recognised on an earned basis; revenue received in advance is spread over the period to which it relates.

d) Grants and other Funding

All grants are receivable from London Regional Transport and are available both to finance investment and to meet operating losses. Grants in respect of investment are held in the Balance sheet as deferred income and are released to the Profit and loss account over the expected economic useful lives of assets in line with the depreciation charge.

Grants in respect of operations and risk mitigation, after the release of deferred income to meet the depreciation charge, are credited to the Profit and loss account.

e) Accounting for the London Underground Public Private Partnership

During the year, the Company reached financial close on the first of the three Public Private Partnership (PPP) contracts. Under these contracts, existing LUL property is allocated to the PPP Contractors for a 30 year period during which the PPP Contractors maintain, enhance and replace that property. The Company pays service charges to the PPP Contractors.

The Company retains the risks and rewards of ownership of the property allocated to the PPP Contractors during the contract term. This property continues to be recorded as fixed assets in these accounts. Similarly, new property constructed by the PPP Contractors for the Company is recorded as fixed asset additions and a corresponding liability is recorded within creditors. An imputed finance charge on this liability is included in interest payable in the profit and loss account.

Service charges paid by the Company to the PPP Contractors are applied to amortise this liability over the contract term and the balance of the service charge is recorded as an operating cost. Performance adjustments to the service charges are recorded within operating costs.

Notes to the Accounts

1 Accounting Policies (continued)

f) Tangible Fixed Assets

Infrastructure, rolling stock, plant and equipment

These assets are carried at the estimated cost of modern equivalent assets as at 31 March 1998, together with the cost of subsequent additions, written down to reflect their remaining estimated useful economic lives.

Infrastructure consists of tunnels and embankments, stations, track, signalling, and property leased to outside contractors.

Bored tunnels, excavations for stations and embankments entering service prior to 1 April 1992 are carried in the Balance sheet at nil value as there are no records of their historical cost and it is impractical to provide a reliable valuation. Associated land is carried at vesting value at 1 January 1970, or at subsequent cost.

Other Property

These assets consist of investment properties commercially let and capable of being separated from operational property (e.g. offices, shops, residential property and disused operational property awaiting disposal) and business properties occupied by the Group which are not limited in their future use by operational constraints or requirements and which are not integral to the infrastructure (e.g. offices).

These properties are valued at open market value as 31 March 2003 by the Managing Director of LT Property, Colin Smith FRICS, in accordance with the Royal Institution of Chartered Surveyors' guidelines. Business properties are valued on an existing use basis. Investment properties are valued with additional consideration of alternative use. Sales of properties are recognised on the exchange of contracts and the net profit, after charging any related costs, is credited to Profit and loss account. Sales proceeds are used to contribute towards financing the Group's capital expenditure, and therefore the profit or loss (after taxation) arising is appropriated to Capital reserve.

Assets in course of construction

These assets are carried at cost and are not depreciated until they are available for customer service. They include expenditure on new and extended railway lines and major expansions to stations.

Depreciation

Assets are depreciated on a straight-line basis over their estimated useful lives, which are reviewed regularly, and which for the major categories fall in the following ranges:

Tunnels and embankments	up to 100 years	Bridges and viaducts	up to 100 years
Track	up to 50 years	Signalling	up to 40 years
Rolling stock	up to 50 years	Escalators and lifts	up to 40 years
Stations	up to 50 years	Other plant and equipment	up to 40 years

Leasehold properties are amortised over the lease term. In accordance with Statement of Standard Accounting Practice (SSAP) 19, investment properties are not depreciated. This is a departure from the Companies Act 1985 which requires all properties to be depreciated.

g) Stocks

Stocks consist primarily of materials required for the operation and maintenance of rolling stock, properties and infrastructure. These stocks are valued at cost less provision for obsolescence.

Notes to the Accounts

1 Accounting Policies (continued)

h) Insurance

The Group maintains certain insurance policies for damage to, and loss of, owned/third-party property and for its potential liabilities to employees and third parties. In addition, the Group selectively self-insures its exposures under the above and other headings. Provision is made for the estimated value of the Group's liability in respect of self-insured claims.

i) Pensions

The majority of employees are members of a defined benefit pension fund to which the Group contributes. The disclosures required by FRS 17 are given in note 6.

Ex-gratia payments are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees. Supplementary payments are also made to the pensions of certain employees who retired prior to the index linking of pensions. The Group augments the pensions of certain employees who retire early under voluntary severance arrangements. The costs of providing pensions are recognised on a systematic basis and are charged to the periods benefiting from the employee's service. The difference between the charge to the Profit and loss account and the contributions paid is shown as an asset or liability in the Balance sheet.

j) Deferred taxation

Provision is made for deferred taxation arising from temporary timing differences between profits or losses as computed for taxation purposes and profits or losses as stated in the accounts. The adoption of FRS 19 in the year has no material impact.

k) Operating Leases

Operating leases are expensed to the Profit and loss account on a straight line basis over the period of the lease.

Notes to the Accounts

2 Group Turnover and Segmental Information

Turnover by revenue source

Year ended 31 March	**2003 £m**	**% of total**	2002 £m	% of total
Traffic revenue				
Fares	**1,108.5**	**89.0**	1,122.8	89.7
Revenue in respect of free travel for older and disabled people	**29.0**	**2.3**	27.7	2.2
Other	**-**	**-**	1.6	0.1
	1,137.5	**91.3**	1,152.1	92.0
Other revenue				
Rents receivable	**35.5**	**2.8**	35.1	2.8
Commercial advertising receipts	**31.5**	**2.5**	31.4	2.5
Other	**41.7**	**3.4**	34.2	2.7
	108.7	**8.7**	100.7	8.0
Total sales revenue	**1,246.2**	**100.0**	1,252.8	100.0

Segmental Information

Year ended 31 March	**Cost of Operations before depreciation and grants**		**Operating Profit/(loss) before grants**	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Rail operations	**1,628.2**	1,342.6	**(826.2)**	(533.7)
Property rental	**7.3**	5.4	**28.2**	29.7
Commercial advertising	**-**	-	**31.5**	31.4
Other	**31.6**	24.9	**9.6**	8.9
Total	**1,667.1**	1,372.9	**(756.9)**	(463.7)

Notes to the Accounts

3 Cost of Operations and Employee Numbers

a) Cost of operations

Year ended 31 March	**2003**	2002
	£m	£m
Staff costs:		
Wages and salaries	**565.8**	533.4
Social security costs	**42.1**	41.9
Pension costs including augmentation	**68.9**	62.0
	676.8	637.3
PFI and vehicle leasing costs	**246.2**	203.5
Energy	**31.3**	35.7
Materials and services	**1,142.5**	961.8
	2,096.8	1,838.3
Transferred to investment and third parties	**(429.7)**	(465.4)
Total cost of operations	**1,667.1**	1,372.9

b) Number of employees

Year ended 31 March	**2003**	2002
	Number	Number
Average number of employees:		
Rail operations	**18,473**	17,777
Other operations	**58**	151
Group total	**18,531**	17,928
Actual number of employees at 31 March	**17,272**	18,679

Employees at 31 March 2002 included those of Infraco JNP Limited.

4 Items included in the Group Profit and Loss Account

The loss before taxation for the year is stated after allowing for the following amounts

Year ended 31 March	**2003**	2002
	£m	£m
Hire of plant	**1.7**	1.8
Operating lease rentals	**247.9**	230.0
Auditors' remuneration for audit services	**0.3**	0.3
Auditors' remuneration for non-audit services	**0.7**	0.9

The non-audit remuneration paid to the auditors was principally for advice provided in respect of the PPP (£0.1 million) and PFI contracts (£0.6 million). The fees for the PFI advice were paid under a framework contract which had been competitively tendered.

Notes to the Accounts

5 Emoluments of the Members of the Board

Executive and non-executive Board members are appointed by the Secretary of State and, unless otherwise stated, are on contracts that are terminable upon notice not exceeding six months. The Secretary of State determines Board members' emoluments, taking advice from the LT Chairman. Some executive Board members are entitled to varying annual performance bonuses (maximum of 20% of salary) based on actual performance achieved against predetermined key targets (including safety, quality of service, unit cost objectives and selected key tasks). However, as there were no executive Board members in 2002/3, no such amounts were payable.

	Date of expiry of term	Salaries/ fees	Performance related bonus	Pension benefits	Other benefits	**Total emoluments 2002/03**	Total emoluments 2001/02
		£	£	£	£	**£**	£
Non-executive							
Brian Appleton		46,151	-	-	-	46,151	44,807
Kamlesh Bahl		20,965	-	-	-	20,965	20,354
Sir Malcolm Bates		43,491	-	-	-	43,491	42,224
Derek Higgs		20,965	-	-	-	20,965	20,354
Ed Wallis		36,050	-	-	-	36,050	24,527
Former Members							
Non-executive							
Robert Kiley	17/07/01	-	-	-	-	-	-
David Newlands	8/05/01	-	-	-	-	-	4,566
Executive							
Derek Smith	19/12/01	-	-	-	-	-	151,126
Year ended 31 March 2003		**167,622**	**-**	**-**	**-**	**167,622**	307,958
Year ended 31 March 2002		263,197	8,120	15,698	20,943	307,958	

Disclosure is made in respect of each Board member entitled to a final salary pension of:

- the pension benefit being the transfer value of the increase in accrued pension during the year, less his own contributions;
- the amount of annual pension, on attaining normal pension age, to which he would be entitled if he left the company at the year end or is entitled, having retired during the year; and
- the increase in that pension over the year excluding any inflationary increase.

However, none of the Board members who served during 2002/03 was entitled to a final salary pension.

Pension costs charged to Profit and loss account in respect of past Board members were £218,480 (2001/02 £213,860).

No Board member had a material interest in any contract of significance with the Group.

Notes to the Accounts

6 Pensions

Background

The Group offers retirement plans to its employees. Over 90% of the Group's staff are members of the LRT Pension Fund. This scheme, to which the Group contributes, is a defined benefit scheme where the benefits are based on employees' length of service and final pensionable pay. The scheme is established under trust and its finances are therefore quite separate from those of the Group. The Fund's Trustee is the LRT Pension Fund Trustee Company Limited, a wholly owned subsidiary of London Regional Transport. Under the rules of the Fund, its 18 Trustee directors have for many years been nominated in equal numbers by London Transport and on behalf of the Fund's membership. Transport for London and its subsidiaries also participate in the Fund and it is not possible to separately identify the LRTGroup's share of the underlying assets and liabilities. The scheme remains open to new employees.

The Fund's Actuary makes periodic valuations and recommends the level of contributions to be made by the participating employers to ensure long-term solvency of the Fund. The latest valuation of the Fund was carried out as at 31 March 2000 by the Actuary, a partner of consulting actuaries Watson Wyatt, using the projected unit method.

Accounting

The Group continues to account for pension costs in accordance with UK Statement of Standard Accounting Practice 24 'Accounting for pension costs' (SSAP 24). In addition disclosures have been presented under Financial Reporting Standard 17 'Retirement Benefits' (FRS 17).

SSAP 24 Valuation

The SSAP 24 valuation is broadly based on the Fund's assets being valued at market value with the Fund's liabilities being measured using the projected unit method and discounted at the estimated return reflecting the assets of the Fund.

The pension charge to the Profit and Loss account in respect of the LRT Pension Fund for 2002/03 is the cost of the accruing benefits, less the value of the actuarial surplus spread over the expected remaining service lives of current employees. Full provision of £8.1 million (2002 £11.7 million) for the difference between the SSAP 24 charge and the actual contributions paid to the Fund is made in these accounts (see note 17).

The main actuarial assumptions on a SSAP 24 basis were:

At 31 March	**2000**
	%
Pensionable pay	**4.50**
Pension increases – existing members	**3.00**
– new members	**3.00**
Discount rate for valuing accrued liabilities	**5.30**
Inflation	**3.00**
Investment returns for new money	**7.25**

The Fund liabilities have not been valued on a SSAP 24 basis since 31 March 2000. At this date the Fund's surplus was valued at £46 million. The method used to value the Fund's liabilities is such that any value placed on those liabilities, for ongoing funding purposes, at 31 March 2003 is likely to have decreased, as has the market value of the assets. A full valuation is being conducted at 31 March 2003 and the results are expected in the Autumn of 2003.

Notes to the Accounts

6 Pensions (Continued)

FRS 17 Valuation

The valuation at 31 March 2000 has been updated by the Actuary on a FRS 17 basis as at 31 March 2003.

Full implementation of FRS 17 has been deferred by the Accounting Standards Board until accounting periods commencing on or after 1 January 2005. The requirements for disclosure under FRS 17 remain in force between its issue and full implementation, and the required information is set out below. FRS 17 specifies how key assumptions should be derived and applied. These assumptions are often different to the assumptions adopted by the pension scheme actuary and trustees in determining the funding position of pension schemes.

The FRS 17 valuation is broadly based on the Fund's assets being valued at market value at the balance sheet date with the Fund's liabilities being discounted at the rate of return on high quality corporate funds of equivalent term to the liabilities. The major assumptions used in this valuation were:

At 31 March	**2003**	2002
Rate of increase in salaries	**4.0%**	4.0%
Rate of increase in pensions in payment	**2.5%**	2.5%
Rate of increase of deferred pensions	**2.5%**	2.5%
Discount rate	**5.6%**	5.8%
Inflation assumption	**2.5%**	2.5%

It is not possible to identify London Regional Transport's particular share of the Fund assets and liabilities on a consistent and reasonable basis. When the reporting standard is fully adopted it will be accounted for as if it were a defined contribution scheme, as permitted by FRS 17, although the Fund will remain a final salary scheme.

The fair value of the Fund's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Fund's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as shown below. Also shown are the expected long term rates of return which are the best estimates chosen from a range of possible assumptions and due to the time-scale covered, may not necessarily be borne out in practice.

At 31 March	**2003 Long-term expected rate of return**	**Value at 31 March 2003**	2002 Long-term expected rate of return	Value at 31 March 2002
	% pa	**£m**	% pa	£m
Equities	**8.6**	**1,514.5**	8.2	2,219.9
Property	**6.5**	**3.0**	6.8	8.4
Corporate bonds	**5.4**	**409.3**	5.6	237.8
Government bonds	**4.5**	**589.8**	5.0	758.2
Other assets	**4.0**	**35.1**	4.5	38.1
		2,551.7		3,262.4
Actuarial value of Fund liabilities		**(3,604.6)**		(3,514.0)
Deficit in the Fund		**(1,052.9)**		(251.6)

The figures above include the assets and liabilities of the entire public sector fund, and include members who are employed by, and whose contributions are made by, other organisations; in particular Transport for London and its subsidiaries. This is because, as stated above, it is not possible to identify London Regional Transport's particular share. They also include the assets and liabilities attributable to Infracos BCV and SSL (2002 also includes the assets and liabilities attributable to Infraco JNP).

Notes to the Accounts

6 Pensions (Continued)

Unfunded pension costs

The Group bears the cost of:

- augmentation of the pensions of certain employees, who retire early under voluntary severance arrangements;
- ex-gratia payments, which are made to certain employees on retirement in respect of service prior to the establishment of pension funds for those employees;
- pensions of those Board members who did not qualify to join the LRT Pension Fund;
- supplementary payments, which are made to certain employees who retired prior to index linking of pensions.

On the instruction of the LT Director of Pensions, her deputy, a Fellow of the Institute of Actuaries, carried out an actuarial valuation as at 1 April 2002 of the above unfunded pension liabilities, using a valuation basis consistent with that adopted by the Actuary to the LRT Pension Fund in his last valuation. Full provision of £36.5 million (2002 £34.1 million) for unfunded pension liabilities is made in these accounts (see note 17).

7 Government External Finance Limits and Grant

a) Grant funding available from Government

Government controls the level of grant given to the Corporation each year through the setting of an External Finance Limit (EFL). In the year ended 31 March 2003 the EFL was fully taken by the Corporation. The analysis of grant making up the EFL is shown below:

	External Finance		External Finance	
	Requirement	**Limit**	Requirement	Limit
Year ended 31 March	**2003**	**2003**	2002	2002
	£m	**£m**	£m	£m
Grants received	**767.0**	**767.0**	483.0	483.0

b) Allocation of grants received from Government

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Grant disbursements for reorganisation and restructuring of LT group		**24.8**	23.5
Capital grant for additions to fixed assets	*18*	**320.7**	339.4
Grant in support of operations	*7c*	**421.5**	120.1
Grants received		**767.0**	483.0

c) Grants taken to the Profit and loss account

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Release of grant to meet the depreciation charge on the historical cost of depreciated fixed assets	*18*	**229.1**	235.0
Grant in support of operations	*7b*	**421.5**	120.1
Grants relating to operations		**650.6**	355.1

Notes to the Accounts

8 Loss on Disposal of Assets

Year ended 31 March	*note*	**2003** **£m**	2002 £m
Net proceeds		**13.8**	2.2
Capital grants released	*18*	**18.9**	145.0
		32.7	147.2
Less net assets at net book value		**(48.1)**	(164.7)
Loss on disposal		**(15.4)**	(17.5)

9 Interest and Similar Charges

Year ended 31 March	**2003** **£m**	2002 £m
Interest receivable	**1.2**	-
Interest payable and similar charges		
Risk mitigation	**6.5**	-
Grants received	**(6.5)**	-
	-	-
Notional interest on finance lease creditor	**0.9**	-
Interest payable on purchase of properties	**0.9**	-
	1.8	-

Following consultation with its financial and legal advisors, the Department for Transport, HM Treasury and Partnership UK, London Underground Limited (LUL) requested that the consortium (Metronet) taking over the Infraco BCV and Sub-Surface companies and service agreements support the conduct of a hedging exercise prior to its issue of bonds to finance the PPP.

This exercise was designed to mitigate risks of instability in the fixed interest market on the issue of bonds by Metronet and by so doing to optimise the rate of interest embedded in the PPP service agreements with LUL. LUL indemnified Metronet against losses incurred in this exercise and the cost, which the Department for Transport agreed to take into consideration when agreeing grant levels, was £6.5 million.

As explained in note 15 the imputed interest on the finance lease creditor is set at 7.31%.

Notes to the Accounts

10 Tangible Fixed Assets

	Infrastructure and other property	Rolling stock	Plant and equipment	Assets in course of construction	**Total**
	£m	£m	£m	£m	**£m**
a) Group					
Gross valuation					
Gross valuation at 1 April 2002	11,572.6	2,815.3	1,263.8	120.3	**15,772.0**
Additions to fixed assets	199.9	18.3	57.5	126.0	**401.7**
Disposals	(51.4)	(51.6)	(101.3)	-	**(204.3)**
Transfers	0.6	(0.4)	(4.3)	4.1	**-**
Revaluation	8.4	-	-	-	**8.4**
Gross valuation at 31 March 2003	**11,730.1**	**2,781.6**	**1,215.7**	**250.4**	**15,977.8**
Depreciation					
Balance at 1 April 2002	4,819.0	1,661.3	617.8	-	**7,098.1**
Disposals	(18.7)	(51.5)	(86.0)	-	**(156.2)**
Charge for the year	210.2	63.3	62.5	-	**336.0**
Balance at 31 March 2003	**5,010.5**	**1,673.1**	**594.3**	**-**	**7,277.9**
Net book value at 31 March 2003	**6,719.6**	**1,108.5**	**621.4**	**250.4**	**8,699.9**
Net book value at 31 March 2002	**6,753.6**	**1,154.0**	**646.0**	**120.3**	**8,673.9**
b) Corporation					
Net book value at 31 March 2003	**-**	**-**	**-**	**-**	**-**
Net book value at 31 March 2002	-	-	-	-	-

c) PPP assets

The Group Net Book Value includes:

	Infrastructure and other property	Rolling stock	Plant and equipment	Assets in course of construction	Total
Allocated to PPP contractors					
31 March 2003	**3,612.5**	**414.9**	**327.0**	**-**	**4,354.4**
31 March 2002	-	-	-	-	-
Provided by PPP Contractors					
31 March 2003	**18.8**	**-**	**1.3**	**-**	**20.1**
31 March 2002	-	-	-	-	-

Notes to the Accounts

10 Tangible Fixed Assets (Continued)

d) Infrastructure and other property

Infrastructure and other property includes land and buildings under freehold ownership, with the exception of one long leasehold property with a value of £4.6 million (2002 £4.4 million) and includes investment properties with a value of £131.3 million (2002 £141.4 million) which in accordance with SSAP 19 are not being depreciated.

e) Rolling stock, plant and equipment

Rolling stock, plant and equipment include £53.9 million (2002 £96.1 million) of partially complete assets.

f) Historical cost of assets

The historical cost of assets comprising of all investment expenditure since 1970 and the book value transferred when the predecessor to London Transport was formed is given below:

	Group	
	2003	2002
	£m	£m
Infrastructure and other property	**6,816.8**	6,640.9
Rolling stock	**1,558.2**	1,569.0
Plant and equipment	**907.1**	922.2
Assets in course of construction	**250.4**	120.3
Gross cost	**9,532.5**	9,252.4
Less accumulated depreciation	**(2,228.1)**	(2,033.6)
Net written down cost	**7,304.4**	7,218.8

11 Investment in Subsidiaries

	Corporation	
	2003	2002
	£m	£m
At 1 April and 31 March	**466.1**	466.1

Changes in the ownership of the group's subsidiaries are explained in note 24.

12 Stocks

	Group		Corporation	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Maintenance	**14.9**	17.5	**-**	-
Fuel	**0.2**	1.7	**-**	-
	15.1	19.2	**-**	-

Notes to the Accounts

13 Debtors

	Group		Corporation	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Trade debtors	**151.3**	114.5	**44.8**	42.8
Amounts due from Transport for London	**68.7**	61.5	**32.5**	32.6
Amounts due from subsidiary undertakings	**-**	-	**35.8**	35.8
Prepayments and accrued income	**129.5**	44.9	**-**	-
	349.5	220.9	**113.1**	111.2

Prepayments include amounts arising on commencement of the PPP service contracts, which will be amortised over the first year of the contracts.

14 Cash at Bank and in Hand

	Group		Corporation	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Deposits repayable on demand	**-**	2.2	**-**	-
Cash at bank	**6.5**	2.4	**-**	-
Cash in hand and in transit	**10.3**	13.6	**-**	0.1
	16.8	18.2	**-**	0.1

15 Creditors: Amounts Falling Due Within One Year

	Group		Corporation	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Bank overdrafts	**16.7**	18.1	**-**	0.1
Trade creditors	**152.5**	129.7	**0.2**	0.1
Amounts due to Transport for London	**138.1**	140.3	**-**	-
Finance lease creditors	**0.7**	-	**-**	-
Other creditors including taxation and social security	**53.5**	51.9	**-**	-
Accruals and deferred income	**322.0**	256.9	**-**	0.1
	683.5	596.9	**0.2**	0.3

Imputed interest is calculated on the finance lease creditor at 7.31% which is taken to interest payable in the Profit and loss account. As service charges are fixed under the PPP and the imputed interest rate is fixed, there is no market exposure or future interest rate risk.

Notes to the Accounts

16 Creditors: Amounts Falling Due After More Than One Year

	Group		Corporation	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Other creditors	**-**	2.1	**-**	-
Receipts in advance	**2.6**	21.1	**-**	-
	2.6	23.2	**-**	-

17 Provisions for Liabilities and Charges

	At 1 April 2002 £m	Payments in year £m	On disposal of subsidiary £m	Change in provision £m	**At 31 March 2003 £m**
Group					
SSAP 24 pension provision	11.7	(68.7)	-	65.1	**8.1**
Unfunded pension liabilities	34.1	(2.9)	-	5.3	**36.5**
Claims for compensation	20.5	(3.9)	(3.2)	8.7	**22.1**
Third party contribution	89.0	-	-	(89.0)	**-**
Other provisions	11.5	(4.3)	-	3.5	**10.7**
	166.8	(79.8)	(3.2)	(6.4)	**77.4**
Corporation					
Unfunded pension liabilities	23.1	(2.1)	-	4.0	**25.0**
	23.1	(2.1)	-	4.0	**25.0**

SSAP 24 pension provision and unfunded pension provision

Details of these provisions are given in note 6.

Claims for compensation

Contractual and employee claims are provided for at the Board's best estimate of the likely outcome.

Third party contribution

The Jubilee Line Extension was in part funded by a contribution from Canary Wharf Limited (CWL) which was subject to certain performance conditions being fulfilled. Provision was made at 31 March 2002 of £89.0 million, the Directors' best estimate of the amount which might have become payable to CWL following a formal Expert Determination of a marginal shortfall against required criteria.

Agreement has now been reached with CWL. The Directors believe that such provision is no longer required and it has been reversed. £84 million has been transferred to Deferred income and £5 million has been credited to Cost of operations.

Other provisions

Other provisions relate to the closure of one of the Group's power generating stations, dilapidations on full repairing leases and long term charges to Train Operating Companies.

Notes to the Accounts

18 Deferred Grants

	note	Group 2003 £m	Group 2002 £m	Corporation 2003 £m	Corporation 2002 £m
At 1 April		**5,329.7**	5,370.4	**-**	-
Capital grant received from Government	*7b*	**320.7**	339.4	**-**	-
Third party contributions and other grant funding		**129.7**	83.9	**-**	-
Third party contribution transferred to provisions	*17*	**84.0**	(84.0)	**-**	-
Released to Profit and loss account:					
– to meet the depreciation charge	*7c*	**(229.1)**	(235.0)	**-**	-
– on disposal of tangible fixed assets	*8*	**(18.9)**	(145.0)	**-**	-
At 31 March		**5,616.1**	5,329.7	**-**	-

19 Corporate Capital and Reserves

	note	Profit and loss account £m	Vested capital £m	Capital reserve £m	Revaluation reserve £m	Total £m
Group						
At 1 April 2002		13.6	164.6	612.2	2,025.2	2,815.6
Transfer to Profit and loss account		53.1	–	(53.1)	–	–
Realisation of accumulated revaluation surplus		69.2	–	–	(69.2)	–
Revaluation of tangible fixed assets	*10a*	–	–	–	8.4	8.4
Loss for the year		(122.3)	–	–	–	(122.3)
At 31 March 2003		**13.6**	**164.6**	**559.1**	**1,964.4**	**2,701.7**
Corporation						
At 1 April 2002		5.3	164.6	365.3	18.8	554.0
Transfer to Profit and loss account		–	–	–	–	–
Realisation of accumulated revaluation surplus		–	–	–	–	–
Result for the year		–	–	–	–	–
At 31 March 2003		**5.3**	**164.6**	**365.3**	**18.8**	**554.0**

Notes to the Accounts

20 Capital Commitments

	Group 2003 £m	Group 2002 £m
In respect of contracts placed	**60.8**	241.1

The Corporation has no capital commitments.

21 Financial Commitments and Contingencies

a) Operating leases

Under the Government's PFI initiative, agreements have been entered into for the provision by the private sector of a new fleet of trains for the Northern Line (together with associated equipment), a new communications network, a new ticketing system, new facilities for the British Transport Police and upgraded high-voltage power generation and distribution systems. Given the substantial risks retained by the private sector, these transactions are accounted for as operating leases and the assets provided are, therefore, not included in the Balance sheet. The PFI charges of £226.4 million (2001/02 £200.1 million) are charged to cost of operations.

The Group has also entered into operational leases in respect of motor vehicles. The total rental included in the Profit and loss account was £3.6 million (2001/02 £3.4 million). These lease agreements, which cover the cost of routine maintenance and repairs, are charged to the Profit and loss account over the period of the lease.

The Group leases certain property on short-term and long-term leases. The rents payable on these leases were £17.9 million (2001/02 £26.5 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays for all insurance, maintenance and repairs of these properties.

The total estimated amount payable under property leases, PFI agreements (including related services) and other non-cancellable operating leases analysed by the period of expiry, is shown below:

	Group		Corporation	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Property leases expiring:				
Within one year	**9.7**	0.4	**-**	-
Between one and five years	**0.1**	-	**-**	-
Thereafter	**8.7**	26.1	**-**	-
	18.5	26.5	**-**	-
PFI agreements and other leases expiring:				
Within one year	**0.2**	-	**-**	-
Between one and five years	**2.0**	2.1	**-**	-
Thereafter	**178.1**	176.4	**58.7**	46.9
	180.3	178.5	**58.7**	46.9

Notes to the Accounts

21 Financial Commitments and Contingencies (Continued)

b) Contingencies

The financial statements include management's best estimate of the outcome of uncertainties and claims under negotiation arising in the normal course of business from major contracts and projects.

22 Taxation

The Corporation and its subsidiaries are assessable individually to taxation in accordance with the Income and Corporation Taxes Act. No liability for Corporation tax arises in respect of the current year.

The Group has a deferred tax asset in respect of capital allowances and losses brought forward. No deferred tax asset is accounted for, as the Group does not believe that such an asset would be recoverable in the foreseeable future.

	2003	2002
	£m	£m
Gross timing differences due to capital allowances after grants	**56.8**	74.5
Cumulative tax losses	**24.0**	24.8
Total	**80.8**	99.3

23 Related Parties

All Executive and Non-Executive Board members are appointed by the Secretary of State, as explained in Note 5. The Corporation is therefore controlled by Government and is also funded by way of Government grant.

The Corporation has had no material transactions during the year with related parties other than with group companies and those subsidiaries transferred to Transport for London. The Corporation has taken advantage of the exemption from disclosing transactions with other group companies.

24 Principal Subsidiaries of the Corporation

	Ownership	Activity
London Underground Limited	100%	Passenger transport by rail

On 31 March 2002 London Underground Limited (LUL) owned 100% of the share Capital of £1 of Infraco JNP Limited (JNP), Infraco BCV Limited (BCV) and Infraco Sub Surface Limited (SSL).

During the year JNP, BCV and SSL issued a further 8 ordinary shares and 1 non-voting special share each to LUL. On 31 December 2002 LUL sold its 9 ordinary shares in JNP to Tube Lines (Holdings) Limited. On 4 April 2003 LUL sold its 9 ordinary shares in BCV and SSL to Metronet Rail BCV Holdings Limited and Metronet Rail SSL Holdings Limited respectively. These companies are currently upgrading and maintaining the railway infrastructure under long term PPP service agreements with LUL.

Notes to the Accounts

25 Sale of Subsidiary Undertaking

On 31 December 2002 London Underground sold the ordinary share capital of £9 of Infraco JNP Limited for £9.

The net assets disposed of were:

	£m
Stocks	1.5
Debtors	5.0
Cash at bank and in hand	-
Creditors	(3.3)
Provisions	(3.2)
	-

26 Post Balance Sheet Event

The sale of London Underground's remaining infrastructure company subsidiaries on 4 April 2003 is explained in note 24.

27 Payment of Suppliers

Appropriate terms and conditions are agreed with suppliers. These range from standard terms to individually negotiated contracts, for example large civil engineering contracts. Payment is made in accordance with those terms and conditions, provided that the supplier has also complied with them. At the year end the amount owed to trade creditors was equivalent to 42 days (2002 - 39 days) of purchases from suppliers. This is calculated from the energy, materials and services invoiced in the year and the invoices outstanding at the year end.

28 Group Cash Flow Statement - Reconciliation with the Accounts

	note	**2002/03**	2001/02
		£m	£m
a) Capital expenditure			
Amounts included in accounts	*10a*	**(401.7)**	(417.9)
(Increase)/decrease in debtors		**(26.1)**	11.0
(Decrease) in creditors due within one year		**(82.0)**	(61.8)
(Decrease) in creditors due after more than one year		**-**	(9.8)
Group cash flow statement		**(509.8)**	(478.5)

Notes to the Accounts

28 Group Cash Flow Statement – Reconciliation with the Accounts (Continued)

	note	At 31 March 2002 £m	Movement £m	**At 31 March 2003 £m**
b) Analysis of change in net funds				
Cash at bank and in hand	*14*	18.2	(1.4)	**16.8**
Bank overdrafts	*15*	(18.1)	1.4	**(16.7)**
Total of net funds		0.1	-	**0.1**

	note	**2002/03 £m**	2001/02 £m
c) Contributions from third parties for capital expenditure			
Amounts included in the accounts	*18*	**129.7**	83.9
(Increase) in debtors		**(8.5)**	(35.5)
Group cash flow statement		**121.2**	48.4

Summarised Accounts: London Underground

Profit and Loss Account

Year ended 31 March	**2003** **£m**	2002 £m
Sales revenue	**1,244.2**	1,251.2
Cost of operations	**(1,664.3)**	(1,371.3)
Gross operating margin	**(420.1)**	(120.1)
Depreciation	**(336.0)**	(343.6)
Operating loss before grants	**(756.1)**	(463.7)
Grants taken to the Profit and loss account	**650.6**	355.1
Operating loss after grants	**(105.5)**	(108.6)
(Loss)/profit on disposal of assets	**(15.4)**	(17.5)
Interest receivable and similar income	**0.4**	-
Interest payable and similar charges	**(1.8)**	-
Taxation	**-**	-
Loss for the year	**(122.3)**	(126.1)
Realisation of accumulated revaluation surplus	**69.2**	60.7
Transfer to capital reserve	**53.1**	65.4
Retained profit for the year	**-**	-

Balance Sheet

At 31 March	**2003** **£m**	2002 £m
Fixed assets	**8,699.9**	8,673.9
Net current liabilities	**(415.1)**	(449.7)
Total assets less current liabilities	**8,284.8**	8,224.2
Creditors falling due after more than one year	**(2.6)**	(23.2)
Provisions for liabilities and charges	**(52.4)**	(143.7)
Deferred grants	**(5,616.1)**	(5,329.7)
Net assets	**2,613.7**	2,727.6
Total capital employed	**2,613.7**	2,727.6

The above results for both periods have been extracted from the accounts of London Underground Limited. Sales revenue and cost of operations include inter-company trading, which is eliminated on consolidation. Net current liabilities include inter-company balances.

Statistics: London Underground

	Actual	Underlying[1]	Target
Operational Performance			
Excess journey times (minutes)	4.22	**3.29**	3.42
Kilometres operated (millions)	65.4	**67.9**	67.2
Customer satisfaction (score)			
Overall evaluation	75		75
Investment			
Project Expenditure (£millions)	509		587
Project Delivery[2]:			
Track renewals (kilometres)	27.1		23.9
Station upgrades (number)	–		2
Station design (number)	53		46
Escalator refurbishment (number)	16		19
Other asset improvements (number)	4		3

Year ended 31 March	**2003**	2002
	£	£
Operating costs per train kilometre operated [3]	**25.4**	21.0
Accidents to passengers, public and employees	**Number**	Number
Fatalities to passengers/public	**9**	8
Major injuries to passengers/public	**99**	114
Fatalities to employees/contractors	**-**	-

[1] Underlying performance, where shown, excludes the effects of industrial action and the Chancery Lane derailment.

[2] Project delivery targets and results include Infraco JNP up to 31 December 2002.

[3] Train kilometres operated suffered from the Chancery Lane derailment, without which the underlying cost per train kilometre would have been £1 less. As explained in the Operating and Financial Review, higher funding from Government has allowed planned increases in expenditure on maintaining and renewing the network, and on customer service which has led to an improvement in Customer Satisfaction of 1 point.

Cover designed by London Underground Employee Communications.

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