

THE BOMBARDIER TRANSPORTATION

UK Pension Plan

ANNUAL REPORT TO MEMBERS ~ 2002/2003

Chairman's review

It has fallen to me, early in my chairmanship to lead the Trustee Board in dealing with the biggest challenge yet faced by this pension plan.

The world has been through difficult times in the last few years. Pension scheme surpluses, which were apparent, have been eroded by heavy share price falls and by both earlier retirements and increased life expectancy of members. Bombardier Transportation UK Pension Plan past surpluses have also been partly spent on awarding bonuses for all service up to 1995 and partly on past contribution subsidies for the Company and the membership.

As a result of the Plan's most recent valuation effective June 2003, the Trustees have been advised that the Plan has a funding deficit, the first in its history. This does not mean that the Plan is in financial difficulties, it does mean however that the long-term position of the Plan may be difficult unless there are changes made.

Deficits can be remedied in several ways but include a recovery in the return on assets invested, increased contributions or a reduction in benefits into the future.

To deal with assets first, you will see from this report the extreme downturn in asset values within the Plan. The good news is that they do move up as well as down and the value of the Plan's assets at the end of January 2004 were actually **xxxx (not available yet)**. The Trustees are currently maintaining a 80/20 Equity/Bond

split in the belief that the Plan will benefit from a further recovery in the markets. You should note that in August 2003 after continued poor performance the Trustees moved the Plan's invested assets it had with Pictet Asset Management into further L&G units. The whole question of which type of investments the Plan should maintain and with whom will be the subject of further review and debate between the Company and the Trustees during 2004.

Although gains on investments will help the Plan out of deficit it is anticipated that contribution rates will have to rise. In a joint letter from myself and the Company's UK HR Director on 19 August 2002 we informed you that based on previous valuations an employee contribution rate of 10.4% (of Scheme Pay) was likely to be needed from January 2005.

However in the light of the Company deciding to close the Plan to new membership the Trustees have newly considered the whole question of the Plan's funding. We believe the now diminishing number of employees contributing to the Plan should not be expected to make good the deficit which is naturally attributable to the membership as a whole. We therefore wrote to the Company on 7 October 2003 indicating that it alone should make good that part of the deficit which is attributable to the pensioners and deferred pensioners of the Plan, whilst the active membership of the Plan would,



Tony Booth (Chairman)

in line with the rules of the Plan, pay 40% (the company paying 60%) of their past service deficit in addition to the normal future service contribution rate.

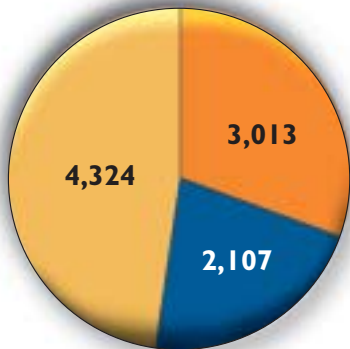
The Company has indicated it will actively consider the proposal but in responding it will have to consider the wider implications for the long term.

I have been informed that the Company is currently consulting the recognised trade unions in each of the respects it has concern over regarding future provision of pensions to its UK workforce. Meanwhile the Trustees continue to govern the Plan with appropriate advice from their advisers and we commit to writing to you again when matters are resolved.

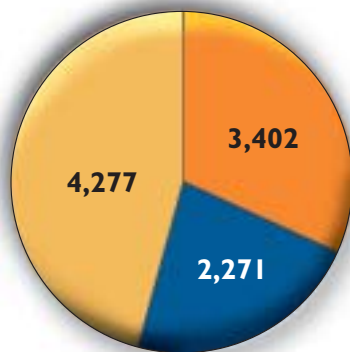
BOMBARDIER
TRANSPORTATION



Membership figures



@ 30 June 2002



@ 30 June 2003

Accounts of the Bombardier Transportation UK Pension Plan

Value at 1 July 2002 **£294,841,000**



Investment Income + **£2,137,000**

Contributions (inc AVCs) + **£8,726,000**

Bulk Transfers re ABB Plan + **£1,000**

Decrease in market value of investments - **£39,513,000**

Pension & other benefits - **£8,274,000**

Investment expenses - **£270,000**



Administration of the Plan - **£628,000**

Transfer values out - **£559,000**

Accident policy premium - **£121,000**

Value at 30 June 2003 **£256,340,000**

Change in value of the Plan - £38,501,000

Active members

An increase of 389 employed members.

Pensioners

An increase of 164.

Deferred members

A small decrease of 47 members yet to take their Plan benefits.

Total membership as at 30 June 2003 = **9,950**

The full facts

This publication to members is intended to be an overview only of the annual report and accounts for the year 1 July 2002 to 30 June 2003. The full audited accounts are available to you on request from your local Human Resources Officer.

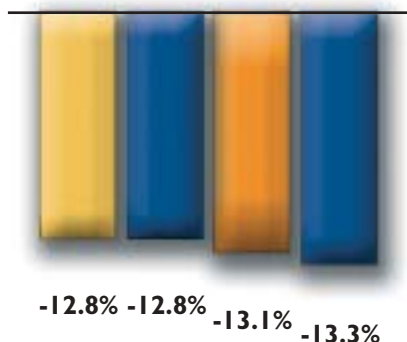
Investment fund management

Legal and General's investment objective is to maintain the Plan's allocation of assets close to the benchmark and within the ranges specified. The benchmark was revised on 3 February 2003 to a distribution of 76.2% Equities and 23.8% Bonds.

Up to August 2003 **Pictet Asset Management UK Limited** managed a portfolio of UK equities with an approximate value of **£24m** which they targeted to annually outperform the UK FTSE-A All Share Index by 2% in each successive rolling 3 year period.

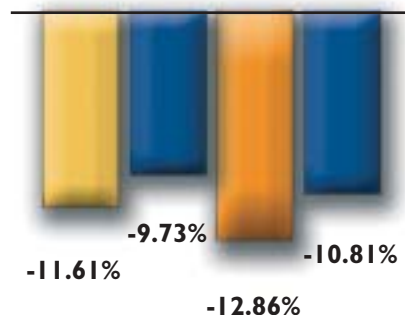
Pictet Asset Management UK Limited managed a portfolio of European ex-UK equities until August 2003. This portfolio was funded on 14 April 2002 and the objective of the portfolio was to outperform the FTSE Europe ex-UK Index ("the benchmark") by 2% per annum on a three year rolling basis.

Investment Sector Fund



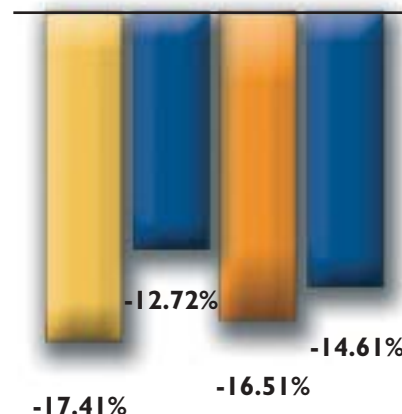
Returns to 30 June 2003

Pictet UK Equity Portfolio



Returns to 30 June 2003

Pictet Europe ex-UK Equity Portfolio



Returns to 30 June 2003

Key

Actual
(1 year)



Actual
(3 years)



Benchmark



Investment management fees

Legal & General fees are based on the average market value of the portfolio over each quarter and are calculated on a sliding scale.

Pictet - the basis of fees charged were:

Base fee: 0.15% of market value of assets.
Performance fee: 15% of the outperformance of the benchmark, measured over successive three year period.

The base fee plus performance fee (if applicable) was capped at 0.75% of the market value of assets.

Pension increase
was **1.7%** as at
1 April 2003

Current pension issues

On 11 June 2003, the Government published the proposals to reform occupational pensions, which sought to address concerns raised in response to its first consultation paper "Simplicity, security and choice: Working and saving for retirement" published in December 2002. All are subject to lengthy consultation, some of the proposals are highlighted below.

Wind-ups where the employer is insolvent

The Government has announced it intends to establish a Pensions Protection Fund (PPF), probably in 2005, which will compensate pension scheme members whose employers become insolvent with unfunded liabilities in their pension schemes. It is proposed that the PPF will be funded by a levy on all defined benefit schemes, like the Plan. The Government stated in the proposals that the level of compensation paid by the PPF will cover benefits up to 100% for pensions in payment and up to 90% for other members.

Wind-ups where the employer is solvent

The Government also announced that, with effect from 11 June 2003, for solvent employers, who choose to wind-up their schemes, they will be

required to meet the full cost of securing benefits with an insurance company.

Allocation of funds on winding-up

Once established, the Government expects the PPF to provide greater protection for members' benefits. In the meantime, the Government is keen to address the potential problems faced by members with long service, but not yet retired, because of the current statutory priority rules on winding up. Legislation is therefore expected during 2004 so that more priority is given according to the length of time a member has been contributing to the scheme.

Pension Taxation Simplification

On 10 December 2003 the Government published a further document in respect of simplifying the taxation of pensions. The proposals are expected to simplify the rules for determining the maximum contributions that may be paid to a pension scheme as well as the options available to members at retirement.

The Trustees hope the above is helpful and enables members to put press coverage into context. With their advisers, the Trustees will continue to keep abreast of such developments and will, along with the Company, consider whether any changes are required.

Where to get help



John Clarke
Company Pensions Controller

If you have any queries about your membership or benefits in general, there is always a point of contact available to you. Pensioners/deferred members should call the Plan Administrators, Mercer Human Resource Consulting on 01376 509843. Active members should speak to their local Human Resource office, in the first instance. Further queries should be directed to the UK Human Resource office in Derby where Rebecca Heap (Company Pensions Officer) and John Clarke (Company Pensions Controller) will be pleased to help you. They can be contacted via e-mail, by phoning 01332 344666, or internally on (064) 6641/4716 respectively.

OPAS

OPAS (the Pensions Advisory Service) is also available at any time to assist pension scheme members and beneficiaries. If you have a pension query or a difficulty which the Trustees or Administrators of any occupational or personal pension scheme have failed to resolve, you can contact them at:

OPAS, 11 Belgrave Road, London, SW1V 1RB.

Investment Principles Code of Practice

The Trustees have considered their response to the code originally drawn up by Paul Myners in response to a request by the Government. As a result they have agreed a Statement of Compliance of those principles which will be adhered to.

Members should be aware that a copy of this document, along with a copy of the Plan's Statement of Investment Principles and monitoring reports on the Plan's Investment Managers, are available on request from the Scheme Secretary John Clarke.