NRRIT

National Railroad Retirement Investment Trust

Annual Management Report for Fiscal Year 2003
Required by Public Law 107-90,
The Railroad Retirement and Survivors'
Improvement Act of 2001

ANNUAL MANAGEMENT REPORT OF THE NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

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INTRODUCTORY STATEMENT

Fiscal year 2003 was a year of substantial growth for the National Railroad Retirement Investment Trust ("NRRIT" or "Trust"), both in terms of the railroad retirement assets managed by the Trust and for the organization itself. During the fiscal year ending September 30, 2003, the Trust’s first full fiscal year of operations, a total of $19.2 billion was transferred from the Department of the Treasury ("Treasury") accounts managed by the Railroad Retirement Board ("RRB") to NRRIT for investment. These assets were invested in an indexed portfolio of equity and debt securities with an asset allocation consistent with the Trust’s Investment Guidelines. As of September 30, 2003, the market value of NRRIT-managed assets had increased to $23.0 billion, reflecting a 19.9% rate of return for the fiscal year. The Trust's composite benchmark index increased 18.8% for the year. As of September 30, 2003, total railroad retirement system assets (NRRIT-managed assets and reserves maintained in the two railroad retirement system accounts at the Treasury) equaled $24.2 billion.

During the fiscal year, the Trust focused on the development of an investment plan to provide a roadmap to deploy the Trust's assets beyond indexation in a diversified manner consistent with its Investment Guidelines. The first phases of the Investment Plan were approved during the last quarter of the fiscal year. Implementation of the Investment Plan over the next few years will allow the Trust to diversify the management of Trust assets employing both indexed and active management strategies in the various asset classes established in the Investment Guidelines.

To support these developments, the Trust's investment staff was expanded during 2003 to add a Senior Administrative Officer, a Senior Investment Officer, a Director of US Equities and a Director of Private Equity. In addition, the Trust moved into permanent office space in Washington, DC.

The Board of Trustees met monthly during the course of the year to consider the various investment, management, and professional staffing issues that are discussed in this second Annual Management Report. In addition, the Board's Audit and Administrative Committees met periodically to consider matters within their areas of responsibilities. This Report and its various appendices provide information on the operations and financial status of the Trust for the fiscal year, including the report of the audit of the financial statements as required by the Trust's enabling statute.

Operations of the Trust

Year In Review

Trustee Update

In February 2003, NRRIT announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2003. Railroad management appointed Mr. Paul R. Goodwin, the then Vice Chairman and Chief Financial Officer of CSX Corporation, to a three-year term that expires on January 31, 2006. (Mr. Goodwin subsequently retired from CSX Corporation, but remains a consultant to the company.) Railway labor unions reappointed Mr. George J. Francisco, Jr., the President of the National Conference of Firemen & Oilers, SEIU, to a three-year term that expires on January 31, 2006. In addition, the Trustees selected James A. Hixon, Senior Vice President for Administration at Norfolk Southern Corporation, as the Chair of the Board of Trustees for the period February 1, 2003-January 31, 2004. (On December 1, 2003, Mr. Hixon became Senior Vice President for Legal and Government Affairs at Norfolk Southern.)

Mr. Goodwin and Mr. Francisco joined the following five members of the Board: *For terms expiring January 31, 2005*: Joel Parker, International Vice President, Transportation Communications International Union; Thomas N. Hund, Executive Vice President and Chief Financial Officer, Burlington Northern Santa Fe Corporation; and John W. MacMurray, the Independent Trustee. *For terms expiring January 31, 2004*: Mr. Hixon; and Dan E. Johnson, General Secretary-Treasurer, United Transportation Union.

Transfer of Railroad Retirement Account Assets to NRRIT

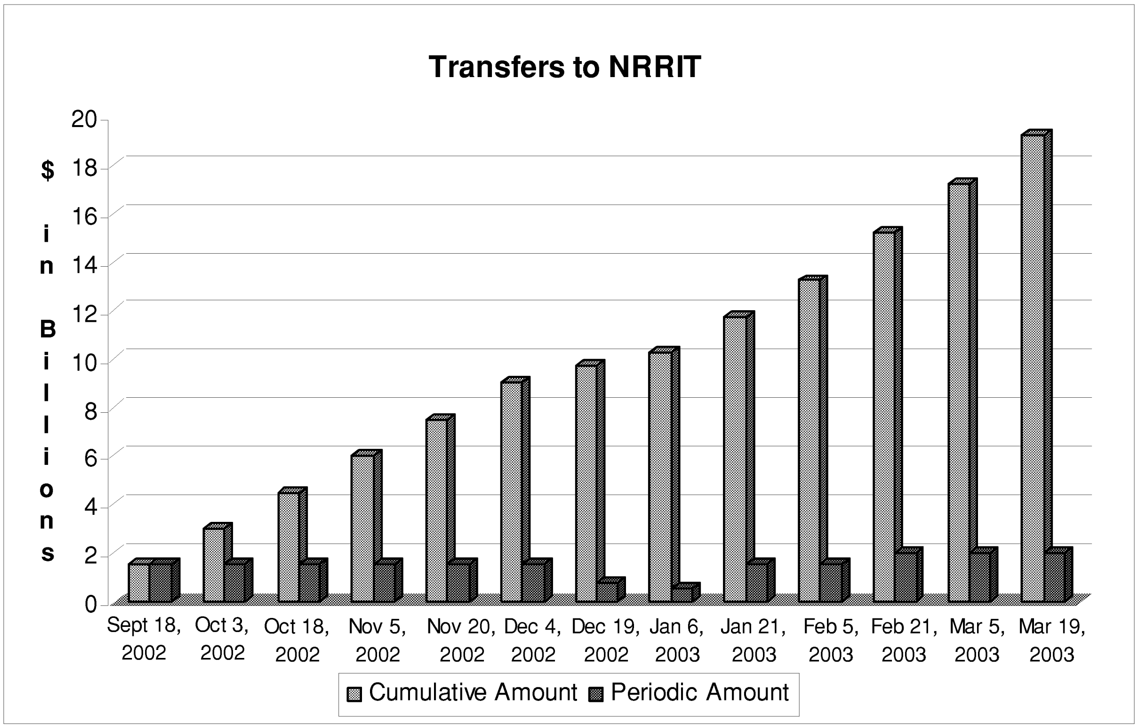
Since its inception in February 2002, NRRIT has worked diligently to develop the framework and structure necessary to meet the requirements of its enabling statute, the Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act"). The Act provided for the transfer of approximately $20 billion in railroad retirement system funds to NRRIT for investment in a diversified portfolio similar to other large US pension plans. During its first fiscal year, which ended September 30, 2002, the activities of the Trust focused on creating the organization, structure and procedures necessary to accomplish its mission. These activities included the establishment of investment guidelines; the selection of a master custodian bank; the appointment of a Chief Investment Officer to manage the Trust's operations; and the engagement of its first investment management firm to assist in the management of its assets.

In addition to these steps, NRRIT signed a Memorandum of Understanding ("MOU") with the RRB, the Treasury, and the Office of Management and Budget agreeing to budgetary, accounting and financial reporting responsibilities necessary for the transfer of railroad retirement system funds to NRRIT for investment.

NRRIT then developed a schedule for transferring railroad retirement system assets held by the Treasury. The schedule identified the expected amount and timing of each transfer over a period of approximately six months. The first transfer of $2 million was for start-up costs. A second transfer, amounting to $1.5 billion, took place just prior to the close of fiscal year 2002.

Approximately every two weeks over the course of the first six months of the 2003 fiscal year, NRRIT received a transfer from the Treasury. The amount and exact timing of each transfer varied somewhat due primarily to liquidity and investment opportunities in the marketplace. With the final scheduled transfer, which took place in mid-March of 2003, NRRIT had received a total of $19.3 billion of railroad retirement system assets, including amounts transferred in fiscal year 2002. This amount consisted of assets transferred largely from the Railroad Retirement Account ("RRA"), but also included a smaller balance of $70 million transferred from the Railroad Retirement Supplemental Annuity ("RRSA") Account. The RRSA Account was subsequently closed in accordance with the Act. The RRB retained approximately $700 million in the RRA to meet immediate benefit payment obligations and administrative expenses. In addition to transfers from these two accounts, the Act also provided that funds held in the Social Security Equivalent Benefit ("SSEB") Account be transferred to NRRIT for investment or used to pay retirement benefits. The SSEB Account is discussed separately in this report.

The funds transfer schedule and procedure allowed for the Treasury to raise the necessary funds to be transferred and NRRIT to benefit from the dollar cost averaging of its investments over time as funds were received. The following graph displays the cash transfers received for investment by NRRIT through March 2003 and the accumulated increase in the total amount of funds transferred.



Investment Allocations of RRA and RRSA Assets

As funds were received by NRRIT, they were invested in commingled fund accounts separated by asset class and managed by Barclays Global Investors ("BGI"), one of the largest index fund managers in the US. The Trust chose indexation as the best method to diversify its investment exposure quickly and cost-effectively as it received railroad retirement system funds. The advantages of indexation were reviewed in NRRIT's Annual Management Report for Fiscal Year 2002.

Each of the fund accounts is managed by BGI to replicate the performance of the target index representing NRRIT's major asset classes in accordance with its

Investment Guidelines. These guidelines establish the following asset allocations for its major equity and fixed income asset classes.

NRRIT INVESTMENT GUIDELINES

ASSET CLASS	POLICY TARGET	TARGET RANGE
EQUITY	**65%**	**60-70%**
US Equity	40%	34-46%
Non-US Equity	20%	17-23%
Private Equity	5%	3-7%
FIXED INCOME	**35%**	**30-40%**
Investment Grade Bonds	30%	25-35%
High Yield Bonds	5%	3-7%

Recognizing the obstacles to immediately diversifying the Trust's assets into the full array of asset classes, the Investment Guidelines provide for diversification to take place over a reasonable time in a prudent and cost-effective manner. As a result, the Trust's allocations to Private Equity and High Yield Bonds have been added to the allocations in US Equity and Investment Grade Bonds respectively. Diversification into Private Equity and High Yield Bonds will take place over time.

At the outset of the transfer process, the funds received by NRRIT were invested in equity securities, both US and non-US, to gain rapid diversification. Prior to the Act, investments of railroad retirement system assets were limited to Federal securities. As the Trust achieved its equity policy target allocation in mid-February 2003, the remaining funds received under the transfer schedule were invested in investment grade bonds.

Transfer and Investment of SSEB Account Assets

The Act provides for the transfer to the Trust of the balance of funds in the SSEB Account not needed to pay current benefits and administrative expenses. Unlike other account funds received by NRRIT, SSEB Account funds are restricted solely to investment in Federal securities. On September 25, 2003, the RRB transferred to NRRIT $1.4 billion of the SSEB Account's cash and invested balances of $2.1 billion. The RRB retained approximately $700 million in the SSEB Account to meet benefit payment obligations and administrative expenses. Subsequent to this transfer, NRRIT transferred $300 million of SSEB Account funds back to the RRA to fund near-term RRA benefit payment obligations. The remaining SSEB Account balance of $1.1 billion held by the Trust was invested in a separate account managed by BlackRock Financial Management, Inc. Consistent with the requirements of the Act, assets in this account are invested in Federal securities. BlackRock was selected by the Trust after a review of the qualifications, investment expertise and fees of major fixed income investment managers.

Summary of Transfers

Over the course of fiscal year 2003, NRRIT received a total of $19.2 billion from the Treasury. Of this amount, $4.8 million was retained by the Trust to fund its expenses and pay investment management fees, and $300 million was transferred back to the Treasury to fund the payment of benefit obligations. The total amount of funds received from the Treasury since NRRIT's inception in February 2002 is $20.7 billion.

Investment Plan – Beyond Indexation

At the outset of fiscal year 2003, NRRIT began the planning process to move the Trust's investment portfolio beyond indexed-only investments. The objective was to analyze and review different investment strategies and methodologies to determine how active management could add value to expected returns at reasonable levels of risk. The planning process gathered momentum as staff members joined the Trust during the year, bringing with them expertise in specific asset classes and investment strategies.

In the spring, significant portions of NRRIT Trustee meetings were devoted to the analysis and review of the active management investment process. Discussion topics included: expanding portfolio investment options on the efficient frontier, risk management and budgeting, performance benchmarks, analysis and attribution, and fiduciary responsibility. This process was an important step in preparing for the development of a formal investment plan.

An Investment Plan and Procedures Manual was developed by Trust staff and reviewed by the Trustees in mid-summer. The Plan identifies the investment thesis, portfolio structure, performance benchmark roadmap, and return and risk expectations for the Trust's entire portfolio. It is also designed to provide a similar analysis for each asset class. This manual is an internal working document subject to on-going review by the Trust to ensure its assumptions reflect the influential factors of an ever changing investment environment.

Sections of the Investment Plan relating to the initial stage of the US Equity plan and to Private Equity were developed and have been approved by the Trustees. These plans are in the early stages of implementation.

The process of moving the NRRIT portfolio beyond indexation to increase diversification with active investment strategies and implementing investments in the smaller portfolio allocations, particularly Private Equity, will take considerable time. The NRRIT portfolio is large in size, and cost considerations relating to the transition from indexed investments are of major importance. Future Annual Management Reports will provide updated information as development of the Investment Plan continues and implementation takes place.

Proxy Voting Policy

The Trust adopted an interim proxy voting policy in August of 2002 that authorized BGI, its sole investment manager at that time, to vote Trust proxies in the best interests of the participants and beneficiaries of the programs funded by the Trust and consistent with BGI's internal investment guidelines and procedures. As the Trust prepared to implement its investment plan and further diversify its portfolio with additional managers, it adopted a general proxy voting policy in April of 2003.

While the proxy voting policy continues to delegate the voting of Trust proxies to its investment managers as fiduciaries of the Trust, it is more detailed in terms of identifying the specific responsibilities of investment managers in the voting of proxies; coordinating the voting of proxies between the investment manager and the Trust's custodian; and identifying the responsibilities of the Trust in the areas of monitoring, reviewing and reporting on the implementation of the proxy voting policy. A copy of the proxy voting policy is in Appendix F.

Investment Performance Summary

Investment performance for the major asset classes in which the Trust invests was positive for fiscal year 2003. The Trust's target equity indices, the Wilshire 5000 (domestic) and the MSCI World ex-US (non-domestic), were up 26.3% and 27.5% respectively for the 12 months ended September 30, 2003. The Trust was invested in equities for the entire year and it achieved performance returns for its indexed exposure in line with these indices: 26.4% domestic and 27.4% non-domestic.

Fixed income performance was also positive for fiscal year 2003, but to a much smaller degree than for equities. The Trust's target investment grade bond index (Lehman Brothers Aggregate Bond Index) was up 5.4% for the year. Because the Trust did not begin investing in fixed income until February 2003, its return of 3.1% was somewhat less than what the index achieved over the full fiscal year.

In assessing its overall performance, the Trust uses a composite benchmark index. The composite benchmark is a blend of representative indices for each asset class in which the Trust invests, weighted by the Trust's target allocation to that asset class. In fiscal year 2003, the performance of Trust-managed assets (equity and fixed income) was 19.9% compared to an 18.8% return for its composite benchmark. The greater return on Trust-managed assets is largely attributable to positive market returns stemming from the periodic receipt and investment of cash transfers during the year. The full year performance return resulted in an increase of $2.7 billion in the NRRIT-managed portfolio as of September 30, 2003.

The total railroad retirement system portfolio includes both NRRIT-managed assets and reserves maintained at the Treasury by the RRB. The combined performance of these two components was 14.2% for the fiscal year. The return differential between the Trust-managed assets and the total railroad retirement system portfolio is largely attributable to the fact that all asset reserves maintained by the RRB must be invested in Federal securities. These securities underperformed equities and investment grade bonds during the year.

FISCAL YEAR 2003 PERFORMANCE
ANNUAL RETURN

	NRRIT MANAGED ASSETS	TARGET INDICES
Equity Return	26.7%	26.7%
Domestic	26.4%	26.3%
Non-Domestic	27.4%	27.5%
Fixed Income Return*	3.1%	3.3%
Total Return	19.9%	18.8%

* Fixed Income Return is from February 18, 2003 to September 30, 2003 only.

Account Benefits Ratio

The funds available to pay railroad retirement benefits and administrative costs include assets held in the RRA and the SSEB Account and assets held by the Trust for investment. Section 204 of the Act requires that amounts in the RRA and assets held by the Trust be included in the annual calculation of the account benefits ratio ("ABR"). The ABR is the ratio of the fair market value of the assets in the RRA and the Trust as of the close of the fiscal year to the total benefits and expenses paid in that fiscal year. The average account benefits ratio ("AABR"), the 10-year average of the ABR, is used to determine the tier II tax rates for railroad employers and employees for calendar years beginning 2004. As noted above, SSEB Account balances, not needed to pay tier I benefits, are considered to be assets of the railroad retirement system available to fund tier II benefits. However, under the Act SSEB Account balances were included in the ABR calculations only for fiscal years prior to 2002 because it was assumed in the Act that after enactment, all surplus SSEB Account balances would be transferred to the Trust for investment. As noted earlier, during fiscal year 2003 $1.4 billion in SSEB Account assets were transferred to the Trust. As of September 30, 2003, $674.6 million was retained by the RRB in the SSEB Account to pay benefits and administrative expenses and as such are not included in the ABR calculation for fiscal year 2003.

As provided in the Act, the RRB computed the account benefits ratio for each of the preceding 10 fiscal years and certified the ratios to the Secretary of the Treasury on October 30, 2003. The Secretary determined the AABR for fiscal year 2003 and on November 25, 2003 published a notice in the Federal Register of the tier II employer and employee tax rates for calendar year 2004. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The ABR increased from 6.2 for fiscal year 2002 to 6.6 for fiscal year 2003. The AABR increased from 5.7 for fiscal year 2002[1] to 5.9 for fiscal year 2003.

Administrative Matters

NRRIT made significant advances during the fiscal year in the areas of staffing and administrative operations. On October 1, 2002, the Trust had two employees and was located in facilities provided by one of its legal counsel. At the end of the year on September 30, 2003, the Trust had 6 employees and had moved into its own office space, centrally located in Washington, DC. Catherine A. Lynch, E. Shepard Farrar and David J. Locke joined the Trust as Senior Investment Officer, Director of US Equity, and Director of Private Equity respectively during the year. They joined Enos T. Throop, Jr., the Chief Investment Officer, and Grace A. Ressler, Senior Administrative Officer of the Trust. In addition, an Administrative Assistant joined the Trust in mid-year. Biographical information on all Trust investment staff members is included in Appendix J.

In early July 2003, the Trust moved into new office space located at 1250 Eye Street, NW in downtown Washington, DC. The new location contains sufficient office space, conference rooms, reception and work areas for the Trust to conduct its

[1] NRRIT Estimate for fiscal year 2002 since Treasury was not required to calculate the AABR for that fiscal year.

business and has been leased for 10 years. Trustee meetings take place on a monthly basis at the offices.

Coordination with Federal Government Agencies

Throughout the fiscal year, the Trust maintained regular communications with the RRB and the Treasury on all matters relating to the transfer of monies between the various RRB accounts at the Treasury and the Trust. In addition, the Trust transmitted all monthly data required pursuant to the MOU entered into with these entities and the Office of Management and Budget outlining the budgetary, transfer, accounting, and financial reporting responsibilities respecting assets held by the Trust and assets held within the Treasury for the Trust. The MOU requires the Trust to report on a monthly basis: receipt and disbursement of funds, purchases and sales of assets, earnings and losses on investments, value of investments held, and administrative expenses incurred. A copy of the MOU is included in Appendix C.

During the fiscal year, the Trustees, the Chief Investment Officer and Trust counsel held periodic meetings and telephone conferences with the Members of the RRB and its Senior Executive Officer/ General Counsel to review the investment and administrative activities of the Trust. These periodic meetings are being formalized for fiscal year 2004, with monthly meetings scheduled between the senior staff of the two organizations and Trust legal counsel after each meeting of the NRRIT Board and semi-annual meetings to be held between the Trustees and the Members of the RRB.

During the fiscal year, the Trust prepared brief Quarterly Updates that were transmitted to the Congressional committees of jurisdiction. The Quarterly Updates were also posted on the RRB website so that they would be available to all other interested parties. The Trust also responded to various informational inquiries from the Congressional committees of jurisdiction, including requests to identify areas of the Trust's enabling statute in need of legislative clarification. As a result of these discussions, several technical refinements to the Act have been incorporated in the Senate version of HR 743, the Social Security Protection Act of 2003.

AUDIT COMMITTEE

The Audit Committee met on three occasions during fiscal year 2003: February 19, May 21, and September 15. Representatives of NRRIT's independent auditor participated in each of these meetings. Throughout the fiscal year, the Audit Committee reviewed key aspects of NRRIT's auditing, financial reporting, internal accounting, and internal controls processes as the entity moved from its start-up stage to a more mature investment management institution. The Audit Committee began the fiscal year supervising the audit procedures conducted by NRRIT's independent auditor for fiscal year 2002 and the completion of the 2002 Annual Management Report by NRRIT's professional staff, legal counsel and independent auditor. The Audit Committee also worked closely with the independent auditor in its development of the Fiscal Year 2002 Audit Report, and discussed the various issues involved in the Audit Management Letter for that fiscal year. Upon submission by the independent auditor of its fiscal year 2002 Audit Management Letter, the Audit Committee reviewed and evaluated the Chief Investment Officer's preparation of NRRIT's Management Response Letter.

In addition to supervising these auditing processes, the Audit Committee worked alongside NRRIT's staff and independent auditor in matters related to financial reporting. Specifically, the Audit Committee analyzed and commented upon the appropriate format and content of NRRIT's financial statements, and worked with these two parties in finalizing the financial statements for fiscal year 2002.

In response to recommendations by the independent auditor, and with the assistance of both the independent auditor and NRRIT's staff, the Audit Committee oversaw the implementation of refinements in NRRIT's internal accounting and internal controls processes related to bank reconciliation processes and expense reimbursements.

Following a review of the new statutory and regulatory developments in the areas of internal accounting and controls contained in the Sarbanes-Oxley Act of 2002 and pronouncements by various regulatory agencies, the Audit Committee received a series of best practices recommendations from the independent auditor that might be appropriate for adoption by NRRIT. Working with the independent auditor, NRRIT's staff, and legal counsel, the Audit Committee evaluated the extent to which such practices could most appropriately apply to NRRIT's unique structure, and began the process of implementing certain of these recommendations, including: a Financial Statement Certification, a Whistleblower Hotline, and a more comprehensive statement of Audit Committee responsibilities. Effective for fiscal year 2003, the Financial Statement Certification will be signed by the Chief Investment Officer and the Senior Administrative Officer, with each attesting to the accuracy and completeness of NRRIT's Annual Management Report. The Financial Statement Certifications for fiscal year 2003 are contained in Appendix G of this Report. The Whistleblower Hotline is an internal fraud detection procedure, whereby employees of an entity, investment managers, and other third party service providers are able to report, on a confidential basis, any suspected acts of fraud or actions involving the inaccurate or incomplete recording of financial information. The Committee is continuing to work on the issues involved in the implementation of such a program with the goal of implementing a system during fiscal year 2004.

Finally, the Committee prepared a revised statement of Audit Committee responsibilities to vest in the Audit Committee specific responsibilities similar to those mandated in recent federal statutory and regulatory pronouncements for the audit committees of public companies. These responsibilities include establishing processes and policies to monitor the independence of the auditor and rotation of audit staff; to ensure compliance by Trustees, employees and agents with requirements of the Railroad Retirement Act; and to review reports submitted by the Trust to Congress. (The revised statement of responsibilities was adopted by the Board of Trustees on December 4, 2003.)

INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

The Trust's staff is responsible for the content and integrity of the Trust's financial data and for ensuring that this data fairly presents the financial position, results of operations, and cash flows of the Trust. During fiscal year 2003, the Trust's staff continued to maintain a system of internal accounting and administrative controls designed to ensure the safekeeping of Trust assets and the proper accounting of assets in the Trust's financial statements and this report.

As explained in last year's report, the custodian bank provides the Trust with a full accounting and performance record of all transactions involving Trust assets. The Trust's staff monitored reports from both investment managers and the custodian bank to ensure that transactions were accurately processed with the Trust's authorization and properly recorded. Financial data from the custodian bank form the basis for the Trust's various reporting requirements.

The Trust's financial statements were prepared in accordance with generally accepted accounting principles in the United States, consistent with the accounting principles for investment companies. Due to the Trust's reporting obligation under the MOU to reformat its data on a cash basis and to differentiate investment activity between Federal securities and non-Federal securities, the Trust also worked with its custodian bank to create customized financial reports that are transmitted to the RRB. In fiscal year 2002, an internal process was established to reconcile the MOU reports each month with the Trust's financial statements. The process of reconciling the information in these two sets of reports continued to provide the Trust with an additional internal accounting safeguard in fiscal year 2003.

Oversight of the Trust's internal accounting and administrative controls systems was exercised through the Board of Trustee's Audit Committee. As described in further detail in the section of this report entitled "Audit Committee," the Committee's work with the Trust's staff and the Trust's independent accountant led to the adoption of several measures to enhance the integrity of the Trust's internal accounting and financial controls.

FINANCIAL STATUS OF THE TRUST

Statement of Cash Flows

During fiscal year 2003, the Trust continued to receive cash transfers of railroad retirement system assets from the Treasury for investment. These transfers totaled $19.2 billion during fiscal year 2003. The amount transferred since inception of the Trust to September 30, 2003 is $20.7 billion. A summary of the Trust's cash flows is reflected in the chart below.

SUMMARY OF NRRIT CASH FLOWS
(In Millions)

	Fiscal Year 2003 *	**Fiscal Year 2002****	**Since Inception**
Receipts:			
Transfers from RRA	$17,750	$1,432	$19,182
Transfers from RRSA Account	0	70	70
Transfers from the SSEB Account	1,438	0	1,438
Total Receipts	$19,188	$1,502	$20,690
Disbursements:			
Transfer to the RRA	-$300	$0	-$300
Administrative Expenses (Cash)	-4	-2	-6
Total Disbursements	-$304	-$2	-$306
Net Assets Received	$18,884	$1,500	$20,384
Market Value - September 30th	$21,596	$1,421	$23,017
Market Value Gain or (Loss)	$2,712	-$79	$2,633

*Information incremental to Fiscal Year 2002 reported data.

** Data as of September 30, 2002.

Market value appreciation of the investments during fiscal year 2003 was $2.7 billion. In September 2003, at the direction of the RRB, the Trust made its first transfer to the Treasury for payment of railroad retirement benefits in the amount of $300 million.

During the 2003 fiscal year, the Trust liquidated certain assets to fund its own operations. Administrative expenses of the Trust, including investment management fees, totaled $4.5 million in fiscal year 2003 which compares to $2.1 million in fiscal year 2002. The increase in expenses is attributable to a full year of operations in fiscal year 2003 versus eight months of operations in the prior fiscal year. The Trust's largest single expense for fiscal year 2003 was investment management fees, resulting from the receipt of a majority of the Trust's funds during the fiscal year and the investment of these funds in multiple asset classes. Additional information on administrative expenses can be found in the Financial Statements which follow this section.

Financial Statement

The Trust's net assets as of September 30, 2003 were $23.0 billion, compared to $1.4 billion as of the end of fiscal year 2002. The increase in assets reflects the transfer of available funds from railroad retirement system accounts to the Trust, and the investment return on these funds. The net cash transfers to the Trust in fiscal year 2003 totaled $18.9 billion, consisting of $19.2 billion from the Treasury, less the $300 million transferred back to the Treasury at the end of September. A net unrealized market value gain of $2.7 billion as of September 30, 2003 allowed the Trust to report a record value of net assets of $23.0 billion.

Status of Railroad Retirement System Assets

In addition to the assets held by the Trust, certain railroad retirement assets remain with the Treasury. As of September 30, 2003, the investments held by the Treasury totaled $1.2 billion. When combined with the Trust's assets, the value of railroad retirement system investments totaled $24.2 billion. The total value of the railroad retirement system investments increased during fiscal year 2003 by $2.2 billion.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

National Railroad Retirement Investment Trust

Financial Statements for the
Fiscal Year Ended September 30, 2003,
and Independent Auditors' Report

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
National Railroad Retirement Investment Trust

We have audited the accompanying statement of assets and liabilities, including the schedule of investments of the National Railroad Retirement Investment Trust (the "Trust") as of September 30, 2003, and the related statements of operations, changes in net assets, cash flows and the financial highlights for the fiscal year then ended. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of the National Railroad Retirement Investment Trust as of September 30, 2003, and the results of its operations, changes in net assets, its cash flows and financial highlights for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

January 19, 2004

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF ASSETS AND LIABILITIES
AS OF SEPTEMER 30, 2003
(In thousands)

ASSETS		
INVESTMENT IN SECURITIES—At fair value (cost $20,179,423)	$	23,015,811
CASH AND CASH EQUIVALENTS		688
OTHER ASSETS		356
Total assets		23,016,855
LIABILITIES AND NET ASSETS		
ACCRUED EXPENSES		900
OTHER LIABILITIES		29
Total liabilities		929
NET ASSETS	$	23,015,926

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003
(In thousands)

INCOME:	
Interest	$ 14
Total income	14
EXPENSES:	
Investment management fees	1,901
Professional fees	1,274
Compensation	624
Insurance	380
Trustee fees and expenses	154
Other expenses	225
Total expenses	4,558
NET EXPENSES	(4,544)
NET REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENT SECURITIES:	
Net realized loss	(134,134)
Net unrealized appreciation	2,846,308
Net gain on investment securities	2,712,174
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 2,707,630

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003
(In thousands)

INCREASE (DECREASE) IN NET ASSETS	
Operations:	
Net expenses	$ (4,544)
Net realized loss from investment securities	(134,134)
Net unrealized appreciation on investment securities	2,846,308
Net increase in net assets resulting from operations	2,707,630
Net assets transferred to the Trust	18,887,998
NET ASSETS:	
Beginning of year	1,420,298
End of year	$ 23,015,926

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003
(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 2,707,630
Adjustments to reconcile net increase in net assets from operations to net cash generated from operating activities:	
Purchase of investment securities	(18,885,699)
Sale of investment securities	2,500
Increase in assets transferred to the Trust—net	18,887,998
Increase in other assets	(263)
Increase in accrued expenses and other liabilities	417
Unrealized appreciation of investment securities	(2,846,308)
Net realized losses from investment securities	134,134
Net cash used in operating activities	(2,707,221)
INCREASE IN CASH AND CASH EQUIVALENTS	409
CASH AND CASH EQUIVALENTS—Beginning of Year	279
CASH AND CASH EQUIVALENTS—End of Year	$ 688
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:	
Exchange of units in BGI Restructuring Accounts for units in BGI Index Funds (total value of units exchanged)	$ 18,202,675

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
SEPTEMBER 30, 2003
(In thousands)

Description	Number of Units or Par	Fair Value
BGI U.S. Equity Market Fund (cost, $9,112,848)	215,061	$10,868,955
BGI World Equity Index Fund ex-U.S. (cost, $3,920,938)	670,451	4,857,558
BGI U.S. Debt Index Fund (cost, $6,007,638)	157,003	6,151,174
U.S. Treasuries:		
U.S. Treasury Bills Due 10/30/03 (cost, $299,752)	$ 300,000	299,784
U.S. Treasury Bills Due 11/20/03 (cost, $299,606)	$ 300,000	299,631
U.S. Treasury Bills Due 12/18/03 (cost $302,381)	$ 303,000	302,421
U.S. Treasury Bills Due 1/29/04 (cost, $236,260)	$ 237,044	236,288
		$23,015,811

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

1. ORGANIZATION

Formation—The Trust was created as a result of Federal legislation. The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") established the National Railroad Retirement Investment Trust (the "Trust"), the sole purpose of which is to manage and invest industry-funded Railroad Retirement assets as set forth in the Act. Domiciled in, and subject to the laws of the District of Columbia (to the extent not inconsistent with the Act), the Trust is a tax-exempt entity that is neither an agency nor instrumentality of the Federal Government. The Trust became effective on February 1, 2002.

The Railroad Retirement system was created as a Federal pension program during the 1930s to fund retirement benefits of railroad workers and their dependents. For more than 65 years, the Railroad Retirement Account, a Federal trust fund, has collected payroll taxes from railroad employers and employees and paid out benefits to beneficiaries. Railroad Retirement is funded as a pay-as-you-go system that is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA") funding rules.

The Act authorizes the Trust to manage and invest the assets of the Railroad Retirement system in the same array of investment options available to private sector pension plans, and to pay administrative expenses of the Trust from the assets in the Trust. Prior to the Act, Railroad Retirement assets were limited to investment in US Government securities directly with the United States Treasury (the "Treasury"). Responsibility for administering the Railroad Retirement system, including eligibility determinations and the calculation of beneficiary payments, remains with the Railroad Retirement Board (the "Board"), a Federal agency.

Investment Management—During the first two quarters of fiscal year 2003, the Trust received $17.8 billion of Railroad Retirement Account Assets from the Board. The Trust directed Barclays Global Investors ("BGI") to invest the assets into one of three indexed portfolios: one targeting US equity investments, the second targeting non-US equity investments, and the third targeting US debt securities. Assets invested in the index funds were first contributed to BGI restructuring accounts, one for each target index fund. In turn, the Trust received units of the restructuring accounts representing the total value of the contribution. Gradually, and as market conditions permitted, those monies were invested directly into securities structured to match, as closely as practicable, the holdings and returns of the target index. The units of the restructuring accounts were priced daily to reflect the changing composition of the account. When the assets of the restructuring accounts were fully invested in securities of the target index, they were transitioned into the target index fund, and simultaneously exchanged for units of the target index fund. While this transition avoided the actual sale and repurchase of securities in the open market and eliminated all trading costs, any unrealized gain or loss that had accrued in the restructuring account from the time the securities were originally purchased, was realized.

In September 2003, assets from the Social Security Equivalent Benefit ("SSEB") Account amounting to $1.4 billion were transferred by the Board to the Trust in accordance with the Act.

Assets received from the SSEB Account can be used only to purchase obligations of the United States that are backed by the full faith and credit of the United States, or to pay benefits under the Act. The Trust selected BlackRock Financial Management, Inc. ("BlackRock") as investment manager to invest the SSEB Account assets in US Treasury Bills. Subsequent to the receipt of the SSEB Account assets, the Trust made a payment of $300 million from the SSEB Account assets to the Board for payment of railroad retirement benefits.

During the year, the Trust used the services of BGI and BlackRock for investment management purposes.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The financial statements of the Trust are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States. The Trust follows the accounting principles for an investment company for purposes of financial reporting.

Fiscal Year —The Trust's fiscal year runs from October 1st through September 30th of the following year.

Investment Securities—The Trust records purchases and sales of investment securities on a trade-date basis. Investment securities are recorded at stated fair market value. Gains or losses realized on sales of investment securities are based on average cost.

Income Taxes—The Trust is exempt from taxes under Section 501(c)(28) of the Internal Revenue Code of 1986.

Cash and Cash Equivalents—For purposes of reporting cash flows, cash and cash equivalents include interest earning deposits held at banks and cash balances held in a short-term investment fund which can be withdrawn upon same day notice.

Investment Management Fees—Fees are generally paid to the investment management firms on a quarterly basis and are calculated as a percentage of the average market value of assets managed using a time-weighted method. For the fiscal year ended September 30, 2003, investment management fees were 0.012 % of the time-weighted average asset balance.

3. RELATED PARTY TRANSACTIONS

Railroad Retirement Board—Under the provisions of the Act, the Board directs the Treasury to transfer Railroad Retirement Account assets and other assets as defined in the Act to the Trust. During fiscal year 2003, $19.2 billion of railroad retirement assets were transferred to the Trust. In September 2003, at the direction of the Board, the Trust transferred $300 million to the Railroad Retirement Account for payment of railroad retirement benefits. As defined in the Act, the Trust reports to the Board and is required to perform its duties solely in the interest of the Board and through it, the participants and beneficiaries of the programs funded by the Act.

Legal Counsel—The Trust incurred $1.1 million in legal fees in fiscal year 2003. Legal counsel was provided by firms that may also provide services to the major railroads and railway labor unions whose representatives are members of the Board of Trustees. From inception through July 2, 2003, the Trust used the facilities of one of its legal counsel, Dewey Ballantine LLP, for Trustee meetings and for temporary offices for Trust personnel without charge to the Trust.

4. EMPLOYEE BENEFIT PLANS

Defined Contribution Plan -The Trust provides a defined contribution plan ("Plan") covering all employees. Employees participate in the Plan by making discretionary contributions from their eligible compensation, but not more than the maximum annual amount allowed by law. The Trust makes matching contributions equal to 100% up to 3% of compensation and 50% on the next 2% of compensation. The Trust may also, at its discretion, make an additional profit sharing contribution to the Plan. During the fiscal year 2003, the Trust made contributions of $26 thousand to the Plan on behalf of the employees.

Deferred Compensation Plan – During the year ended September 30, 2003, the Trust adopted a deferred compensation plan for the purpose of providing retention incentives for certain of its senior officers. The Plan is intended to be a plan of unfunded deferred compensation subject to the provisions of Section 457(f) of the Internal Revenue Code. At September 30, 2003, the Trust had accrued $28.8 thousand relating to this plan.

5. COMMITTMENTS

Office Space Lease **–** In July 2003, the Trust entered into a ten-year operating lease agreement with respect to its principal office space in Washington, DC. Rent expense during the fiscal year ended September 30, 2003, amounted to approximately $35 thousand. Payment obligations relating to the lease for each of the next five years and thereafter are as follows:

Year Ending September 30,	**Amount**
2004	$ 257,790
2005	263,610
2006	269,560
2007	275,650
2008	283,090
Thereafter	1,492,260
Total	$ 2,841,960

6. FINANCIAL HIGHLIGHTS

In accordance with the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, *Audits of Investment Companies*, using the methods prescribed in the related AICPA Technical Practice Aids, the following financial highlights are being disclosed for the fiscal year ended September 30, 2003.

In Fiscal Year 2003, the Trust received $19.2 billion from the Treasury for investment in securities and in September 2003 transferred $300 million to the Railroad Retirement Account at the direction of the Board. The net receipt by the Trust in fiscal year 2003 was $18.9 billion. The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2003.

	October 1, 2002 – September 30, 2003
Financial Ratios (1):	
Expenses to net assets	0.02%
Net investment gain to net assets	11.8%
Total Return (2):	
Total return	19.9%

(1) The ratios of expenses to net assets and net investment gain to net assets represent the expenses and net investment gain or loss for the period, as reported on the statement of operations, to the Trust's net assets at the end of that period.

(2) The total return reflected above includes income and realized and unrealized gains and losses. The return is time weighted and measures the performance of a unit of assets held continuously for the time period covered.

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