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your pension

LRT Pension Fund

Annual Report and Accounts

2004

**Year ended
31 March 2004**

Report and Accounts for the Year to 31 March 2004

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Administration Office

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

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

Pension Schemes Registry scheme reference number: 101653517

Organisation and Advisers as at 31 March 2004

Trustee

LRT Pension Fund Trustee Company Limited

Board of Directors of LRT Pension Fund Trustee Company Limited

(Nominating bodies are shown in brackets)

SR Critchley (Chairman)	Chief Finance Officer, Transport for London (TfL)
MS Ainsworth	Business Planning & Review Manager, London Bus Services Limited (TfL)
SD Allen	Director of Corporate Finance, Transport for London (TfL)
AE Barnes	Pensioner (PCC)
EA Barrett	Director of Group Human Resources, Transport for London (TfL)
GJ Belton	Support Manager, Train Operations Standards, London Underground Limited (PCC)
MA Gardiner	Head of Employee Relations, London Underground Limited (TfL)
JC Godbold	Director, Transport Benevolent Fund (PCC)
AJ Good	Director of Human Resources, Tube Lines (TfL)
S Grant	District Secretary, ASLEF (ASLEF)
JE Ingleton	Pensioner (PCC)
SM Phelan	Director of Human Resources, Metronet Rail SSL (TfL)
J Pownall	Property Solicitor, Transport for London (TfL)
TC Scanlon	Regional Industrial Organiser, T & GWU (T&GWU)
PW Sikorski	Assistant General Secretary, RMT (RMT)
AM Taylor	District Line Duty Station Manager, London Underground Limited (TSSA)
JB Timbrell	Project Engineer, Metronet SRA (LTJTC)
SJ Timbrell	Director of Pensions, Transport for London (TfL)

Principal Employer

Transport for London

Participating Employers

Transport for London
Transport Trading Limited
Victoria Coach Station Limited
London Bus Services Limited
London Buses Limited
London River Services Limited
London Underground Limited
Metronet Rail BCV Limited
Metronet Rail SSL Limited
Tube Lines Limited
Cadbury Limited
Cap Gemini UK plc
Cubic Transportation Systems Limited
Electronic Data Systems Limited
Instant Library Limited
Seaboard Powerlink Limited
Strategic Rail Authority
Thales Communications Services Limited

Secretary to the Trustees

CL Angell

Auditors

KPMG LLP

Legal Advisers

Mayer, Brown, Rowe & Maw LLP
Eversheds

Scheme Actuary

RV Williams, Watson Wyatt LLP

Bankers

The Royal Bank of Scotland plc

Communications Adviser

GR Communications

Investment Adviser

Mercer Investment Consulting

Investment Managers

Alliance Capital Limited
Baillie Gifford & Co.
Barclays Global Investors Limited
Henderson Investors Limited
Schroder Investment Management International Limited
LaSalle Investment Management
Jones Lang LaSalle Limited
CB Richard Ellis Limited

Custodian

JP Morgan Chase Bank

AVC Providers

Clerical Medical
Equitable Life
Standard Life

Medical Adviser

Dr Kevin Holland-Elliott

Chairman's Introduction

The year to 31st March 2004 was a period of significant change for both the Fund and the Trustee Board. The retirement from the Board of several long serving and experienced Trustees on 10th July 2003 was followed on 15th July by Transport for London (TfL) taking over the role of Principal Employer from London Regional Transport (LRT). Amongst those leaving was my predecessor as Chairman Clive Hodson to whom I wish to pay tribute for his distinguished leadership in bringing the Fund safely through several years of turbulent stock markets, Sectionalisation and finally the transfer to TfL. His steady hand on the tiller helped ensure that the shortfall of assets against liabilities ('deficit') revealed in the Actuarial Valuation as at 31st March 2003 was, whilst significant, less dramatic than many being reported by UK Pension Funds. Details of the Valuation are included at Section 5 of the Directors' Report but I am delighted to be able to confirm that the Principal Employer and all the other Participating Employers have been able to agree a Schedule of Contributions going forward that will eliminate the 'deficits' in accordance with the Fund rules and that TfL have felt able to continue to offer membership of our excellent Defined Benefit Pension Fund to existing staff and new entrants.

The Trustee Board's attention has now moved on from the Valuation to consideration of Investment Strategy and an Asset Liability Modelling Study (ALMS) was concluded shortly before the year end. With that as a basis we are moving towards the agreement of a revised Investment Strategy which recognises both the strength of TfL's commitment to the Fund (the Employer's Covenant) and the need to secure pensions within the level of risk to be adopted.

The year also saw changes to our Advisers. Firstly, our Scheme Actuary Mark May retired and was replaced by Richard Williams, another partner at Watson Wyatt. Mark's patient and thorough advice and guidance over many years have served the Fund well and I anticipate an equally fruitful relationship with Richard.

Similarly I welcome Anna Rogers to the role of Legal Adviser following the retirement of Stuart James at Mayer Brown Rowe & Maw. Stuart's clear advice and good humour proved invaluable to a Board struggling through the intricacies of Sectionalisation and the implications of the troubles at our AVC supplier Equitable Life.

One further change has taken place since the year-end. To facilitate the streamlining of pensions provision in TfL the Trustee Board agreed in June 2004 to the appointment of Sue Timbrell to a combined role of Fund Secretary and Director of Pensions. Chris Angell, Fund Secretary since 1998, will take early retirement at the end of July and I would like to thank him on behalf of Trustees past and present for his support and ever cheerful optimism. I look forward to working with Sue to continue and improve service provision for all our members.



Chairman
14 July 2004

Report of the Directors of LRT Pension Fund Trustee Company Limited

The Directors of LRT Pension Fund Trustee Company Limited, the Trustee of LRT Pension Fund, have pleasure in submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2004.

1. Management of the Fund

(a) The Trustee

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

(b) Board of Directors

The Board of the Trustee is made up of 18 Directors as set out on page 2. Full details of how Directors are nominated are given in the Compliance Statement starting on page 22.

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

From 16 April 2003, R Crow was replaced as a Director by PW Sikorski as a result of a changed RMT nomination. C Hodson, F Low and H L Sumner were replaced, from 10 July 2003, by SD Allen, EA Barrett and AJ Good, and SM Phelan replaced AE Ball, from 11 September 2003, as a result of changed LRT/TfL nominations. Following a PCC nomination change, JC Godbold replaced JD Freeman as a Director from 10 December 2003.

In the year to 31 March 2004 the Directors attended all the Board meetings for which they were eligible to attend, with the exception of EA Barrett, S Grant and SM Phelan who were absent for one meeting; MS Ainsworth and TC Scanlon who were absent for two meetings; MA Gardiner who was absent for three meetings; AM Taylor who was absent for four meetings; and PW Sikorski who was absent for five meetings.

(c) Committees of the Board of Directors

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

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

Further information regarding the management of the Fund is contained in the Compliance Statement on page 22.

2. Financial review

The Accounts of the Fund for the year to 31 March 2004 have been drawn up in compliance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised November 2002).

The net assets of the Fund, that is the investment assets including the AVC scheme, the fixed assets held for own use and the net current assets, amounted to £3,156.4m at 31 March 2004. The increase of £491.7m, compared with the value at 31 March 2003 of £2,664.7m, was made up as follows:

	2004 £m	2003 £m
Net returns on investments	543.4	(561.9)
Net withdrawals from dealings with members	(51.7)	(59.1)
	<u>491.7</u>	<u>(621.0)</u>

The net returns on investments comprised increased market value of investments of £487.5m (2003: decrease of £625.5m) and investment income of £60.5m (2003: £69.4m) offset by investment management expenses of £4.6m (2003: £5.8m). The increase in market value of investments was made up of unrealised investment gains of £515.8m (2003: losses of £450.3m) and realised investment losses of £28.3m (2003: £175.2m)

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

Benefits payable increased by £3.8m, mainly as a result of increases in pensions.

Contributions increased by £9.8m as a consequence of the annual increase in salaries and the increase in contributing membership. Under the Rules of the Fund, the administrative costs of the Fund, which remained broadly unchanged from last year, are borne by the Fund itself.

Further details of the financial movements of the Fund may be found in the audited Accounts on pages 10 to 16.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 38.

3. Pension increases

Deferred members and pensioners whose pension commenced on or before 1 April 2002 received an increase, with effect from 1 April 2003, of 1.7%, based, in accordance with the Fund Rules, on the increase in the Retail Price Index for the year to September 2002. For pensioners whose pension commenced after 1 April 2002, the increase was reduced by reference to the period between 1 April 2002 and the date their pension commenced.

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

April 1999	3.2%
April 2000	1.1%
April 2001	3.3%
April 2002	1.7%
April 2003	1.7%

4. Changes in membership and beneficiaries during the year

During the year to 31 March 2004 total members and other beneficiaries increased by 578 to 81,956. This figure comprises an increase in contributing members of 899, a decrease in pensioners of 173, a decrease in deferred pensioners of 140 and a decrease in beneficiaries of 8.

	2003/ 2004	2003/ 2004	2002/ 2003	2002/ 2003	Change
Members					
Contributing members as at 1 April	21,277		19,762		
Joiners	2,579		3,180		
	23,856		22,942		
Contributing members retiring	(533)		(569)		
Leavers taking a refund of contributions	(453)		(487)		
Leavers becoming deferred pensioners	(513)		(513)		
Leavers taking an ill health lump sum	(4)		(3)		
Leavers through opting out	(145)		(74)		
Deaths in service	(32)		(19)		
Contributing members as at 31 March		22,176		21,277	+899
Deferred pensioners as at 1 April	18,794		19,074		
Leavers becoming deferred pensioners	513		513		
	19,307		19,587		
Deferred pensions coming into payment	(518)		(576)		
Deferred taking a refund of contributions	(2)		-		
Deferred pensioners transferring to other schemes	(97)		(178)		
Deferred pensioner deaths	(36)		(39)		
Deferred pensioners as at 31 March		18,654		18,794	-140
Pensioners as at 1 April	30,469		30,351		
Contributing members retiring	533		569		
Deferred pensions coming into payment	518		576		
	31,520		31,496		
Persons ceasing to be eligible for ill health pension	(49)		(13)		
Pensioner deaths	(1,175)		(1,014)		
Pensioners as at 31 March		30,296		30,469	-173
Total members as at 31 March		<u>71,126</u>		<u>70,540</u>	<u>+586</u>
Beneficiaries					
Dependants as at 1 April	10,290		10,232		
Dependants becoming entitled to pensions	748		840		
	11,038		11,072		
Dependant deaths	(769)		(782)		
Dependants as at 31 March		10,269		10,290	-21
Eligible children as at 1 April	548		549		
Children becoming entitled to pensions	176		148		
	724		697		
Children ceasing to be eligible	(163)		(149)		
Eligible children as at 31 March		561		548	+13
Total beneficiaries as at 31 March		<u>10,830</u>		<u>10,838</u>	<u>-8</u>
Total beneficiaries and members as at 31 March		<u>81,956</u>		<u>81,378</u>	<u>+578</u>

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Details of contributing members by Participating Employer as at 31 March 2004 were as follows:

	2003/ 2004	2003/ 2004 %	2002/ 2003	2002/ 2003 %	Change
TfL	16,148	72.82	15,052	70.74	+1,096
Metronet Rail BCV Limited	2,075	9.36	2,096	9.85	-21
Metronet Rail SSL Limited	1,994	8.99	2,000	9.40	-6
Tube Lines Limited	1,695	7.64	1,846	8.68	-151
Seaboard Powerlink Limited	167	0.75	182	0.86	-15
Electronic Data Systems Limited	37	0.17	39	0.18	-2
Cubic Transportation Systems Limited	36	0.16	37	0.18	-1
Instant Library Limited	9	0.04	9	0.04	-
Strategic Rail Authority	6	0.03	7	0.03	-1
Cadbury Limited	5	0.02	5	0.02	-
Thales Communications Services Limited	3	0.01	3	0.01	-
Cap Gemini UK plc	1	0.01	1	0.01	-
Total	<u>22,176</u>	<u>100.00</u>	<u>21,277</u>	<u>100.00</u>	<u>+899</u>

5. Actuarial valuation of the Fund

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

A formal valuation of the Fund was carried out by the Scheme Actuary as at 31 March 2003 and showed that, on the assumptions adopted, the total Fund had a shortfall of assets over the value of accrued benefits of £450m, equivalent to a funding level of 85%. This compared with an excess of £46m at the time of the 2000 valuation (equivalent to a funding level of 101%). The major reason for the deterioration in the financial position of the total Fund was the poor investment performance over the inter-valuation period when compared with the Actuary's long-term funding assumptions, reflecting investment conditions generally over this period.

In accordance with Rule 16(1)(b), the amount of contributions payable by each employer is determined by TfL (as Principal Employer) on the advice of the Actuary. Where a section has an excess of assets over liabilities (i.e. a surplus), the level of employer's contributions may be reduced by amortising the surplus on a consistent basis over a period of not less than ten years (Rule 16(3)). Where a section has an excess of liabilities over assets (i.e. a deficit), the level of employer's contributions must be increased by amortising the deficit over a period of not more than ten years (Rule 16(4)). Funding the deficit in the Public Sector Section will require an employer contribution multiple of 2.75 in addition to the ongoing contribution requirement. Surplus/deficit requirements for the other sections will vary widely.

For the Fund as a whole the weighted average employer ongoing contribution requirement (expressed as a multiple of the member's normal Rule 13 contributions) to meet the balance of future accruing benefit costs increased from 3.15 (from the 2000 valuation) to 3.40 (to the nearest 0.05), which is equivalent to 17% of pensionable payroll. The main reasons for this increase were the changes in the statistical assumptions (particularly the allowance now made for future improvements in pensioner mortality) and the gradual replacement of Existing Members by New Members (who – all else being equal – have a higher contribution requirement when expressed as a percentage of pensionable pay).

So far as the individual sections are concerned, the employer contribution multiple to meet the balance of future accruing benefit costs ranges from 3.20 (equivalent to 16% of pensionable payroll) to 4.00 (equivalent to 20% of pensionable payroll). These differences are wholly attributable to the difference in the profile of each section's active membership, for example by age, sex and the relative proportions of Existing Members and New Members. For the individual sections the ongoing funding level ranged from 45% to 108%. The section with the funding level of 45% is in an extreme position because of the particular circumstances associated with that section's membership. For those sections with over 10 active members the ongoing funding level ranged from 85% to 106%.

LRT Pension Fund

For a number of sections it has been necessary to increase the resulting employer contribution requirement in order to ensure that the contributions are at least equal to those needed to satisfy the Minimum Funding Requirement (MFR). (For the Fund as a whole the weighted average MFR funding level as at 31 March 2003 was 95%, but the MFR position varied considerably between sections, particularly the smaller sections, ranging from 55% to 138%.)

Full details of the agreed levels of employer contributions are given in the Actuarial Statement (regarding security of prospective rights) at pages 29 to 31. A copy of the full Valuation Report is available on application to the Fund Secretary at the address given on page 1.

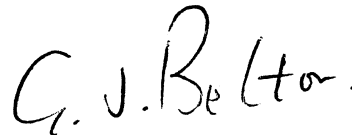
6. Approval of the Report of the Directors of the Trustee

The Investment Report on page 17 and the Compliance Statement on page 22 form part of this Report of the Directors of the Trustee.

This Report was approved by the Directors of LRT Pension Fund Trustee Company Limited on 14 July 2004 and was signed on their behalf by:



SR Critchley



GJ Belton

Directors
LRT Pension Fund Trustee Company Limited

Independent Auditors' Report to the Trustee of LRT Pension Fund

We have audited the Accounts on pages 10 to 16.

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

Respective responsibilities of the Trustee and Auditors

As described on pages 22 and 23 the Fund's Trustee is responsible for obtaining audited accounts which comply with applicable United Kingdom law and Accounting Standards. They are also responsible for making available, commonly in the form of a Trustee's report, certain other information about the Fund which complies with applicable United Kingdom law. Further, as described on page 23, they are responsible for ensuring that a schedule of contributions payable to the Fund is prepared and maintained and for procuring that contributions are made to the Fund in accordance with that schedule. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

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

Basis of opinions

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

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

Opinion on the Accounts

In our opinion, the Accounts show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2004 and of the amount and disposition at that date of the assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Fund year) and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Auditor's Statement about Contributions

In our opinion, contributions for the Fund year ended 31 March 2004 have been paid, from 1 April 2003 to 9 March 2004, in accordance with the Schedule of Contributions certified by the Actuary on 20 June 2002 and subsequently in accordance with the Schedule of Contributions certified by the Actuary on 10 March 2004.

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

LONDON

14 July 2004

Fund Account

For the year ended 31 March 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Dealings with members					
Contributions receivable	3	114,220		104,431	
Individual transfers in from other schemes		10,382		10,395	
		<u>124,602</u>		<u>114,826</u>	
Benefits payable	4	171,213		167,452	
Payments to and on account of members leaving	5	1,439		3,287	
Administrative expenses	6	3,632		3,177	
		<u>176,284</u>		<u>173,916</u>	
Net withdrawals from dealings with members			(51,682)		(59,090)
Returns on investments					
Investment income	7	60,543		69,385	
Change in the market value of investments	8	487,431		(625,531)	
Investment management expenses	9	(4,590)		(5,744)	
		<u>543,384</u>		<u>(561,890)</u>	
Net returns on investments			543,384		(561,890)
Net increase/(decrease) in assets during year			491,702		(620,980)
Net assets as at 1 April			2,664,716		3,285,696
Net assets as at 31 March			<u>3,156,418</u>		<u>2,664,716</u>

Net Assets Statement

As at 31 March 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Investment assets at market value	8		3,156,143		2,663,546
Fixed assets held for own use	10		72		155
Current assets					
Prepayments and accrued income		1,550		2,384	
Cash balances		2,826		2,644	
		<u>4,376</u>		<u>5,028</u>	
Current liabilities					
Creditors	11	3,704		3,642	
Bank overdrafts	12	469		371	
		<u>4,173</u>		<u>4,013</u>	
Net current assets			203		1,015
Net assets as at 31 March			<u>3,156,418</u>		<u>2,664,716</u>

The Notes on pages 11 to 16 form part of these Accounts.

These Accounts were approved by the Board of Directors of LRT Pension Fund Trustee Company Limited on 14 July 2004 and were signed on their behalf by:


SR Critchley
Directors


GJ Belton

LRT Pension Fund Trustee Company Limited

Notes to the Accounts

1. Basis of preparation

The Accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised November 2002).

The Accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. The Accounts do not take account of the obligations to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statements by the Actuary on pages 26 to 37 and these Accounts should be read in conjunction with those statements.

2. Accounting policies

(a) Inclusion of income and expenditure

(i) *Contribution income*

Members' contributions are 5% of their contributory pensionable salary and are accounted for when deducted from members' pay. Employers' contributions are a multiple of the members' contributions. Multiples are determined by the Principal Employer on the advice of the Actuary following an actuarial review. All employers paid their respective multiples in accordance with the Schedule of Contributions as shown on page 35. Employers' contributions are accounted for in the period to which the corresponding pay relates.

(ii) *Transfers to and from other schemes*

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

(iii) *Benefits payable*

Benefits payable are accounted for on the basis of entitlement during the year in accordance with the Rules of the Fund. Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the Trustees of their decisions as to what form of benefit they will take.

(iv) *Investment income*

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

(v) *Investment management expenses*

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

(vi) *Foreign currency translation*

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

(vii) *Additional voluntary contributions (AVCs)*

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

(viii) *Depreciation*

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

Computer equipment	-	5 years
Furniture	-	5 years

(b) Valuation of investments

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

- (i) UK and foreign securities quoted on a recognised stock exchange are stated at mid-market values ruling on 31 March 2004;
- (ii) fixed interest securities are valued at their clean prices. Accrued income is accounted for within investment income;
- (iii) pooled investment vehicles (managed funds) are stated at the average of the latest bid and offer prices quoted by the trust managers prior to 31 March 2004;
- (iv) unquoted securities are stated at the Trustee's valuation at 31 March 2004 based on the advice of the Fund's investment managers;
- (v) freehold property is valued at open market value by Insignia Richard Ellis, Chartered Surveyors as at 31 March 2004;
- (vi) short-term deposits are valued at cost at 31 March 2004 taking into account gains or losses on foreign currency;
- (vii) AVC investments are shown at the values advised by the AVC providers.

3. Contributions receivable

	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Members		
Ordinary	27,240	24,763
Additional voluntary contributions	2,292	2,553
	<u>29,532</u>	<u>27,316</u>
Employers		
Ordinary	84,688	77,115
	<u>84,688</u>	<u>77,115</u>
Total contributions receivable	<u>114,220</u>	<u>104,431</u>

4. Benefits payable

	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
On or during retirement		
Pensions	152,800	147,635
Commutation of pensions and lump sum retirement benefits	13,922	16,324
Death benefits		
Lump sum payments	4,491	3,493
Total benefits payable	<u>171,213</u>	<u>167,452</u>

5. Payments to and on account of members leaving

	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Individual transfers out to other schemes	825	2,806
Gross refunds of contributions to members	352	285
State scheme premiums	262	196
Total payments to and on account of members leaving	<u>1,439</u>	<u>3,287</u>

6. Administrative expenses

	<u>2004</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Staff costs				
Payroll	1,810		1,722	
Recruitment and training	50		69	
		1,860		1,791
Establishment costs				
Accommodation	241		232	
Computer costs	210		234	
Telecommunications	27		29	
Depreciation	84		180	
		562		675
Professional fees				
Legal fees	157		112	
Audit fees	44		41	
KPMG non audit fees	-		27	
Actuarial fees	434		** (23)	
Medical fees	47		38	
Other professional fees	151		181	
		833		376
Communication				
Distribution	178		158	
Printing	125		99	
		303		257
Consumables				
Stationery	14		17	
Microfilm	4		8	
General	56		53	
		74		78
Total administrative expenses		<u>3,632</u>		<u>3,177</u>

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

7. Investment income

	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Income from fixed interest securities	26,319	28,645
Dividends from equities	27,499	33,909
Income from index-linked securities	4,045	4,925
Income from pooled investment vehicles	449	291
Net income from properties	219	5
Interest on cash deposits	809	1,135
Income from securities lending	232	272
Income from commission recapture	101	151
Underwriting commission	-	52
Reduction in the provision for taxation	820	-
Other investment income	50	-
Total investment income	<u>60,543</u>	<u>69,385</u>

8. Investment assets at market value

	<u>2004</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Fixed interest securities				
UK public sector quoted	198,912		90,128	
Other UK quoted	257,022		392,635	
Overseas public sector quoted	-		7,688	
		455,934		490,451
Equities				
UK quoted	656,736		513,640	
Overseas quoted	210,103		358,244	
		866,839		871,884
Index-linked securities				
UK quoted	121,018		147,790	
Overseas quoted	-		26,656	
		121,018		174,446
Pooled investment vehicles				
Managed funds				
- Fixed interest	119,306		35,236	
- Index-linked	329,788		307,922	
- Equities	1,170,038		703,533	
Unit trusts				
- UK non-property	27,819		18,279	
- UK property	1,687		1,687	
		1,648,638		1,066,657
Property				
UK freehold		3,413		3,000
Other investment balances				
Accrued income	7,729		8,801	
Investment creditors	(1,728)		(1,666)	
Unsettled transactions	(1,160)		(11,623)	
		4,841		(4,488)
Sterling cash deposits				
		30,154		39,415
AVC scheme investments				
		25,306		22,181
Total investment assets		<u>3,156,143</u>		<u>2,663,546</u>

Change in value of the Investment assets	Value at 1 April 2003	Purchases At cost	Sale Proceeds	Change in market value	Value at 31 March 2004
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	490,451	633,256	662,374	(5,399)	455,934
Equities	871,884	532,087	757,779	220,647	866,839
Index-linked securities	174,446	270,973	329,686	5,285	121,018
Pooled investment vehicles	1,066,657	425,143	107,084	263,922	1,648,638
Property	3,000	-	-	413	3,413
Other investment balances	(4,488)	10,463	1,134	-	4,841
Cash deposits	39,415	-	9,624	363	30,154
AVC investments	22,181	2,592	1,667	2,200	25,306
Total investment assets	<u>2,663,546</u>	<u>1,874,514</u>	<u>1,869,348</u>	<u>487,431</u>	<u>3,156,143</u>

The investments in pooled investment vehicles are managed by companies registered in the UK.

At the 31 March 2004 £110m of investments were loaned under a securities lending programme against collateral of £115m comprising £64m Gilts and £51m cash (2003 £75m loaned against £81m collateral).

LRT Pension Fund

The Fund's investment in the following managed funds represent more than 5% of the net assets at the 31 March 2004:

	£'000
Aquila Life Over 5 Years Index-Linked Index Fund Series 1	329,788
Aquila Life Europe Equity Index Fund Series 1	327,580
Ascent Life UK Equity Fund Series 1	309,952
Aquila Life US Equity Index Fund Series 1	244,643
Aquila Life UK Equity Index Fund Series 1	235,541

During the year Equitable Life Assurance Society, Clerical Medical and Standard Life had delegated responsibility for the investment and administration of the Fund's Additional Voluntary Contribution (AVC) plan. Individual members' contributions are deducted from their pay by the employers and are paid direct to the providers, where they are invested on behalf of the individuals concerned and in accordance with their instructions to provide additional pension benefits, within the overall limits laid down by the Inland Revenue. Each member contributing to the AVC plan receives an annual benefit statement of their account. At the 31 March 2004, £16,151,000 (2003 £14,879,000) of the Fund's AVC investments were managed by Equitable Life Assurance Society, £8,859,000 by Clerical Medical (2003 £7,302,000) and £296,000 by Standard Life (2003 £nil).

There were no employer-related investments at any time during the year ended 31 March 2004.

9. Investment management expenses

	<u>2004</u>	<u>2003</u>
	£'000	£'000
Administration, management and custody	4,454	5,610
Performance measurement services	14	22
Other advisory services	122	112
Total investment management expenses	<u>4,590</u>	<u>5,744</u>

10. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
Cost at 1 April 2003	934	127	1,061
Additions	1	-	1
Withdrawals	(1)	(1)	(2)
Cost at 31 March 2004	<u>934</u>	<u>126</u>	<u>1,060</u>
Accumulated depreciation at 1 April 2003	790	116	906
Depreciation charge for the year	75	8	83
Withdrawals	(1)	-	(1)
Accumulated depreciation at 31 March 2004	<u>864</u>	<u>124</u>	<u>988</u>
Net book value at 1 April 2003	<u>144</u>	<u>11</u>	<u>155</u>
Net book value at 31 March 2004	<u>70</u>	<u>2</u>	<u>72</u>

11. Creditors

	<u>2004</u>	<u>2003</u>
	£'000	£'000
Unpaid benefits	785	835
Accruals and deferred income	2,919	2,807
Total creditors	<u>3,704</u>	<u>3,642</u>

12. Bank overdrafts

Bank overdrafts represent cheques drawn but not presented for payment by 31 March 2004. Interest is not payable on these sums.

13. Related parties

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

Transport for London pays administration and investment expenses on behalf of the Fund and subsequently recharges these to the Fund. At the 31 March 2004, £201,000 (2003 £317,000) has been included in creditors in respect of administration expenses rechargeable to the Fund.

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

Investment Report

1. Investment policy (excluding AVC investments)

Most of the Fund's investment assets were invested and administered by the investment and property managers, whose names appear on page 2. The investment managers employed during the financial year ended 31 March 2004 had discretion to invest as they saw fit within the asset classes and geographical limitations laid down by the Directors. Certain legacy investments amounting to no more than 1% of total assets are administered in-house but the Directors take appropriate investment advice in the disposition of these assets.

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

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

Benchmark Summary at 31 March 2004

Sector	Weight (%)	Comparison Basis
UK Equities	39.00	FTSE All-Share
UK Index-Linked Gilts	16.25	FTSE A ILG (Over 5 Years)
European Equities	10.20	FTSE W Europe ex UK
UK Non-Gilt Bonds	10.00	ML Stlg NonGilt 10+
UK Gilts	8.75	CAPS FTSE A Over 10 Years Gilt
US Equities	7.90	FTSE AW USA
Japanese Equities	4.30	FTSE AW Japan
Pacific Basin (excluding Japan) Equities	3.60	FTSE W Asia Pacific ex Jap
	<u>100.00</u>	

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

Portfolio	% of Fund	Manager
<i>Core</i>		
Index tracking - all asset classes	41.9	Barclays Global Investors Limited
<i>Active Specialist</i>		
Bonds	20.0	Henderson Investors Limited
UK equities 1	11.0	Alliance Capital Limited
UK equities 2	11.0	Baillie Gifford & Co.
UK equities 3	9.6	Barclays Global Investors Limited
Far East equities	6.5	Schroder Investment Management International Limited
	<u>100.0</u>	

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

2. Investment overview

The investment assets of the Fund as at 31 March 2004, including AVC investments, had a market value of £3,156.1m, an increase of £492.6m compared to their market value, including AVC investments, of £2,663.5m as at 31 March 2003. Investment income amounted to £60.5m for the year to 31 March 2004 compared to £69.4m for the year to 31 March 2003.

The bulk of the assets held by the active managers are quoted on the main worldwide stock exchanges and are marketable. The assets held with Barclays Global Investors Limited (BGI) are also marketable. A small proportion of the Fund's assets, including the residual property holding, are less readily marketable.

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

3. Analysis of investments

A detailed analysis of the investment assets of the Fund at 31 March 2004 is shown below.

	2004		2003	
	£m	%	£m	%
Fixed interest securities	455.9	14.4	490.5	18.4
Equities - UK	656.7	20.8	513.6	19.3
- Other	210.1	6.7	358.2	13.5
Index-linked securities	121.0	3.8	174.4	6.6
Pooled investment vehicles	1,648.6	52.2	1,066.7	40.0
Direct property	3.4	0.1	3.0	0.1
Other investment balances	4.9	0.2	(4.5)	(0.2)
Cash deposits	30.2	1.0	39.4	1.5
AVC investments	25.3	0.8	22.2	0.8
	<u>3,156.1</u>	<u>100.0</u>	<u>2,663.5</u>	<u>100.0</u>

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

	Total	UK	North America	Europe	Japan	Other
	%	£m	£m	£m	£m	£m
Direct quoted	42.6	866.8	656.7	-	5.3	112.2
Pooled investment vehicles	57.4	1,170.0	545.5	244.6	327.6	26.3
Total	<u>100.0</u>	<u>2,036.8</u>	<u>1,202.2</u>	<u>244.6</u>	<u>332.9</u>	<u>138.5</u>

LRT Pension Fund

The 10 largest direct UK equity holdings of the Fund as at 31 March 2004 are shown below.

	Market value £m	% of total UK equity holdings
Vodafone	59.5	9.1
BP	51.3	7.8
GlaxoSmithKline	47.7	7.2
Royal Bank of Scotland	41.1	6.2
HSBC	34.3	5.2
Barclays Bank	33.4	5.1
Diageo	20.0	3.0
Imperial Tobacco	16.2	2.5
British American Tobacco	15.0	2.3
Lloyds TSB Group	13.0	2.0
	331.5	50.4

The foregoing excludes exposure to individual stocks through the Fund's holdings of units in pooled investment vehicles.

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

	No of units held by the Fund	% of units in issue	Market value of units £m
Midlands Growth Fund	14,055	25.4	0.3
Abbotstone Property Unit Trust	2,575	56.3	1.7

4. Custodial arrangements

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

5. Investment performance

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

The table below shows the total investment returns (including both capital and income) obtained on the Fund's assets (including property but excluding AVCs) for the one, three and five years to 31 March 2004 and the corresponding composite benchmark now established by the Trustees as the prime performance comparator (replacing the former peer group median). The benchmark quoted is a weighted average of indices relevant to the new structure and, as such, is of limited application to the five-year averages.

	One Year		Three Year Average		Five Year Average	
	Total Fund	Bench -mark	Total Fund	Bench -mark	Total Fund	Bench -mark
Annual Return %	21.1	21.9	0.0	-0.2	0.1	0.7

LRT Pension Fund

During the year the economic outlook became increasingly positive with the major economies taking aggressive fiscal and monetary measures. All major equity markets performed well over the period, although the appreciation of the pound proved detrimental for UK investors, most noticeably in the US. Japanese equities performed best, rising by nearly 50% over the period, whilst the US was the worst performing of the major equity markets in Sterling terms. UK bonds produced modest returns, with non-gilts outperforming gilts. Index-linked gilts were the best performing bond class over the year. Overseas bonds fell over the period.

The Fund performed strongly over the year returning +21.1% compared with the benchmark of +21.9%. This recovered the losses of the previous two years leaving the fund even over the three years.

During the year the Fund's active US equity and European equity portfolios, managed by JP Morgan and Gartmore respectively, were transferred to BGI's Index-Tracking funds pending the thorough review of the Fund's investment structure. The review now being undertaken followed from the recently completed Asset Liability Modelling Study based on the Actuarial Valuation as at 31 March 2003.

Details of the performance of the individual portfolios in the year to 31 March 2004 compared with the previous year are shown below:

	Year to 31 March 2004		Year to 31 March 2003	
	Fund	Benchmark	Fund	Benchmark
	%	%	%	%
Index-Tracking - BGI	19.5	N/A	-17.0	N/A
UK Equities	30.8	31.0	-29.9	-29.8
US Equities	15.9	15.9	-32.5	-32.4
European Equities (ex. UK)	36.5	36.4	-34.4	-34.4
Japan Equities	46.7	46.4	-25.4	-25.6
Pacific Basin (ex. Japan) Equities	33.7	33.4	-18.8	-19.1
UK Fixed Interest	2.4	2.8	13.2	13.0
Index-linked Gilts	6.7	6.7	11.0	10.9
UK Equities				
Alliance Bernstein	28.0	31.0	-24.8	-29.8
Baillie Gifford	28.8	31.0	-26.7	-29.8
Barclays Global Investors	30.8	31.0	1.9**	1.8**
Société Générale	-	-	-26.9†	-24.0†
US Equities				
JP Morgan	-	-	-34.3	-32.4
European Equities (incl. UK)				
Gartmore	16.9*	17.5*	-33.9	-32.6
Far East Equities				
Schroders	37.5	43.8	-26.1	-25.8
Bonds				
Henderson	5.5	5.1	11.8	12.1

* One quarter's results (not annualised)

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

† Three quarters' results (not annualised)

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

6. AVCs

The distribution of the AVCs invested with the three providers as at the year end, is set out below:

Equitable Life

	Value of fund at 31 March 2004 £m	% of total	Reported returns (where declared)
With-profits fund	7.9	48.8	N/A
Unit-linked funds			
Managed	5.0	31.2	25.9%
UK Tracking	1.2	7.7	25.4%
Lifestyle	0.5	3.0	N/A
Building Society funds	1.5	9.3	2.9%
	<u>16.1</u>	<u>100.0</u>	

Clerical Medical

	Value of fund at 31 March 2004 £m	% of total	Reported returns (where declared)
With-profits fund	8.7	97.9	N/A
Unit-linked funds	0.2	2.1	20.1%
	<u>8.9</u>	<u>100.0</u>	

Standard Life

	Value of fund at 31 March 2004 £000's	% of total	Reported returns (where declared)
Managed	132	44.6	26.3%
International	25	8.4	25.6%
Protection	18	6.1	2.7%
Sterling	4	1.4	3.4%
FTSE Tracker	67	22.6	30.1%
Ethical	28	9.5	N/A
With Profits	22	7.4	N/A
	<u>296</u>	<u>100.0</u>	

Compliance Statement

1. Introduction

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

On 15 July 2003 Transport for London (TfL) replaced London Regional Transport (LRT) as the Fund's Principal Employer.

During the year ended 31 March 2004 there were no changes to the Fund's non-associated employers except that on 3 April 2003 ownership of Infracore BCV Limited and Infracore Sub-Surface Limited passed to Metronet.

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

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

2. Changes to the Trust Deed and Rules of the Fund

There were no changes to the Fund Rules during the year ended 31 March 2004. A new Clause 5A was added to the Trust Deed dealing with the replacement of the Principal Employer and substituting TfL for LRT as set out in section 1 above.

3. Management of the Fund

(a) Trustee's responsibility for preparing Accounts

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

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

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised November 2002).

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

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

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

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

(b) Board of Directors

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

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

Members of the LRT Pensions Consultative Council are Fund Members elected by their fellow members. Section One members are pensioners or deferred pensioners. Sections Two and Three are contributing members of the Fund.

(c) Corporate Governance

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

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

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

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

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

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

4. Matters relating to the Fund’s investments

The Fund’s investments are invested in accordance with the Occupational Pension Schemes (Investment of Scheme’s Resources) Regulations 1992. The investment adviser, the investment managers and the property managers appointed by the Trustee to advise on and manage funds are appropriately authorised under the Financial Services Act 1986. No employer-related investments were held during the year ended 31 March 2004. The Fund’s Statement of Investment Principles was revised during the year to reflect the revised Equity/Bond split and revisions to individual manager portfolios.

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

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

LRT Pension Fund

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

5. Transfers

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

6. Changes to the Fund's advisers

Following the retirement of MD May, RV Williams, also a partner in Watson Wyatt LLP, was appointed Scheme Actuary on and from 11 March 2004.

LRT Pension Fund

Actuarial statement (regarding MFR position)

Actuary's statement: minimum funding valuations

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

Name of scheme: LRT Pension Fund

Effective date of valuation: 31 March 2003

1 Compliance with minimum funding requirement

In my opinion, on the effective date the value of the assets of each section of the Fund was the following proportion of the amount of the liabilities of that section:

Public Sector Section	95%
Metronet Rail BCV Limited Section	96%
Metronet Rail SSL Limited Section	93%
Tube Lines Limited Section	93%
Seeboard Powerlink Limited Section	86%
Electronic Data Systems Limited Section	over 120%
Cubic Transportation Systems Limited Section	99%
Instant Library Limited Section	82%
Strategic Rail Authority Section	over 120%
Cadbury Limited Section	over 120%
Thales Communications Services Limited Section	55%
Cap Gemini UK plc Section	107%

2 Security of preferential liabilities

In my opinion, for each section of the Fund where the assets fell short of the amount of the liabilities on the effective date the assets of the section were sufficient to satisfy the liabilities of that section mentioned in section 73(3) of the Pensions Act 1995 (which lists the liabilities of schemes in the order in which they are to be met on a winding up) to the following extent

Section of the Fund	Percentage satisfied		
	Liabilities within sections 73(3)(a) to (b)	Liabilities within sections 73(3)(c)	Liabilities within sections 73(3)(d)
Public Sector	100%	100%	71%
Metronet Rail BCV Limited	100%	100%	83%
Metronet Rail SSL Limited	100%	100%	74%
Tube Lines Limited	100%	100%	75%
Seaboard Powerlink Limited	100%	100%	46%
Cubic Transportation Systems Limited	100%	100%	97%
Instant Library Limited	100%	100%	28%
Thales Communications Services Limited	100%	78%	0%

Notes

- (i) Liabilities within sections 73(3)(a) to (b) are benefits derived from additional voluntary contributions and benefits (excluding future pension increases) to which entitlement had already arisen at the valuation date.
- (ii) Liabilities within section 73(3)(c) are benefits (excluding future pension increases) other than those within sections 73(3)(a) to (b).
- (iii) Liabilities within section 73(3)(d) are future pension increases.

3 Valuation principles

The assets and liabilities of each section of the Fund are valued in accordance with section 56(3) of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines of minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries.



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

Watson House
London Road
Reigate
Surrey
RH2 9PQ

3 March 2004

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

Actuarial statement (regarding security of prospective rights)

Actuary's statement: ongoing valuations

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

Name of scheme: LRT Pension Fund

Effective date of valuation: 31 March 2003

1 Security of prospective rights

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

Description of contributions

By members: contributions as specified in Rule 13 of the Fund's rules (these are based on 5% of the relevant pay definition)

By the employers: contributions as set out in the following table

Section of Fund	Level of employer contributions		
	From 1 April 2003 to 31 March 2004	From 1 April 2004 onwards	
	(i)	(i)	(ii)
Public Sector	3.05	6.10	–
Metronet Rail BCV Limited	3.25	3.50	£3.075m
Metronet Rail SSL Limited	3.25	3.55	£2.869m
Tube Lines Limited	3.20	3.45	£2.697m
Seaboard Powerlink Limited	3.50	3.80	£0.764m
Electronic Data Systems Limited	2.95	3.35	-£8,000
Cubic Transportation Systems Limited	3.55	3.90	£72,000
Instant Library Limited	3.70	4.00	£37,000
Strategic Rail Authority	3.40	3.65	£2,000
Cadbury Limited	2.75	3.30	£8,000
Thales Communications Services Limited	3.45	3.20	£16,000
Cap Gemini UK plc	3.10	3.80	£15,000

Notes

- (i) these are the rates expressed as a multiple of the members' normal Rule 13 contributions
- (ii) the annual additional cash contribution to reflect the section's funding position; in the case of the Electronic Data Systems Limited Section the cash adjustment is a reduction, not an increase.

The rates set out above are subject to review at future actuarial valuations.

2 Summary of methods and assumptions used

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

The asset details on which the valuation has been based reflect the information provided in the Fund's published Annual Report and Accounts. While the accounts for the Fund as a whole are audited, those for the individual sections of the Fund are not audited.

Funding method: projected unit

The projected unit method of valuation entails the following stages.

First the rate of contribution required to meet the ongoing cost of accruing benefits is assessed by calculating the percentage of members' pensionable pay that is needed to meet the cost of all the benefits accruing to active members in the year following the valuation date, with allowance for projected future pay increases.

The value placed on the accrued liabilities at the valuation date (including all the liabilities for pensioners and deferred pensioners and based on projected pensionable pay for active members) is then compared with the value placed on the assets.

The actual contribution rate payable is based on the ongoing contribution rate required to meet accruing benefits, adjusted for a temporary period to reflect the difference between the value of the accrued liabilities and the value of the assets.

LRT Pension Fund

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

The adjustment to the ongoing contribution rate to reflect each section's difference in value of assets and accrued liabilities has been expressed as a multiple of the members' normal Rule 13 contributions (in the case of the Public Sector Section) and as a fixed annual cash amount (for each other section). The amortisation period is ten years (from 1 April 2004) for all sections except the Cap Gemini UK plc Section for which it is five years.

Main financial assumptions:

	%pa
Long-term rate of:	
investment return	6.75
general pay escalation	4.0
price inflation	2.5
pension increases (non GMP component)	2.5
Market-related discount rate for assessing the Fund's accrued liabilities	
Public Sector Section	7.0
other sections	7.8

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustees dated 3 March 2004.



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

3 March 2004

Watson House
London Road
Reigate
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RH2 9PQ

**Actuarial certificate given for the purposes of section 58 of the Pensions Act 1995
(Certificate of Schedule of Contributions)**

Name of scheme: LRT Pension Fund

The following opinion (set out in paragraph 1) relates to each of the following sections of the Fund:

*Electronic Data Systems Limited Section
Strategic Rail Authority Section
Cadbury Limited Section
Cap Gemini UK plc Section*

1 Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions dated 9 March 2004 are adequate for the purpose of securing that throughout the period it covers the section will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995.

The following opinion (set out in paragraph 2) relates to each of the following sections of the Fund:

*Public Sector Section
Metronet Rail BCV Limited Section
Metronet Rail SSL Limited Section
Tube Lines Limited Section
Cubic Transportation Systems Limited Section*

2 Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions dated 9 March 2004 are adequate for the purpose of securing that by the end of the period it covers the section will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995 and are such that the amount by which the value of the section's assets falls short of the amount of the section's liabilities will be reduced either by additional contributions of equal or decreasing amounts made at not more than yearly intervals throughout that period or by increasing some or all of the contribution rates by a percentage which either remains the same or decreases during that period.

The following opinions (set out in paragraphs 3 and 4) relate to each of the following sections of the Fund:

*Seeboard Powerlink Section
Instant Library Limited Section*

3 Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions dated 9 March 2004 are adequate for the purpose of securing that by the end of the period it covers the section will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995 and are such that the amount by which the value of the section's assets falls short of the amount of the section's liabilities will be reduced by additional contributions of equal or decreasing amounts made at not more than yearly intervals throughout that period.

4 Cessation of serious shortfall in assets

In my opinion an actuarial valuation for the section as at the date 7 days before the date of this certificate would not show a shortfall as is mentioned in section 60(1) of the Pensions Act 1995 (value of scheme assets less than 90 per cent. of amount of scheme liabilities).

The following opinions (set out in paragraph 5 and 6) relate to the following section of the Fund:

Thales Communications Services Limited Section

5 Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of the contributions payable in accordance with the schedule of contributions dated 9 March 2004 are adequate for the purpose of securing that by the end of the period it covers the section will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995 and are such that the amount by which the value of the section's assets falls short of the amount of the section's liabilities will be reduced by additional contributions of equal or decreasing amounts made at not more than yearly intervals throughout that period and are such that they meet the uniform funding requirement specified in regulation 17 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

6 Decrease in serious shortfall in assets

In my opinion an actuarial valuation for the section as at the date 7 days before the date of this certificate would show that the shortfall mentioned in section 60(1) of the Pensions Act 1995 (value of scheme assets less than 90 per cent. of amount of scheme liabilities) has decreased since the last actuarial valuation for the purposes of section 57 and is now £25,028.

LRT Pension Fund

- 7 In forming these opinions I have complied with the requirements imposed by sections 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27), prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.



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

Watson House
London Road
Reigate
Surrey
RH2 9PQ

10 March 2004

LRT Pension Fund

Schedule of contributions

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

1 Name of scheme: LRT Pension Fund

2 Period covered by this schedule of contributions:

From the date (in March 2004) on which this schedule is formally certified by the Scheme Actuary for a period of five years (in the case of those sections of the Fund listed in paragraph 4) and for a period of ten years (in the case of those sections of the Fund listed in paragraph 5).

3 Level of member contributions payable:

Member contributions are payable in accordance with Rule 13, with contributions based on 5% of the relevant pay definition.

4 Level of employer contributions payable (over a period of five years):

Employer contributions to the following sections of the Fund are based on the following multiples of the normal Rule 13 contributions payable by members of that section, together with an additional cash contribution (with effect from 1 April 2004) to reflect the section's funding position.

<i>Section of the Fund</i>	<i>Level of employer contributions</i>		
	<i>to 31 March 2004</i>	<i>from 1 April 2004 onwards</i>	
	(i)	(i)	(ii)
Electronic Data Systems Limited	2.95	3.35	-£8,000
Strategic Rail Authority	3.40	3.65	£2,000
Cadbury Limited	2.75	3.30	£8,000
Cap Gemini UK plc	3.10	3.80	£15,000

Notes

- (i) these are the rates expressed as a multiple of the members' normal Rule 13 contributions
- (ii) the annual additional cash contribution to reflect the section's funding position; in the case of the Electronic Data Systems Limited Section the cash adjustment is a reduction, not an increase.

5 Level of employer contributions payable (over a period of ten years):

Employer contributions to the following sections of the Fund are based on the following multiples of the normal Rule 13 contributions payable by members of that section, together with an additional cash contribution (with effect from 1 April 2004) to reflect the section's funding position.

<i>Section of the Fund</i>	<i>Level of employer contributions</i>		
	<i>to 31 March 2004</i>	<i>from 1 April 2004 onwards</i>	
	(i)	(i)	(ii)
Public Sector	3.05	6.10	-
Metronet Rail BCV Limited	3.25	3.50	£3.075m
Metronet Rail SSL Limited	3.25	3.55	£2.869m
Tube Lines Limited	3.20	3.45	£2.697m
Seaboard Powerlink Limited	3.50	3.80	£0.764m
Cubic Transportation Systems Limited	3.55	3.90	£72,000
Instant Library Limited	3.70	4.00	£37,000
Thales Communications Services Limited	3.45	3.20	£16,000

Notes

- (i) these are the rates expressed as a multiple of the members' normal Rule 13 contributions
- (ii) the annual additional cash contribution to reflect the section's funding position. In the case of the Thales Communications Services Limited Section the amount shown includes contributions to secure the increase in the value of the assets of the section that is required by section 60(2) of the Pensions Act 1995 of £12,514 pa payable for two years from 1 April 2004.

6 Due date for payment of contributions:

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

LRT Pension Fund

Employer contributions that are expressed as a multiple of the members' Rule 13 contributions are due to be paid by the same date as the member contributions to which they relate and similarly are not deemed to be late under this Schedule unless they are paid later than the legal due date for member contributions. Employer contributions that are expressed as cash amounts are due to be paid in twelve equal instalments over each year by the 15th of each calendar month. In the case of the Electronic Data Systems Limited Section, the cash adjustment (of £8,000 a year) is deducted in twelve equal instalments over each year, with the deduction being made each month from the employer contributions payable that month that are expressed as a multiple of the members' contributions payable.

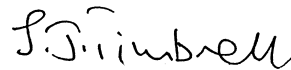
- 7 Special employer contributions shall be paid to the Fund at amounts agreed between the Trustees and the employer. Special employer contributions are due to be paid to the Fund no later than 19 days after the end of the month in which they are agreed between the Trustees and the employer.

Note:

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

Agreed on behalf of the Trustees to the Fund

Agreed on behalf of the Principal Employer



Signed.....

Signed.....

C L Angell
Fund Secretary

S J Timbrell
TfL Director of Pensions

9 March 2004

9 March 2004

Participating Employers' Unit Holdings and Asset Values Statement

The Fund is structured into a series of financially segregated sections, comprising a composite section for the ongoing public sector employees (including responsibility for all pensioners and deferred pensioners) and individual sections for each of the private sector employees. The Fund's main investment portfolio is unitised for accounting purposes. The participating employers' unit entitlements and unit values as determined under Rule 2C of the Fund are shown below.

Participating Employer	Equity Fund			
	As at 31 March 2004		As at 31 March 2003	
	Units	£'000	Units	£'000
Public Sector	1,948,367,255	1,724,091.3	1,939,651,143	1,325,251.7
Metronet Rail BCV Limited	144,072,238	127,488.1	145,684,714	99,538.0
Metronet Rail SSL Limited	128,440,215	113,655.5	134,587,900	91,956.1
Tube Lines Limited	111,813,997	98,943.1	118,068,309	80,669.3
Seaboard Powerlink Limited	17,986,663	15,916.2	19,785,481	13,518.3
Cadbury Limited	295,180	261.2	303,143	207.1
Cap Gemini UK plc	250,846	222.0	243,782	166.6
Cubic Transportation Systems Ltd	3,023,825	2,675.8	2,985,024	2,039.5
Electronic Data Systems Limited	1,872,823	1,657.2	1,771,782	1,210.6
Instant Library Limited	802,847	710.4	768,299	524.9
Strategic Rail Authority	294,118	260.3	352,868	241.1
Thales Communications Services Ltd	84,832	75.1	67,057	45.8
	<u>2,357,304,839</u>	<u>2,085,956.2</u>	<u>2,364,269,502</u>	<u>1,615,369.0</u>

The Equity Fund unit price at the year-end was £0.884890331 (2003 £0.683242280)

Participating Employer	Bond Fund			
	As at 31 March 2004		As at 31 March 2003	
	Units	£'000	Units	£'000
Public Sector	824,063,345	995,778.0	857,956,454	981,883.2
Metronet Rail BCV Limited	11,058,120	13,362.4	9,663,884	11,059.8
Metronet Rail SSL Limited	9,841,476	11,892.2	8,927,785	10,217.3
Tube Lines Limited	8,572,797	10,359.2	7,831,969	8,963.3
Seaboard Powerlink Limited	1,383,078	1,671.3	1,312,456	1,502.0
Cadbury Limited	22,717	27.4	20,109	23.0
Cap Gemini UK plc	19,285	23.3	16,171	18.5
Cubic Transportation Systems Ltd	232,580	281.0	198,008	226.6
Electronic Data Systems Limited	144,053	174.1	117,528	134.5
Instant Library Limited	61,754	74.6	50,964	58.3
Strategic Rail Authority	22,396	27.1	23,408	26.8
Thales Communications Services Ltd	6,562	7.9	4,448	5.1
	<u>855,428,163</u>	<u>1,033,678.5</u>	<u>886,123,184</u>	<u>1,014,118.4</u>

The Bond Fund unit price at the year-end was £1.208375552 (2003 £1.144444039)

	31 March 2004	31 March 2003
	£'000	£'000
Equity Fund	2,085,956	1,615,369
Bond Fund	1,033,678	1,014,118
Other (non unitised assets allocated to Public Sector)	36,784	35,229
Total Net Assets at 31 March	<u>3,156,418</u>	<u>2,664,716</u>

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