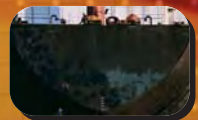
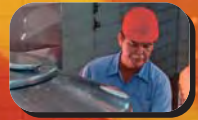


# TRUSTEES' REPORT AND FINANCIAL STATEMENTS 2003-2004



**Pension Funds**

**The ITB Pension Funds – Open Fund and Closed Fund sections - are set up under a Trust Deed and Rules and administered by a Board of Managing Trustees comprising of Member, Pensioner and Employer Trustees. The assets of the Funds are separate from those of its Participating Employers and, in the case of the Open Fund, are invested by independent investment managers who are appointed by the Managing Trustees. The Closed Fund has no active Members or current Participating Employers and is predominantly invested in Index-Linked Gilts.**

**Employees of Participating Employers may join the ITB Pension Funds (Open Fund) subject to eligibility conditions.**

**The Open Fund is a “final salary scheme” and provides pension and life assurance benefits based on a Member’s salary and service.**

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# Trustees' Report



# Chairman's Statement

After experiencing declines in equity markets in each of the last three years, like most pension funds in the U.K., I am pleased to report that the ITB Pension Funds have seen a long awaited turnaround over this last year. Equities in both the Closed and Open Funds have increased in value - in both cases above the benchmark your Trustees have set for each Fund. While it would be imprudent to assume that the problems in the financial markets are all now behind us and as yet equities have not recovered to levels seen just a few years ago, it is reassuring to be able to report this improvement.

.....  
**“...Actuarial Valuation of the Open Fund as at 31 March 2004... The results of this valuation are expected later this year...”**  
.....

Our actuarial advisor, the Government Actuary's Department, will immediately in our new financial year, start the process of carrying out the triennial Actuarial Valuation of the Open Fund based on the values of its assets and liabilities as at the 31 March 2004. The results will take into account the assumed future performance of the financial markets as well as other factors likely to affect the valuation of the Fund. These factors have already been identified by the actuary and discussed with and approved by the Trustees and the Participating Employers. The results of this valuation are expected later this year and will be advised to Members in a future issue of the "ITB Pension News". Given the decline in the market valuation of some of the Open Fund's assets over the period since the last Actuarial Valuation and the change in such factors as the increasing longevity of the population as a whole, it would be unrealistic to anticipate, on this occasion, any distributable surplus such as there has been in the past. On receipt of the final valuation, the Trustees will start discussions with the actuary and our investment advisors on the Fund's investment strategy to identify any required changes to our asset allocation in the foreseeable future.

The triennial Actuarial Valuation of the Closed Fund as at the 31 March 2003 was completed during the year. The results disclosed a surplus of £31 million of assets over liabilities and your Trustees applied £10.3 million of this as permitted by the Rules to provide special increases in pensions for pensioners, deferred pensioners and dependants of the Closed Fund payable from May 2004. These increases are in addition to the annual pension increases paid to both the Closed and Open Funds, which for this year was 2.8% based on the increase in the Retail Price Index, where these uplifts will be paid from April 2004.

Your Trustees take very seriously the essential task of balancing investment growth with security of the Funds in order to achieve their long term needs. A major objective for us is the maintenance of well preserved pension arrangements in partnership with the Participating Employers. The basis for our investment policy is set out in the Trustees' Statement of Investment Principles (SIPS). The outline of these Statements, which essentially govern the investment policy of the Funds, are summarised on page 28 of this report. A full version of SIPS can be viewed by accessing the ITB Pension Funds website on [www.itb-online.co.uk](http://www.itb-online.co.uk). The Trustees review these Statements at least once every year, or when they consider a review is necessary for other reasons, such as an unexpected change in asset values. Any significant changes in SIPS are only made after consultation with our investment and actuarial advisors and the Participating Employers.

.....  
**“Your Trustees take very seriously the essential task of balancing investment growth with security of the Funds in order to achieve their long term needs.”**  
.....

As I mentioned in last year's report, there are Government plans to significantly change the present taxation regimes for pensions as well as other major reforms to the way

pension funds are administered. These plans are now well into the discussion stage with the publication of the Pensions Bill and the flow of revised and new proposals as the Bill makes its way through Parliament. Perhaps the most important reform in the Bill is the proposed provision of a Pension Protection Fund (PPF) which will be established to pay some benefits where an employer becomes insolvent and a defined benefit (DB) pension scheme is unable to meet its liabilities. The PPF will be funded by a levy on existing DB pension schemes and it is intended that the Bill becomes law by April 2005. There is also a Finance Bill in progress which will affect the tax position of all members of DB pension schemes including the replacement of the current several tax regimes by one only, changes to the minimum pension age and revised limits of annual contributions. The present timetable is to implement these tax simplification changes in April 2006.

.....  
**“...there are Government plans to significantly change the present taxation regimes for pensions... The present timetable is to implement these tax simplification changes in April 2006.”**  
 .....

These changes have imposed a heavy workload this year, which will increase even more next year, on the Trustees, staff and our actuarial and legal advisors. The most important outcome of this involves revising the Trust Deed and Rules. This is being done by means of a two stage review:

- to implement a detailed review of the present Trust Deed and Rules in order to simplify them and incorporate recent deeds of variation
- after agreement with the Employers on the introduction of this revised Trust Deed and Rules, to propose, agree and introduce further revisions that will be necessary to implement all the changes that

will be required to the way the ITB Pension Funds are administered by the new Pensions Bill after enactment together with the associated Finance Act.

Following a review of the prospects for pension fund provision in the future, Employers participating in the Open Fund agreed that changes should be introduced to the Fund in order to maintain its long term security. As a result, with effect from September 2003, a New Section of the Open Fund has been established for those Employers who wish to offer it to their new employees. Although the benefits offered are different to those in what is now known as the Old Section of the Open Fund, it is still a defined benefit or final salary scheme. Most of the Participating Employers are now offering this New Section to their new employees.

Given the widely diversified nature of the ITB Pension Funds membership, both professionally and geographically, the Internet is an increasingly important part of our evolving communication strategy and we continue to develop and apply web based technology to provide improving services to Members and Employers. Considerable time and effort has been expended in our most recent development of an interactive pension benefit modelling program. This new facility named “My ITB” empowers Members to take on-line personal interest and control of their own, individual pension planning including such features as estimating at any time their projected pension payments and the effect on these projections of making or altering Additional Voluntary Contributions. It will begin trials in mid 2004 at two Employer test sites before its intended introduction to all Members later in the year.

.....  
**“...the Internet is an increasingly important part of our evolving communication strategy...”**  
 .....

The Board of Trustees has been through another demanding year dealing with the numerous and ever

more complex issues relating to pension provision and I have mentioned earlier some of the significant legislation that is being introduced, not just from Westminster but also from Europe, which will have major effects on the ITB Pension Funds. This is in addition to the day to day matters which require Trustees attention and decisions. I am most grateful and give thanks to all Trustees who have served over the past year for their consistently valuable contribution and support which is given so generously to the Funds.

Throughout this past year the management and staff at the Funds' office, under the leadership of Director Vincent Gordon, have again demonstrated their dedication and ability to meet the challenges in administering the ITB Pension Funds as well as dealing with the problems of Members and Employers on a daily basis. This was a particularly difficult year for them since they maintained their usual high standards during a six month, long overdue refurbishment of the office at Watford which caused severe disruption and inconvenience, especially during the hot weather last summer. On behalf of my fellow Trustees I thank them sincerely for their professionalism, service and patience.

Finally, I am pleased to be able to report that both the Closed and Open Funds are in good shape and have benefitted from a rebound in the equity markets as well as seeing improvements in our other assets over the year. Although we are still experiencing volatility and a certain amount of caution in the global financial markets due to a variety of factors, mostly from outside of the U.K., I am encouraged that we are seeing signs of improvement which should result in the sustainable security of the ITB Pension Funds in the future.



NORMAN DUNLOP CBE  
Chairman of Trustees

2 July 2004

# Board of Trustees



**Mr NNW Dunlop, CBE E**  
(Chairman)  
Nominated by:  
Engineering Construction ITB  
*(Formerly Managing Director of  
Foster Wheeler Energy Limited)*



**Mr G Beveridge E**  
(Deputy Chairman)  
Nominated by:  
Cogent SSC Limited  
*(Management Consultant)*

**Mr KJF Potter M**  
(Deputy Chairman)  
Nominated by:  
JTL  
Scottish Electrical  
Charitable Training Trust  
*(Financial Controller for  
JTL)*



**Professor T Cannon E**  
Nominated by:  
CAPITB plc  
Automotive Skills  
Limited  
Road Haulage and  
Distribution Training  
Council  
Skills for Logistics  
*(Chief Executive Officer  
of Respect)*

**Mr DC Barnett P**  
Nominated by:  
Open Fund  
Pensioners  
Previously Road  
Transport ITB  
*(Retired – Formerly  
Director General of  
RTITB)*



**Mr JR Cushing M**  
Nominated by Trade  
Union for:  
Engineering  
Construction ITB  
(ECITB)  
*(Lead Verifier -  
Competence Assurance  
Team for ECITB)*



**Mr NWD Gall M**  
Nominated by:  
Cogent SSC Limited  
CAPITB plc  
Polymer National Training Organisation  
Limited (name changed to The Polymer  
Education and Training Trust Limited  
with effect from 6.5.04)  
Automotive Skills Limited  
Road Haulage and Distribution Training  
Council  
Skills for Logistics  
*(Human Resources Manager for Cogent)*

**Mr RS Hanks E**  
Nominated by:  
Polymer National  
Training Organisation Limited  
(name changed to The Polymer  
Education and Training Trust  
Limited with effect from 6.5.04)  
*(Managing Director of Ian Burg  
Plastics Ltd)*



**Mr SG Ingram E**  
Nominated by:  
Science, Engineering  
and Manufacturing  
Technologies Alliance  
*(Managing Director  
of SG -Ingram:  
Actuary Ltd)*



**Mrs M Moore M**  
Nominated by:  
Lantra  
*(Director of Policy –  
Employer Engagement  
for Lantra)*



**Mr P McCulloch M**  
Nominated by Trade  
Union for:  
Construction ITB  
(CITB)  
*(Training Adviser for  
CITB)*

**Mr PG Rogerson, OBE E**  
Nominated by:  
Construction ITB  
(CITB)  
*(Deputy Chairman of  
CITB)*



**Mr HO Parker P**  
Nominated by:  
Closed Fund Pensioners  
Previously Printing and  
Publishing ITB  
*(Retired – Formerly Advisory  
Services Manager for PPITB)*

**Mr D Stanton E**  
Nominated by:  
Hospitality Training  
Foundation (HTF) (name  
changed to People 1st with  
effect from 22.6.04)  
*(Finance and Technical  
Director for HTF)*



**Mr JF Swift E**  
Nominated by:  
Lantra  
*(Group Managing  
Director of BHF Group)*

**Mrs MJ Webster M**  
Nominated by:  
Hospitality Training  
Foundation (HTF)  
(name changed to  
People 1st with effect  
from 22.6.04)  
*(Payroll Administrator  
for HTF)*



**Mr EA Whatmore M**  
Nominated by Trade Union for:  
Science, Engineering and  
Manufacturing Technologies  
Alliance (SEMATA)  
*(Sector Skills Adviser for  
SEMATA)*

**Mr DPB Young E**  
Nominated by:  
JTL  
Scottish Electrical Charitable  
Training Trust (SECTT)  
*(Retired - Formerly Chief  
Executive of SECTT)*



**KEY:**

**E** - Employers' Trustees  
**M** - Members' Trustees  
**P** - Pensioners' Trustees

# Trusteeship

## Appointment of Trustees

The ITB Pension Funds are controlled by 18 Managing Trustees consisting of nine Employer, seven Member and two Pensioners' Trustees. Details of the Trustees in office at the year end are shown on pages 6 and 7 of this Report.

Of the nine Trustees nominated by Employers, the two Statutory Training Bodies each nominate one Trustee. Of the remaining Employers, the six with the largest number of contributing Members at 31 December each have a right to nominate an Employer Trustee for the year commencing on the following 1 April. Where an Employer has one or more wholly owned subsidiaries those subsidiaries have no right to nominate Trustees, but the Members in their employ are added to the principal Employer's Members for qualification purposes.

The remaining Employers may secure representation in one of two ways. The Successor Bodies to a previous Training Board may join together for the purpose of Trustee nomination and, if necessary, tally their combined membership for the purpose of qualification. Otherwise the remaining Employers concerned will co-operate in nominating a Joint Trustee, as is currently the case.

Contributing Members employed by each of the six Employers with the largest number of Members are entitled to nominate one Trustee each by ballot, except where an Employer recognises a Trade Union for the purpose of negotiating terms and conditions of service then the Trade Union concerned nominates the Trustee.

The Members of all remaining Employers elect one further Joint Trustee by ballot.

Pensioners and Members with preserved pensions who are in the Closed Fund nominate a Trustee by ballot. Similarly, such Members in the Open Fund also nominate a Trustee by ballot.

A Trustee may resign as a Trustee at any time and will automatically vacate office if he or she ceases to fulfill the eligibility qualifications. In addition, a Trustee will

immediately vacate office upon becoming bankrupt or of unsound mind. The Managing Trustees have power by resolution of deciding upon a Trustee's appointment if in their opinion the individual concerned has been guilty of misconduct or is otherwise unfit or unable to carry out his or her duties.

## Changes to the Trustees

### Member Trustees

Mr EA Whatmore, the Member Trustee for Science, Engineering & Manufacturing Technologies Alliance retired by rotation on 31 March 2004 and was re-appointed to serve for a further term from 1 April 2004.

Mr JR Cushing, the Joint Member Trustee representing Engineering Construction ITB, Automotive Skills Limited, Skills for Logistics, Road Haulage & Distribution Training Council, Polymer National Training Organisation and CAPITB plc retired by rotation on 31 March 2004. However, as his Employer Engineering Construction ITB became one of the larger Employers they were therefore entitled to appoint their own Member Trustee. Mr Cushing was appointed to commence a term as Member Trustee for Engineering Construction ITB from 1 April 2004.

Mr DLW Taylor, the Member Trustee representing RGIT Montrose Limited and Cogent SSC Limited, relinquished his appointment on 8 August 2003 as a result of his Employer RGIT Montrose Limited withdrawing from the Scheme.

Mr NWD Gall became the Joint Member Trustee representing Cogent SSC Limited, Polymer National Training Organisation, CAPITB plc, Automotive Skills Limited, Skills for Logistics and Road Haulage & Distribution Training Council, as a result of an election by ballot to serve a term in office from 1 April 2004. Cogent SSC Limited had become one of the smaller Employers as a result of RGIT Montrose Limited, with whom they had previously joined to nominate a Trustee, withdrawing from the Scheme.

### **Pensioner Trustees**

The periods of office of the two Pensioner Trustees, Mr DC Barnett (Open Fund) and Mr HO Parker (Closed Fund), are due to end on 30 September 2005.

### **Employer Trustees**

Mr DPB Young, the Employer Trustee for JTL/Scottish Electrical Charitable Training Trust, retired by rotation on 31 March 2004 and was duly re-appointed to serve for a further term from 1 April 2004.

Mr RS Hanks, the Joint Employer Trustee representing Polymer National Training Organisation, Automotive Skills Limited, Skills for Logistics and Road Haulage & Distribution Training Council relinquished his appointment, as his Employer, Polymer National Training Organisation Limited, became one of the larger Employers and were therefore entitled to appoint their own Employer Trustee. Mr Hanks was appointed to commence a term as Employer Trustee for Polymer National Training Organisation from 1 April 2004.

Professor T Cannon, the Employer Trustee for CAPITB plc, relinquished his appointment on 31 March 2004, as a result of the Employer appointing him becoming one of the smaller Employers.

Professor T Cannon was subsequently appointed the Joint Employers' Trustee for CAPITB plc, Automotive Skills Limited, Skills for Logistics and Road Haulage & Distribution Training Council on 1 April 2004, succeeding Mr RS Hanks as a result of Polymer National Training Organisation becoming one of the larger Employers.

Following RGIT Montrose Limited withdrawing from the Scheme Mr G Beveridge, the Deputy Chairman of the Employers' Trustees and Employer Trustee for RGIT Montrose Limited and Cogent SSC Limited, continues in office from 1 April 2004 as Employer Trustee for Cogent SSC Limited.

### **Chairman**

Mr NNW Dunlop's period of office is due to end on 31 March 2006.

### **Deputy Chairmen**

The period of office of Mr G Beveridge as Deputy Chairman (Employers) is due to end on 30 September 2005.

The period of office of Mr KJF Potter as Deputy Chairman (Members) is due to end on 31 December 2006.

### **Trustee Training**

On appointment, special arrangements are made for new Trustees to attend a Trustees' training course organised by outside providers. In addition, regular training opportunities are provided throughout the year and at least one annual Training Seminar for all the Trustees is organised internally.

### **Meetings**

The Trustees normally meet at least four times a year where they are presented with detailed information by the Director, the Funds legal and actuarial advisers and by two Committees – the Investment Committee and the Management Panel – serving the Trustees. On these occasions matters of significance such as those concerning legal, actuarial, administration and investment planning are discussed and decisions made.

The Investment Committee also usually meet on at least five occasions during the year to review investment strategy and investment managers performance and consider advice from the Trustees' investment advisers.

The Management Panel, has been delegated responsibility to consider matters in more detail than is generally possible for the full Trustee board and submit recommendations for Trustees approval. The Management Panel meet as and when required.



# Officers and Advisers at 31 March 2004

## Officers

Director	Mr VC Gordon APMI
Accountant	Mr DC Faulkner FCA
Communications & Benefits Manager	Mr DJ Matthews APMI

## Advisers

Actuary	Government Actuary
Solicitors	Mayer, Brown, Rowe & Maw LLP
Investment Managers	Barclays Global Investors Limited Fidelity Pensions Management Limited Morley Fund Management Limited Schroder Investment Management (UK) Limited
Property Investment Managers	Fletcher King
Investment Advisers	Watson Wyatt Worldwide Russell/Mellon Europe Limited
Custodians	JP Morgan Chase Bank Barclays Global Investors Limited Universal Pension Trustees Limited
Auditors	Chantrey Vellacott DFK

*Mr VC Gordon (left)  
Mr DC Faulkner (right)  
Mr DJ Matthews (centre)*





# Participating Employers

The Participating Employers comprise two Statutory Training Boards and eleven Companies, which are in the main commercial enterprises and, along with their wholly owned subsidiaries, are the Successor Bodies that have replaced former Statutory Training Boards.

During the year the following changes occurred:

- RGIT Montrose Limited ceased participation in the Scheme following a change of ownership of the Company.
- Training Associate Services Limited (a subsidiary of Cogent SSC Limited) changed its name to Cogent Sector Services Limited.
- OPITO Limited (a subsidiary of Cogent SSC Limited) changed its name to Skills Assurance Services Limited.
- Motor Industry Training Council Limited changed its name to Automotive Skills Limited.
- Skills for Logistics (S4L) succeeded to part of the business of Road Haulage & Distribution Training Council. Road Haulage & Distribution Training Council continue to participate in the ITB Pension Funds independently of Skills for Logistics.

The Participating Employers at the Scheme year end, each of which must be a Statutory Training Board or a Successor Body to a Training Board, are as follows:

## **Automotive Skills Limited**

### **CAPITB plc**

*Subsidiaries:*

Global Resource Management PLC  
Qualifications for Industry Limited  
RTITB Limited  
Skillfast-UK Limited

### **Cogent SSC Limited**

*Subsidiaries:*

Cogent Sector Services Limited  
Skills Assurance Services Limited

## **Construction ITB**

### **Engineering Construction ITB**

### **Hospitality Training Foundation**

*(name changed to People 1st with effect from 22.6.04)*

### **JTL**

### **Lantra**

### **Polymer National Training Organisation Limited**

*(name changed to The Polymer Education and Training Trust Limited with effect from 6.5.04)*

## **Road Haulage & Distribution Training Council**

### **Science, Engineering and Manufacturing Technologies Alliance**

*Subsidiaries:*

EMTA Awards Limited  
Training Publications Limited

### **Scottish Electrical Charitable Training Trust**

### **Skills for Logistics**

# Review of Principal Activities

Described below is a summary of some of the more important developments and initiatives that have occurred relating to the administration of the ITB Pension Funds.

## Internet Site 'My ITB'

The range of communications has been expanded by the design and integration of more components into our web facilities to continue to add value for Members and Employers.

The most recent development is the release to two Employer's test sites of a leading technology solution in on-line communication and pensions modelling, enabling Members to interactively forecast their own pension and cash benefits at retirement and change certain personal details on a remote basis. With a Scheme membership that is fairly unique in its UK wide geographic location and differing levels of financial and technological sophistication, the challenge for the Funds' Office was to cut through the complexities to deliver fast, comprehensive "live" information to Members about their pension benefits. As a result, the Funds have sought to achieve this by adopting secure, easy to use technology avoiding the need for training with an advanced voice help function. It is intended to deploy the new facilities for general release later this year.

## New Section for Open Fund

In light of the prevailing conditions in the world of pensions and investments, the Participating Employers expressed a wish to institute changes to contribute to the long term health of the Open Fund. Therefore, for those Employers who wish to participate, a New Section has been opened within the Scheme for new employees, and although of a different nature, the New Section still provides final salary benefits.

The New Section became effective on 1 September 2003 and those Employers who have

elected to provide the New Section have done so at various dates since then. For the avoidance of doubt, the existing section, is now known as the 'Old Section'. Those who joined the Scheme after 1 September 2003 and are unsure which section they are in, can find this information on the Funds' website by clicking on 'Member Booklet' on [www.itb-online.co.uk](http://www.itb-online.co.uk). Alternatively, they may contact their Employer directly for clarification. There has been no change to the Scheme benefits of those who joined before 1 September 2003 and they remain Members of the Old Section.

## Trust Deed and Rules

A review of the Trust Deed and Rules of the Funds, which had been prompted by the introduction of the New Section for the Open Fund, resulted in a consolidated and updated version of the document being prepared by the Funds' solicitors, with an emphasis placed on simplification in order to make it easier to read and understand.

Other major changes associated with the new tax regime on pension schemes will be considered before April 2006.

## Legal Developments

The Funds' Office and the Trustees continue to consider how the ITB Pension Funds may be affected by the various legal and other developments concerning Tax Simplification and the Pensions Bill. These major issues cover benefit design, revision of Inland Revenue limits, how the Pension Protection Fund will work and how much it will cost, the statutory funding objective to replace the Minimum Funding Requirement (MFR), the assessment of voluntary compliance under the Myners recommendations and European Directives.

In particular, the new tax regime will govern the operation of pension schemes in the UK in the form of a single regime for occupational, personal and

stakeholder schemes from 6 April 2006, a year later than was originally planned. There will be no Inland Revenue limits, but instead a lifetime allowance (LTA) for pensions savings will be introduced. This has been set at £1.5 million in 2006, but will rise to at least £1.8 million by 2010. Generally, for the purposes of assessing the LTA, pensions savings will be valued at the rate of £20 of every £1 per annum of pension. Everything over the LTA will be taxed at an effective rate of 55%. Amongst a number of other changes there will be full concurrency thus enabling members to contribute to more than one pension arrangement at a time.

The Pension Protection Fund is intended to apply in 2005. Its objective is to protect members of private sector defined benefit schemes when the sponsoring employer is insolvent and there are insufficient funds in the scheme. It will pay stepped compensation payments depending on member category, though payments will be capped, but with the cap rising in line with earnings. As an example the age related payment cap at age 65 would be £25,000 pa. Pensions earned after 6th April 1997 will increase by Limited Price Indexation up to a maximum 2.5%. Pensions in payment after Normal Pension Age will not be capped and nor will ill-health or survivors' pensions. The Pension Protection Fund will be funded by a levy on all schemes.

# Members

The ITB Pension Funds consist of two separate Funds. The Open Fund and the Closed Fund. All active Members are in the Open Fund.

## Open Fund

The initial reduction in active membership of 104 as a result of RGIT Montrose Limited ceasing to participate in the Scheme in August 2003 was partly compensated by an increase in JTL active membership which followed the Learning Skills Council approach to JTL to take over the training of plumbing apprentices. Moreover, a number of Participating Employers have restructured their businesses during the year as a result of the change to the training industry brought about by the Government driven initiative for the creation of Sector Skills Councils to replace National Training Organisations (NTO's). Overall, Scheme membership has reduced slightly when compared to last year.

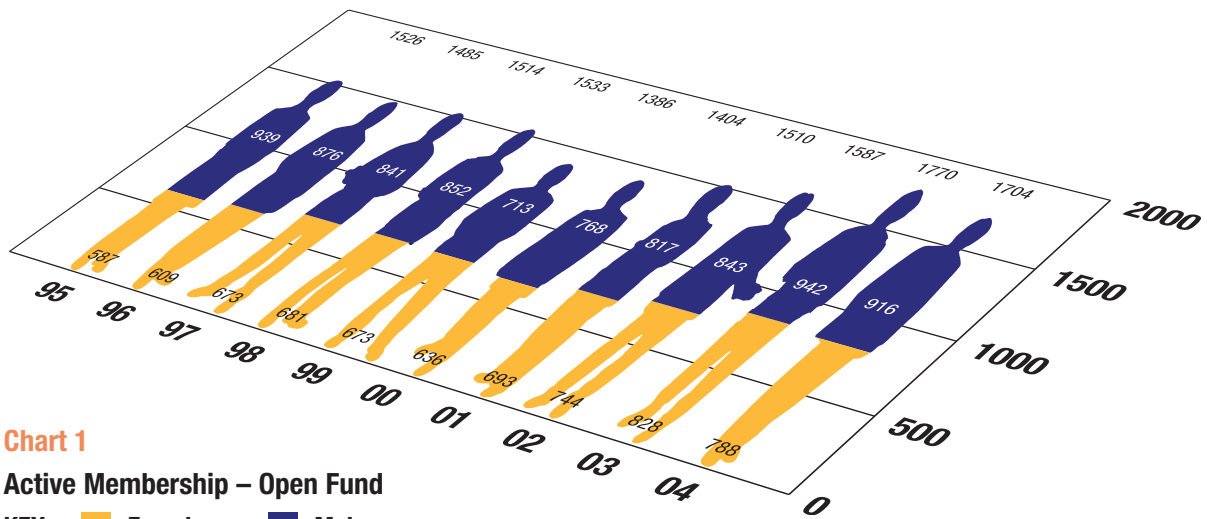


Chart 1

### Active Membership – Open Fund

KEY: ■ Females ■ Males

The age structure of the contributing Members at 31 March 2004 was as follows:

	Males	Females	Total
Under 30	60	146	206
30 – 34	76	121	197
35 – 39	87	134	221
40 – 44	161	118	279
45 – 49	162	100	262
50 – 54	146	83	229
55 – 59	163	65	228
60 – 64	61	21	82
<b>TOTAL</b>	<b>916</b>	<b>788</b>	<b>1704</b>



## Pensioners - Open Fund

The number of pensioners in the Open Fund continues to steadily rise, once again mainly from early retirements. Pensioners are either Members or dependants and the number in each category is shown below.

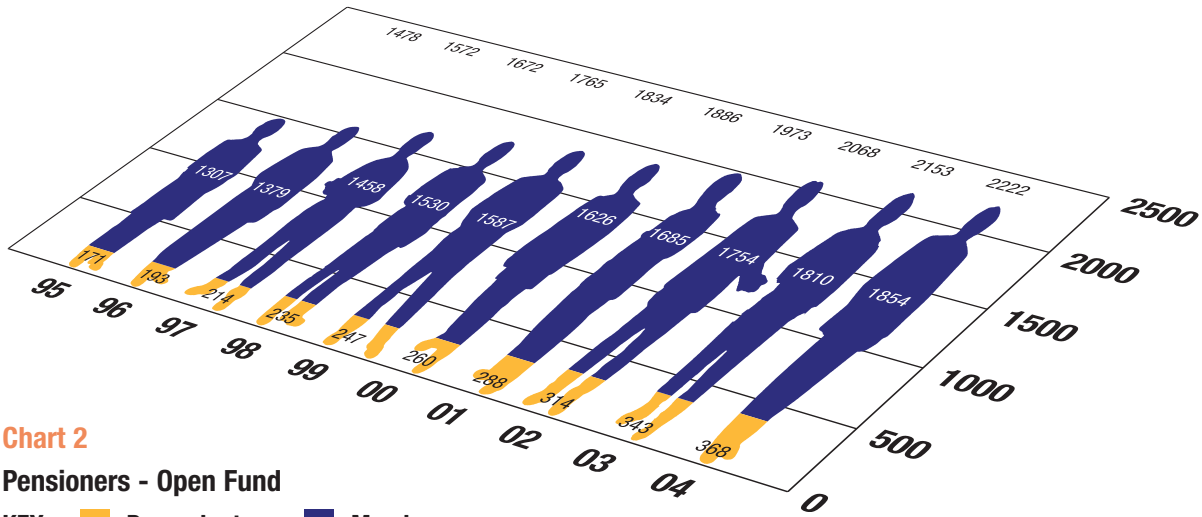


Chart 2

### Pensioners - Open Fund

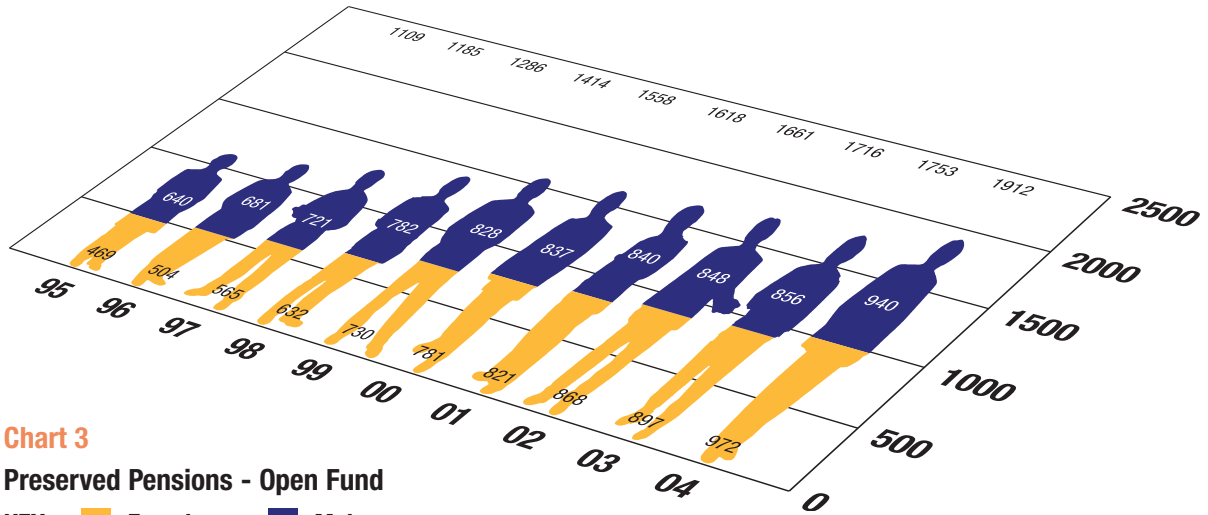
KEY: ■ Dependants ■ Members

The age structure of pensioners in the Open Fund as at 31 March 2004 is shown below. The benefits paid to the member pensioners cover early, normal, late retirement, compulsory and disability retirement.

	Males	Females	Total
Under 50	3	3	6
50 – 54	35	11	46
55 – 59	141	70	211
60 – 64	225	115	340
65 – 69	363	112	475
70 – 74	327	77	404
75 – 79	195	54	249
80+	106	17	123
<b>Subtotal</b>	<b>1395</b>	<b>459</b>	<b>1854</b>
Dependants			368
<b>TOTAL</b>	<b>1395</b>	<b>459</b>	<b>2222</b>

## Preserved Pensions - Open Fund

The number of preserved pensioners in the Open Fund as at 31 March 2004 is shown below. Preserved pensioners are Members who have left service, but still have benefits due to them from the Open Fund which will become payable to them, usually when they reach their Normal Retirement Date.



**Chart 3**  
**Preserved Pensions - Open Fund**  
**KEY:** ■ Females ■ Males

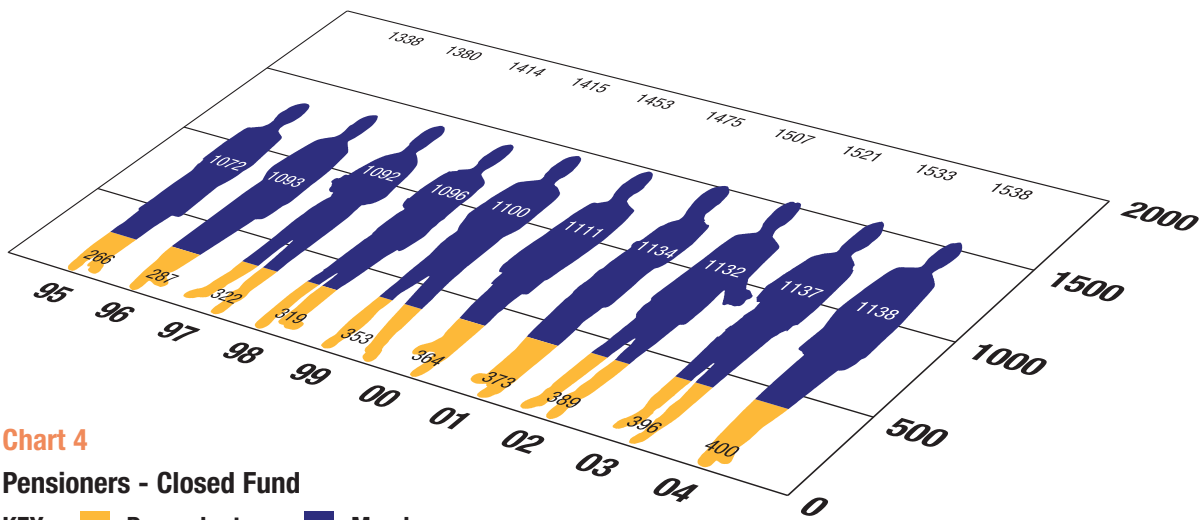
The age structure of preserved pensioners in the Open Fund as at 31 March 2004 is as follows:

	Males	Females	Total
Under 40	120	298	418
40 – 44	152	220	372
45 – 49	204	167	371
50 – 54	204	141	345
55 – 59	194	134	328
60 – 64	66	12	78
65+	0	0	0
<b>TOTAL</b>	<b>940</b>	<b>972</b>	<b>1912</b>

## Closed Fund

The Closed Fund was established in April 1983 after the Government had dissolved 16 Training Boards. Membership of the Closed Fund is fixed by a Memorandum of Agreement.

The number of pensioners in the Closed Fund continues to grow slowly, as Members whose preserved pensions come into payment and pensioners are replaced by their dependants.



**Chart 4**  
**Pensioners - Closed Fund**

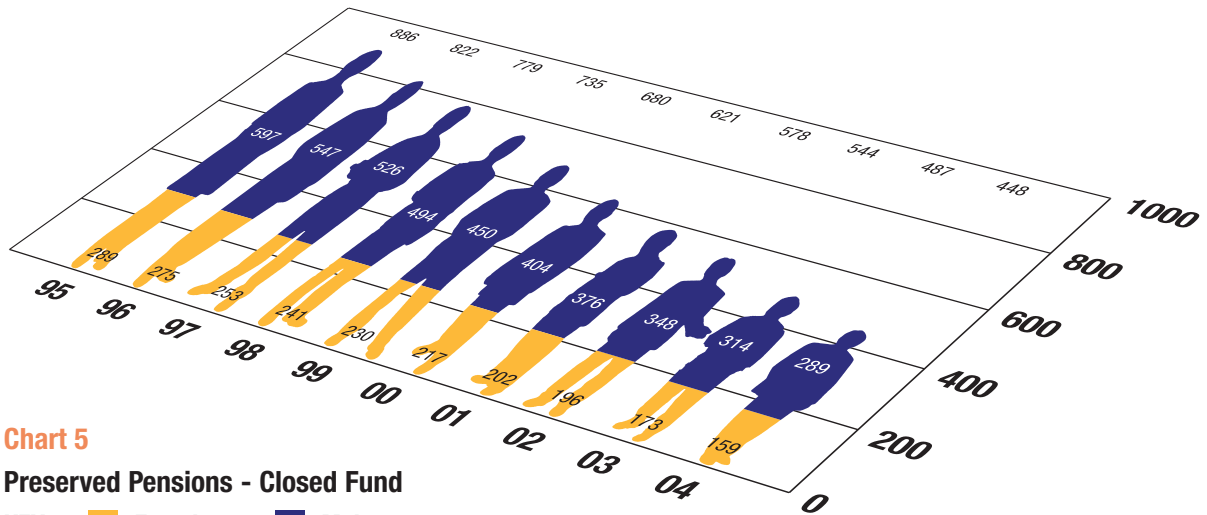
KEY: ■ Dependants ■ Members

The age structure of pensioners in the Closed Fund as at 31 March 2004 is shown below.

	Males	Females	Total
Under 50	0	0	0
50 – 54	0	1	1
55 – 59	9	4	13
60 – 64	50	63	113
65 – 69	153	62	215
70 – 74	197	71	268
75 – 79	148	81	229
80+	194	105	299
<b>Subtotal</b>	<b>751</b>	<b>387</b>	<b>1138</b>
Dependants			<b>400</b>
<b>TOTAL</b>	<b>751</b>	<b>387</b>	<b>1538</b>

## Preserved Pensions - Closed Fund

The number of preserved pensioners in the Closed Fund as at 31 March 2004 is shown below. Preserved pensioners are Members who have left service, but still have benefits due to them from the Closed Fund which will become payable to them, usually when they reach their Normal Retirement Date.



**Chart 5**  
Preserved Pensions - Closed Fund

KEY: ■ Females ■ Males

The age structure of preserved pensioners in the Closed Fund as at 31 March 2004 is as follows:

	Males	Females	Total
Under 40	0	0	0
40 – 44	1	2	3
45 – 49	7	16	23
50 – 54	48	50	98
55 – 59	136	90	226
60 – 64	95	1	96
65+	2	0	2
<b>TOTAL</b>	<b>289</b>	<b>159</b>	<b>448</b>



# Transfer of Benefits

The policy of the Trustees towards making a transfer payment when a Member of the Funds leaves pensionable service has always been that such a payment should be available, provided that after the transfer has been concluded the Funds should retain no further liability. Members have a statutory right to request a statement of transfer value once every twelve months.

.....  
**“The Pension Schemes Act 1993 gives Members who have left the Funds a statutory right to a transfer value in respect of their accrued benefits”**  
.....

The Pension Schemes Act 1993 gives Members who have left the Funds a statutory right to a transfer value in respect of their accrued benefits, which must be calculated according to regulations made under the Act. Such transfer values can be paid to the occupational pension plan of the Member’s new employer, to a personal pension scheme, or into an insurance company pension policy. All transfer values paid during the year were calculated and verified in the manner prescribed under those Regulations and make no allowance for discretionary benefits.

Members who leave service and are granted a preserved pension may therefore elect to have their benefits transferred to another pension plan, or an insurance pension policy, at any time thereafter, subject to the transfer being completed not less than one year before Normal Retirement Date.

The rights granted to Members either by Statute or by the Rules do not extend to Members who have already started to receive a pension.

Legislation introduced by the Pensions Act 1995 includes requirements which govern the way in which pension schemes calculate transfer values. The Trustees along with the Funds’ Actuary have reviewed the way transfers into and out of the Open Fund and out of the Closed Fund are calculated, to ensure that they are consistent with those requirements. This was achieved by adopting the requirements of the Act as the basis for calculation of all transfers.

As was reported two years ago, the Trustees decided that they would defer the acceptance of any transfer-in which imposed a liability on the Open Fund to provide a Guaranteed Minimum Pension (GMP), or equivalent, until a legal technicality to do with the equalization of GMP retirement ages became clear in law. To continue to accept such transfers might adversely have affected the liability being accepted. A legal remedy is still awaited.

Moreover, in March 2003, following further consideration of their overall position on the acceptance of transfer values into the Open Fund, the Trustees decided it was prudent to suspend the processing and acceptance of all new transfers-in. The action that has been taken is in common with many other pension schemes who share concerns about the exposure to additional liabilities in continuing to accept transfer values.

The Open Fund is more exposed than most in this regard because of the investment and salary risks associated with offering additional pensionable service in exchange for a transfer value. The Trustees reviewed their previous decision in March 2004 and decided that they would reconsider their stance on the acceptance of transfer values later this year in light of the results of the Open Fund valuation.

# Increases in Pensions

The Rules of the ITB Pension Funds provide for the Closed Fund and the Open Fund (Old Section) to increase pensions in payment as if they were official pensions to which the Pensions (Increase) Act 1971 (as amended) applied. This is the Act under which Civil Servants' and other Government employees' pensions are increased. The provisions of the Act effectively increase pensions by the same amount and from the same date that the additional component of the State Second Pension (S2P) is increased. Increases are currently granted in April each year and reflect the rise in the Retail Price Index (RPI) up to the previous September, which is announced by the Government in October each year. Increases under the New Section of the Open Fund are also increased in line with the annual increase in RPI, but are subject to a maximum of 5% increase in any one year.

The provisions of the Rules relating to increases in pensions apply equally to preserved pensions which receive an increase for the period from the date of leaving to the date payment begins as well as thereafter.

<b>Date of Increase</b>	<b>Increase %</b>
10 April 1995	<b>2.20</b>
8 April 1996	<b>3.90</b>
7 April 1997	<b>2.10</b>
6 April 1998	<b>3.60</b>
12 April 1999	<b>3.20</b>
10 April 2000	<b>1.10</b>
9 April 2001	<b>3.30</b>
8 April 2002	<b>1.70</b>
7 April 2003	<b>1.70</b>
12 April 2004	<b>2.80</b>

Guaranteed increases have been granted to pensions under The ITB Pension Funds since 1971 and details of the most recent increases are shown in the table above. The ITB Pension Funds' method of increasing pensions has always exceeded the minimum legal standards.

A requirement of contracting-out of the former Second Tier State Pension, known as SERPS, in existence up to 5 April 1997 was that an occupational pension plan had to provide its members with pension benefits which were broadly equivalent to the SERPS pension that members would have accrued had they not been contracted-out. This was called a Guaranteed Minimum Pension (GMP). GMPs do not accrue for post 5 April 1997 pensionable service and instead the Open Fund passes a reference scheme test for salary-related contracted-out plans as set out in the Pension Schemes Act 1993. In being contracted-out active members and Employers pay a reduced contracted-out rate of National Insurance contributions.

<b>Pensions in payment from the ITB Pension Funds are increased as follows:</b>				
	<b>Closed Fund</b>	<b>Open Fund (Old Section)</b>	<b>Open Fund (New Section)</b>	<b>The State:</b>
Before State Pension Age the Scheme increases <b>total</b> pension by:	RPI	RPI	RPI, up to a maximum of 5% in any one year	<b>Nil</b>
After State Pension Age the Scheme pension in excess of GMP increases by:	RPI	RPI	RPI, up to a maximum of 5% in any one year	<b>N/A</b>
<u>and</u>				
GMP accrued between: <i>6 April 1978 to 5 April 1988</i> increases by:	Nil	Nil	Nil	<b>RPI</b>
<i>6 April 1988 to 5 April 1997</i> increases by:	Lesser of 3% and RPI	Lesser of 3% and RPI	Lesser of 3% and RPI	<b>Excess of RPI over 3%</b>

On attaining State Pension Age, Members are advised by the Department of Work and Pension (DWP) of the amount of the GMP which will be paid by the Funds as part of their total pension. The Department will also confirm that subsequent cost of living increases on the GMP will be payable by the Department by making the necessary addition to the member's basic State pension.

Spouses' GMPs are inflation protected by the State, irrespective of age.

*It is important to note that for pensions actually being paid an increase is not normally payable where the recipient is below the age of 55. Where a pension is paid to someone below that age (for example, a compulsory retirement pension granted on redundancy), the increase is withheld, but on reaching the age of 55 the increase then made (on future instalments of pension only) will reflect all the increases since the date the pension first became payable. This age restriction does not apply if the pensioner retired on disability grounds, or if the pension is a widow's or children's pension.*

# Actuarial Valuation

## Open Fund

The ITB Pension Funds (Open Fund) is a final salary scheme. This means that the pension paid to a Member is based on their service at, and salary near to, retirement. This type of arrangement is sometimes known as a defined benefit scheme. The Participating Employers operate the Open Fund for the substantial majority of their employees. The assets of the Fund are held separately from the finances of the Participating Employers.

Actuarial valuations of the Fund are carried out as determined by the Trustees at intervals of not more than 3 years. In his valuation the Actuary assesses the funding position of the Scheme and the expected future cost of benefits accruing to Members under the Scheme, recommending a rate of contributions to be paid by Employers. In intervening years, the actuary reviews the continuing appropriateness of the contribution rates.

Broadly, and in accordance with the Rules, where a surplus arises it will first be used to extend the period over which Employers' and Members' contributions are paid at the rate of 5% of salaries for a further three years or such longer or shorter period as determined by the Actuary allowing, where appropriate, for any 'catch-up' from previous valuations. Any surplus remaining will be divided between Employers and Trustees with the Trustees receiving 25% of the surplus for distribution to the Members (subject to a maximum of £12.5 million), with the balance being allocated to Employers and held within the Fund.

Special arrangements are also in place for consultations to take place between the Actuary and Employers about the methods and actuarial assumptions for each valuation.

As reported last year the most recent valuation of the Open Fund was carried out by the Actuary as at 31 March 2001 and revealed a new surplus of around

£3 million which was sufficient to extend the provision for reduced Employer and employee contributions for one extra year from 2013 to 2014.

The Trustees continually monitor the Fund's financial status between formal valuations. Most recently in the Actuary's update on the state of the Open Fund in 2003 where it was confirmed that the Open Fund continues to be in a sound, ongoing financial position, notwithstanding the extensive falls in world equity markets in between 2001 and 2003.

The next actuarial valuation of the Open Fund will take place as at 31 March 2004 the results of which are expected later this year.

## Closed Fund

The most recent valuation of the Closed Fund was completed by the Actuary as at 31 March 2003 which revealed a surplus of £31.0 million. For the purpose of the valuation the Actuary valued the assets of the Fund at £173 million and all liabilities, including future administration expenses, were valued at £142 million. Under the Rules governing the Closed Fund, the Trustees have power to use up to one-third of a surplus revealed at each triennial valuation to improve Members' benefits. This power is not subject to the approval of Employers.

The result of the valuation enabled the Trustees to make further increases to Closed Fund pensions as shown in the table below, subject to Inland Revenue limits as determined and applied by the Trustees.

Based on the specified assumptions, the actuarial value of the assets of the Fund at 31 March 2003 were 122% of the liabilities. Even after the benefit improvements granted following the valuation, the ratio of the Fund's assets to its liabilities still exceeds the limit of 105% imposed by Section 603 of the Income and Corporation Taxes Act 1988. Reference is made in Note 11 to the Financial Statements to the Closed Fund's tax liability.



<b>Age Band</b>	<b>Recommended Increase %</b>
Pensioners	
Under 60	<b>6</b>
60-62	<b>6.5</b>
63-65	<b>7</b>
66-68	<b>7.5</b>
69-71	<b>8</b>
72-74	<b>8.5</b>
75-77	<b>9</b>
78-80	<b>9.5</b>
Over 80	<b>10</b>
Dependents	<b>8</b>
Deferreds	<b>5.5</b>

The next actuarial valuation of the Closed Fund will take place as at 31 March 2006 with the final results due out at the latter end of the year.

## **Actuarial Certificate**

Certificates provided by the Actuary confirming the satisfactory financial position of the Funds in accordance with the legislation in force at the date of the valuations are shown on pages 24 and 25.

## **Minimum Funding Requirement/Discontinuance**

As part of valuations, the Actuary assesses whether there is sufficient money in the Funds to meet the Minimum Funding Requirement, a Government standard for the minimum amount of money that a pension scheme must hold to meet its liabilities. Both the Open and Closed Funds comfortably pass this test. The Actuary has also stated that using the actuarial assumptions adopted for the valuation, the assets would have been sufficient at the valuation date to cover the liabilities arising in respect of accrued service to the valuation date (and assuming no further contributions were payable).

# Actuarial Statements

## ACTUARIAL STATEMENT MADE FOR THE PURPOSES OF REGULATION 30 OF THE OCCUPATIONAL PENSION SCHEMES (MINIMUM FUNDING REQUIREMENT AND ACTUARIAL VALUATIONS) REGULATIONS 1996

Name of scheme: THE ITB PENSION FUNDS - THE OPEN FUND

Effective date of valuation statement: 31 MARCH 2001

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

**Members** - Contributions at the rate of 5% of Pensionable Salaries, except for "Old Benefit" Members who contribute 4%. These contribution rates are currently reduced from the standard levels of 6% and 5% respectively, and the reduction has been assumed to continue until 31 March 2014. Member contributions may be paid either in cash or met from the relevant Employer's allocated account as designated in accordance with the Trust Deed and Rules.

**Employer** - Contributions at the rate of 5% of Pensionable Salaries until 31 March 2014, increasing to 16% of Pensionable Salaries thereafter. Employer contributions may be paid either in cash or met from the relevant Employer's allocated account as designated in accordance with the Trust Deed and Rules.

2. Summary of methods and assumptions used - The valuation method used is the standard actuarial method described as the "Entry Age Method". The objective of this method is to provide for benefits to be funded by contributions paid throughout a Member's active service at a rate which would be sufficient to finance the cost of a typical new entrant. The principal actuarial assumptions used for this valuation were that investment yields would in the long-term exceed earnings increases by 1.5% a year, and would exceed pension increases by 3% a year.

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustees dated 20 December 2001.

C D Daykin FIA,  
Government Actuary's Department,  
New King's Beam House,  
22 Upper Ground,  
London, SE1 9RJ

26 June 2002

## **ACTUARIAL STATEMENT MADE FOR THE PURPOSES OF REGULATION 30 OF THE OCCUPATIONAL PENSION SCHEMES (MINIMUM FUNDING REQUIREMENT AND ACTUARIAL VALUATION) REGULATIONS 1996**

Name of scheme: THE ITB PENSION FUNDS - THE CLOSED FUND

Effective Date of valuation statement: 31 March 2003

1. **Security of accrued rights**

In my opinion, the Scheme's assets existing on the effective date fully cover its liabilities as at that date with no exception.

2. **Security of prospective rights**

In my opinion, the resources of the Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due. In giving this opinion, I have assumed that no further contributions will be paid into the Scheme.

3. **Summary of methods and assumptions used**

As there are no contributing Members in the Closed Fund, the actuarial valuation is concerned only with the rights accrued to the valuation date and any improvements granted by the Trustees. The actuarial assumptions and valuation method adopted are those prescribed by the Inland Revenue in Statutory Instrument No. 412 of 1987 - Income Tax - The Pension Scheme Surpluses (Valuation) Regulations 1987.

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustees dated 1 October 2003.

This statement does not address the question of whether or not the assets would be sufficient to secure the liabilities with insurance companies should the Scheme wind up.

C D Daykin FIA,  
Government Actuary's Department,  
Finlaison House,  
15/17 Furnival Street,  
London, EC4A 1AB

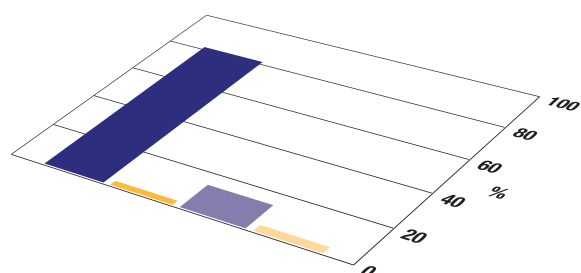
1 October 2003

# Funds' Income and Expenditure

## Open Fund

Source of Income 2003/2004

Chart 6



Net income from investments including bank deposits and gains on realisation of investments (80.4%) £13,215,654

Transfers received (2.8%) £461,346

Members' Contributions (including AVCs) (13.3%) £2,193,233

Employers' Contributions (normal) (3.5%) £569,032

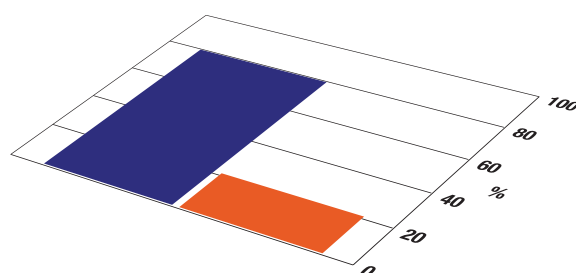
The way in which the income of the Open Fund of £16,439,265 was made up is shown in Chart 6. The total net investment income consists mainly of income from dividends, bank interest and less the loss on foreign exchange and Investment Managers' fees. The Open Fund was required to raise an additional £2,050,290 from the sale of investments to meet expenditure commitments.

*During the year contributions of £1,688,938 have been charged to Employer's surplus allocations. Since these are internal transfers within Funds this amount does not appear as income. This is explained in more detail under Note 19 of the Financial Statements.*

## Closed Fund

Source of Income 2003/2004

Chart 7



Net income from investments including bank deposits (78.9%) £4,781,698

Net gain on realisation of investments (21.1%) £1,282,530

The way in which the income of the Closed Fund, of £6,064,228 was made up is shown in Chart 7. The total net investment income consists of income from dividends and bank interest. The Closed Fund was required to raise an additional £4,406,215 from the sale of investments to meet expenditure commitments. The net investment income of the Closed Fund is made up in the same way as that for the Open Fund but with taxation also being deducted.



Charts 8 and 9 show how the total income of each Fund was allocated.

### Open Fund

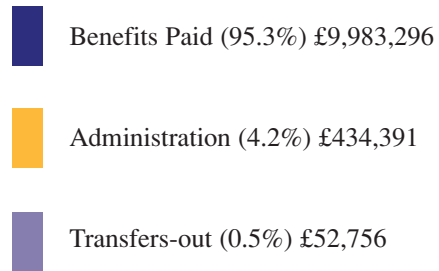
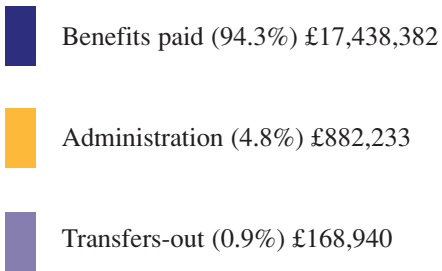
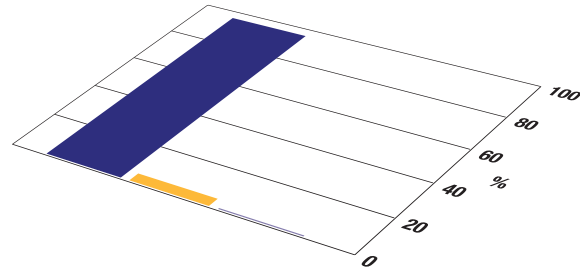
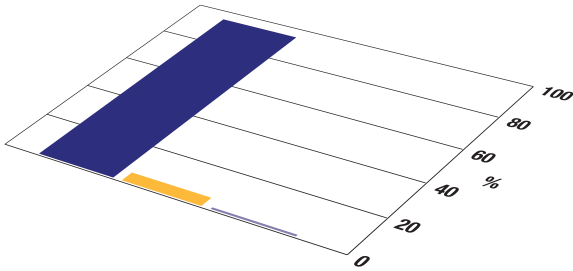
Allocation of Expenditure 2003/2004

Chart 8

### Closed Fund

Allocation of Expenditure 2003/2004

Chart 9



# Investment Report

## Statement of Investment Principles (SIPS)

The Pensions Act 1995, as amended, sets out certain requirements for Trustees of pension schemes to prepare SIPS that govern their investment decisions. Whilst the ultimate power and responsibility for deciding investment policy rests solely with trustees, they are expected to consult with participating employers about the preparation of SIPS. The ITB Pension Funds Trustees do this and they also seek advice from their investment consultants and actuarial advisers on the broad investment principles governing the investment policy of the Funds.

The SIPS are reviewed at least once a year. The full versions of SIPS can be viewed by accessing the ITB website on [www.itb-online.co.uk](http://www.itb-online.co.uk) or obtained by requesting a copy from the Funds' Office.

Specialist investment managers are employed by the Trustees to manage the portfolios of investments. Their appointments are reviewed by the Trustees annually in light of quarterly monitoring of the performance and investment process. The investment performance of both the Open and Closed Funds is shown on page 34.

The recommendations of a report on institutional investment - the Myners Report - which have previously been accepted by the Government, identified a set of investment principles which pension schemes should comply with on a voluntary basis. The Trustees consider that the Funds are currently generally compliant with many of the Report's recommendations and have taken steps, where appropriate, to integrate the recommendations into working practices and procedures. There remains a few areas where the Trustees are working towards becoming fully compliant where these are relevant in the context of the ITB Pension Funds.

## Investment Strategy

The Trustees employ external Fund Managers who have discretion to invest the assets of the Funds within the Trustees prescribed guidelines.

The strategy to achieve the investment objectives involves the Funds assets being invested across a wide range of asset classes and geographical areas.

Although the Trustees have delegated day to day management of the Funds' investments to external managers, the custody (safe-keeping) of these assets is carried out independently of the managers through custodians JP Morgan Chase Bank.

### Closed Fund

As the Closed Fund has no active Members or current Participating Employers an investment strategy has been adopted whereby the liabilities have been broadly matched by an underlying portfolio of index-linked gilts. Because of the surplus in the Closed Fund a portfolio representing the reserve assets has been established and invested in a range of assets comprising global equities and bonds.

The Closed Fund's portfolio of Index-Linked Gilts, the investment of which is entirely passive and advised by the Actuary, is under the control of the Trustees. Fidelity Pensions Management Ltd is the manager for the Closed Fund's global equity and bond portfolio.

### Open Fund

Following the actuarial valuation of the Open Fund as at 31 March 2001, the Trustees along with their investment advisers gave detailed consideration to a report on the asset liability study carried out by the Actuary. With the benefit of this report they concluded that a new investment strategy which appeared more efficient in maintaining the desired funding level of the scheme should be adopted which involved switching assets out

of the actively managed equity portfolio, with an additional investment in the fixed interest portfolio.

The long term strategy involved further planned investment in fixed interest and a controlled gradual move to the long term position. The current asset allocation of the Open Fund is shown on pages 31 - 32. The pace at which the Scheme's asset allocation moves towards long term position is regularly considered by the Trustees and their advisors. This strategy will be subject to further review following Actuarial Valuation as at 31 March 2004.

The Trustees' investment strategy aims, over the long term, to achieve good investment growth while maintaining a strong funding position for the Open Fund. Although an overall long term strategic asset allocation is agreed by the Trustees, the Investment Managers are given individual benchmarks. The active managers are permitted to diverge from these benchmarks within policy guidelines which are determined periodically by the Trustees in conjunction with their Investment Advisers. The guidelines are reviewed by the Trustees' Investment Committee at regular quarterly meetings.

The benchmarks existing at 31 March 2004 for the Open Fund were as follows:

Category	Long Term Strategic Benchmark Allocation % (Market Values)
Fixed Interest	40
UK Equities	20
Overseas Equities	20
Property	20

The benchmark existing at 31 March 2004 for the portion (23%) of the Closed Fund not invested in Index-Linked Gilts, was as follows:

Category	Benchmark Allocation % (Market Values)
Fixed Interest	4
Overseas Fixed Interest	4
UK Equities	58
Overseas Equities	34

To ensure the secure investment of these assets the Investment Managers and Trustees sign agreements which clearly set out the restrictions placed on the Managers. In the agreements, for example, there are prohibitions on lending assets, borrowing on the security of assets and buying shares not listed on a recognised stock exchange. There are also restrictions on the use of derivatives.

Details of the Open Fund's total asset allocation, individual manager's allocation, mandates and investment performance at the Fund's year end are shown on pages 31 to 35.

## Financial Review

The overall expenditure of the Closed Fund continues to exceed total investment income. However, expenditure is met only from the Fund's holdings in Index Linked stock. The difference between the interest on the Index Linked stock and expenditure is met from the money received from the redemption of stock which takes place at regular intervals.

The contribution income of the Open Fund continued to be insufficient to meet benefit payments and other expenditure. The balance was made up from investment revenue. This was expected and will continue whilst Employers' and Members' contributions are maintained at their current levels.

Equities produced strong gains in the 12 months to 31 March 2004. Having fallen to a low prior to the

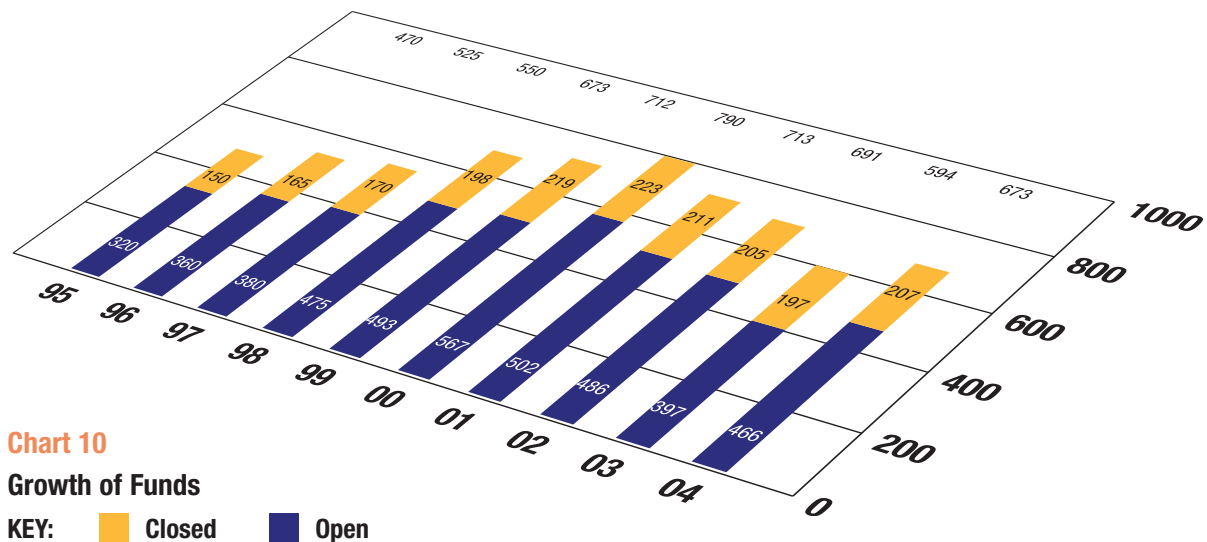
onset of war in Iraq, markets rallied sharply, supported by low valuations, rising risk appetites and improving economic and corporate profits growth. The US recovered vigorously, boosted by expansionary monetary and fiscal policies, and many economies outside the US benefited from strong global trade and a gradual pick-up in domestic demand. Stocks and sectors most sensitive to improving economic growth were the strongest performers in the year as a whole. However, there were signs of a rotation away from these areas towards more defensive investments as risk tolerance declined slightly and global growth appeared to be peaking, and gains were more modest in the final three months of the review period.

Bonds significantly underperformed equities in the year, although produced positive returns. Fears of deflation and strong demand for US Treasury bonds from Asian central banks attempting to curb the appreciation of their currencies relative to the US dollar provided support in the period. Bonds benefited from low inflation and weak jobs growth in the US economy, which reduced the risk of a turn in the global interest rate cycle until later in 2004. UK index-linked gilts and corporate bonds outperformed conventional government bonds. Index-linked gilts were boosted by relatively attractive valuations and rising inflation expectations in the UK economy, while corporate bonds benefited from the improving corporate outlook.

Strong demand for investment property supported returns in an environment of weak rental growth, particularly in office markets.



The size of each Fund and the growth achieved in the past ten years is demonstrated in Chart 10.



**Chart 10**

**Growth of Funds**

KEY: ■ Closed ■ Open

## Asset Allocation

At the end of March 2004, the Funds' investments were allocated between the following categories.

Open Fund	Market Value £000's	Proportion of Market Value %
UK Equities	159,993	34.5
Overseas Equities	101,956	22.0
Fixed Interest:		
UK	66,080	14.3
Overseas	16,196	3.5
Index Linked	53,559	11.6
Property	63,265	13.6
Cash	2,462	0.5
<b>TOTAL</b>	<b>463,511</b>	<b>100.0</b>

Closed Fund	Market Value £000's	Proportion of Market Value %
UK Equities	26,189	12.8
Overseas Equities	16,722	8.1
Fixed Interest:		
UK	1,815	0.9
Overseas	1,626	0.8
Index Linked	153,346	74.6
Cash	5,664	2.8
<b>TOTAL</b>	<b>205,362</b>	<b>100.0</b>

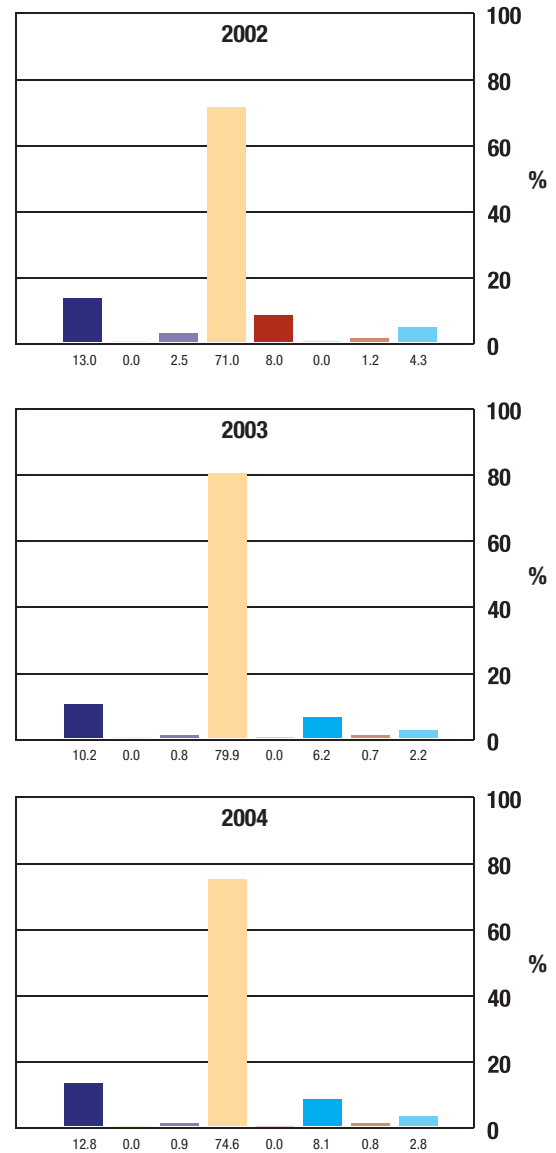
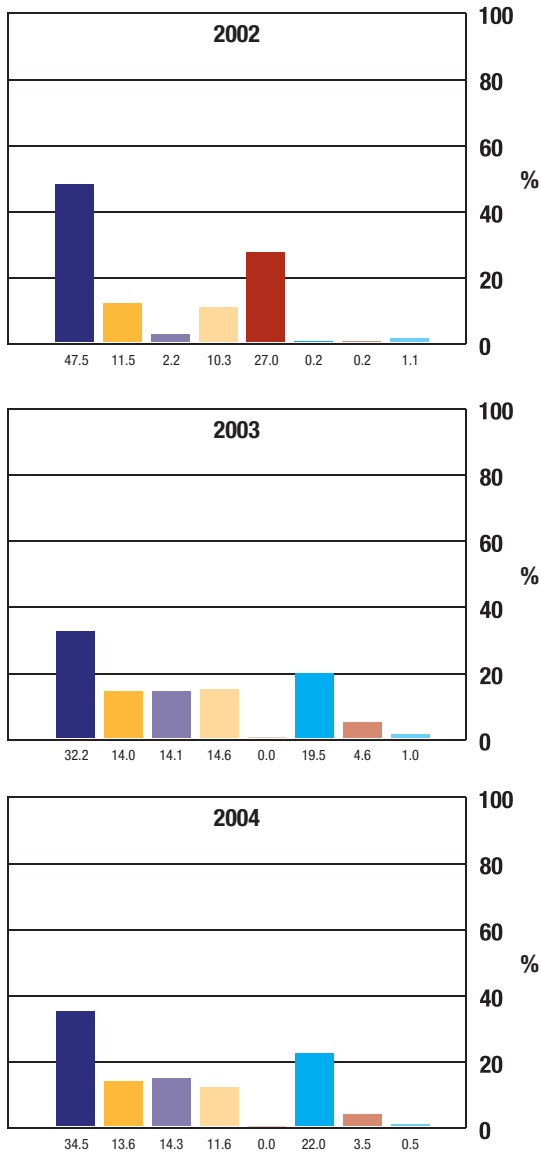
The Overseas Equities for both Funds consists of holdings in Europe, North America, Japan and South East Asia. The changes in asset allocation made since 2002 are shown in Charts 11 and 12.

**Asset Allocation Open Fund (%)**

**Chart 11**

**Asset Allocation Closed Fund (%)**

**Chart 12**



**KEY:**

- UK Equities
- Property
- UK Fixed Interest
- Index Linked
- Unitised Funds
- Overseas Equities
- Overseas Fixed Interest
- Cash

*Note: For 2003 and 2004 the unitised fund holdings have been shown under their respective asset allocation class.*

The ten holdings in equities and unit trusts which had the highest value at 31 March 2004 for each Fund, were as follows:

## Open Fund

Holding	Description	Book Cost (£)	Market Value
12,564,579	Fidelity Institutional America Fund	17,617,874	17,062,699
10,565,954	Fidelity Institutional Europe Fund	16,649,603	16,968,923
10,379,996	Fidelity Institutional Japan Fund	10,345,747	12,435,235
9,559,223	Vodafone Group	18,749,325	12,307,499
12,718,217	Fidelity Institutional South East Asia Fund	10,195,171	11,830,485
2,188,898	BP Plc	7,094,257	9,981,375
1,027,775	HSBC Holdings (UK REG)	6,264,684	8,314,700
647,756	GlaxoSmithkline Ord 25p	6,787,158	6,918,035
407,093	Royal Bank of Scotland	3,038,472	6,749,602
152,500	Astrazeneca Group Ord USD 0.25	3,733,313	3,847,575

## Closed Fund

Holding	Description	Book Cost (£)	Market Value
3,652,804	Fidelity Institutional Europe Fund	4,707,194	5,866,403
3,412,106	Fidelity Institutional America Fund	4,539,078	4,633,639
3,375,943	Fidelity Institutional South East Asia Fund	2,603,947	3,140,302
2,508,822	Fidelity Institutional Japan Fund	2,474,420	3,005,569
1,775,100	Vodafone Group	3,594,805	2,285,441
445,000	BP Plc	1,801,678	2,029,200
5,144,476	Fidelity Institutional Long Bond GROSS	1,558,858	1,815,486
5,926,902	Fidelity Institutional International Bond GROSS	1,555,517	1,625,749
159,650	HSBC Holdings UK	1,104,398	1,291,569
103,720	GlaxoSmithkline Ord 25p	1,431,411	1,107,730

It will be seen, by comparing the values of the holdings listed above with the total value of each of the two portfolios listed on page 31 that no individual shareholding forms more than 5% of the total value of each Fund's investments. The ITB Pension Funds' assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulation 1996. The Funds do not invest in any of the Participating Employers' businesses.

No investment represents more than 3% of the share capital of the Company concerned.

# Investment Performance Review

## Total Fund

The investment performance of both the Closed and Open Funds continues to be monitored by Russell/Mellon Europe Ltd, an independent investment performance monitoring service which monitors the performance of over 3,700 pension fund portfolios. For this purpose the Closed Fund and the Open Fund are treated separately and separate reports are provided in respect of each Investment Manager.

The period reviewed in the most recent full report relates to the year ended 31 March 2004. In addition, Watson Wyatt Worldwide also provide an overview for each Fund and present all the year end reports at a meeting of the Trustees' Investment Committee.

Investment performance is closely monitored by the Trustees. Benchmarks are based on various indices and the investment managers are set appropriate performance targets so as to ensure, that as far as is practicable, the Funds perform in line with their strategic benchmark. The relevant benchmark return

for the Open Fund this year was 21.5%, whereas the Fund actually achieved a return better than this of 21.9%

The Closed Fund achieved a return of 12.3% against the relevant benchmark of 11.4%. The overall performance of the Closed Fund reflected its large holding in Index Linked Gilts.

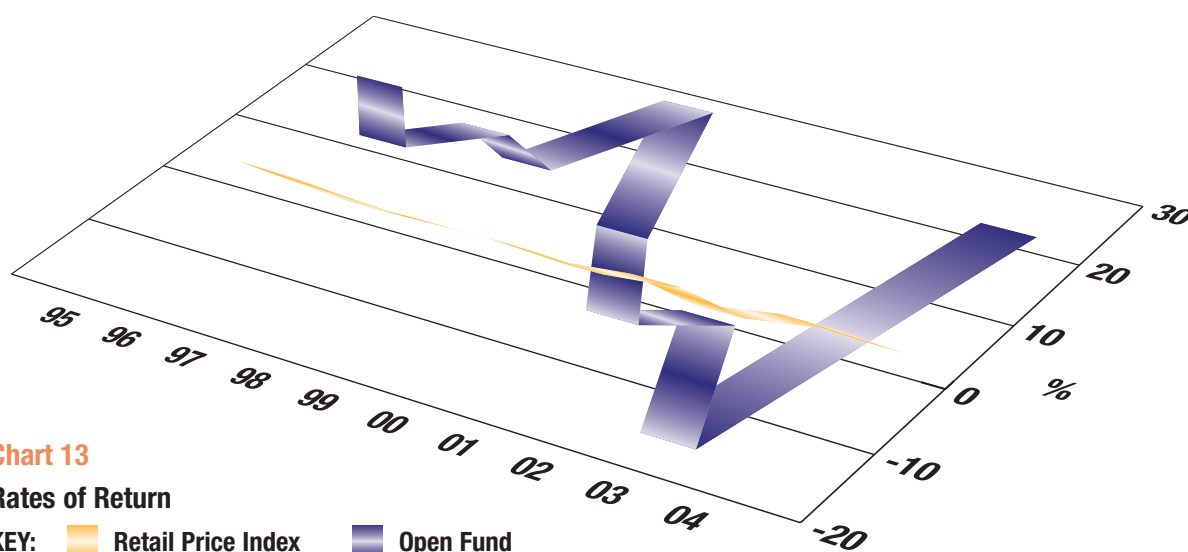
Chart 13 shows the rate of return on all assets achieved by the Open Fund (income and capital appreciation combined) in the recent past, compared with the increase in prices, as measured by the Retail Price Index. Past returns are, of course, no guarantee of future performance.

## Managers Mandates and Performance – Open Fund

### UK Equities (35% of total fund)

#### Barclays Global Investors (BGI) (2% of total fund)

This part of the UK equity portfolio is managed to track



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<span style="color: blue;">■</span> Open Fund	20	11.5	17.1	13.7	27.8	8	-2.6	0.1	-15.2	21.9
<span style="color: orange;">■</span> Retail Price Index	3.2	2.5	2	2.8	2.3	1.8	2.9	1.3	3.1	2.6



the performance of the UK FTSE All Share Index within a small deviation. BGI's fees are market-value based. Over the year BGI achieved their objective.

#### **Schroder Investment Management (UK) Ltd (16% of total fund)**

This part of the UK equity portfolio has the objective to outperform the UK FTSE All Share Index by 2% pa, net of base fees, over a rolling 3 year period and to limit underperformance against this index to 6% in any 12 month period. Schroder's fees are market value based with a performance related element. Over the year Schrodgers achieved their benchmark but underperformed their objective.

#### **Fidelity Pensions Management Ltd (17% of total fund)**

This part of the UK equity portfolio has the objective to outperform the UK FTSE All Share Index by 1.5% pa, gross of base fees, over a rolling 3 year period and to limit underperformance against benchmark to 5%. Fidelity's fees are market value based with a performance related element. Over the year Fidelity achieved both their benchmark and objective.

#### **Fixed Interest (29% of total fund)**

##### **Morley Fund Management Ltd (29% of total fund)**

The objective of this fixed interest portfolio is to outperform a composite benchmark by 0.75% pa, net of base fees, over a rolling 3 year period and to avoid underperforming the benchmark by more than 2% in any rolling 12 month period. Morley's fees are market value based. Over the year Morley achieved their benchmark but underperformed their objective.

#### **Overseas Equities (22% of total fund)**

##### **Fidelity Pensions Management Ltd (13% of total fund)**

This part of the overseas equity portfolio has the objective to outperform its composite benchmark by 1.5%, gross of base fees, over a rolling 3 year period.

Fidelity's fees are market value based with a performance related element. Over the year Fidelity outperformed their benchmark but underperformed their objective.

##### **Barclays Global Investors (BGI) (9% of total fund)**

This part of the overseas equity portfolio is managed to track a composite benchmark within a small deviation. BGI is remunerated on the basis of a fixed annual fee which increases in line with RPI. Over the year BGI achieved their objective.

#### **Property (14% of total fund)**

##### **Fletcher King (14% of total fund)**

The objective of this portfolio is to outperform the median direct property portfolio index produced by Russell/Mellon Europe Ltd. Fletcher King is remunerated on the basis of an annual retainer fee together with transaction fees related to acquisition, disposals and lettings. In addition, further fees are payable based on the gross rental income of the portfolio, together with fees for work on rent and lease renewals. Over the year Fletcher King outperformed their benchmark.

### **Manager Mandates and Performance – Closed Fund**

#### **Global Equities (23% of total fund (reserve assets only))**

##### **Fidelity Pensions Management Ltd (23% of total Fund)**

The objective of this portfolio is to outperform its composite benchmark by 1%, gross of base fees, over a rolling 3 year period. Fidelity's fees are market value based with a performance related element. Over the year Fidelity outperformed both their benchmark and their objective.

The remaining 77% of assets are held in index-linked securities which are under the control of the Trustees.

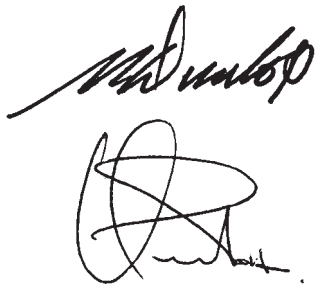
# Statement of Trustees' Responsibilities

Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 require Trustees to prepare financial statements, for each financial year, which give a true and fair view of the financial transactions of the Scheme; of the amount and disposition of the Scheme's assets at the year end; and of the liabilities of the Scheme, other than liabilities to pay pensions and benefits after the end of the Scheme year. In preparing these financial statements Trustees are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Ensure that the financial statements are in accordance with the Audit Regulations and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

Trustees are responsible for keeping proper accounting records which accurately disclose the financial position of the Scheme to enable them to ensure the financial statements comply with the Audit Regulations. They are also responsible for safeguarding the assets of the Scheme and for taking reasonable steps for the prevention and detection of error, fraud or other irregularities. Financial Statements have been prepared in accordance with the Regulations and are reproduced in full on pages 37 to 53. The Notes to the Financial Statements include the required statement regarding the Statement of Recommended Practice.

The Trustees' Report was approved by the Managing Trustees on 2 July 2004.



N.N.W. DUNLOP, CBE

K.J.F. POTTER

} Trustees

# Financial Statements

For the year ended 31st March 2004

# Independent auditors' report to the Trustees of the ITB Pension Funds

We have audited the financial statements for the year ended 31st March 2004 which comprise the Statements of Income and Expenditure, the Net Assets Statement and the notes related thereto. These financial statements have been prepared on the basis of the accounting policies set out therein including the incorporation of investment assets at valuation.

This report is made solely to the Trustees, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Trustees and the Auditors

As described in the Statement of Trustees Responsibilities on page 36, the Trustees are responsible for obtaining financial statements which comply with applicable United Kingdom law and Accounting Standards and for making available certain information about the scheme in form of an Annual Report. They are also responsible for procuring that contributions are made to the Scheme in accordance with the schedule of contributions certified by the actuary. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board of the Financial Reporting Council and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor)

Regulations 1996 made under the Pensions Act 1995. We also provide a statement about contributions, in which we report to you our opinion as to whether contributions have been paid in accordance with the schedule of contributions certified by the actuary. We report to you if we have not received all the information and explanations that we require for our audit.

We have read the information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion and statement about contributions

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board of the Financial Reporting Council. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

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

Our work also includes examination on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the



schedule of contributions certified by the actuary on 6th March 2002.

## **Statement about contributions under the scheme**

In our opinion contributions payable to the scheme during the year ended 31st March 2004 have been paid in accordance with the schedule of contributions certified by the actuary on 6th March 2002.

## **Opinion**

In our opinion the financial statements show a true and fair view of the financial transactions of the Scheme for the year ended 31st March 2004, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme 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.

CHANTREY VELLACOTT DFK  
Chartered Accountants and Registered Auditors  
WATFORD  
26 July 2004

# Statements of income and expenditure

for the year ended 31st March 2004

	Notes	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
<b>Income</b>					
Members' contributions	3d, 17, 19	-	2,193	2,193	1,903
Employers' contributions	3d, 19	-	569	569	195
Employers' enhancement costs	3d, 19	-	-	-	-
Transfers from other schemes	5	-	461	461	1,347
		-	3,223	3,223	3,445
<b>Expenditure</b>					
Retirement and death benefits	6	9,984	17,338	27,322	26,945
Withdrawals:					
Transfers to other schemes		53	169	222	144
Contribution refunds		-	101	101	25
Administration costs	7	436	881	1,317	1,229
		10,473	18,489	28,962	28,343
<b>Net withdrawals from dealings with Members</b>		<b>(10,473)</b>	<b>(15,266)</b>	<b>(25,739)</b>	<b>(24,898)</b>
<b>Returns on investments</b>					
Investment revenue	8	5,106	12,795	17,901	17,550
Net loss arising on foreign exchange	10	-	(21)	(21)	(97)
Taxation	11	(122)	-	(122)	(85)
Change in market value of investments	12	15,522	72,457	87,979	(88,264)
Investment managers' fees	9	(201)	(1,388)	(1,589)	(1,453)
<b>Net returns on investments</b>		<b>20,305</b>	<b>83,843</b>	<b>104,148</b>	<b>(72,349)</b>
<b>Net increase / (decrease) in the funds during the year</b>		<b>9,832</b>	<b>68,577</b>	<b>78,409</b>	<b>(97,247)</b>
<b>Net assets as at 31st March 2003</b>		<b>196,617</b>	<b>397,571</b>	<b>594,188</b>	<b>691,435</b>
<b>Net assets as at 31st March 2004</b>		<b>£206,449</b>	<b>£466,148</b>	<b>£672,597</b>	<b>£594,188</b>

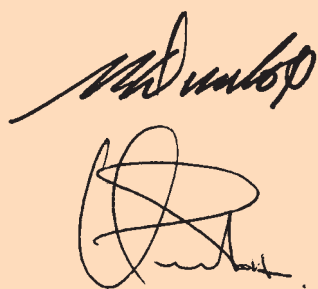
The notes on pages 42 - 53 form part of these financial statements.

# Net assets statements

31st March 2004

	Notes	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
<b>Investments</b>	12	205,362	463,511	668,873	590,689
<b>Fixed assets</b>	13	-	171	171	111
		205,362	463,682	669,044	590,800
<b>Current assets</b>					
External	14	1,413	3,385	4,798	4,707
Inter-fund balance	14	-	7	7	20
		1,413	3,392	4,805	4,727
<b>Current liabilities</b>					
External	15	319	926	1,245	1,319
Inter-fund balance	15	7	-	7	20
		326	926	1,252	1,339
<b>Net current assets</b>		1,087	2,466	3,553	3,388
<b>Net assets as at 31st March 2004</b>		<b>£206,449</b>	<b>£466,148</b>	<b>£672,597</b>	<b>£594,188</b>

The financial statements were approved by the Managing Trustees on 2 July 2004



N DUNLOP }  
K POTTER } Trustees

The notes on pages 42 - 53 form part of these financial statements.

# Notes to the financial statements

## for the year ended 31st March 2004

### 1 Organisation of the funds

The financial statements reflect the Actuary's report dated 22nd January 1985 regarding the apportionment of assets between the Closed and Open Funds. This apportionment of the market value of the assets was made on 1st April 1985.

The Closed Fund relates to former employees of discontinued Industrial Training Boards; all employees of continuing Boards whose service ceased before 31st March 1982; and, certain other employees of those Boards whose service ceased before 31st March 1983 and whose membership was specifically agreed with Government.

### 2 Actuarial valuations

The Trustees have received and adopted the Valuation Report by the Actuary on the Closed Fund as at 31st March 2003 and on the Open Fund as at 31st March 2001.

The Reports on the Closed Fund for 2003 and on the Open Fund for 2001 concluded that the assets in both Funds would be adequate to meet the liabilities on the basis of the assumptions made.

### 3 Accounting policies

The financial statements 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.

The financial statements summarise the transactions of the Funds and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the year. The actuarial position of the Funds, which does take account of such obligations, is dealt with in the statements by the Actuary and these financial statements should be read in conjunction with them.

#### a) Basis of preparation

These financial statements have been prepared on an accruals basis, that is, income and expenditure is recognised as it is earned or incurred, not as it is received or paid.

#### b) Valuation of investment assets

All investments, other than commercial property, are valued at their market value at 31st March 2004 determined as follows:

- i) Listed securities are valued at last traded price or mid-market price ruling at the balance sheet date.
- ii) Unitised funds are stated at the mid-point of the latest prices quoted by the managers prior to 31st March 2004.
- iii) Investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling at the balance sheet date.
- iv) Properties were valued by Fletcher King, Property Asset Managers, at 31st March 2004, in accordance with the definition of open market value as defined in Practice Statement 4 of the Royal Institute of Chartered Surveyors' appraisal and valuation manual.

#### c) Forward contracts for foreign currency

Forward contracts are valued at amounts that assume settlement at the spot rates ruling on 31st March 2004.

#### d) Contribution income

Contributions relating to wages and salaries earned up to 31st March 2004 have been included in these financial statements.

Enhancement costs represent amounts paid by Employers to improve the benefits of certain employees and these are due to the Open Fund from the relevant Participating Employers.



**e) Investment income**

Dividend income and interest on Government stocks have been recognised on the ex-dividend date. Rents and interest income are recognised on a receivable basis.

**f) Foreign income**

Foreign income has been translated into sterling at the rate ruling at the date of the transactions. Income due at the year end is translated at the rate ruling at 31st March 2004. All differences are taken to income and expenditure account.

**g) Benefits payable**

Benefits payable include all valid benefit claims notified to the Trustees during the financial year.

**h) Transfers receivable**

Certain Members of the Funds have transfer rights available to them from previous pension schemes. The value of such rights has only been taken into account where the sum to be transferred has been agreed by 31st March 2004.

**i) Withdrawal benefits**

Transfers payable relate to those early leavers whose transfers have been agreed by the Trustees during the year. Included under withdrawal benefits are accruals of contributions and interest in respect of Members who left the Funds on or before 31st March 2004 and who were entitled to a refund of these.

**j) Fixed assets**

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Furniture	-	10% per annum
Equipment	-	20% per annum

**4 Contributions receivable**

Contributions payable to the Scheme during the year ended 31st March 2004, including amounts outstanding at the year end (see note 14), were paid in accordance with the Scheme Rules (and the recommendation of the Actuary).

**5 Transfers in**

	2004 £'000	2003 £'000
Individual transfers from other schemes	292	1,120
Individual transfers from Money Purchase Scheme (see note 18)	169	227
	<b>£461</b>	<b>£1,347</b>

## 6 Retirement and death benefits

	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
<b>Retirement benefits:</b>				
Lump sums	176	1,106	1,282	1,954
Members' pensions	7,481	14,487	21,968	21,445
Total retirement benefits	7,657	15,593	23,250	23,399
<b>Death benefits:</b>				
Lump sums	-	384	384	84
Dependants' pensions	2,327	1,361	3,688	3,462
Total death benefits	2,327	1,745	4,072	3,546
	£9,984	£17,338	£27,322	£26,945
<b>2003</b>	£9,884	£17,061		

## 7 Administration costs

	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
<b>Analysis</b>				
General administration:				
Employment costs	173	303	476	474
Office accommodation	32	54	86	106
General expenses	135	215	350	295
	340	572	912	875
<b>Professional services</b>				
Auditor's fees	12	19	31	31
Legal services	28	133	161	128
Investment consultancy	1	18	19	24
Actuarial services	50	115	165	107
Other	5	24	29	64
	£436	£881	£1,317	£1,229
<b>2003</b>	£385	£844		

During the year £32,107 of actuarial fees and £27,676 of legal fees were charged to the Employers' surplus pots and are included in enhancement costs in note 19.

## 8 Investment revenue

	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
Income from fixed interest securities	-	1,601	1,601	1,026
Dividends from equities and convertibles	754	4,674	5,428	5,571
Income from index linked securities	3,894	1,513	5,407	5,668
Income from pooled investment vehicles	183	442	625	704
Net rents from properties	-	4,422	4,422	4,203
Interest on cash deposits	275	136	411	373
Underwriting commission	-	7	7	5
	<b>£5,106</b>	<b>£12,795</b>	<b>£17,901</b>	<b>£17,550</b>
<b>2003</b>	<b>£5,210</b>	<b>£12,340</b>		

## 9 Investment managers' fees

Under the powers given to them under the scheme rules, the Trustees delegate most investment management to external investment managers; the exception being the index linked gilt stock in the Closed Fund. The non-property investments were managed during the year by Barclays Global Investors Limited, Fidelity Pensions Management Limited, Morley Fund Management Limited and Schroders Investment Management (UK) Limited, all of which are registered in the UK. The remuneration of these managers, with the exception of the Barclays Global Investors overseas portfolio which remuneration is calculated on a flat fee basis, is calculated as a variable percentage of the market value of the assets under management. Properties are managed by Fletcher King who are remunerated on a fixed percentage of the market value of properties under management, with additional fees in respect of property purchases, sales, rent reviews and rental income.

## 10 Net loss arising on foreign exchange

The loss on foreign exchange comprises the change in the value of short-term deposits due to exchange rate movements. Losses on forward currency contracts during the year are included in change in market value of investments (note 12).

	2004 £'000	2003 £'000
Closed fund	-	-
Open fund	(21)	(97)
	<b>£(21)</b>	<b>£(97)</b>

## 11 Taxation

The Funds are both "exempt approved schemes" for the purpose of Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. However, exemption from tax on investment income and capital gains depends on there being no excess surplus in each fund.

No tax liability exists for the Open Fund, where benefit improvements have been granted from 1st April 1999 and a reduction in Members' and Employers' contributions have been allowed to 31st March 2014, thus ensuring that the Fund complies with the requirements of the Finance Act 1986.

The actuarial valuation of the Closed Fund at 31st March 2003 disclosed a substantial surplus. As a result, there is a liability to taxation on the income and capital gains of the Closed Fund in the proportion which the excess surplus bears to the entire Closed Fund.

Provision has been made for taxation on the income and realised capital gains of the Closed Fund. This provision has been based on 13.8% (2003 - 10.1%) of such items of the Closed Fund. The percentage was determined by the 2003 actuarial valuation.

The taxation charges suffered are income tax at 20% (2003 - 20%) on the taxable income and at 34% on the taxable capital gains of the Closed Fund. No charge to capital gains tax arises due to the fact that the realised gains on the index-linked gilts are exempt from capital gains tax. The losses arising on the other investments will be carried forward to set against future gains.

	Closed fund 2004 £'000	Closed fund 2003 £'000
Income tax	137	103
Capital gains tax(see above)	-	-
Prior year adjustment	137 (15)	103 (18)
	<b>£122</b>	<b>£85</b>

## 12 Investments

The movements in investments during the year were:

	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
Market value at 1st April 2003	195,463	395,226	590,689	689,057
Purchases at cost				
Property	-	6,155	6,155	
Fixed interest / index linked	-	150,109	150,109	
Equities	7,861	32,030	39,891	
Pooled investment vehicles	2,479	7,248	9,727	
Bank deposits	1,335	-	1,335	
Forward currency contracts	-	103,921	103,921	
	11,675	299,463	311,138	342,498
Disposal proceeds				
Property	-	(2,402)	(2,402)	
Fixed interest / index linked	(7,532)	(149,111)	(156,643)	
Equities	(8,576)	(38,826)	(47,402)	
Pooled investment vehicles	(1,190)	(6,989)	(8,179)	
Bank deposits	-	(2,356)	(2,356)	
Forward currency contracts	-	(103,951)	(103,951)	
	(17,298)	(303,635)	(320,933)	(352,602)
Change in market value of investments	15,522	72,457	87,979	(88,264)
<b>Market value at 31st March 2004</b>	<b>£205,362</b>	<b>£463,511</b>	<b>£668,873</b>	<b>£590,689</b>

Change in market value of investments comprises:

	£'000	£'000	£'000	£'000
Profit on realisation of investments	1,283	1,804	3,087	570
Profit on forward currency contracts	-	30	30	3
Movements in unrealised profits	1,283 14,239	1,834 70,623	3,117 84,862	573 (88,837)
	£15,522	£72,457	£87,979	£(88,264)
<b>2003</b>	<b>£(3,469)</b>	<b>£(84,795)</b>		

There are no investments in which more than 5% of the total value of the net assets of the Funds are invested.



## 12 Investments (cont'd)

	Closed fund valuation 2004 £'000	Closed fund cost 2004 £'000	Open fund valuation 2004 £'000
<b>Commercial property</b>			
Freehold	-	-	61,330
Long leasehold	-	-	1,935
<b>Fixed interest securities</b>			
UK Public sector	-	-	24,502
<b>Index linked securities</b>			
UK	153,346	100,287	53,559
Overseas	-	-	-
<b>Equities</b>			
UK	25,898	25,003	147,867
Overseas	76	76	236
<b>Pooled investment vehicles</b>			
UK Public sector fixed interest securities	1,815	1,559	-
UK Corporate fixed interest securities	-	-	41,578
Overseas fixed interest securities	1,626	1,556	16,196
UK equities	291	277	12,126
Overseas equities	16,646	14,325	101,720
<b>Bank deposits</b>	5,664	5,664	2,298
<b>Forward currency contracts</b>	-	-	164
<b>Total at 31st March 2004</b>	<b>£205,362</b>	<b>£148,747</b>	<b>£463,511</b>
<b>Total at 31st March 2003</b>	<b>£195,463</b>	<b>£153,087</b>	<b>£395,226</b>

- Basis of valuation - as set out in note 3(b).
- Commercial properties are mainly retail and office premises with rent review periods of five years.

Open fund cost 2004 £'000	Combined fund valuation 2004 £'000	Combined fund cost 2004 £'000	Combined fund valuation 2003 £'000	Combined fund cost 2003 £'000
52,731 994	61,330 1,935	52,731 994	53,630 1,585	49,029 994
24,714	24,502	24,714	7,602	7,711
50,732 -	206,905 -	151,019 -	212,098 1,678	158,435 1,349
134,524 233	173,765 312	159,527 309	138,358 -	169,983 -
- 34,457 14,426 12,751 102,659	1,815 41,578 17,822 12,417 118,366	1,559 34,457 15,982 13,028 116,984	1,485 48,134 19,522 9,035 89,342	1,251 42,063 16,680 12,677 116,790
2,298 -	7,962 164	7,962 -	8,982 (762)	8,982 -
<b>£430,519</b>	<b>£668,873</b>	<b>£579,266</b>	<b>£590,689</b>	<b>£585,944</b>
<b>£432,857</b>	<b>£590,689</b>	<b>£585,944</b>		

### 13 Fixed assets

	Cost £'000	Depreciation £'000
Balance at 1st April 2003	411	300
Additions	118	-
Disposals	(180)	(180)
Depreciation charge	-	58
Balance at 31st March 2004	349	178
<b>Net book value: 31st March 2004</b>	<b>£171</b>	
<b>Net book value: 31st March 2003</b>	<b>£111</b>	

### 14 Current assets

	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
Bank balances	178	358	536	624
Debtors:				
Amounts due from Employers				
Employers' contributions	-	45	45	21
Employees' contributions	-	145	145	158
Amounts due from brokers	25	79	104	212
Investment revenue receivable	1,206	2,692	3,898	3,563
Income tax receivable	-	8	8	19
Sundry debtors	4	58	62	45
Transfers receivable from other schemes	-	-	-	65
External current assets	1,413	3,385	£4,798	£4,707
Inter-fund balance	-	7		
<b>Individual funds' current assets 2004</b>	<b>£1,413</b>	<b>£3,392</b>		

	Closed fund £'000	Open fund £'000	Combined fund £'000
<b>31st March 2003:</b>			
External current assets	1,470	3,237	£4,707
Inter-fund balance	-	20	
<b>Individual funds' current assets 2003</b>	<b>£1,470</b>	<b>£3,257</b>	

Amounts due from Employers in respect of contributions, which relate to March 2004, were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

## 15 Current liabilities

	Closed fund 2004 £'000	Open fund 2004 £'000	Combined fund 2004 £'000	Combined fund 2003 £'000
Withdrawal benefits:				
Transfers and contribution refunds	-	36	36	18
Amounts due to brokers	26	50	76	349
Taxation	93	-	93	57
Sundry creditors	200	840	1,040	895
External current liabilities	319	926	£1,245	£1,319
Inter-fund balance	7	-		
<b>Individual funds' current liabilities 2004</b>	<b>£326</b>	<b>£926</b>		

	Closed fund £'000	Open fund £'000	Combined fund £'000
<b>31st March 2003:</b>			
External current liabilities	296	1,023	£1,319
Inter-fund balance	20	-	
<b>Individual funds' current liabilities 2003</b>	<b>£316</b>	<b>£1,023</b>	

## 16 Financial commitments

### Currency commitment

At 31st March 2004 there were forward currency transactions amounting to £16,785,204 (2003 - £18,615,914) due for settlement in May 2004.

## 17 Member credited service

Additional voluntary contributions (AVCs) made during the financial year to purchase added years under the principal scheme of £136,813 (2003 - £118,838) are shown in the income of the Open Fund and the assets acquired with the AVCs are included in the net assets statement.

## 18 Money purchase schemes

Additional Voluntary Contributions (AVCs) were receivable for separate investment for the benefit of individual Members. During the year the Trustees introduced an additional AVC arrangement, operated by the Prudential Assurance Company (PAC) which includes a selection of unit linked investment funds as an alternative to the existing scheme operated by Scottish Life Assurance Company (SLAC).

The individual Members receive details of their investments directly from the insurance company concerned and the investment and income are not treated as part of the Open Fund's assets and income as shown in the financial statements.

On retirement certain Members convert these money purchase investments to provide additional benefits under the main scheme. Such transfers of investments are included in transfers from other schemes (see note 5). There is also an 'Open Market Option' available to Members where they may use their accumulated AVC funds to purchase an annuity with an insurer of their choosing.

All administration provided by the ITB Pension Funds does not incur any cost for money purchase Members.

	Prudential 2004 £'000	Scottish Life 2004 £'000	Prudential 2003 £'000	Scottish Life 2003 £'000
Fund as at 1st April 2003	-	1,386	-	1,395
Members' AVC contributions	19	137	-	183
Transfers in	99	7	-	-
Interest credited by SLAC	-	23	-	41
Interest and bonuses credited by PAC	3	-	-	-
Change in market value of units	3	-	-	-
	124	1,553	-	1,619
Transfers out (including to main fund)	-	(271)	-	(233)
<b>Fund at 31st March 2004</b>	<b>£124</b>	<b>£1,282</b>	<b>£-</b>	<b>£1,386</b>

Monies invested with SLAC are invested in the Scottish Life Deposit Administration Fund.

Monies invested with PAC are invested in any of the following funds at the discretion of the Member concerned:

- With Profits Cash Accumulation Fund
- Deposit Fund
- DeAM Balanced Fund
- Overseas Equity Fund
- UK Equity (Passive) Fund.



## 19 Utilisation of the Actuarial Surplus of the Open Fund

The terms of the agreement between the Trustees and the Employers on the way the 1998 surplus should be dealt with resulted in an amount being allocated to individual Employers but retained within the Fund. The pots are revalued annually in line with the return on the fund. The Employers are able to use this amount to reduce their contributions below that of Members and/or grant further benefit improvements to their own employees.

Under this arrangement the following amounts otherwise receivable by the Trustees have been charged to the surplus funds allocated to the Employers:

	2004 £'000	2003 £'000
Members' contributions	130	238
Employers' contributions	1,689	1,887
Enhancement costs	1,010	1,953

These charges are to the Employer's surplus allocations and no monies are paid. The amounts quoted are an allocation of the actuarial surplus, not of financial assets and they do not therefore appear elsewhere in these financial statements.

# Supplementary Information

## Disputes Procedure

The Pensions Act 1995 requires that all pension schemes have a formal disputes procedure in place allowing members, prospective members, beneficiaries and contingent beneficiaries an avenue for complaint.

It is hoped that Members and beneficiaries will always be pleased with the service provided by the ITB Pension Funds' Office and that no one has reason to complain. However, in the unlikely event that a complaint arises and a member of the Funds' staff fails to provide a satisfactory answer, then a copy of the formal Disputes Procedure is available upon request to The Director, The ITB Pension Funds, 23 King Street, Watford WD18 0JB.

## OPAS (The Pensions Advisory Service)

OPAS is available to assist members and beneficiaries of pension schemes in connection with any pensions query they may have or with any difficulties they may have encountered and which they have failed to resolve through the Disputes Procedure with the Trustees or Administrators of their pension scheme. OPAS is at 11 Belgrave Road, London SW1V 1RB.

## Pensions Ombudsman

If OPAS is unable to resolve the problem, application can then be made to the Pensions Ombudsman for an adjudication. The Pensions Ombudsman is appointed under the Pension Schemes Act 1993. The Ombudsman is available to investigate and determine any special complaint or dispute of fact or law in relation to an occupational pension scheme from an individual or between an individual and the Trustees. Scheme members, beneficiaries and prospective members, that

is people claiming an entitlement to join, may call upon the services of the Pensions Ombudsman. The Ombudsman will normally only investigate a complaint if it has first been investigated by OPAS. The Ombudsman's address is also 11 Belgrave Road, London, SW1V 1RB.

## Occupational Pensions Regulatory Authority (OPRA)

An independent body set up to regulate Occupational Pension Schemes from April 1997. OPRA's role is to protect members' interests if Occupational Pension Schemes do not meet the legal obligations under the Pensions Act 1995. The address for OPRA is Invicta House, Trafalgar Place, Brighton BN1 4DW.

## Pension Schemes Registry

The registrar of Occupational and Personal Pension Schemes, is maintained by OPRA. Information about the Scheme, including current and previous employers associated with the Scheme, has been forwarded to the registrar in accordance with Regulations. The registry enables members to trace schemes with which they have lost touch. Should you need to contact the Registrar at any time, you should do so using Form PR4 (copies of which are available from the Pension Scheme Registry). This should then be sent to the Registrar of Pension Schemes, Occupational Regulatory Authority, PO Box, 1NN, Newcastle upon Tyne, NE99 1NN. (Scheme Reference No. 10169800)

## Inland Revenue Approval

The ITB Pension Funds have exempt approval under Chapter 1 of part XIV of the Income and Corporation Taxes Act 1988. (Inland Revenue Reference No. SF49/1669)

Enquiries about the Funds, or about entitlement to benefits  
should be addressed to the  
**ITB Pension Funds**, 23 King Street, Watford Herts, WD18 0BJ

Website: [www.itb-online.co.uk](http://www.itb-online.co.uk)

E-mail to: [Pensions@itbpensionfunds.demon.co.uk](mailto:Pensions@itbpensionfunds.demon.co.uk)

