

TfL Pension Fund

(formerly LRT Pension Fund)

Annual review 2005

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Notice for the visually impaired

Copies of this report in large type and in a text only format are available from the fund office. Please write to TfL Pension Fund, Wing over Station, 55 Broadway, London SW1H 0BD, or call 020 7918 3733 for your copy.

A message from the Chairman

I am pleased to present my review of the year ended 31 March 2005. Once again, this year has been a period of considerable change for both the Fund and the Trustee Board. Several Trustees have retired, in some cases after long and distinguished service. I wish to record my thanks to them.

A major restructuring of the Fund Office has taken place over the past year. Such periods of change are always challenging, but the staff have responded admirably and the result is a more modern, efficient and effective Fund Office structure.

The Fund became the TfL Pension Fund in April 2005 and, at the same time, the Trustee company name changed to the TfL Trustee Company Limited. As part of the change the world famous 'roundel' logo will now be used for all pensions communications.

A key feature of the year's accounts is the higher employer contributions which increased from £85 million to £170 million. This change resulted from the revised Schedule of Contributions agreed between the Fund and the employer, following the three yearly valuation in March 2003.

Finally, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, actuary, investment and legal advisers, investment managers, custodian, auditors and not least the Fund Office and Fund Secretary for their support in a demanding year. There is much to be concluded and many new challenges ahead, but I am confident that the Fund will continue to prosper.

Stephen Critchley

Myners update

You may remember us telling you about the principles set out in the Myners Review of Institutional Investment, which was published in 2001. The Government has said that it expects pension scheme trustees to work towards complying with these principles.

We reported our progress in full in 2003 and provided an update in our 2004 Annual review. Since then, the Trustees have continued to review the different types of investment available. As a result of this review, the Fund's bond mandate now includes global bonds and the Trustees are in the process of appointing a specialist currency investment manager.

Further details are available on the Fund's website at www.tflpensionfund.co.uk

Money in and out of the Fund

On 31 March 2005, the value of the Fund was £3,516.3m. This was an increase of £359.9m in the value at the end of the previous Fund year.

The table below shows the money coming into and going out of the Fund during the year.

Money into the Fund	2004/05	2003/04
Employers' contributions	£170.1m	£84.7m
Investment income	£61.5m	£60.5m
Members' contributions	£32.8m	£29.5m
Transfers in from other pension schemes	£8.0m	£10.4m
Total income	£272.4m	£185.1m

Money out of the Fund	2004/05	2003/04
Pensions and other benefits paid	£182.4m	£171.2m
Investment expenses	£4.7m	£4.6m
Administration expenses	£3.5m	£3.6m
Payments to leavers	£2.5m	£1.4m
Total outgoings	£193.1m	£180.8m

Net movements in the Fund

The Fund's accounts are audited each year by independent auditors, KPMG. They have confirmed that:

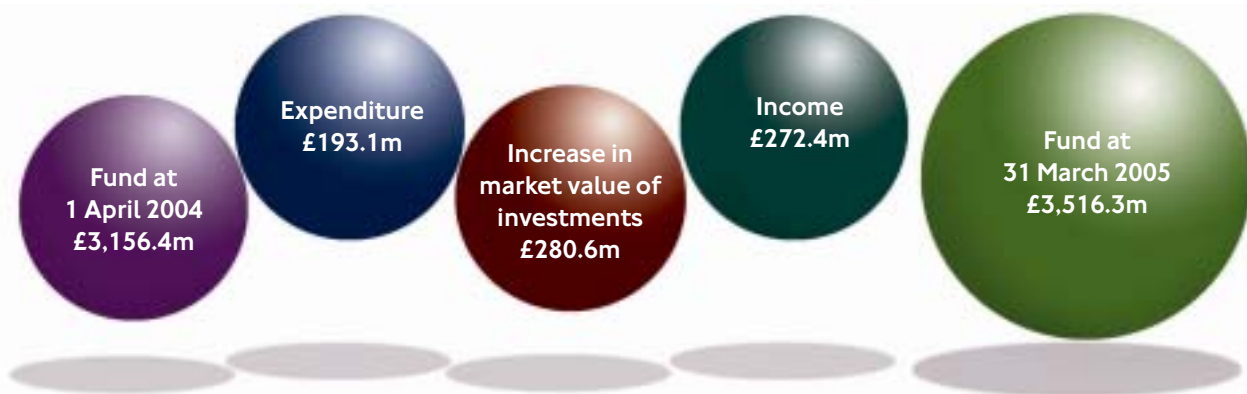
- The Fund's accounts show a true and fair view of the financial activity during the 12 months to 31 March 2005
- Contributions were paid to the Fund in accordance with the Schedule of Contributions in force during the year.

The financial information in this Annual review is a summary of the full audited accounts.

If you would like a copy of the full Report and Accounts, please contact:

Sue Timbrell
Director of Pensions and Fund Secretary
4th Floor, Wing over Station
55 Broadway
London SW1H 0BD

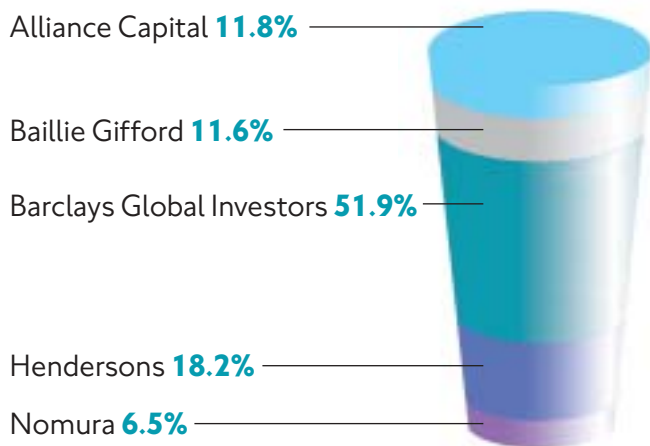
Alternatively you can download a copy from the Fund's website at www.tflpensionfund.co.uk



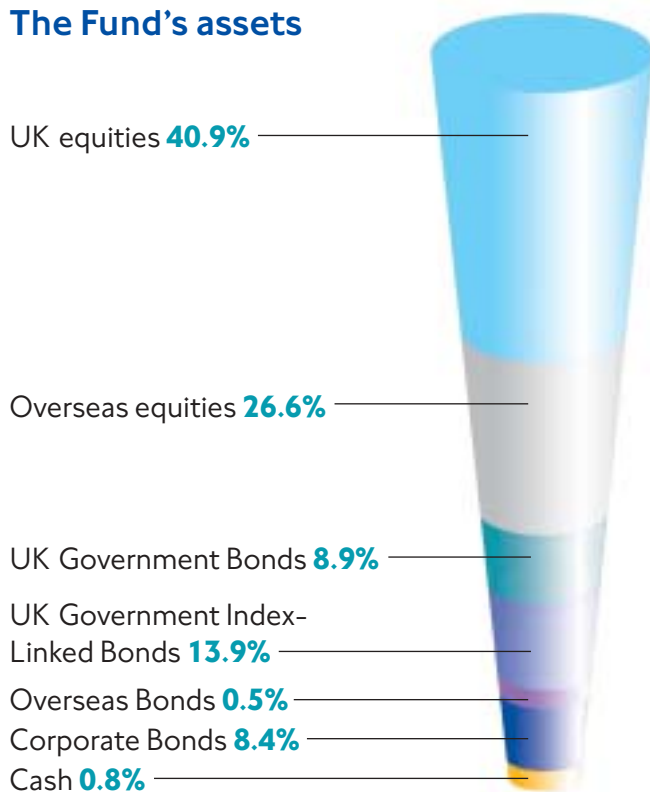
How the Fund is invested

The Fund is held in a range of different investments (assets) in the UK and overseas. These charts show how the Fund was invested on 31 March 2005.

Who manages the Fund



The Fund's assets



Top 10 shares

The Fund has significant holdings in the shares (equities) of a number of major UK companies. On 31 March 2005 the 10 largest holdings were:

1	Vodafone	£63.9m
2	BP	£57.6m
3	Royal Bank of Scotland	£51.9m
4	GlaxoSmithKline	£44.8m
5	Barclays Bank	£41.9m
6	HSBC	£37.6m
7	Shell Transport and Trading	£23.9m
8	BHP Billiton	£20.9m
9	Imperial Tobacco	£19.0m
10	Diageo	£14.6m

Trustees' managers and advisers at 31 March 2005

Investment Managers

Alliance Capital Ltd
Baillie Gifford & Co
Barclays Global Investors Ltd
Henderson Investors Limited
Nomura Asset Management UK Limited

Custodian

JP Morgan Chase Bank

Administration Services

Transport for London

Investment Adviser

Mercer Investment Consulting

Scheme Actuary

RV Williams, Watson Wyatt LLP

Legal Advisers

Mayer, Brown, Rowe & Maw LLP

Auditors

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Communications Adviser

GR Communications

Medical Adviser

Professor Kevin Holland-Elliott

Investment review

The Trustees carry out an ongoing review of the Fund's investment performance and that of its appointed managers. One outcome of this was the appointment of a new investment manager Nomura, who replace Schroders, to improve the performance of our Far East equity portfolio.

Shortly before last year-end, the Trustees concluded an asset/liability modelling study (ALMS). An ALMS uses sophisticated computer software to create a range of scenarios for the Fund's potential investment returns. These are projected forward over a number of years and re-analysed by varying the mix of equities and bonds. The likelihood of each outcome is also taken into account. The Trustees, in conjunction with the Fund's investment adviser, used the results to review and update the Fund's investment strategy. The updated strategy recognises the relative financial strengths of Transport for London (TfL) and the other employers and the need to secure pensions while taking appropriate levels of investment risk.

Following the update of the investment strategy, the Trustees reviewed the Fund's asset allocation and decided to include overseas bonds as one of the investment classes. Widening the range of bonds in which the Fund can invest opens up opportunities to enhance returns while not

significantly increasing risk. Subsequent to the year-end, Goldman Sachs has been appointed to manage the new bond mandate.

In a further development, the Trustees are seeking to manage the risks associated with holding assets denominated in currencies other than sterling. While such assets are held for their underlying investment potential, currency fluctuations can make returns volatile. The Fund is finalising the

appointment of a currency manager who will help to manage this particular risk.

In terms of investment performance, the positive returns seen in 2003/04 continued during the year to 31 March 2005. As the table shows, during the year the Fund's return was 0.4% higher than the target (benchmark) set by the Trustees. When measured over three years, the Fund's investments have performed in line with this benchmark.

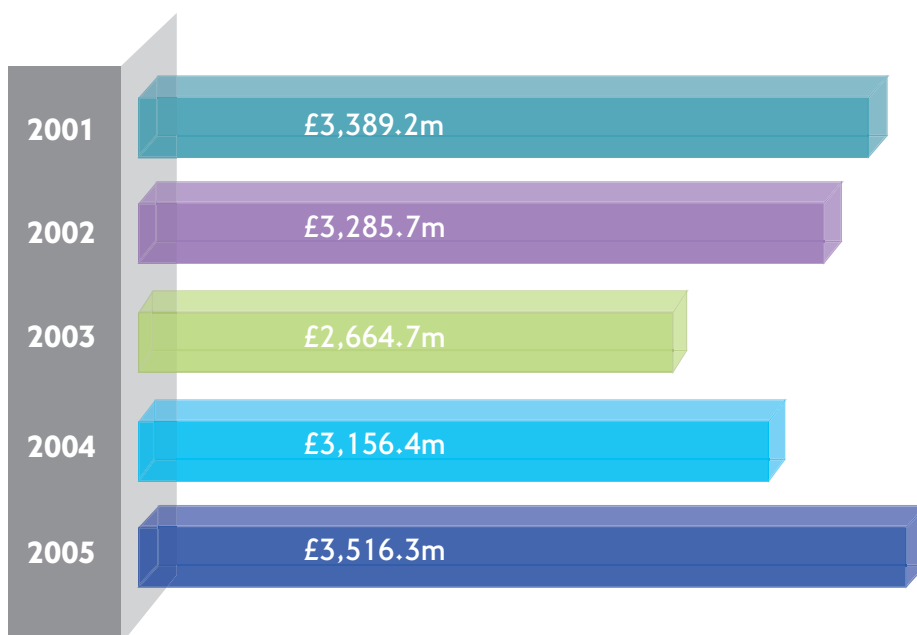
Tables below show investment returns

Performance over one year		
	Total Fund	Benchmark
Return	10.9%	10.5%

Average performance over three years		
	Total Fund	Benchmark
Return	3.6%pa	3.6%pa

During the year the value of the Fund increased by 11.4% to over £3.5 billion.

How the value of the Fund has changed



Web news

By now you should all know about the Fund's website which can be found at its new address www.tflpensionfund.co.uk. There is plenty of information there about the Fund, whether you are a contributing member, a pensioner or have a deferred pension. We have a 'Fund news' page which provides you with up-to-date information. There is also a new page that posts the pensioners' edition of 'on the move'.

You can download the 'Members' guide', and there are a number of online forms you can use, for example, to notify the Fund office of changes of address and bank details,

or to submit an AVC enquiry.

Last year, we launched an interactive modeller, for contributing members, which allows you to find out:

- How much you could increase your benefits by paying AVCs
- How much tax-free lump sum you can expect at retirement
- How your pension would be affected if you took early retirement.

We hope that you will take the opportunity to visit the site. We always welcome your comments and ideas, which you can send to us by filling in the online feedback form.

Change of tax office

The tax office dealing with TfL Fund pensioners has changed. The new contact details are as follows:

**HM Revenue and Customs
Sefton Area Service
The Triad
Stanley Road
Bootle L75 1HW**

**Tel (general enquiries):
0845 300 3939**

**Tel (end of year enquiries):
0151 300 3300**

When contacting the tax office please quote your National Insurance number and the Fund's new reference number which is 083/LT7.

Membership review

Between 1 April 2004 and 31 March 2005, the total membership of the Fund increased by 357 to 82,313.

The table shows how the membership is split between contributing members, deferred members, pensioners and dependants.

As you can see, TfL continues to demonstrate its support for the Fund by offering membership to new employees.

	As at 31 March 2005	As at 31 March 2004
Contributing members	22,367	22,176
Deferred pensioners	18,779	18,654
Pensioners	30,273	30,296
Dependants and children	10,894	10,830

The table below shows how the contributing members are spread across the Participating Employers.

	As at 31 March 2005	As at 31 March 2004
TfL	16,341	16,148
Metronet Rail BCV Ltd	2,144	2,075
Metronet Rail SSL Ltd	2,029	1,994
Tube Lines Ltd	1,599	1,695
PFI and other contractors	254	264

Pension reform – update

The Fund and the Pension Protection Fund

In our recent newsletter, we told you about the Government's new Pension Protection Fund (PPF) – a pensions safety net for when companies go out of business. As we mentioned, we were not sure at the time whether this would apply to the TfL Fund.

Broadly, the issue is whether

the Fund is classified as being public sector (where the employer cannot go out of business and so the PPF does not apply) or private sector.

The Trustees are continuing discussions with their advisers and the relevant authorities and we will inform members of the outcome.

New annual allowance

From 6 April next year, the current Inland Revenue limits on pensions will be scrapped and a new annual allowance introduced.

The new allowance will apply to the increase in value of your Fund pension over the year, plus any contributions you pay to a defined contribution arrangement – such as additional voluntary contributions (AVCs).

For most people, the new system will allow extra flexibility. For example, you will be able to pay into a personal or stakeholder pension as well as being a contributing member of the Fund and paying AVCs. For the 2006/7 tax year, this allowance will be the higher of:

- £3,600

And

- Your annual salary (limited to £215,000)

The allowance will be increased each tax year.

For a very few members of the Fund, this change, together with other elements of the new pensions legislation, will have a direct impact on their pension.

Some of the details remain unclear, but the Trustees continue to monitor these developments closely to ensure the Fund responds appropriately and will communicate to members when information becomes available.

If you need advice on the extra flexibility provided by these changes, you should seek help from an independent financial adviser or accountant. Neither the Fund Office staff nor the Trustees are able to give you advice on your personal financial matters.

Pension increase

Pensions in payment are increased by the Fund each year on 1 April. These increases are awarded in accordance with the Fund rules and are based on price inflation, as measured by the Retail Prices Index. A proportional increase is applied to pensions that have been in payment for less than a year on the increase date. In recent years increases have been as follows:

April 2001	3.3%
April 2002	1.7%
April 2003	1.7%
April 2004	2.8%
April 2005	3.1%

Annual members' meeting and exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) and exhibition will be at 11.00am on Tuesday 4 October, in the Conference and Banqueting Centre, Church House, Dean's Yard, Westminster, London SW1. The meeting and exhibition are open to all Fund members – contributing members, members in receipt of a pension (including dependants and children) and those who have left with a deferred pension.

You will be able to ask questions on the day, but if you cannot attend, you can submit a question to the Trustees by writing to Sue Timbrell, Director of Pensions and Fund Secretary, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD. She will respond as soon as possible after the AMM.

Please remember, we can only answer general questions about the Fund at the meeting, not those relating to your own benefits.

The programme for the day is:

- Introduction by the Chairman
- Review of the year to 31 March 2005 by Fund Secretary
- Presentation by the investment adviser
- Trustee presentation
- Questions and answers

For the exhibition, we have invited a number of external organisations to bring along information of interest to all our members. The exhibition will run throughout the meeting so, if you cannot attend the whole event, please feel free to pop in and find out what's going on.

Please note that, for security reasons, you may be asked for some form of identification on arrival.



The Fund's Trustees

The Fund is run by a board of directors, known as the Trustees. Individual Trustees are nominated by TfL (as Principal Employer), the trade unions and the TfL Pension Consultative Council (PCC), which is itself elected by the membership.

On 31 March 2005, the Trustees were as listed below. The nominating bodies are shown in brackets.

Stephen Critchley (Chairman)
Chief Finance Officer, Transport for London (TfL)

Marina Ainsworth, Head of Business Planning & Support, Surface Transport, Transport for London (TfL)

Steve Allen, Director of Corporate Finance, Transport for London (TfL)

Gerald Duffy, Director of Employee Relations, London Underground Limited (TfL)

Chris Godbold, Director, Transport Benevolent Fund (PCC)

Andy Good, Director of Human Resources, Tube Lines Limited (TfL)

Steve Grant, District Organiser, ASLEF (ASLEF)

Jennifer Hamilton, Station Assistant Multi Functional, London Underground Limited (TSSA)

Jane Hart, Senior Dispute Resolution Lawyer, Transport for London (TfL)

Nigel Holness, Service Director BCV, London Underground Limited (TfL)

Hugh Hood, Director of Human Resources Services, Transport for London (TfL)

John Ingleton, Pensioner (PCC)

Chris Miller, Pensioner (PCC)

John Robson, Train Operator, Arnos Grove, London Underground Limited (PCC)

Tom Scanlon, Regional Industrial Organiser, T&GWU (T&GWU)

Patrick Sikorski, Assistant General Secretary, RMT (RMT)

John Timbrell, Project Engineer, Metronet SRA (LTJTC)

Philip Worthington, Head of Reward and HR Systems, Metronet Rail SSL Limited (TfL)