

REPORT AND ACCOUNTS

for the year ended 31 March 2004

Universities Superannuation Scheme Limited is the corporate trustee of one of the largest private sector pension funds in the UK with assets at 31 March 2004 of around £19 billion.

It was established in 1974 to administer the principal pension scheme for academic and senior administrative staff in UK universities and other higher education and research institutions.

The head office is at Royal Liver Building, Liverpool and the investment office is at 99 Bishopsgate, London.

The registered number of the Trustee Company (USS Ltd) at Companies House is 1167127

The reference number of the Scheme (USS) at the Pension Schemes Registry is 100201003

USS

Management statement	2
Summary of year	3
Trustee company	4
Officers and advisers	4
Membership of committees	5
Committee reports	7
Management committee	7
Investment committee	19
Finance & general purposes committee	26
Audit committee	27
Remuneration committee	28
Joint negotiating committee	29
Advisory committee	30
Rules committee	31
Trustee's funding statement	32
Statement of investment principles	37
Membership statistics	42
University institutions	42
Non-university institutions	48
Summary of movements	55
USS accounts	56
Fund account	56
Statement of net assets	57
Notes to the financial statements	58
Statement of trustee's responsibilities	65
Report of the auditors	66
Statements by the actuary	68
Five year summary	70
USS Ltd accounts	71
Report of the directors including the statement of directors' responsibilities	71
Statement of operating costs	73
Balance sheet	74
Cash flow statement	75
Notes to the accounts	76
Report of the auditors	83

FRONT COVER

1. Clare College, Cambridge.
2. Fairfax House, University of York.
3. St Andrews College.
4. University of Oxford.
5. University of Kent.
6. Kings College, Cambridge.
7. London School of Economics.
8. Victoria Building, University of Liverpool.
9. University of Cardiff.

This has been a significant year for pension schemes and for USS. Membership continues to grow, while improved investment returns have seen the value of the fund increase following three years of negative returns. The scheme's active membership increased by 4.5% from 98,400 to 103,100 and there was substantial growth in the numbers of pensioners and those entitled to deferred benefits to 39,200 (up by 5.9%) and 56,700 (up by 10.3%) respectively. The total membership is rapidly approaching 200,000 while the number of participating institutions now exceeds 350.

The fund's return for the calendar year to 31 December 2003 of 18.6% helped the total value of the fund to increase to £19.4 billion at 31 March 2004.

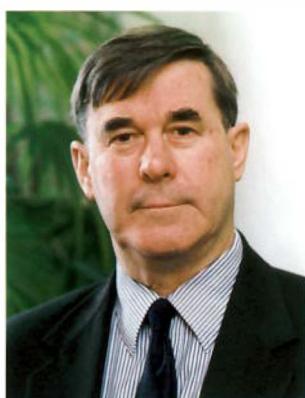
A comprehensive statement on the scheme's funding position is included within this report which is published following full discussion with, and approval of, the actuary. The management committee believes that such full disclosure is appreciated by both the participating employers and the members of USS.

The government issued its Pension Bill and Finance Bill during the year which provides for the most radical reform of pension schemes seen for many years. There are many key decisions for the management committee to make arising from these bills and, while significant progress has already been made, further consideration will be given to them in the coming year.

We have been progressing with three potential mergers during the year as part of the scheme's expansion policy. Much has been learned from the work carried out to date on these potential mergers, and for the time being a moratorium has been put in place on any new enquiries to enable us to review the policy in the light of the experience gained during the year (although discussions may continue where benefits are to be harmonised on standard USS terms).

Service levels in Liverpool continue to be maintained at a standard which we believe to be satisfactory. Much progress has also been made during the year towards providing institutions with online access to their members' data held by USS Ltd and it is planned to make this facility available to all institutions by the autumn.

A review of the investment management structure was completed during the year. Its main conclusions were that the fund should move to a structure employing specialist external managers replacing those managers which were employed with a balanced mandate. The transition to the new structure took place during the first quarter of 2004 and measurement of performance under the new structure commenced from 1 April 2004.



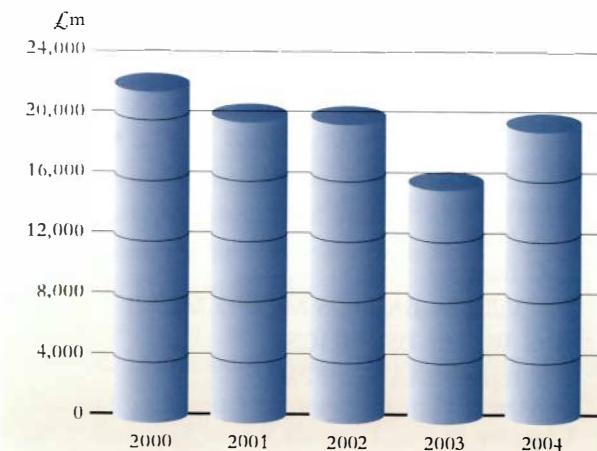
Graeme J Davies
Chairman

Finally, we want to reassure members that, despite the recent difficult environment, and in the opinion of the management committee and the scheme actuary, USS remains soundly funded to deliver benefits in the future. We believe that the participating institutions remain fully supportive of the provision of a final salary scheme and we remain dedicated to that aim.



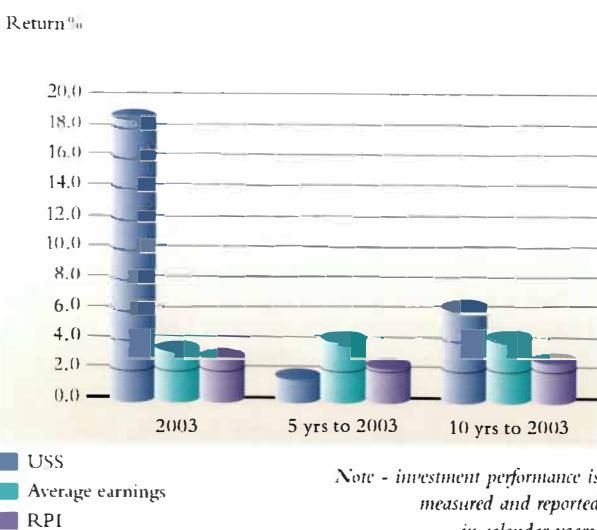
Tom Merchant
Chief Executive

FUND



The fund's investments have fallen from £21.8 billion in 2000 to £19.3 billion as at 31 March 2004. Poor investment returns in recent years saw the value of the fund fall for three successive years but a strong return in 2003 saw the value of the fund increase to close to its value in 2002. More details are given in the investment committee report on page 19 and in the five year summary of the fund accounts on page 70.

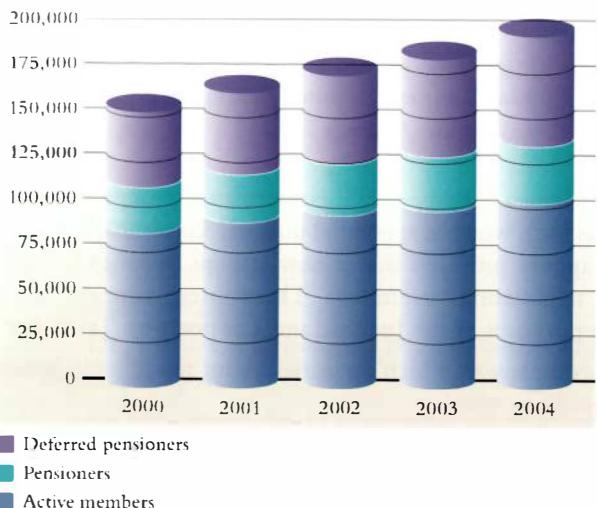
PERFORMANCE



Note - investment performance is measured and reported in calendar years.

Investment returns in 2003 were strong, although poor returns in the previous three years have seen the fund return below both RPI and average earnings over five years. Over ten years, however, the fund return has comfortably exceeded both RPI and average earnings. More details are given in the report of the investment committee on page 19.

MEMBERSHIP



The membership of the scheme continues to grow steadily. As at 31 March 2004 the total membership was 199,000 an increase of 6.5% from last year and 25% from four years ago. More details are given in the five year summary of the fund accounts on page 70.

PRINCIPAL OFFICERS AND ADVISERS

The principal officers and advisers of the trustee company at 1 August 2004 are:

Chief Executive	T H Merchant
Chief Investment Officer	P G Moon
Chief Financial Officer	C S Hunter BSc CA
Pensions Policy Manager	B Mulkern
Pensions Operations Manager	B Steventon BA FPMI
IT Manager	D S Andrews
Communications Manager	C G Busby
Company Secretary	J P Williams BA ACIS MCIPD MCMI
Surveyor	R G Walden BSc FRICS
Actuary	E S Topper MA FIA FPMI of Mercer Human Resource Consulting Limited Clarence House, Clarence Street, Manchester M2 4DW
Solicitors	DLA, India Buildings, Liverpool L2 0NH
Auditors	KPMG LLP, St James' Square, Manchester M2 6DS
Bankers	Barclays Bank Plc, 4 Water Street, Liverpool L69 2DU

The principal other organisations acting for the trustee company during the year were:

Solicitors	Clifford Chance, Lawrence Graham, Mitchells Roberton, Fried Frank Harris Shriver & Jacobson
Investment managers	Capital International Limited Legal & General Investment Management Limited Wellington Management International Limited Goldman Sachs Asset Management International Merrill Lynch Investment Managers Henderson Global Investors Limited Baillie Gifford & Co Schroder Investment Management Limited
Investment consultants	Mercer Investment Consulting
Custodians	State Street, JP Morgan Plc
Investment performance measurement	Investment Property Databank Limited, HSBC
Retail property investment adviser and property manager	Jones Lang LaSalle
Commercial property investment adviser and property manager	DTZ Debenham Tie Leung
Town planning consultant	Drivers Jonas
Property valuers	Colliers Conrad Ritblat Erdman
Computer software	Comino plc, Azlan Limited, Morse Limited
Website design	Anthony Hodges Consulting Ltd
Computer hardware	Hewlett-Packard Limited
Data recovery	Synstar Business Continuity Limited
Insurers	Royal & Sun Alliance

The trustee of Universities Superannuation Scheme (USS) is the trustee company, Universities Superannuation Scheme Limited (USS Ltd), which is appointed under USS rule 20. 1. The statutory power of appointing new trustees applies provided that a new trustee may not be appointed without the approval of the joint negotiating committee. The trustee company is also the administrator of the scheme for the purposes of the Income and Corporation Taxes Act 1988.

The registered office of the trustee company to which enquiries about the scheme generally or about an individual's entitlement should be sent is:

Universities Superannuation Scheme Limited, Royal Liver Building, Liverpool L3 1PY
Email: postbox@usshq.co.uk Tel: 0151 227 4711 Fax: 0151 236 3173

The membership at 31 March 2004 of the principal committees was as follows:

Management Committee

Appointed by Universities UK (UUK)

Sir Graeme Davies (Chairman), Professor Sir Martin Harris,
M S Potts, Baroness Warwick of Undercliffe

Appointed by the Association of University Teachers (AUT)

Lady Merrison, Professor Charles Sutcliffe, J W D Trythall

Appointed by the Higher Education Funding Councils (HEFCs)

Sir Howard Newby

Co-opted

C D Donald (Deputy Chairman), A S Bell, Professor John Bull, H R Jacobs

Finance & General Purposes Committee

Appointed by the management committee

C D Donald (Chairman), A S Bell, Professor Sir Martin Harris, H R Jacobs,
Lady Merrison, M S Potts, J W D Trythall, Baroness Warwick of Undercliffe

Investment Committee

Appointed by the management committee

A S Bell (Chairman), G Allen, C D Donald, H R Jacobs, Dr D C Nicholls,
D Robins, Professor Charles Sutcliffe, J W D Trythall

Audit Committee

Appointed by the management committee

Dr Christine Challis (Chairman), C D Donald, Lady Merrison,
M S Potts, Professor Charles Sutcliffe

Remuneration Committee

Appointed by the management committee

H R Jacobs (Chairman), A S Bell, C D Donald, M S Potts,
J W D Trythall, Baroness Warwick of Undercliffe

Rules Committee

Appointed by the management committee

H R Jacobs (Chairman), A D Linfoot, J W D Trythall

Advisory Committee

Appointed by UUK

A D Linfoot (Chairman), Dr A Bruce, D W Sims

Appointed by AUT

A Carr, N Fenton, Ms J McAdoo

Joint Negotiating Committee

Independent Chairman

Sir Kenneth Berrill

Appointed by UUK

Dr A Bruce, I Crawford, Dr S G Fleet, A D Linfoot, C Morland

Appointed by AUT

Dr J Anderson, Ms C Cheesman, Dr J M Goldstrom, D Guppy, Dr T McKnight

MANAGEMENT COMMITTEE MEMBERS as at 1 August 2004



Sir Graeme Davies, Chairman

Graeme Davies (67) is currently President and Vice-Chancellor of the University of London. He was educated in the School of Engineering of the University of Auckland, New Zealand. He was until September 1995 Chief Executive of the Higher Education Funding Council for England (and previously the Universities Funding Council and the Polytechnics and Colleges Funding Council). He was vice-chancellor of the University of Liverpool from 1986 to 1991 and holds honorary degrees from Liverpool, Sheffield, Nottingham, Manchester Metropolitan, Strathclyde, Auckland, Edinburgh, Glasgow and Ulster universities. He sits on the board of Universities UK. He was appointed chairman of USS Ltd in 1996. He was Principal and Vice-Chancellor of the University of Glasgow from 1995 to 2003.

DIRECTORS

Professor Sir Martin Harris

Martin Harris (60) is deputy chair of the North West Development Agency, has been a director of USS Ltd since 1 April 1991 and deputy chairman since 1 July 2004. He was Vice-Chancellor of the University of Manchester from 1992 to 2004 and Vice-Chancellor of the University of Essex from 1987 to 1992. He served as chairman of the Committee of Vice-Chancellors and Principals (now UUK) from 1997 to 1999.

Sir Howard Newby

Howard Newby (56) joined the Higher Education Funding Council for England as chief executive in October 2001. Prior to that he was the vice-chancellor of the University of Southampton from 1994 to 2001. His earlier posts include chairman (1988-94) and chief executive of the Economic and Social Research Council, Professor of Sociology at the University of Essex (1983-88) and Professor of Sociology and Rural Sociology at the University of Wisconsin, Madison (1980-83). He became a director of USS Ltd in October 2001.

Howard Jacobs

Howard Jacobs (51) became a co-opted member of the board on 1 October 2002 immediately after his retirement from the solicitors, Slaughter and May, where he had been a partner since 1986, specialising in employment law and pensions law. He is now a consultant with that firm and does other governance-related advisory work. He is a vice-president of ICAN the national educational charity for children with speech and language difficulties.

Professor John Bull

Professor Bull (64) was Vice-Chancellor of the University of Plymouth from 1989 until his retirement in 2002. An economist and accountant by discipline, he had a particular interest in the finance and management of higher education. His is currently chairman of the Plymouth Hospitals NHS Trust, the Devon and Cornwall Learning and Skills Council and of Dartington College of Arts, and is a non-executive director of UK eUniversities Worldwide Ltd.

Baroness Warwick of Undercliffe

Diana Warwick (59) was appointed chief executive of Universities UK (formerly the Committee of Vice-Chancellors and Principals) in 1995. Previously she had been for three years Chief Executive of the Westminster Foundation for Democracy and from 1983-1993 she was the General Secretary of the Association of University Teachers, representing some 30,000 academic and senior staff in UK universities. She was a member of the Employment Appeals Tribunal from 1984 to 1999 and the Standing Committee on Standards in Public Life from 1994 to 2000. From 1985 to 1995 she served as a board member of the British Council, was a governor of the Commonwealth Institute until 1995, and a member of the TUC General Council between 1989 and 1992.

A S Bell CBE



Scott Bell (62) retired in March 2002 after 14 years as group managing director of Standard Life. He is a director of Dunfermline Building Society and has been the Honorary Canadian Consul in Scotland since 1994. He has been a director of USS Ltd since August 1996.



Michael Potts

Michael Potts (65) is Pro-Chancellor of the University of Liverpool, having served as President of the Council and Treasurer to the university between 1993 and 2004. He is a chartered accountant and retired from Coopers & Lybrand in 1993 after 20 years as senior partner in the Liverpool office. He is currently President of the North West Cancer Research Fund, having served as Chairman for nine years and is a non-executive director of a number of private companies. He was appointed a Deputy Lieutenant for the county of Merseyside in 2000 and has been a director of USS Ltd since 1999.



J W D Tryhall

Bill Tryhall (59) has taught 20th century history at the University of York since 1969. He has been active in the labour movement in York. For 14 years he was a member of the national executive committee of the Association of University Teachers and served as its President in 1989/90. He is at present a trustee of the association. He has a broad interest in pensions provision and serves on the Advisory committee of the Pension Trustees' Circle and on the Advisory group for the Just Pensions project. He has been a director of USS Ltd since 1988.



Lady Merrison

Lady Merrison (65) was appointed the second pensioner director of USS Ltd in October 2003 succeeding Angela Crum Ewing. She was formerly a lecturer in medieval history at the University of Bristol. Following early retirement she served as a non-executive director in the fields of banking, media and health insurance. She is currently chairman of The HTV Pension Scheme and of Bristol Cathedral Council. She is also president of the Guild of Friends of the Bristol Royal Hospital for Sick Children.



Professor Charles Sutcliffe

Charles Sutcliffe (56) has taught finance at the University of Southampton since 1990, and previously worked at the universities of Newcastle and Reading. From 1981 to 1985 he was an elected member of Berkshire County Council and a trustee of the Berkshire Local Authorities Superannuation Fund. Between 1973 and 1985 he was auditor of the Reading Association of University Teachers. Since 1985 he has been a member of the Research Board and the Research and Development Group of the Chartered Institute of Management Accountants, and vice-chairman of the Research Board since 1997. He was appointed as an AUT nominated director of USS Ltd in 2001.

MANAGEMENT COMMITTEE

The management committee submits its twenty-ninth annual report on the progress of USS. Separate reports on the activities of the other main committees of USS follow this report.

Committee members

There were two changes in membership of the committee during the year. Lady Merrison was appointed on 1 October 2003 to fill the vacancy for the pensioner director following the retirement of Mrs Angela Crum Ewing on 30 September 2003. Professor John Bull was appointed on 1 March 2004 following the retirement of Mr Collinson on 31 January 2004.

Mr T H Merchant was appointed chief executive on 2 February 2004 succeeding Mr D B Chynoweth who retired on 30 June 2003. Mr Merchant held the position of interim chief executive during the period 1 July 2003 to 1 February 2004.

Under the Articles of Association of the trustee company, the management committee comprises the trustee company's board of directors. As indicated earlier in this report four of the directors on the board of the trustee company are appointed by Universities UK (UUK). Three directors are appointed by the Association of University Teachers (AUT) of whom at least one must be a USS pensioner member. One director is appointed by the Funding Councils. UUK, AUT and the Funding Councils have the power to remove their respective appointed directors. A minimum of two and a maximum of four directors are co-opted directors, appointed by the management committee with the prior approval of the joint negotiating committee. The approval of that committee is not, however, required for the reappointment of a co-opted director on the expiry of his or her period of office. USS Ltd directors normally serve a three year term but are eligible for reappointment. In keeping with corporate governance principles

the management committee has decided that co-opted director appointments will normally be for a maximum of three terms. The management committee has decided that the re-appointment of each co-opted director should be subject to annual review after they have served for a total of nine years in aggregate and there will be an annual ratification for directors aged over 70, including the pensioner director. A three year term is considered appropriate in



Project Steering Group

order to permit newly appointed directors time in which to get to know the business and then contribute fully according to their specific skills and experience over the remaining term of their office. The Articles of Association also provide for the removal of any director where (in relevant circumstances) he or she is prohibited from acting as a director.

During the year formal assessment procedures for individual directors were introduced in line with the recommendations of the Higgs Report. Towards the end of last year, an assessment of the performance of the chairman was carried out by the deputy chairman. He invited his fellow

directors to give their views on the chairman's performance. These views were then discussed at a separate meeting and were thereafter reported to, and fully discussed with, the chairman.

Valuable information was gleaned from this exercise and a slightly revised version of the process will be followed for the chairmen of the principal sub-committees and subsequently for all other members of the board during the current year.

Institutions

At 31 March 2004 there were 353 institutions which had become member institutions by completing a deed of accession. They comprised all the 'old' UK universities (ie those established prior to 1992), including the constituent schools and colleges of the universities of London and Wales, all the colleges of the universities of Oxford and Cambridge and 212 other institutions.

Changes in institutions participating occurred as follows:

New participating institutions

- Amaethon Limited *
- Association of University of Teachers
- Cranfield Impact Centre Ltd
- Economic Research Institute of Northern Ireland Ltd *
- Facial Surgery Research Foundation
- Graduate Prospects *
- Henley Management College (Trading) Ltd
- Heriot-Watt University Students Association *
- Institute for Criminal Policy Research
- Interactive University *
- Leadership Foundation for Higher Education
- Liverpool Associates in Tropical Health
- LUPC *
- OIAHE
- Picker Institute Europe *
- Rambert School of Ballet and Cont Dance *
- Rhodes Trust
- Sams Ardtoe *
- UK Biobank Limited
- University of Sheffield Union of Students *
- University of Sunderland *
- University of Teeside *
- University of York Conference Park Ltd *
- Warren House Group at Dartington
- Xceleron Ltd *
- YHEC Ltd *

* denotes an institution admitted only for employees who had been members of USS whilst in a previous employment.

Institutions which ceased to participate:

- Institute of Social & Ethical Accountability
- NCIMB Ltd
- TUIREG

Scheme membership

During the year 16,681 new members joined the scheme and at 31 March 2004 the total membership, including pensioners and those entitled to deferred benefits, was 199,000 compared with 186,800 a year earlier. Further details of the changes in membership during the year are contained in the section "Membership Statistics" on page 42 and over the five years ended 31 March 2004 in the Summary on page 70.

The proportion of eligible new employees choosing not to join USS was 20% compared with 16% last year.

Members are now able to share pension scheme benefits with their ex-spouse in the event of divorce. There were 1,653 requests for information up to 31 March 2004 with 39 court orders being received for implementation. 71 ex-spouses now have benefits within the scheme in their own right as a result of pension sharing.

Expansion and flexibility

A review of the expansion policy has been undertaken during the year in the light of the significant number of enquiries from institutions wishing to merge schemes with USS, and in particular looking at the additional demands which scheme mergers may place upon the scheme's administration.

Consent has been given to proceed with three potential mergers during the financial year 2004/2005, with a moratorium in place on any new expansion enquiries until a review has been completed to (amongst other things) make a fuller assessment of the impact on the administration. The committee is keen to continue with its expansion policy in order to help colleagues within the sector, but has to do so in ways that protect existing members and at a cost and at a speed that can be absorbed by the scheme and its staff.

The government's pensions reform

The government issued its Pensions Bill and Finance Bill in the last quarter of the financial year 2003/2004, which provide for the most radical reform of pension schemes seen for many years.

The Pensions Bill sets out a package of changes designed primarily to strengthen protection for final salary pension scheme members. A key feature is the introduction of a Pension Protection Fund (PPF), and the trustee company is in correspondence with the Department for Work and Pensions on the details of the PPF's application to USS, on issues relating to the proposed levy, and on new provisions in the Bill relating to funding arrangements for the scheme.

The Finance Bill introduces a new simplified tax regime governing pension schemes. The introduction of the new arrangements has been delayed until April 2006, something which has been generally welcomed by the committee, in that it allows more time for consideration of options and for changes to be made to systems and procedures to enable a smooth transition. There are key decisions for the trustee company within the Finance Bill which need to be made before April 2006, and the committee has made significant progress in identifying a short-list of viable options (for example in relation to the removal of the statutory earnings cap and the removal of the 15% statutory limit on pension scheme contributions). These options are set to be considered in more detail in the coming year.

Rule amendments

During the year rule changes were considered by the committee which resulted in three amending deeds being executed (from the thirtieth to the thirty-second deeds of amendment). Details of the rule amendments are given in the report of the joint negotiating committee on page 29.

Working parties

Over the year a number of working parties were set up to review and make recommendations on particular issues:

Ill-health early retirement – The working party presented its final report to the finance and general purposes committee at the meeting held on 20 May 2004 and to the management committee on 17 June 2004. It was agreed to:

- (a) Introduce an ill-health retirement arrangement that recognised the difference between partial and total incapacity as outlined in the working party's report "Ill-Health Retirement Working Party Recommendations on Ill-Health Retirement", subject to the agreement of the Inland Revenue and a full review of the proposed rule change by the joint negotiating committee.
- (b) Remove the two years since last joining the scheme qualification before a member becomes eligible to service enhancement.

Regular and irregular employment – the working party met on four occasions during the year and provided detailed input to the changes incorporated in the 32nd deed of amendment, which introduced new arrangements for members who hold a variable time employment in addition to a regular employment within the scheme. The working party is currently considering changes for members in multiple regular employment, and proposals will be considered by the management committee in the coming year.

Additional voluntary contributions – The triennial review of the Prudential AVC policy was carried out by the AVC Review Working Party which met three times during the year. The committee agreed to the working party's following recommendations:

- (a) To retain the Prudential as the scheme's sole money purchase AVC provider and that it would not be appropriate to appoint a second provider at the current time; and
- (b) The Prudential's investment performance should be reviewed on an annual basis by the trustee company's investment committee and an appropriate recommendation made to the management committee.

Investment – A working party consisting of members of the investment committee and assisted by the fund's external investment consultant has been reviewing the fund's investment management structure. This is referred to under investment policy below.

Pension increases

Rule 15 of USS provides that pensions in payment, deferred pensions and deferred lump sums payable from the main section shall be increased in a similar manner to the increases provided for official pensions under the Pensions (Increase) Act 1971 (although increases on the amount of pension which represents the Guaranteed Minimum Pension (GMP) are treated differently – see below). USS pensions were increased by 1.7% on 21 April 2003.

On 21 April 2004 USS pensions which satisfied certain qualifying conditions and began before 28 April 2003 were increased by 2.8% with smaller increases applying for pensions which began after that date. Deferred pensions and deferred lump sums were increased by the same rate.

That part of the pension payable from the main section of USS which represents the pre-1988 GMP is generally not increased by USS as increases are paid by the Department of Work & Pensions Benefits Agency, as are increases in excess of 3% on that part of the pension which

represents the post-1988 GMP. More detail on the way in which increases are applied to the GMP is given in the USS booklet *Pension Increases - Information for USS Pensioners* which has been issued to all USS pensioners.

Rule 15 also provides that pensions payable from the supplementary section shall be increased to the extent that the trustee company, acting on actuarial advice, decides. As a result, pensions arising from the supplementary section were increased at the same rates as those that applied to the main section.

Contribution rates

The rates of contributions payable by members and institutions between 1 April 2003 and 31 March 2004 were as follows:

USS Main Section	Member	6% of salary
	Institution	14% of salary
USS Supplementary Section	Member	0.35% of salary
	Institution	Nil

Actuarial matters

The actuary has carried out an approximate actuarial review as at 31 March 2004 which examined the progress of the scheme since the last valuation as at 31 March 2002. A separate statement by the management committee on the scheme's funding position, which incorporates the results of the actuarial review, is published on page 32. The statement is published following full discussion with, and approval of, the actuary. There is therefore no separate statement by the actuary on the review.

In publishing this comprehensive statement on the scheme's funding position, the management committee is building on the fuller disclosure note included in last year's Report & Accounts and anticipating the expected fuller member disclosure requirements which are likely to be required once the government has introduced its regime of scheme specific funding strategies.

Accounting matters

The principal financial statements for Universities Superannuation Scheme and Universities Superannuation Scheme Limited (the trustee company) are set out later in this report.

The accounts of the trustee company show an increase in operating costs from £21.1 million in 2002/2003 to £24.0 million in 2003/2004.

Excluding the prior year recovery reported in last year's costs this represents a 9% increase in investment management costs and a 19% increase in other administration costs.

Much of the increase in administration costs is non-recurring. Costs in respect of changes in senior management, following the retirement of the chief executive, the appointment of an interim chief executive and a restructuring of the management of the pensions department account for 6.5% of the increase. A software depreciation charge which related to prior periods, a full reprint and distribution of the scheme *Guide for Member* packs and professional fees in reviewing the expansion policy, account for a further 4%. A continuing increase in the number of individual cases referred to the actuary has also contributed to the increase in costs. Costs have also been incurred with the actuary which will enable some of these calculations to be completed in-house in future while the government's pensions reforms should, in due course, further reduce the number of cases referred to the actuary.

The main reasons for the increase in investment management costs are an increase in property management costs, reflecting a revised agreement with our principal property consultants which resulted in increased costs through the accounts of USS Ltd and a corresponding decrease in the transactional costs which are included in the fund accounts; and a reduction in the extent to which investment costs could be met by the stockbrokers used by USS directing commission paid by USS to the purchase of equipment and services for USS Ltd for investment management purposes.

This has been a year which has seen relatively few changes to the pensions administration system and service levels have been improved upon with turnaround times for correspondence being significantly reduced. The Oracle payroll system, which is designed specifically for pension payrolls, was replaced in December 2003 by a system from Comino, the suppliers of our pensions administration system. This change took place seamlessly and our pensioners should have been quite unaware of the change. The software is already giving some efficiency improvements and reduced maintenance costs and should, in due course, be fully integrated with the pensions administration software.

Full details regarding the operating costs and a review of the activities for the year are given in the Directors' Report & Accounts on page 71.

Investment policy

As was reported last year, a working party had been set up under the chairmanship of the chairman of the investment committee to review the investment management structure which had been in place since January 1999.

The working party's main recommendations were that:

- the current use of external, balanced managers should be replaced with a combination of external, specialist managers;
- the proportion of assets managed externally should be increased by the appointment of
 - a UK equity manager,
 - two global equity managers,
 - a bond manager;
- the proportion of assets managed passively should be reduced slightly;
- the fund should move to a broadly equal split between UK and overseas equities.

These recommendations were accepted by the management committee and the transition to the revised structure took place during the first quarter of 2004.

The arrangements for management of the assets and custody, together with the approximate proportion managed by each manager at 31 March 2004, are as follows:

- (a) 58.1% is managed internally by the trustee company's London Investment Office (with JP Morgan as custodian), of which 49.7% are securities and 8.4% are property assets. This includes 0.6% of the fund which, at 31 March 2004, was still held by the transition manager as part of the restructuring of the fund's investments. The internally managed fund has a balanced mandate.
- (b) 9.7% is managed by Capital International (with State Street as custodian) with a global equity mandate;
- (c) 9.6% is managed by Wellington Management International (with State Street as custodian) with a global equity mandate;

- (d) 4.8% is managed by Goldman Sachs Asset Management International (with State Street as custodian) with a UK equity mandate;
- (e) 4.7% is managed by Legal & General Investment Management (with State Street as custodian) with a UK corporate bond mandate;
- (f) 11.9% is administered internally on the advice of HSBC James Capel Quantitative Techniques with a mandate to track the FTSE All-Share Index of UK equities (with JP Morgan as custodian);
- (g) 1.1% is managed by Henderson Global Investors Limited with a mandate to provide an enhanced return to that of the FTSE All-Share Index of UK equities (with JP Morgan as custodian);
- (h) less than 0.1% of the fund is represented by insurance policies.

The year to 31 December 2003 was a good year for pension fund performance generally with positive returns for the average fund for the first time in four years. The fund returned 18.6% for the year, slightly below its benchmark.

Further details of the investment targets, investment performance and amounts managed by each manager are given in the report of the investment committee.

It is a requirement of the Pensions Act 1995 that the trustees of each pension scheme draw up and maintain a statement of investment principles. This statement must lay down the investment objectives of the pension scheme and explain why these objectives are suitable for the particular circumstances of the scheme. The management committee has taken the view that, for USS, this statement should provide significantly greater information about the management of the scheme's investments than is required under the Act. The statement was revised during the year to reflect the revised investment management structure and the final text, which was agreed following consultation with the participating employers, appears on pages 37 to 41.

The paragraphs on corporate social responsibility have been simplified from those which were included in the original statement which was first published in 1997. A more detailed briefing on this issue, which may be amended from time to time, and USS's policy statements on corporate governance are published on the USS website, as is the full statement of investment principles.

Scheme auditor

As part of its policy to review the appointment of its professional advisers, the management committee carried out a review of the external auditors and accepted a recommendation from the audit committee to appoint KPMG LLP as auditors to replace PricewaterhouseCoopers LLP. The management committee recognises that this did not reflect upon the competencies or practices of PwC and expresses its appreciation of the professional way in which PwC has discharged its responsibilities whilst auditors to USS Ltd and USS.

Corporate governance

The directors of USS Ltd continue to acknowledge their responsibility for ensuring that the company has in place appropriate systems of internal control which are designed to give reasonable assurance that:

- financial information used within the scheme or for publication is reliable and that proper accounting records are maintained;
- assets are safeguarded against unauthorised use or disposition;
- the trustee company and the scheme are being operated efficiently and effectively;
- relevant legislation is complied with;
- appropriate risk management systems are in place.

Any system of internal control, however, can only provide reasonable and not absolute assurance against material misstatement or loss and cannot eliminate business risk.

The management committee of USS, which comprises the board of directors of the trustee company, meets at least four times a year and receives reports, generally on a quarterly basis, from the other main committees: the finance & general purposes committee, the investment committee, the audit committee, the remuneration committee, the rules committee, the joint negotiating committee and the advisory committee. The functions of these committees are set out in the reports which follow this report.

Internal audit within the trustee company consists of the head of internal audit, one full-time assistant and one part-time assistant. It reviews the operation of the internal control systems affecting the trustee company and the scheme and where relevant at external suppliers.

Each year the head of internal audit, in conjunction with senior management, carries out a formal evaluation of the risks facing the organisation and the audit programme is determined in the light of this evaluation. The chief executive's management group considers reports each month from the head of internal audit and reviews the risk management and control process to consider whether any changes to internal controls, or responses to changes in the levels of risk, are required. Any weaknesses identified in these reviews are discussed with management and an action plan is agreed to address them. Through regular reports by the head of internal audit, the audit committee monitors the operation of the internal controls in force and any perceived gaps in the control environment.

The directors confirm that they have established internal control procedures such that they fully comply with the Turnbull Guidance in the Combined Code on Corporate Governance.

The management committee, through its audit committee, has reviewed the effectiveness of the process for identifying, evaluating and managing the key risks affecting the scheme.

Administration

The service provided to members and institutions continues to be monitored each quarter. Reports showing achievements compared with targets are reviewed by the finance & general purposes committee and are discussed at meetings of the institutions' finance officers' group, a liaison committee which met twice during the year.

The Universal Pensions Management software developed by Comino plc has continued to be robust and has facilitated improvements in service standards. A feasibility study will commence later this year into the implementation of a major upgrade to the software. The pensions payroll software developed by Comino plc was successfully implemented in November 2003 as planned.



Quality Group

The system has proved to be more efficient than the Oracle software which it replaced and a substantial reduction in maintenance costs has been realised.

The annual meeting with institutions' representatives took place in London in November 2003 and a full report of the proceedings is available on our website.

The trustee company reviews its activities regularly in conjunction with its advisers to ensure that the scheme remains fully compliant with all relevant legislation and other requirements.

During the year there were eight instances of late payment of contributions by institutions: six were late payment of premature retirement scheme contributions and two were late payment of employee and employer contributions. Three of these were reported to OPRA and in each case OPRA confirmed that it would be taking no further action. Each late payment occurred as a result of an administrative problem or oversight by the institutions and in each case contributions were subsequently remitted in full.

During the year OPRA reviewed its reporting requirements, based on its experience of reported breaches in the first six and a half years of regulation, and issued new guidance in January 2004. The new requirements are that trustees are only required to report where late payment constitutes a significant risk to the members' interests or the payment is still outstanding after 90 days.

Member AVC contributions to the Prudential are no longer included in the schedule of contributions. However, the trustee company has stated that it will report institutions to OPRA where their payments of AVCs to the Prudential are consistently late. No such reports were made during the year.

Dispute resolution procedures within USS Ltd provide for the pensions operations manager, on the application of a complainant, to give a decision on a dispute and for the trustee or managers, on the application of the complainant if they are unhappy about that decision, to review the matter in question and either confirm or alter the decision. The review is undertaken by the advisory committee, augmented for this purpose alone by two members of the management committee (one nominated by UUK and the other by the AUT). This internal dispute resolution procedure was invoked three times during the year. Four cases were considered during the year as second stage dispute reviews, and the stage one decision taken by the pensions operations manager was upheld in two cases. In the two other cases the enlarged advisory committee either did not uphold the stage one decision or used its wider powers and instead made a recommendation for an award to be granted.



Administration Seminar

so, which means that they will either have a personal pension or be participating in SERPS or with effect from October 2001 have a stakeholder pension, or a combination of these arrangements.

Retirement age for deferred members

USS Ltd sought a Court hearing to resolve a long-standing issue that might affect some current and former members of USS. The case was heard in the High Court on 1 April 2004 and the main issue was to establish whether deferred members could draw their benefits, without actuarial reduction, prior to age 65 if they had a contractual retirement age that was less than 65.

In addition to USS Ltd and the member who originally complained about USS Ltd's practice on this point, a representative of the class of members who are not affected by the issue and a representative of the employers were also involved in the case.

The judge ruled that by reducing benefits paid before age 65, to former members who had deferred benefits in the scheme and a contractual right to retire on pension (express or implied) between 60 and 65, the rules of USS had not been applied correctly. He also ruled that earlier correspondence with the OPB on this subject had not validated the practice adopted by the scheme since its inception of applying a common retirement age of 65 to all deferred members.

In a subsequent hearing on 29 April 2004 the judge approved a Court Order setting out the steps that USS Ltd must follow to rectify matters. The order refers to a rectification plan, which was drawn up with input from all the parties to the case. Over the next few months USS Ltd will be working with institutions to establish which current and former members are affected by the ruling. This may result in an adjustment to the benefits previously paid. USS Ltd will take all practical and reasonable steps to identify those affected and pay the appropriate sums due. Further details are available on the USS website.

Communications

The development of the new website with Anthony Hodges Consulting (AHC) Ltd was completed at the end of 2003. The most popular facilities used by members are the modellers and a number of improvements have been made to them during the year as a result of comments made by users.

A service statement summarising personal details and service in the scheme was issued to all active members between March and May 2004. Using the information on the statement and the benefit modeller, members can calculate their current benefits in the scheme and project them to a date they choose. The benefit modeller indicates any shortfall in benefits compared to the Inland Revenue maximum and provides members with the opportunity to calculate the cost of buying additional benefits by paying AVCs.

Further developments are planned over the next 6 months, which include the addition of a search engine to help users find information more easily and the introduction of a facility that will allow institutions to send information about joiners and leavers to USS Ltd by email.

Further progress has been made in providing institutions with online access to their members' data held by USS Ltd. A pilot exercise involving three large institutions has been completed successfully. Paramount in the development of this facility has been the creation of satisfactory security procedures. We believe that the system, which has been developed by Comino plc and AHC Ltd, is both practical and secure. Over the summer months the facility will be made available to a further 15 institutions and it is planned to make the facility available to all institutions by the autumn.

The institution advisory panels have played a major role in developing this facility. The panels have been expanded and they continue to provide invaluable feedback to USS Ltd on a variety of issues including website development and new procedures. They also helped develop the new information pack for members, which were issued in November 2003.

The communications team visited 26 institutions during the year and spoke to over 2,200 members. It is clear from the comments of members who have attended these meetings and institutions that have organised them that they are very much appreciated.

Three seminars for institution staff involved with USS matters were held during the year and 29 people attended. Following a review of the seminar programme and, taking into account the comments made by previous delegates, the programme has been amended to include more time for hands-on training using the e-manual. This development has been well received.

A series of regional workshops was arranged to assist with the further development of the rules affecting variable time employees. The practical implications for members identified during these workshops were reported to the Regular and Irregular Employment working party and have proved very helpful in refining the rules governing this complex area.

Equitable Life Assurance Society

As at 31 March 2004 there remained a small number of non-profit policies which ELAS had reinsured with Halifax Life. A surrender quotation from Halifax Life was received for these policies in June 2003 which, following discussions with ELAS and Halifax Life, was revised in May 2004. The management committee accepted this quotation and arrangements are being made by ELAS for payment of the surrender value for the final remaining policies.

Disclosure requirements

The general rights which members and beneficiaries have always had to request information under trust law have been greatly supplemented by statutory disclosure requirements which now apply under the *Occupational Pension Schemes (Disclosure of Information) Regulations 1996*. Where the requirement is for a document to be available for reference by an interested person, it is met by the provision to each institution from our Liverpool office of a *Disclosure Kit* containing the required documents. Other information, for example *An Introductory Guide for New Members*, must be provided to every new member and supplies are available from our Liverpool office to enable institutions to issue them as part of their appointment procedures. Individual statements are required on the occurrence of certain events such as leaving service, retirement or death and these are provided by our Liverpool office as part of the processing of such benefits.

The disclosure regulations require that a number of statements are made in a document which accompanies the audited accounts and actuarial statement and, insofar as they do not appear elsewhere in the Report and Accounts, they are given below.

A trustee pack issued by the NAPF and containing appropriate publications has been issued to each member of the management committee, as has a copy of the *Pension Scheme Trustees* issued by OPRA. Copies of all documents are held at the trustee company's registered office and are available for inspection by those persons.

Enquiries about the scheme generally or about an individual's entitlement should be sent to the trustee company's registered office.

Transfer values paid during the year were determined in accordance with the Pension Schemes Act 1993 and appropriate regulations. No transfer values paid represented less than their full cash equivalent.

USS has had no employer-related investments during the year.

The financial statements have been prepared and audited in accordance with regulations made under section 41(1) and 41(6) of the Pensions Act 1995.

Acknowledgements

The management committee also wishes to record once again its appreciation of the services given by all those who are concerned in the administration and management of USS, including the staff of the trustee company in Liverpool and London and the officers of the institutions which participate in the scheme. It wishes also to thank the various USS consultants and advisers who, by their specialist knowledge and experience, make a valuable contribution to the work of the trustee company.

Signed on behalf of the management committee.

Sir Graeme Davies
Chairman

INVESTMENT COMMITTEE

The investment committee advises the trustee company on all matters relating to the investment of the fund's assets. Throughout the report, performance returns relate to calendar years which is the industry standard.

HIGHLIGHTS

- stock markets were strong in calendar year 2003 after three years of poor investment returns, with the fund returning 18.6%;
- the 10 year return for the fund now stands at 6.0% per annum compared with average earnings growth of 4.1% per annum and retail price inflation of 2.6% per annum;
- including net cash flow and capital movements, the value of the investments in the fund rose from £15.4 billion at 31 March 2003 to £19.3 billion a year later at 31 March 2004;
- the working party which had been set up to consider the structure under which the funds investments are managed reported to the management committee during the year. Its main conclusions were that the fund should move to a structure employing specialist external managers and this resulted in Goldman Sachs, Wellington and Legal & General being appointed with specialist mandates. They replace Schroder Investment Management and Baillie Gifford which were employed with a balanced mandate. Capital International was retained but on a specialist rather than a balanced remit;
- the benchmark for the fund was also reviewed. The new benchmark for the fund has become more internationally focussed with the 80% equity split being redistributed from 55% UK equities, 25% overseas equities to 40% UK equities, 40% overseas equities. The overall equity content in the benchmark remains unchanged at 80%;
- the specialist manager structure was put in place in the quarter ended 31 March 2004 and the portfolios were handed over to the respective managers as at 1 April 2004;
- USS continues to take a proactive and leading stance on corporate governance issues.



The USS Ltd Investment Committee

From left: David Robins, Graham Allen, Scott Bell (chairman), Howard Jacobs, Dr Derek Nicholls, Bill Trythall and Professor Charles Sutcliffe.

INVESTMENT MANAGEMENT

The fund's investments are divided between those under the direct control of USS Ltd and those managed externally. The internal management team at the London Investment Office manages the majority of the assets. A separate fund designed to match the performance of the FTSE All-Share Index is run in-house on advice provided by HSBC James Capel Quantitative Techniques.

The balanced external managers until 31 December 2003 were Schroder Investment Management, Baillie Gifford and Capital International. Schroder Investment Management and



London Investment Office staff. From left: Jason Fletcher, Rob Rees, David Frank, Alison Smith, Ben Levenstein, Fraser Slater, Tushna Ghadially and, seated, Janice Robe.

International have a global equity remit; Goldman Sachs, UK equities; and Legal & General a corporate bond mandate. All these managers are rewarded on an ad valorem, performance-related basis.

From 1 April 2004 Jones Lang LaSalle and DTZ Debenham Tie Leung were appointed to advise on the investment and property management of the retail and commercial portions of the property portfolio respectively. For these services they are remunerated primarily through a management fee but they may benefit from transaction fees.

The investments are stated at market value and details of the changes in value are summarised in Note 9 of the USS accounts on page 61.

RESPONSIBLE INVESTMENT

The committee attaches great importance to the maintenance of good standards of corporate governance and social and environmental responsibility by companies in which the investments are held. It believes this will ultimately enhance the value of the fund. USS Ltd

is active in monitoring the performance of companies against relevant international or benchmark standards. Through meetings with companies and other activities, USS Ltd aims to influence management on these governance and related issues, thereby helping to ensure their good standing with customers and investors for the long-term benefit of the fund.



Responsible Investment Team
From left: Dr Raj Thamotheram, Dr Daniel Summerfield and David Russell.

TOTAL INVESTMENTS OF THE FUND

of Investment	Fixed Interest £m	Index-Linked £m	Equities £m	Properties £m	Cash and Equivalent £m	31 March 2004 Total £m	31 March 2004 Total %	31 March 2003 Total £m	31 March 2003 Total %
Investments under the direct control of USS Ltd									
Listed securities									
UK	153.8	—	3,702.4	—	—	3,856.2	20.0	2,924.6	19.0
Overseas	612.9	—	4,836.6	—	—	5,449.5	28.2	3,168.3	20.5
Property	—	—	—	1,624.6	—	1,624.6	8.4	1,716.0	11.1
Unstockbroker balances	—	—	—	—	64.4	64.4	0.4	137.5	0.9
UK	—	—	—	—	89.8	89.8	0.5	117.1	0.8
Overseas	—	—	—	—	—	—	—	—	—
Total	766.7	—	8,539.0	1,624.6	154.2	11,084.5	57.5	8,063.5	52.3
Investments managed internally on the basis of external advice									
Ex fund	—	—	2,301.2	—	0.1	2,301.3	11.9	3,217.9	20.9
Investments managed externally (inclusive)									
Merrill Lynch	—	—	—	—	—	—	—	157.3	1.0
UK	—	—	—	—	—	—	—	—	—
Henderson	—	—	—	—	—	—	—	—	—
UK	—	—	219.3	—	—	219.3	1.1	165.7	1.1
Overseas	—	—	—	—	—	—	—	(0.3)	—
Total	—	—	2,520.5	—	0.1	2,520.6	13.0	3,540.6	23.0
Investments managed externally (exclusive)									
Capital International	—	—	304.3	—	18.3	322.6	1.7	906.6	5.9
UK	—	—	1,554.6	—	(2.4)	1,552.2	8.1	389.2	2.5
Debt	—	—	—	—	—	—	—	—	—
London	—	—	137.6	—	0.2	137.8	0.7	—	—
UK	—	—	1,638.3	—	77.1	1,715.4	8.9	—	—
AM	—	—	—	—	—	—	—	—	—
UK	—	—	912.7	—	0.9	913.6	4.7	—	—
Overseas	—	—	10.4	—	—	10.4	0.1	—	—
Goldman Sachs & General	—	—	—	—	—	—	—	—	—
UK	901.2	—	—	—	13.3	914.5	4.7	—	—
Overseas	—	—	—	—	—	—	—	—	—
Assurance	—	—	4.0	6.0	—	51.9	61.9	0.3	—
UK	—	—	48.4	—	5.7	54.1	0.3	—	—
Overseas	—	—	—	—	—	—	—	—	—
Baillie Gifford	—	—	—	—	—	—	—	—	—
UK	—	—	—	—	—	—	—	912.6	5.9
Overseas	—	—	—	—	0.1	0.1	—	358.6	2.3
Deutsche	—	—	—	—	—	—	—	—	—
UK	—	—	—	—	—	—	—	958.7	6.2
Overseas	—	—	—	—	—	—	—	282.6	1.8
Assurance Policies	—	—	—	—	—	—	—	—	—
UK	—	—	—	—	3.7	3.7	—	14.4	0.1
Overseas	—	—	—	—	—	—	—	—	—
Total	901.2	4.0	4,612.3	—	168.8	5,686.3	29.5	3,822.7	24.7
Total investments									
UK	1,055.0	4.0	7,583.5	1,624.6	152.8	10,419.9	54.0	11,111.3	72.0
Overseas	612.9	—	8,088.3	—	170.3	8,871.5	46.0	4,315.5	28.0
Total	1,667.9	4.0	15,671.8	1,624.6	323.1	19,291.4	100.0	15,426.8	100.0
Percentage at 31 March 2004									
UK	5.5	—	39.3	8.4	0.8	—	54.0	—	—
Overseas	3.2	—	41.9	—	0.9	—	46.0	—	—
Total percentage	8.7	—	81.2	8.4	1.7	—	100.0	—	—
Total percentage at 31 March 2003	8.9	2.7	74.9	11.1	2.4	—	—	—	100.0

The London Investment Office also seeks to ensure that USS Ltd's voting rights in respect of UK companies are exercised on every occasion. In the coming year it intends to commence voting on all US stocks.

USS INVESTMENT PERFORMANCE RESULTS

From 1 January 2003 the fund adopted a new benchmark which was as follows:

UK equities	55%
Overseas equities	25%
Fixed interest	10%
Property	10%

The adoption of this benchmark has made comparison with the WM50 pension fund universe in the year to 31 December 2003 irrelevant.

Compared to their individual benchmarks the portfolio managers in place during 2003 achieved the following results.

	Year to December 2003	
	Return %	Benchmark return %
Capital International	20.7	18.1
Baillie Gifford	18.3	17.3
Schroders	18.1	17.5
LIO	19.7	18.1

Longer term results

Because of the change in benchmark it is difficult to evaluate the performance of the managers over the five or ten year period on a comparative basis. The change in benchmark from one related to peer group, to an index-related benchmark is in line with recommendations from the Myners review.

Over the five-year period the fund has returned 1.5% per annum against an increase in the retail price index of 2.2% and average earnings of 4%. This was an unsatisfactory performance. However over the ten-year period the return of 6% on the fund compares with an increase in retail prices of 2.6% per annum and average earnings of 4.1% per annum.

PROPERTY

Property continued its strong performance of recent years with a total return of 10.7% for the calendar year 2003, a little below its ten-year annualised return of 11.1% pa. Property was in demand from private and institutional investors and yields continued to fall throughout the year, although the average income return of 6.7% remains competitive with other markets. Moreover, over the six months to 31 March 2004 rental growth has been positive with even the previously underperforming office sector now showing signs of improvement.



Property Team
From left: Graham Burnett, Guy Williams,
Alison Yard and Robert Walden.

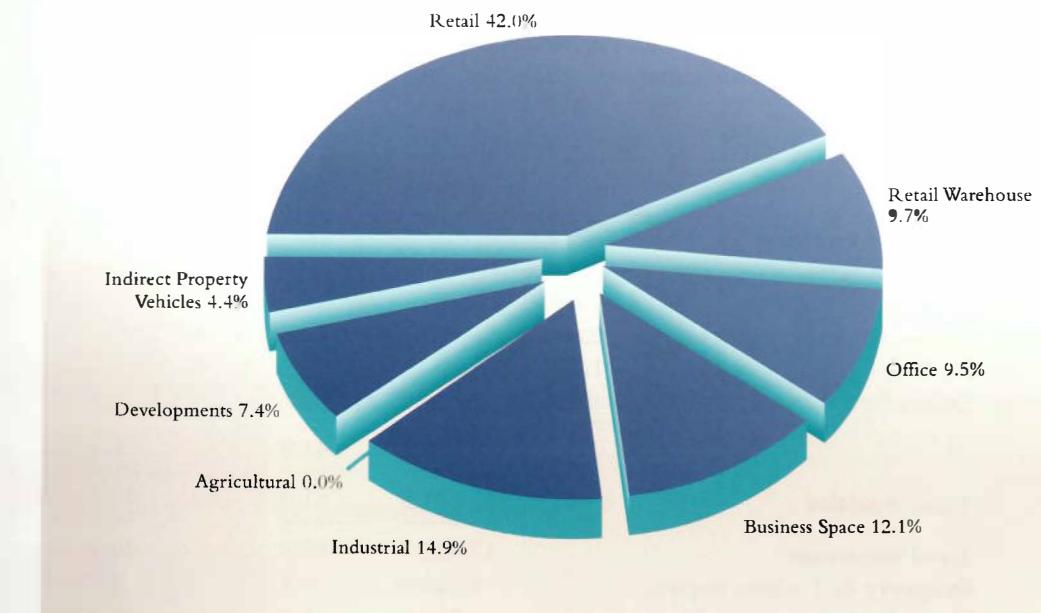
Retail remains the best performing sector. The fund's portfolio returned 8.4% in 2003, with its major office investment at Stockley Park, near Heathrow, being responsible for most of the underperformance. The fund continues to be overweight in retail property and shopping centres, although the sale in November of Midsummer Place shopping centre, Milton Keynes for £217.8 million did reduce exposure to the sector.

The direct property portfolio was independently valued as at 31 March 2004 by Colliers Conrad Ritblat Erdman at £1,553.5 million and the fund also had a total of £71.1m invested in indirect property vehicles. A breakdown by type is shown below:

Type of investment

	Freehold £m	Leasehold £m	Total £m	%
Retail	653.3	28.5	681.8	42.0
Retail warehouse	157.5	—	157.5	9.7
Office	133.1	21.6	154.7	9.5
Business space	190.0	6.0	196.0	12.1
Industrial	219.6	23.1	242.7	14.9
Agricultural	0.4	—	0.4	—
Developments	100.4	20.0	120.4	7.4
TOTAL	1,454.3	99.2	1,553.5	—
Indirect property vehicles			71.1	4.4
TOTAL property			1,624.6	100.0

Distribution of property investment by type



Following the sale of Midsummer Place, net income for the year to 31 March 2004 decreased from £92.3 million to £82.1 million.

DISTRIBUTION OF ASSETS

The portfolio distribution as at 31 March 2004, along with the comparative figures for the preceding year, is set out below:

	2004			2003		
	£m	£m	%	£m	£m	%
UK fixed interest						
British Government				345.5		
Conventional	188.7			411.1		
Index-linked	4.0			108.4		
Other debentures & loan stocks	866.3					
	1,059.0		5.5	865.0		5.6
Overseas fixed interest						
North America	310.9			438.2		
Europe	—			159.4		
Japan	302.0			274.4		
Far East	—			41.7		
Other	—			—		
	612.9		3.2	913.7		5.9
Total fixed interest	1,671.9		8.7	1,778.7		11.5
UK equities						
Resources	1,125.6			1,258.6		
Basic industries	251.5			259.0		
General industrials	221.2			146.1		
Cyclical consumer goods	18.4			23.6		
Non cyclical consumer goods	1,286.5			1,570.4		
Cyclical services	1,216.6			1,098.7		
Non cyclical services	910.8			961.5		
Utilities	220.9			288.3		
Information technology	100.2			56.5		
Financials	2,009.2			2,041.1		
Collective investment schemes	3.3			102.4		
Managed funds	219.3			157.3		
Derivatives	—			236.5		
	7,583.5		39.3	8,200.0		53.2
Overseas equities						
America	2,235.6			960.0		
Japan	1,640.7			435.5		
Europe	2,669.0			1,149.7		
Far East	1,377.7			653.4		
Other	165.3			147.6		
	8,088.3		41.9	3,346.2		21.7
Total equities	15,671.8		81.3	11,546.2		74.9
Total securities	17,343.7		89.9	13,324.9		86.5
Property (incl. indirect property)	1,624.6		8.4	1,716.0		11.1
Cash deposits	350.0		1.8	396.1		2.6
Stockbroker balances	(30.6)		(0.1)	(24.6)		(0.2)
Total investments (excluding life assurance policies)	19,287.7		100.0	15,412.4		100.0

LARGEST EQUITY HOLDINGS AS AT 31 MARCH 2004

A list of the fund's largest equity holdings, together with the percentage of the fund (excluding life assurance policies) which they represent, is shown below:

		Value £m	%
1	Vodafone Group	586.5	3.0
2	HSBC Holdings Ord	521.4	2.7
3	BP	459.5	2.4
4	Glaxosmithkline	366.0	1.9
5	Royal Bank of Scotland Group Ord	278.6	1.4
6	Astrazeneca Ord \$US0.25	277.2	1.4
7	Shell Trans & Trading Ord Reg	231.3	1.2
8	HBOS	194.8	1.0
9	Barclays Ord	153.3	0.8
10	Lloyds TSB Group Ord	122.4	0.6
11	Novartis	120.8	0.6
12	Anglo American	114.9	0.6
13	Royal Dutch Petrol	113.6	0.6
14	Nokia	109.1	0.6
15	Unilever	105.1	0.5
16	Tesco	103.9	0.5
17	National Grid Transco	94.3	0.5
18	Citigroup	91.2	0.5
19	BHP Billiton	87.9	0.5
20	Rio Tinto	87.4	0.5
		4,219.2	21.8

A list of all the fund's holdings along with corporate governance issues is available on our website:
www.usshq.co.uk

Signed on behalf of the investment committee

A S Bell
Chairman

FINANCE & GENERAL PURPOSES COMMITTEE

The finance & general purposes committee was established under the authority of the management committee in January 1984.

Its purpose is to consider and report to the management committee on any matters relating to the structure and management of USS Ltd as the corporate trustee of USS, other than those which have been allocated to the investment, audit, remuneration and rules committees.

In essence, it:

- undertakes detailed work on behalf of the management committee and makes recommendations to it on major policy issues;
- gives preliminary consideration to major issues which it is intended should be brought to the management committee;
- oversees the detail of revisions to the USS Ltd risk management profile and policy and submits annual reports to the management committee;
- gives detailed consideration to financial estimates and performance against estimates;
- approves capital expenditure with limits agreed by the management committee;
- monitors communication with, and levels and quality of service provided to, member institutions and individual members.

The committee members are appointed by the management committee and currently comprise eight members. Mrs Angela Crum Ewing retired on 30 September 2003 and Mr Collinson on 31 January 2004. They were succeeded on 1 February 2004 by Lady Merrison and Mr A S Bell respectively. We thank Mrs Crum Ewing and Mr Collinson for their considerable contribution to the committee's deliberations. Of the committee's eight members, three are UUK appointees to the management committee, two are AUT appointees and three are co-opted appointees. Of these latter three, one, Mr Colin Donald is its chairman and is the deputy chairman of USS Ltd.

During the year, the committee met on five occasions and considered matters such as the Prudential AVC scheme, ill-health retirement procedures, preservation and USS rules, expansion of USS and flexibility of arrangements, corporate performance of USS Ltd, new transfer value arrangements, USS Ltd's business plan and the government's proposals for occupational pension scheme administration and taxation.

Signed on behalf of the finance and general purposes committee

C D Donald
Chairman

AUDIT COMMITTEE

The audit committee was established under the authority of the management committee in March 1982.

Its purpose is to consider and report on any matters relating to internal control systems, financial reporting arrangements and corporate governance.

In essence, it examines management's processes for ensuring the appropriateness and effectiveness of systems and controls and arrangements to ensure compliance with standards and arrangements under appropriate regulatory systems.

In addition it:

- reviews the scope, planned programmes of work and findings of both the internal and external auditors and the compliance officer;
- ensures that the accounting and reporting policies are in line with legal requirements, Financial Services Authority and other appropriate regulatory body requirements and best practice.

The committee members are appointed by the management committee and currently comprise five members. Mrs Angela Crum Ewing retired on 30 September 2003 and was succeeded on 1 February 2004 by Lady Merrison. We thank Mrs Crum Ewing for her considerable contribution as a member of the committee. Of the five current members, one is a UUK appointee to the management committee, two are AUT appointees and one is a co-opted appointee. The committee is chaired by Dr Christine Challis, an independent appointment made by the management committee. During the year, the committee has met on five occasions. It has also met with the external auditor and the internal auditor privately each on one occasion without any officers being present. During the year, the committee has, *inter alia*:

- reviewed its terms of reference;
- received regular reports from both the compliance officer and the internal audit manager;
- received a report from the officers on an Inland Revenue PAYE audit;
- overseen the appointment of KPMG LLP to succeed PricewaterhouseCoopers LLP as external auditors;
- conducted a review of the internal audit department;
- monitored USS Ltd's procedures against USS corporate governance policy; and
- expressed its continued satisfaction with USS Ltd's approach to identifying and dealing with risks to its business.

Signed on behalf of the audit committee

Dr C Challis
Chairman

REMUNERATION COMMITTEE

The remuneration committee considers and reports on matters relating to the employment, remuneration and termination of contract for employees within USS Ltd. It sets salaries, pay levels and performance criteria by which all staff are rewarded, with the exception of the chief executive and the chief investment officer.

The salary of the chief executive is determined following discussions between the chairman of the remuneration committee and the chairman of the management committee. The salary of the chief investment officer is determined following discussions between the chairman of the remuneration committee, the chairman of the investment committee and the chairman of the management committee.

The committee's members are appointed by and from the management committee and currently comprises six members; two are UUK appointees to the management committee, one is an AUT appointee and three are co-opted appointees of whom one, Mr Jacobs, is the chairman. Mrs Angela Crum Ewing retired on 30 September 2003 and was not replaced. Mr L Collinson, who had been chairman since January 1990, retired on 31 January 2004 and was succeeded by Mr H R Jacobs. We thank both Mrs Crum Ewing and Mr Collinson for their significant contributions as committee members.

The committee met on four occasions during the year. Matters which have been considered include:

- the committee's terms of reference;
- salary awards to employees at the Liverpool and London offices;
- a review of terms and conditions of employment at the London office;
- London office bonus scheme;
- employment statistics within both the Liverpool and London offices.

As a result of its considerations, the committee is satisfied that the management committee can be assured that the present arrangements enable the trustee company to recruit, retain and motivate employees at both the Liverpool and London offices.

Signed on behalf of the remuneration committee

H R Jacobs
Chairman

JOINT NEGOTIATING COMMITTEE

The functions of the joint negotiating committee are to approve amendments to the rules proposed by the trustee company, to initiate or consider modifications to the rules in conjunction with the rules committee and to consider any alterations proposed by the advisory committee arising out of the operation of the rules. The joint negotiating committee also has powers under the Articles of Association of the trustee company and under the scheme rules in connection with the appointment of co-opted directors and with the remuneration of directors.

With effect from 1 September 2003, Dr J Anderson replaced Ms L Barker and Mr D Guppy replaced Mr A Waton as AUT representatives.

The committee met on four occasions during the year. Rule changes were considered by the committee which resulted in three amending deeds being executed (from the thirtieth to the thirty-second deeds of amendment), the main features of which were as follows:

- the thirtieth deed of amendment was executed on 28 July 2003 and introduced a facility to enable members who have contributed to the scheme's money purchase AVC arrangement (which is administered by Prudential) to use their accumulated fund at retirement to buy additional service in USS;
- the thirty-first deed of amendment was executed on 1 October 2003 and corrected a number of typographical and/or textual errors that have crept into the many amending deeds which have been executed since 1994;
- the thirty-second deed of amendment was executed on 1 October 2003 and deals with changes for USS members who hold a variable time employment, and specifically for those who hold such employments concurrent with regular employment within USS. A new formula was introduced which determines the credits which are granted for such periods of concurrent variable time employment.

A deed of consolidation was also executed on 1 October 2003.

The committee has commenced its consideration of the government's pensions reform proposals, which provide for some of the most radical changes seen for many years affecting pension schemes. In addition, the working party of the JNC dealing with employees who hold regular and variable time employments has met on four occasions during the year, and has made progress to clarify the scheme's provisions, and help administrators and institutions deal with the application of the USS rules, for employees holding multiple employments.

Signed on behalf of the joint negotiating committee

Sir Kenneth Berrill
Chairman

ADVISORY COMMITTEE

The functions of the advisory committee are to advise the trustee company on the exercise of its powers and discretions (other than those relating to investment matters), on difficulties in the implementation or application of the rules, on any complaints received from members or participating institutions, and any other matters on which the trustee company requires advice.

Three full meetings were held during the year. Mr A D Linfoot fulfilled the role of chairman throughout the year.

The majority of questions raised on the application or interpretation of the rules of USS were dealt with by the senior officers. The one case in which the circumstances did not fall clearly within the trustee company's guidelines and which required detailed consideration by the advisory committee during the year, was a full commutation of a member's pension due to serious ill-health.

It was necessary for the committee, enlarged by two members of the management committee, to meet on three additional occasions during the year to consider the decisions given by the pensions operations manager at stage one of the internal dispute resolution procedure. These second stage considerations:

- upheld the previous decision in two cases; and
- resulted in a recommendation being accepted by the management committee to grant an award in two cases.

Signed on behalf of the advisory committee

A D Linfoot
Chairman

RULES COMMITTEE

The rules committee is a new committee established by the management committee at its meeting on 28 November 2002. Its three members comprise a UUK appointee, an AUT appointed director and a co-opted director who acts as chairman.

In conjunction with the officers and the scheme's professional advisers the rules committee devises and maintains procedures for all aspects of the rule amendment process, having particular regard to the desirability of simplifying those rules which are most complex, whether in terms of intelligibility or of administration.

During its first year the committee has overseen the introduction of the thirtieth to the thirty-second deeds of amendment, further details of which are included in the report from the joint negotiating committee, and a deed of consolidation on 1 October 2003. The committee has also been involved in the following activities:

- the development of a control document which provides an overview for the consideration of changes covering areas within the scheme which are problematic or which present a high level of complexity for the administration. The committee has initially identified seven areas for consideration;
- revisions to the way that the rules are made available on the scheme's website, ensuring (amongst other things) that site visitors can be in no doubt that they are downloading the most up-to-date version;
- working with the head of internal audit to review the process for making amendments to the rules, and agreeing a new procedure for future rule changes;
- consideration of the government's proposals for the reform of pension schemes. The committee initiated representations to the Department for Work and Pensions and to the Inland Revenue on key aspects of the proposals and subsequent legislation.

The committee met on nine occasions during the year.

Signed on behalf of the rules committee

H R Jacobs
Chairman

TRUSTEE'S FUNDING STATEMENT

Overview

This funding statement gives some of the background and detail surrounding the nature of the scheme and its financial position in a number of different circumstances, both likely and unlikely (for example if life continues exactly as is, if all the members were to leave and transfer their benefits to other arrangements immediately and if the scheme were to be wound-up).

The key points in the statement are, broadly:

- the scheme aims to deliver a defined set of benefits based on service and salary. The financing of these benefits is provided, mainly, by the sponsoring institutions;
- nobody knows exactly how much it will cost ultimately to provide the pension scheme benefits;
- in view of this the finances of the scheme are checked regularly to see how well the fund is shaping up. The key driver is how well the investments have performed relative to the growth of the liabilities. The liabilities are, of course, the benefits of the scheme;
- if investments perform well then it may be possible to improve benefits or reduce institutions' contributions; more likely, unless the fund sustains a performance significantly better than projected, improved returns would be used to back continuation and protection of the current level of contribution rates; if investments perform badly then the institutions will need to contribute more to deliver the benefits;
- the current financial position of the scheme is simply a "snapshot" as at the valuation date and can vary in the future depending on the actual experience of the scheme;
- the actuary has advised that (having made appropriately prudent actuarial assumptions) the long-term funding position is satisfactory, with assets in hand broadly covering the liabilities which have accrued to the valuation date (even allowing for future salary increases for active members). On the assumption that all the actuary's long-term assumptions would be borne out in practice there was a surplus of £162 million as at the 31 March 2002 valuation, the assets covering 101% of the past service liabilities;
- in terms of the coverage of early leaver transfer values the actuary has confirmed that had all members left as at the valuation date and transferred to another occupational pension arrangement (or in the case of current pensioners bought-out their pensions with an insurance company) then the assets in hand would have been more than sufficient to achieve this;
- were the scheme terminated there would have been just about sufficient assets to buy annuities for all the pensions in payment and deferred annuities for all the non-pensioners covering the guaranteed accrued benefits;
- it is projected that the income into the scheme (by way of dividends, interest and contributions) will far exceed the outgoings (by way of the payment of benefits and expenses) for the foreseeable future perhaps to the tune of £300 million - £500 million per annum;
- on account of the above and the long-term investment horizons and strong positive cash flow of the scheme, the investment policy is significantly orientated towards equities, as that is seen as the asset class which will deliver the best returns long-term.

Background

On 6 April 1997 a method of providing protection for members of final salary (also known as defined benefit) pension schemes was created called the Minimum Funding Requirement (MFR). The MFR sets a benchmark for the acceptable level of a pension scheme's assets. It is designed to ensure that, in the event of a scheme winding-up, retired members could expect their pensions to be paid in full, and other members have a reasonable expectation (but not a guarantee) of receiving the value of their pension rights by investment elsewhere. It was not designed to be a stretching benchmark, albeit many schemes currently struggle to meet it.

The MFR test compares scheme assets and liabilities in a way that links the liabilities to the current market value of certain investments: gilt-edged stocks for pensions in payment and older scheme members, and UK equities for younger scheme members.

MFR has not worked well and in March 2001 the government confirmed that it would accept the proposals, put forward by Paul Myners, replacing it with a regime of scheme specific funding strategies combined with full member disclosure by way of a published funding statement.

Whilst that new regime has not yet become operative, and the regulatory requirements of the funding statement have not yet been set, the trustee company of USS has built on the fuller disclosure note included in last year's accounts and decided to produce its own funding statement in advance of the full legislation.

This statement is not designed to give all the details or implications of the funding of the scheme nor is it a communication which covers your own particular circumstances. It is aimed at giving you background information regarding the scheme, such as:

- the general funding of the scheme;
- the investment strategy of the scheme; and
- the contribution strategy of the scheme.

This information should help you better understand how the trustee company, with its advisers, is looking after your scheme and seeking to deliver your benefits over the long-term.

Benefits provided by the scheme

The scheme is a final salary arrangement. Under this type of arrangement benefits are payable on the death, early leaving or retirement of a member and are generally dependent upon how long the member has been in the scheme at the time the benefit becomes due and what the member's salary is at that time. Members pay a contribution (6.35% of pensionable salary) towards the provision of these benefits and the sponsoring institutions meet the "balance of the cost". Many members will have their benefits enhanced by additional voluntary contributions and/or by the transfer into the scheme of pension rights acquired under other arrangements. In some cases, usually cases of premature retirement, employers may purchase additional benefits for a member, to be paid for through the scheme.

Assessing the required contributions

It is difficult to know what the true costs of the pension scheme will be in advance. These costs will depend on how well the investments perform, what salary increases members receive each year and on a whole host of other matters such as how long people live, how many people leave service early, or take early or ill-health early retirement. When advising on the financial health of the scheme and contribution rates the actuary has to make assumptions about these sorts of things.

Member and employer contributions are invested in a trust fund, which is held separately from the assets of any of the institutions, and the contributions are managed by investment managers on behalf of the trustee company. Periodically valuations are carried out by the actuary to the scheme (typically this is once every three years). In these valuations the actuary checks that the assets built up and levels of contribution payable mean that the fund is still on course to pay the benefits expected under the arrangement.

If investments have performed poorly then there may be a need to increase contributions. If investments have performed better than expected then there may be scope for benefits to be improved or contributions to be reduced. Changes in members' ordinary contribution rates would require an amendment to the rules. Clearly if investments perform particularly poorly over a sustained period of time, it may become impossible for the institutions to pay the increased contributions necessary to make good the position. Of course, greatly improved investment performance in the future may of itself rectify any underfunding.

It is particularly important in the context of pension schemes to appreciate the critical role of the sponsoring institutions. They are there to meet the "balance of cost" and can only do so whilst the scheme is affordable and, in particular, whilst the institution is solvent. Institutions cannot take money out of the fund but, theoretically, the payment of future contributions could cease if the employing institutions were to withdraw support of the pension promises or become 'insolvent'. What is always protected are the monies accumulated to date in the fund and in the event that support was withdrawn the trustee company would be charged with distributing the fund assets amongst the current beneficiaries. There are rules and regulations as to how the trustee company would distribute the fund in such circumstances but the important message is that, were contributions to cease, the scheme could only provide the benefits it could afford from the assets it held and there might not be enough to provide full benefits for all. Whilst there are no guarantees, therefore, attaching to the benefits provided in those circumstances, the actuary does report, in his valuations, on how well funded he thinks the scheme might be on a "termination" basis too.

Funding position as at 31 March 2002

The last actuarial valuation of the scheme was carried out as at 31 March 2002. The actuary reported that the contributions required to meet each extra year's accrual of pension amounted to 20.6% of pensionable salary (6.35% of which is contributed by the members and the balance by the sponsoring institutions). This rate of contribution can be adjusted to reflect any surplus or deficit currently in the scheme. At the valuation date the actuary reported a surplus of £162 million. The assets in the fund amounted to £19,938 million and this covered 101% of the accumulated liabilities based on pensionable service to the valuation date and salaries projected through to retirement. It is this measure of coverage of assets against liabilities that the trustee company has adopted as its scheme Specific Funding Target. The funding and contribution strategy is aimed at delivering 100% coverage on this basis.

On the statutory MFR basis required by the Pensions Act 1995 the funding level was 144% and there was a surplus of £6,049 million.

Had all the liabilities accrued to date been "bought out" with an insurance company (by the purchase of deferred annuities for non-pensioners and annuities for pensioners) then the actuary has estimated that the assets would have been just about sufficient to achieve a full buy-out as at the valuation date. In this context it is worth noting that the insurance market would not, in practice, have the capacity to cover the entirety of USS's liabilities on a buy-out. Were support

to the scheme to be withdrawn, therefore, the trustee company would not actually seek to buy-out the liabilities but would probably continue to run the scheme itself on a 'closed fund' basis. At the valuation date the actuary estimated there would have been a surplus of assets of some £2,413 million on such a "closed fund" basis.

The actuarial assumptions

The on-going funding level has been determined using a whole range of actuarial assumptions the key ones of which are:

- an investment return of 5% for determining past liabilities;
- an investment return of 6% for determining the cost of future accruals;
- salary growth of 3.7% plus an allowance for promotional increases;
- an inflation assumption of 2.7%;
- assets taken at market value.

The actuary has advised the trustee company that these assumptions are appropriate in all the circumstances. When assessing the current surplus or deficit the actuary has assumed that equity investments will not out-perform fixed interest securities in the future, even though they have generally done so in the past. The assumptions are pitched, in the actuary's opinion, on the prudent side so that, over the long-term, actual experience should prove more favourable than the actuary has assumed in his calculations.

The investment performance is monitored regularly by the trustee company and is reported on, separately, in the accounts

To help the trustee company assess the sensitivities of the funding level to changes in the actuarial assumptions the actuary has further advised that if the investment return were increased by 1½% then the reported surplus would have increased from £162 million to about £2,000 million and the cost of accruals would have fallen from 20.6% to around 18.5%.

Whilst the future investment return cannot be guaranteed or predicted with certainty, a more mainstream actuarial assumption at March 2002 might have been that assets would out-perform gilt-edged returns by 1% or even 2% per annum, resulting in an assumed investment return of 6% or 7% rather than the 5% actually assumed in respect of past service.

A further feature of the 31 March 2002 valuation was that the demographic actuarial assumptions (relating to matters such as mortality rates, ill-health and early retirement rates, etc) were generally pitched on the conservative side compared with the actual past experience of the USS membership in these areas.

Allowance was made for generally improving mortality trends with the up to date mortality table, PA92 (projected forward to 2020) to allow future expected increased longevity), being used.

All assumptions will be reviewed by the trustee company from time to time and in particular at the next formal actuarial valuation of the scheme, but the strategy will be to maintain a degree of prudence in the overall long-term funding assumptions.

Agreed contributions

Following the last actuarial valuation it was agreed to maintain the institutions' contribution rate of 14% of pensionable payroll representing a small subsidy (of 0.25% per annum) financed by the then surplus. The next formal actuarial valuation of the scheme will be carried out as at 31 March 2005.

The trustee company has reviewed the funding of the scheme, on an approximate basis, as at 31 March 2003 and again at 31 March 2004.

Reflecting the significant decline in asset values and the lowering of interest rates, the ongoing funding level was assessed at some 79% as at 31 March 2004, although the MFR was still met with a MFR funding level of some 115%. The equivalent details as at 31 March 2003 were the ongoing funding level at 70% and MFR at 105%.

The investments remain predominantly in UK and Overseas equities. The trustee company has reviewed the investment strategy and determined not to make any significant change, at this time. Markets have proven to be particularly volatile in the recent past but the trustee company does not intend to attempt to "call the markets"; it is investing, over the long term, on the basis that equities will indeed provide out-performance over gilts over long periods. The USS fund is well placed to ride any short-term volatilities as it has a very positive cash flow, with contribution income and dividend receipts well in excess of the level of benefits to be paid out of the scheme each year, for the foreseeable future. The scheme also covers all its statutory and regulatory requirements regarding funding and one might view the covenant of the employing institutions as extremely strong.

A full actuarial valuation will be completed as at March 2005. At that time the full methodology and assumptions will be reviewed again, in detail, and the investment strategy re-considered in the light of what will hopefully be more stable worldwide economic and political conditions. In advance of that more detailed review and in the light of the robust, conservative assumptions used in the ongoing valuation, the satisfactory MFR position and strong positive cash flow, it has been agreed to maintain the current rate of contributions paid by the institutions at 14% of pensionable salaries.

STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The Pensions Act 1995 requires trustees to prepare and keep up-to-date a written statement recording the investment policy of the scheme. The purpose of this document is not only to satisfy the requirements of the Act but also to outline the broad principles governing the investment policy of the scheme.

The statement has been agreed by the management committee of Universities Superannuation Scheme (USS) on written advice from the investment committee (a sub-committee of the management committee), the scheme's external investment consultants and the scheme actuary following consultation with the participating employers or their appointed representatives.

The management committee reviews the statement at least every three years. The investment committee monitors compliance with this statement at least annually and obtains confirmation from the investment managers that they have exercised their powers of investment with a view to giving effect to the principles contained herein as far as reasonably practicable.

The investment committee is established under the articles of association of the trustee company, Universities Superannuation Scheme Limited (USS Ltd), and under the rules of the scheme, to advise the trustee company on all questions relating to the investment of the assets of the fund. It consists of between three and eight people of whom at least one must be a member of the management committee. Additionally, up to five may be persons other than directors whom the management committee may decide to appoint because they have special skills or are able to give competent advice to the trustee company on the policy to be adopted from time to time for investment of the fund.

The management committee, as the governing body of the trustee company, retains the overall power of investment in relation to the fund but can delegate to the investment committee the power to decide the investment policy of the fund. In practice, the investment committee will generally make recommendations to the management committee, rather than decisions, on matters of strategy. This would encompass, for example, changes in the fund's investment objective, the appointment and remit of external managers, investment in new asset classes and decisions on whether to participate in new investment activities. In making its recommendations, the investment committee receives advice from its external investment consultants. All stock selection decisions are made by the individual investment managers (either internal or external) within constraints recommended by the investment committee and agreed by the management committee, although the chief investment officer and the investment committee monitor their activity. The internal fund managers make recommendations for the continuance or amendment of their fund's asset allocation policy on a half yearly basis for the approval of the investment committee. The investment committee also determines the appropriate allocation of cash (new money) between the different managers on a quarterly basis. The management committee believes that this structure, together with the range of expertise of its in-house staff, committee members and external managers and advisers enables the trustee company to make effective investment decisions.

Investment objective and strategy

The trustee's duty is to act in the best financial interests of all classes of scheme member and accordingly to ensure that the assets are invested to secure the benefits under the scheme. The managers are therefore instructed to give primary consideration to the financial prospects of any investment they hold or consider holding.

The fund's investment objective is to maximise the long-term investment return on the assets having regard to the liabilities of the scheme and the desirability of maintaining stable contribution rates. Regard is had to the scheme's relative immaturity, the minimum funding requirement of the Pensions Act 1995 and the wish of the employers and the management committee to minimise the risk of higher contributions at some time in the future. At the last triennial valuation as at 31 March 2002 the scheme's funding level exceeded its minimum funding requirement level. The aim is to maintain an adequate funding cushion so that the risk of deterioration of the MFR ratio to below 100% is at an acceptable level.

Investment management structure

The securities investments of the fund are currently managed by a number of discretionary specialist managers and index tracking (and enhanced index tracking) managers. The reason for using a number of different managers is to spread the investment risk of the scheme. The property portfolio is managed internally.

The management structure is subject to review, generally every five years, by the investment committee and the management committee.

The external managers are remunerated through performance-related fees and the enhanced index tracking managers are remunerated either through ad valorem fees or performance-related fees. The fee arrangements in each case are considered by the trustee company to be the most cost efficient way of remunerating the managers.

Investment strategy and asset mix

The management committee believes that over the longer term equity investment will provide superior returns to other investment classes. The management structure and targets set are designed to give the USS fund a greater than average weighting in equities compared to the weighting generally held by other funds through portfolios that are diversified both geographically and by sector.

The management committee has determined the appropriate asset distribution, and permitted deviations, for the fund as:

	%	Divergence limits
UK equities	40	-10% to + 10%
Overseas equities	40	-10% to + 10%
Fixed interest	10	-5% to + 2.5%
Property	10	-5% to + 2.5%

This distribution has been agreed on the recommendation of the investment committee based on its belief that, over the longer-term, the real rates of return of each asset class will be of the order of:

Equities	4.5%
Index-linked	2%
Fixed interest	2.5%
Property	3%

External specialist managers have been appointed to manage, or advise on the management of, approximately 45% of the fund:

UK equities (active)	5%
UK equities (index/enhanced index)	15%
Global equities	20%
Non-government bonds	5%

The asset distribution of the internally managed fund is used, to the extent necessary, to balance the asset distribution of the total fund to ensure that it remains within the agreed divergence limits. The indices against which the managers are measured have been agreed with them and the managers are expected to add value by selection against the indices and by asset and sector allocation. They have been informed that USS is a risk-tolerant fund due to its funding level and to the fact that it is relatively immature.

The objective of the index tracking fund is to match the return on the FTSE All-Share Index. This fund is managed by the internal manager acting on external advice. The objective of the enhanced index tracking funds is to exceed the return on the FTSE All-Share Index by 0.5% pa.

The investment objective for direct property investments is to exceed the weighted average return of a customised Investment Property Databank (IPD) universe of the largest 100 comparable property funds by 0.5% pa over rolling five-year periods.

The securities assets of the fund are therefore allocated between the managers in an approximate ratio of:

	%
Internally managed balanced fund	55
Index tracking/enhanced index tracking funds	15
Externally managed specialist funds	30

This ratio will fluctuate due to stock market movements and cash allocation.

The allocation of cash is reviewed and approved by the investment committee on a quarterly basis.

The asset distribution of the fund is reported to the investment committee and the management committee on a quarterly basis to ensure that the asset distribution remains within the agreed limits. If limits are breached the chairman of the investment committee, after consultation with the investment specialists on the investment committee, will agree with the chairman of the trustee company the appropriate action to be taken.

No more than 4% of the total fund by market value can be invested in one company except for very large UK companies in which managers are allowed a maximum overweight position of 50% of the FTSE All-Share Index weighting with an overall cap of 10% of their part of the fund. No more than 10% of the market capitalisation of any one company (excluding collective investment schemes and companies established by the trustee company to aid the efficient administration of fund investments subject to appropriate controls) may be held without prior authority from the chairman of the investment committee. In both cases, the constraints apply as at the date of purchase.

The chief investment officer monitors the portfolios of all the managers to ensure that an adequate spread of investments is maintained and reports on this to the investment committee.

The external managers may not, as a rule, invest in securities not quoted on a recognised or designated investment exchange. Investment in private equity and other unquoted securities or funds by the internally managed fund is allowed up to a maximum of 2.5% of the total fund. Any such investments are reported to the following investment committee.

Additional assets

Additional voluntary contributions from members to purchase additional benefits on a money purchase basis are invested separately and managed and administered externally. The appointment of AVC providers is subject to review by the management committee.

Monitoring performance

The performance of the fund and of each investment manager is measured quarterly by HSBC against the relevant indices. The performance of the investment managers and the fund is reported quarterly to the investment committee.

The performance of the property portfolio is also separately measured against the customised IPID universe. The IPID performance data is incorporated within the data provided to HSBC by USS Ltd for measurement of the performance of the whole fund against its benchmark.

The internal auditor and chief investment officer visit the external investment managers to check the quality and effectiveness of procedures on a regular basis. The internal auditor monitors the internal manager to check the quality and effectiveness of procedures on a regular basis.

Transaction costs

Each of the securities managers is required to provide a report annually to the trustee company on transaction costs incurred which provides, as a minimum, the information required by the IMA/NAPF Pension Fund Cost Disclosure Code. The external managers are not permitted to use soft commissions in respect of their transactions on behalf of the fund but the investment committee has agreed that the use of soft commissions by the internally managed fund is appropriate and in the best interests of the scheme.

Level of scheme maturity

Although nearly 40% of the liabilities as at the 2002 valuation were in respect of pensions in payment, the scheme is cash flow positive and does not need to realise investments to meet liabilities.

The actuary has confirmed that this is likely to remain the case for the next ten years or more.

Stock lending

The trustee company is authorised by the scheme rules to participate in stock lending and has done so since 1998. It has concluded that the risks associated with stock lending in accordance with those lending programmes in which it participates, which incorporate a high level of risk mitigation, are not intrinsically different from those of other market operations and are justified in the light of the return to the scheme in terms of the annual stock lending fees capable of generation.

Any stock lending programme in which the fund participates must provide for all loans to be fully pre-collateralised and be approved by the investment committee acting on legal advice.

Responsible investment

As an institutional investor that takes seriously its fiduciary obligations to its members, the trustee company aims to be an active and responsible long-term shareholder of companies and markets in which it invests. The trustee company pursues this policy in order to protect and enhance the value of the fund's investments by encouraging responsible corporate behaviour.

The trustee company therefore requires its fund managers to pay appropriate regard to relevant corporate governance, social, ethical and environmental considerations in the selection, retention and realisation of all fund investments. The management committee expects this to be done in a manner which is consistent with the trustee company's investment objectives and legal duties.

The management committee has instructed its internal fund managers and called on its external managers to focus their effort on the engagement option, and thus seeks to use its influence as a major institutional investor to promote good practice by investee companies and by markets to which the fund is particularly exposed.

The management committee expects the scheme's fund managers to undertake appropriate monitoring of the policies and practices on material corporate governance and social, ethical and environmental issues of current and potential investee companies.

The aim of such monitoring should be to identify problems at an early stage, and enable engagement with management to see appropriate resolution of such problems. The trustee company will use voting rights as part of this engagement strategy, where voting should be undertaken in a prioritised, value-adding and informed manner. Where collaboration is likely to be the most effective mechanism for encouraging company management to address these issues appropriately, the trustee company expects its fund managers to participate in joint action with other institutional investors.

The investment committee monitors this engagement on an on-going basis with the aim of maximising its impact and effectiveness. The trustee company's governance, social, ethical and environmental policies are also reviewed regularly by the management committee and, where appropriate, updated to ensure that they are in line with good practice for pension funds in particular, and institutional investors in general.

Derivatives

Each of the managers is permitted to use derivatives within limitations specified by the investment committee. The current limit is 5% of funds under their management although the limit for the internally managed fund can be increased to up to 10% with the prior approval of the chairman of the investment committee. In connection with transitional arrangements for a reorganisation of the fund's management, the management committee may approve a higher percentage for that limit, which will then apply in that connection for such period as that committee shall have specified. The use of derivatives is to be solely for the efficient management of the portfolio.

Underwriting

The managers are permitted to underwrite issues provided they are prepared to hold all the stock which they underwrite.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
0100	Aberdeen	1,572	538	136
4100	Aston	539	333	110
4300	Bath	1,148	352	62
6600	Belfast	1,840	579	128
1000	Birmingham	2,470	1,029	207
4200	Bradford	834	451	89
1100	Bristol	2,434	688	144
4400	Brunel	685	302	60
7035	Buckingham	80	38	4
1200	Cambridge (University)	4,573	925	284
1202	Christ's	14	7	3
1204	Churchill	40	10	-
1206	Clare	12	5	-
1208	Clare Hall	6	-	1
1210	Corpus Christi	24	7	2
1212	Darwin	5	3	1
1214	Downing	25	9	3
1216	Emmanuel	23	4	1
1218	Fitzwilliam	14	5	2
1220	Girton	44	11	3
1222	Gonville & Caius	35	10	3
1224	Hughes Hall	1	2	1
1226	Jesus	19	4	3
1228	King's	22	10	2
1230	Lucy Cavendish	31	6	-
1232	Magdalene	15	6	2
1234	New Hall	39	9	2
1236	Newnham	36	18	3
1238	Pembroke	33	4	2

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
1240	Peterhouse	19	2	1
1242	Queens'	16	2	1
1245	Robinson	16	7	-
1246	St Catharine's	31	3	-
1255	St Edmund's	3	1	-
1250	St John's	44	6	4
1252	Selwyn	15	1	1
1254	Sidney Sussex	11	1	1
1258	Trinity	52	11	5
1260	Trinity Hall	22	4	2
1268	Wolfson	12	2	-
4700	City	1,118	343	96
7016	Cranfield	907	436	99
0700	Dundee	1,543	364	78
1300	Durham (University)	1,426	458	76
1301	St Chad's	3	-	-
1302	St John's	2	-	-
1303	Ushaw College	1	-	-
1500	East Anglia	1,167	360	56
0200	Edinburgh	3,328	936	239
1700	Essex	809	182	50
1600	Exeter	1,197	454	92
0300	Glasgow	2,647	838	165
0800	Heriot-Watt	811	261	43
1800	Hull	1,004	439	107
3100	Keele	765	248	47
1900	Kent	911	336	43
2100	Lancaster	1,170	346	71
2000	Leeds	3,049	1,013	244

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
2200	Leicester	1,438	368	81
2300	Liverpool	1,999	694	170
2497	London (University)	520	613	181
2408	Birkbeck	647	145	31
2401	Goldsmiths' College	552	131	8
2480	Heythrop	16	4	—
2409	Imperial Coll of Science, Technology & Medicine	3,093	924	229
2440	Institute of Cancer Research	202	20	2
2403	Institute of Education	411	193	43
2410	King's College London	2,609	875	208
2412	London School of Economics & Political Science	919	209	52
2434	London School of Hygiene & Tropical Medicine	498	91	32
2413	Queen Mary & Westfield College	1,242	542	116
2447	Royal Holloway and Bedford New College	659	250	42
2436	Royal Veterinary College	232	54	18
2428	St George's Hospital Medical School	470	68	18
2415	School of Oriental & African Studies	437	181	44
2416	School of Pharmacy	107	27	11
2417	University College	4,161	961	204
2484	London Business School	241	37	9
4600	Loughborough	1,265	432	110
2500	Manchester	3,237	1,131	248
5100	UMIST	1,155	453	86
1400	Newcastle-upon-Tyne	2,083	749	165
2600	Nottingham	2,705	647	156
8900	Open	2,463	633	125
2700	Oxford (University)	3,833	1,048	330
2701	All Souls	34	11	3
2702	Balliol	28	2	1

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependents and Dependent Children
2703	Brasenose	16	5	4
2704	Christ Church	48	10	6
2705	Corpus Christi	16	7	2
2706	Exeter	21	4	4
2735	Harris Manchester	11	3	—
2707	Hertford	27	3	2
2708	Jesus	26	6	—
2709	Keble	30	5	—
2710	Lady Margaret Hall	17	11	2
2734	Linacre	4	3	—
2711	Lincoln	15	6	3
2712	Magdalen	33	9	5
2732	Mansfield	26	5	1
2713	Merton	29	8	3
2714	New College	43	13	5
2715	Nuffield	42	10	3
2716	Oriel	21	11	—
2717	Pembroke	16	5	4
2718	Queen's	19	7	2
2736	Regent's Park	3	—	—
2719	St Anne's	36	8	1
2720	St Antony's	24	9	1
2721	St Catherine's	26	8	2
2722	St Edmund Hall	9	2	1
2723	St Hilda's	30	13	1
2724	St Hugh's	29	9	—
2725	St John's	42	7	2
2726	St Peter's	22	4	2
2727	Somerville	14	9	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
7028	Templeton	24	17	1
2728	Trinity	11	3	1
2729	University	22	8	1
2730	Wadham	18	7	3
2733	Wolfson	13	5	4
2731	Worcester	18	9	1
2800	Reading	1,593	530	136
0400	St Andrews	848	249	59
4800	Salford	1,017	513	83
2900	Sheffield	2,653	740	144
3000	Southampton	2,647	633	120
0500	Stirling	748	229	48
0600	Strathclyde	1,634	582	153
4000	Surrey	1,338	412	73
3200	Sussex	1,015	423	80
6800	Ulster	1,560	406	91
3900	Wales (University)	62	24	4
3300	Aberystwyth	650	284	73
3400	Bangor	769	325	71
3500	College of Cardiff	1,882	580	164
3800	Lampeter	107	45	12
3600	Swansea	1,091	375	97
3700	University of Wales College of Medicine	634	136	34
5000	Warwick	1,681	378	78
5200	York	1,390	265	60
Old university institutions total		100,088	31,290	7,149

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependants and Dependent Children
New universities admitted for limited membership only				
8160	Abertay	6	—	—
8100	Bournemouth	4	2	—
8080	Brighton	30	—	—
8150	Central Lancashire	9	1	—
8110	Coventry	32	—	—
8060	De Montfort	8	4	—
8010	Glamorgan	12	—	—
8210	Greenwich	3	—	—
8040	Hertfordshire	1	—	—
8050	Huddersfield	3	—	—
8170	Kingston	6	—	—
8190	Lincolnshire & Humberside	17	—	—
8300	Liverpool Hope University College	3	—	—
8270	Liverpool John Moores	11	—	—
8280	Luton	1	—	—
8140	Manchester Metropolitan	15	—	—
8240	North London	16	—	—
8090	Nottingham Trent	15	2	—
8120	Oxford Brookes	10	—	—
8250	Paisley	3	—	—
8070	Plymouth	21	2	—
8290	Queen Margaret University College	2	—	—
8220	Sheffield Hallam	7	—	—
8020	South Bank	25	4	—
8320	Sunderland	4	—	—
8330	Teeside	2	—	—
8030	Thames Valley	2	3	—
8180	University of Wales Institute, Cardiff	2	—	—
8130	Westminster	17	—	—
New university institutions total		287	18	—
All university institutions total		100,375	31,308	7,149

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependents and Dependent Children
7113	Aberdeen Univ Research & Ind Services Ltd	1	-	-
7224	AGCAS	1	-	-
7221	Al-Maktoum Institute for Arabic and Islamic Studies	2	-	-
7252	Amaethon Ltd	-	-	-
7209	Anglia South Open College Network	4	-	-
7010	Animal Health Trust	42	7	1
7040	Arthritis Research Campaign	1	2	-
7211	Arts and Humanities Research Board	1	-	-
7190	Ashridge (Boner Law Memorial) Trust	135	1	-
7178	Assessment and Qualifications Alliance	26	34	7
7011	Association of Commonwealth Universities	32	32	9
7244	Association of University Teachers	-	-	-
7108	Aston Techn Planning & Management Services Ltd	-	-	1
7067	Beatson Institute for Cancer Research	68	4	1
7084	BLCMP (Library Services) Ltd	2	4	-
7037	Brewing Research International	37	14	3
7206	Bristol Zoo Gardens	-	-	-
7012	British Glass Manufacturers' Confederation	-	8	-
7030	British Institute in Eastern Africa	3	1	-
7091	British Institute of Archaeology at Ankara	1	2	-
7112	British Institute of International & Comp Law	3	1	-
7097	British Psychological Society	2	2	-
7087	British School at Athens	6	2	1
7092	British School at Rome	3	-	-
7033	British School of Archaeology in Iraq	1	-	-
7050	British Universities Sports Association	1	-	-
7133	Brunel Institute of Organisation & Social Studies	1	2	-
7122	Burden Neurological Institute	7	-	-
7116	Cambridge Crystallographic Data Centre	38	4	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued		MEMBERS	PENSIONERS	
No.	Name		Pensioner Members	Spouses, Dependents and Dependent Children
7060	Cancer Research UK	5	10	1
7153	CASE	2	1	-
7197	Centre for Migration Studies	1	-	-
7015	College of Estate Management	27	24	8
7191	Connect - The Communications Disability Network	17	-	-
7229	Consortium for Higher Education Energy Purchasing	2	-	-
7188	Cranfield Aerospace Limited	21	5	-
7251	Cranfield Impact Centre Ltd	-	-	-
7219	Cranfield Innovative Manufacturing Ltd	6	-	-
7110	Council for British Research in the Levant	3	-	-
7216	Courtauld Institute of Art	60	-	-
7098	Culham College Inst for Church Related Education	1	-	-
7145	Dartington Hall Trust	2	-	-
7217	Duke Corporate Education Ltd	2	-	-
7055	East Grinstead Med Research Trust (Blond Labs Ltd)	4	1	1
7241	Economic Research Foundation of NI Ltd	-	-	-
7159	Edexcel Foundation	22	27	-
7164	Edinburgh Business School	18	1	-
7032	Edinburgh University Students' Association	67	4	1
7182	EDUSERV	40	2	-
7139	Engineering Development Trust	18	7	-
7212	EUSPEN Ltd	1	-	-
7089	Ewing Foundation	3	2	-
7239	Facial Surgery Research Foundation	2	-	-
7214	Forum for European Philosophy	-	-	-
7175	Freshwater Biological Association	5	-	-
7041	Geographical Association	4	3	-
7246	Graduate Prospects	-	-	-
7152	Gray Laboratory	30	4	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7025	Henley Management College	226	35	5
7237	Henley Management College (Trading) Ltd	1	-	-
7230	Heriot-Watt University Students Association	4	-	-
7157	Higher Education Careers Service Unit	4	5	-
7176	HEFCE	1	-	-
7151	HESDA	5	5	-
7186	Higher Education South East	3	-	-
7135	Higher Education Statistics Agency Ltd	19	2	2
7053	History of Parliament Trust	27	5	-
7143	Homerton College	18	3	1
7170	Hull University Union	4	2	-
7236	Institute for Criminal Policy Research	12	-	-
7029	Institute for Employment Studies	6	9	-
7079	Institute of Community Studies	6	7	-
7017	Institute of Development Studies	105	35	4
7056	Institute of Food Science & Technology	3	-	-
7225	Intellectual Property Ltd	-	-	-
7231	Interactive University	3	-	-
7207	International Extension College	4	-	-
7124	International Institute of Biotechnology	1	-	-
7200	International Research Foundation for Open Learning	6	-	-
7132	International Society (Manchester)	1	1	-
7149	International Students House	4	-	-
7054	Joint Library of Hellenic & Roman Societies	-	1	-
7147	JNT Association	34	6	1
7066	Journal of Endocrinology Ltd	-	1	-
7189	Kelvin Nanotechnology Ltd	-	-	-
7226	Kidscan Ltd	3	-	-
7192	King Alfred's College of Higher Education, Winchester	4	-	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7240	Leadership Foundation for Higher Education	2	-	-
7177	Learning from Experience Trust	2	-	-
7208	LeNSE Ltd	1	-	-
2482	Lister Institute of Preventive Medicine	1	4	3
7247	Liverpool Associates in Tropical Health	-	-	-
7171	London Institute	2	-	-
7168	London Mathematical Society	2	-	-
7179	London School of Jewish Studies	4	-	-
7235	London Universities Purchasing Consortium	4	-	-
7117	Ludwig Inst for Cancer Research - Middlesex Branch	21	-	-
7039	Ludwig Inst for Cancer Research - St Mary's Branch	13	4	-
7215	Manchester Medical Society	2	-	-
7090	Marie Curie Cancer Care	42	3	5
7125	Marine Biological Association of the United Kingdom	34	-	-
7094	MIRA Ltd	42	48	7
7096	Modern Humanities Research Association	6	1	-
7222	National Centre for Business and Sustainability	-	-	-
7018	National Inst of Economic & Social Research	25	9	3
7080	Norfolk Agricultural Station (Morley Res Centre)	6	4	1
7205	North East Wales Institute	5	-	-
7073	Northern College for Residential Adult Education	33	6	2
7146	Northern Ireland Council for Postgraduate Medical & Dental Education	5	1	-
7115	Northern Ireland Economic Research Centre	10	1	5
7048	Numerical Algorithms Group Ltd	43	2	2
7155	Nuffield Trust	9	1	-
7183	NYU in London	3	-	-
7242	The Office for the Independent Adjudicator for Higher Education	5	-	-
7058	Open University Worldwide	20	7	-

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7023	Overseas Development Institute	42	8	—
7174	Oxford Cambridge & RSA Examinations	143	8	2
7031	Oxford Centre for Hebrew & Jewish Studies	11	2	—
7118	Oxford Centre for Islamic Studies	5	1	—
7163	Oxford Policy Institute	1	—	—
7104	Pain Relief Foundation	1	—	—
7243	Picker Institute Europe	—	—	—
7075	Policy Studies Institute	33	13	3
7162	Quality Assurance Agency	49	12	3
7234	Rambert School of Ballet and Contemporary Dance	4	—	—
7052	Reading University Students Union	—	1	—
7203	Regional Studies Association	3	—	—
7156	Regulatory Policy Institute	—	—	—
7238	Rhodes Trust	6	—	—
7123	Richmond College	42	6	—
7185	Royal Academy of Dancing	1	—	—
7160	Royal Academy of Music	3	—	—
7218	Royal Agricultural College	1	—	—
7181	Royal College of Music	—	—	—
7081	Royal College of Paediatrics and Child Health	3	1	—
7020	Royal College of Surgeons of England	108	29	11
7021	Royal Geographical Society	2	3	1
7082	Royal Institute of International Affairs	2	—	—
7077	Royal Institution	16	5	1
7158	Royal Northern College of Music	3	—	—
7064	Royal Society	—	—	—
7070	Royal Society of Edinburgh	2	2	—
7022	Ruskin College	46	15	7
7245	Sams Ardtoe	10	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS	PENSIONERS	
			Pensioner Members	Spouses, Dependants and Dependent Children
7105	School Mathematics Project	4	3	—
7130	Scottish Association for Marine Science	63	2	1
7232	Scottish Further Education	—	—	—
7169	Society of Antiquaries of London	9	—	—
7196	Sheffield University Enterprises Ltd	8	—	—
7199	Smith Institute	5	—	—
7131	Southern Universities Management Services	13	3	—
7180	Standing Conference of Principals Ltd	4	—	—
7220	Stockholm Environment Institute	—	—	—
7042	Strangeways Research Laboratory	4	10	3
7049	Students' Union University of Leicester	1	2	1
7187	Technology Innovation Centre	1	—	—
7134	The Prince's Foundation	1	2	—
7138	Thrombosis Research Institute	17	2	—
7109	Trade Union Research Unit Ltd	—	1	—
7173	Trinity College of Music	39	—	—
7204	UHI Millennium Institute	6	—	—
7250	UK Biobank Ltd	—	—	—
7210	UKCOSA	15	—	—
7166	UMIST Ventures Ltd	6	—	—
7106	Universities and Colleges Admissions Service	22	12	4
7150	Universities and Colleges Employers Association	9	1	—
7121	Universities UK	44	8	1
7194	University College Northampton	3	—	—
7184	University Council for the Education of Teachers	3	—	—
7198	University of Cambridge Challenge Fund	2	—	—
7256	University of Sheffield Union of Students	—	—	—
7202	University of Wales College, Newport	1	—	—
7249	University of York Conference Park Ltd	—	—	—

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

NON-UNIVERSITY INSTITUTIONS continued

No.	Name	MEMBERS		PENSIONERS	
		Pensioner Members		Spouses, Dependants and Dependent Children	
9999	USS Ltd	139	26	9	
7227	Warren House Group at Dartington	10	-	-	
7065	Wildfowl & Wetlands Trust	1	8	1	
7148	Witan Hall (incorp Gyosei International College in the UK)	21	1	1	
7142	WP Management Ltd	1	-	-	
7233	Xceleron Ltd	1	-	-	
7223	York Health Economics Consortium Ltd	12	-	-	
7195	Yorkshire and Humberside Universities Association Ltd	4	-	-	
7027	York Archaeological Trust	3	2	-	
7076	Zoological Society of London	43	11	-	
-	Withdrawn institutions	-	46	9	
Non-university institutions total		2,679	665	133	
All institutions total		103,054*	31,973	7,282	

*Included in this figure (but counted once only) are 1,055 members who have more than one appointment.

UNIVERSITIES SUPERANNUATION SCHEME
MEMBERSHIP STATISTICS

The number of members in the scheme and the number receiving pension and annuity benefits at the end of the year are as follows:

SUMMARY OF MOVEMENTS during the year ended 31 March 2004

Members	University Institutions	Non-University Institutions	Totals
Total members at 1 April 2003	96,198	2,146	98,344
New members	15,942	739	16,681
Retirements	- Ill-health - Other	108 1,687	2 42 110 1,729
Deaths		118	2 120
Leavers and withdrawals - Refunds		1,560	32 1,592
	- Deferred/undecided	7,925	126 8,051
	- Retrospective*	368	1 369
Total members at 31 March 2004	<u>100,374</u>	<u>2,680</u>	<u>103,054</u>

*Retrospective withdrawals are members who withdrew from USS within three months of the date of joining the scheme with retrospective effect to the date of commencing employment at a USS institution.

In addition USS Ltd was notified during the year of 4,256 employees who became eligible to join the scheme but who elected not to do so.

Pensioner Members	University Institutions	Non-University Institutions	Totals
Total pensioners at 1 April 2003	29,639	615	30,254
New pensioners	2,398	64	2,462
Deaths	729	14	743
Total pensioners at 31 March 2004	<u>31,308</u>	<u>665</u>	<u>31,973</u>

In addition at 31 March 2004, there were 6,468 pensions being paid to spouses and dependants and 814 annuities being paid to dependent children. Deferred pensioners not yet receiving a pension totalled 56,655.

Ex-spouse participants

At 31 March 2004 there were 71 ex-spouse participants who have benefits within the scheme in their own right as a result of pension sharing, of whom 7 are now in receipt of their pension and are included in the pensioner member summary above.

FUND ACCOUNT for the year ended 31 March 2004

	Note	2004 £m	2003 £m
Contributions and Benefits			
Contributions receivable	3	697.9	660.8
Premature retirement scheme receipts	4	109.8	115.2
Transfers in		844.0	816.2
		844.0	816.2
Benefits payable	5	683.2	645.3
Payments on account of leavers	6	45.2	42.8
Administration costs	7	9.3	7.6
		737.7	695.7
Net additions from dealings with members		106.3	120.5
		106.3	120.5
Returns on investments			
Investment income	8	557.0	555.1
Change in market value of investments	9	3,215.5	(5,036.1)
Investment management expenses	10	(14.7)	(13.5)
		3,757.8	(4,494.5)
Net returns on investments		3,864.1	(4,374.0)
Net increase (decrease) in the fund during the year		15,582.0	19,956.0
Fund at start of year		15,582.0	19,956.0
Fund at end of year		19,446.1	15,582.0

The notes on pages 58 to 64 form part of these financial statements.

STATEMENT OF NET ASSETS as at 31 March 2004

	Note	2004 £m	2003 £m
Investments			
Securities	12	16,875.4	12,914.3
Pooled investment vehicles securities	13	468.3	410.6
Pooled investment vehicles property	13	71.1	66.4
Property	14	1,553.5	1,649.6
Life assurance policies	15	3.7	14.4
Cash deposits		350.0	396.1
Stockbroker balances	16	(30.6)	(24.6)
		19,291.4	15,426.8
Net current assets	17	154.7	155.2
Total net assets, representing the fund balance		19,446.1	15,582.0

The financial statements on pages 56 to 64 and the statement of trustee's responsibilities on page 65 were approved by the trustee, Universities Superannuation Scheme Limited, on 29 July 2004 and were signed on its behalf by:

G J Davies
Chairman

T H Merchant
Chief Executive

The notes on pages 58 to 64 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2004

1. Basis of preparation

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 (SORP) "Financial Reports of Pension Schemes" except that transactions and fund values in respect of money purchase additional voluntary contributions have not been disclosed in the fund account and the net assets statement on the grounds that the amounts involved are not material. However, details of AVC transactions are included in note 3 to the financial statements.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statements by the actuary on pages 68 to 69 and these financial statements should be read in conjunction with it.

2. Accounting Policies

A summary of the significant accounting policies which have been applied consistently by the scheme is set out below.

Contributions & Benefits

Contributions represent the amounts returned by the participating institutions as being those due to the scheme in respect of the year of account. The responsibility for ensuring the accuracy of contributions rests with institutions which, under the terms of the trust deed regulating USS, are ultimately responsible for ensuring the solvency of the scheme. Receipts under the premature retirement scheme and benefits payable are accounted for in the period in which they fall due.

The principal scheme benefits are provided under the main section. The supplementary section, which is funded by a contribution of 0.35% of salary from the members, provides additional benefits payable when a member retires on the grounds of ill-health or incapacity or dies in service.

Investment income

Investment income is brought into account on the following bases:

- (a) Dividends, tax and interest from securities, on the date that the scheme becomes entitled to the income;
- (b) Interest on cash deposits, as it accrues;
- (c) Property rental income, as it accrues;
- (d) Interest on advances for property developments, which is treated as investment income in the fund account and forms part of the cost of the relevant development, as it accrues until the earlier of the development becoming a completed property or the contracted purchase price being reached.

Property

A completed property is one that has received an architect's certificate of practical completion and which is either substantially let or, although not substantially let, is neither within the period of contractors' liability for defects nor is expected to be the subject of further building works. Developments in progress include any property which is not a completed property.

Life assurance policies

Proceeds of policies held with Equitable Life are not treated as income but are accounted for within the value at which the life assurance policies are included in the statement of net assets.

Rates of exchange

Assets and liabilities denominated in overseas currencies are translated into sterling at the rates of exchange ruling at the balance sheet date and any exchange movements on translation are included in the fund account as part of the change in market value of investments.

Transfers

Transfers to and from the fund are accounted for on the basis of amounts received and paid during the year.

Investments

Investments are included in the statement of net assets at current value at the year end.

The current values are as follows:

- | | |
|-----------------------------|---|
| (a) Quoted securities | - at closing prices; these prices may be last trade prices or mid market prices depending on the convention of the stock exchange on which they are quoted; |
| (b) Property | - on the basis of open market value; |
| (c) Life assurance policies | - at the surrender value where a quotation has been received, otherwise at the value calculated by an actuarial valuation. |

Changes in current values are shown as movements in the fund account in the year in which they arise.

3. Contributions

	2004 £m	2003 £m
Main section		
Employers' contributions	463.4	440.9
Members' basic contributions	198.4	188.8
Members' additional voluntary contributions	24.5	20.1
	<hr/>	<hr/>
	686.3	649.8
Supplementary section		
Members' contributions	11.6	11.0
	<hr/>	<hr/>
	697.9	660.8

Additional voluntary contributions referred to above represent contributions made to purchase additional pensionable service under the rules of the scheme.

Money purchase additional voluntary contributions

A money purchase additional voluntary contribution facility is administered by the Prudential Assurance Company Limited.

Individual members' contributions are deducted from their salaries and paid direct to the Prudential by the institutions. The contributions are invested through the Prudential on behalf of the individuals concerned to provide additional benefits within the overall limits laid down by the Inland Revenue. The contributions paid and the investments purchased are not included in the accounts.

The value of the accumulated additional voluntary contributions at the end of the year, together with a summary of the movements during the year, is as follows:

	2004 £m	2003 £m
Value at the start of the year	135.5	114.9
Contributions from members	19.2	20.7
Transfers in	0.7	1.4
Income from interest and bonuses	5.0	4.8
Payouts to members	(7.0)	(6.3)
Value at the end of the year	<u>153.4</u>	<u>135.5</u>

4. Transfers in

	2004 £m	2003 £m
Individual transfers in	105.4	99.6
Group transfers in	4.4	15.6
	<u>109.8</u>	<u>115.2</u>

5. Benefits payable

Main section	2004 £m	2003 £m
Pensions	554.8	517.0
Lump sums on or after retirement	108.1	109.8
Lump sums on death in service	10.8	9.8
	<u>673.7</u>	<u>636.6</u>
Supplementary section		
Pensions	7.4	6.8
Lump sums on or after retirement	1.6	1.6
Lump sums on death in service	0.5	0.3
	<u>9.5</u>	<u>8.7</u>
	<u>683.2</u>	<u>645.3</u>

6. Payments on account of leavers

	2004 £m	2003 £m
Individual transfers to other schemes	41.8	39.9
Payments for members joining state scheme	1.5	1.3
Refunds to members leaving service	1.9	1.6
	<u>45.2</u>	<u>42.8</u>

7. Administration costs

In accordance with the trust deed, the costs of managing and administering the scheme, incurred by the trustee company, are chargeable to USS. Details are given in the financial statements of the trustee company (Universities Superannuation Scheme Limited: Registered No. 1167127).

8. Investment income

	2004 £m	2003 £m
Dividends from UK equities	290.2	288.3
Net property income	82.1	92.3
Income from pooled investment vehicles	4.1	3.2
Dividends from overseas equities	95.9	62.4
Income from UK fixed interest securities	21.2	30.2
Income from overseas fixed interest securities	32.1	44.8
Income from index-linked securities	14.3	9.3
Interest on cash deposits	14.7	20.6
Other income	2.4	4.0
	<u>557.0</u>	<u>555.1</u>

9. Change in market value of investments

The changes in the market value of investments are shown below.

	Market value 2003 £m	Purchases during the year at cost £m	Proceeds of sales during the year £m	Changes in value during the year £m	Market value 2004 £m
Securities	12,914.3	13,256.4	(12,299.3)	3,004.0	16,875.4
Pooled investment vehicles - securities	410.6	328.9	(423.4)	152.2	468.3
Pooled investment vehicles - property	66.4	1.0	-	3.7	71.1
Property	1,649.6	69.1	(229.2)	64.0	1,553.5
Life assurance policies	14.4	-	(10.3)	(0.4)	3.7
Cash deposits	396.1	-	(38.1)	(8.0)	350.0
	<u>15,451.4</u>	<u>13,655.4</u>	<u>(13,000.3)</u>	<u>3,215.5</u>	<u>19,322.0</u>
Stockbroker balances		(24.6)			(30.6)
					<u>19,291.4</u>

Changes in the value of investments comprise both realised gains/(losses) on investments sold during the year and unrealised gains/(losses) on investments held at the year end.

10. Investment management expenses

Investment management expenses comprise all costs directly attributable to the scheme's investment activities, including the operating costs of the London Investment Office and the costs of management and agency services rendered by third parties. Details are given in the financial statements of the trustee company (Universities Superannuation Scheme Limited: Registered No. 1167127).

11. Taxation

UK tax

USS is an exempt approved scheme under the Income & Corporation Taxes Act 1988 and is therefore not normally liable to UK income tax on income from investments directly held nor to capital gains tax arising from the disposal of such investments.

Overseas tax

Investment income from overseas investments may be subject to deduction of local withholding taxes. Where no double taxation agreement exists between the UK and the country in which the income arises, the tax suffered is deducted from the income to which it relates.

Investment income arising from stocks and securities in the United States of America is exempt from US tax under the Internal Revenue Code.

12. Securities

	2004 £m	2003 £m
Quoted		
UK equities	7,360.8	7,940.3
Overseas equities	7,842.7	3,195.3
UK fixed interest - public sector quoted	188.7	345.5
UK fixed interest - other	866.3	108.4
Overseas fixed interest - public sector quoted	557.3	732.6
Overseas fixed interest - other	55.6	181.1
Index-linked	4.0	411.1
	<u>16,875.4</u>	<u>12,914.3</u>

13. Pooled investment vehicles

	2004 £m	2003 £m
Securities		
Managed funds	229.7	157.3
Unit trusts	238.6	253.3
	<u>468.3</u>	<u>410.6</u>
Property		
Unit trusts	25.0	21.2
Limited partnerships	46.1	45.2
	<u>71.1</u>	<u>66.4</u>
	<u>539.4</u>	<u>477.0</u>

14. Property

	2004 £m	2003 £m
UK completed properties	1,433.1	1,518.2
UK developments in progress	120.4	131.4
	<u>1,553.5</u>	<u>1,649.6</u>
Properties analysed by type:		
Freehold	1,454.3	1,563.1
Leasehold	99.2	86.5
	<u>1,553.5</u>	<u>1,649.6</u>

The completed properties and developments in progress were valued independently by Colliers Conrad Ritblat Erdman, chartered surveyors, as at 31 March 2004 and 31 March 2003.

15. Life assurance policies

The scheme continues to hold a small number of policies with the Equitable Life Assurance Society which were assigned to it in respect of former FSSU members. The basis of valuation is stated in Note 2.

16. Stockbroker balances

	2004 £m	2003 £m
Amount due to stockbrokers	(88.9)	(96.4)
Amount due from stockbrokers	58.3	71.8
	<u>(30.6)</u>	<u>(24.6)</u>

17. Net current assets

	2004 £m	2003 £m
Current assets		
Dividends receivable	95.8	94.3
Contributions due from institutions:		
- employers' contributions	52.7	50.7
- members' basic contributions	17.3	16.4
- members' additional voluntary contributions	1.8	1.7
Other debtors	27.9	20.0
Cash at bank and in hand	10.9	16.4
	<u>206.4</u>	<u>199.5</u>
Current liabilities		
Property creditors	31.3	16.9
Benefits payable	15.0	14.5
Taxation creditor	0.1	3.7
Other creditors	3.4	6.5
Due to USS Ltd	1.9	2.7
	<u>51.7</u>	<u>44.3</u>
	<u>154.7</u>	<u>155.2</u>

Contributions due at the year end have been paid to the Scheme subsequent to the year end in accordance with the Schedule of Contributions.

18. Securities on loan

Securities have been lent to the counterparties in return for fee income earned by the scheme. Security for these loans is obtained by holding collateral in the form of cash, equities, government bonds and letters of credit.

	2004 £m	2003 £m
Value of stock on loan at 31 March	829.9	1,270.6
Value of collateral held at 31 March	881.7	1,392.9

19. Financial commitments

	2004 £m	2003 £m
Property		
Contracts placed but not provided for	143.5	164.5
Securities		
Forward commitments for unpaid calls on securities and underwriting contracts	15.7	1.4

20. Self investment

The scheme had no employer related investments during the year.

21. Related party transactions

There are no related party transactions other than between the scheme and its trustee company and certain employees of the trustee company through their membership of the Scheme. The trustee company provides administration services, the cost of which includes directors' emoluments as detailed in note 5 of the trustee company accounts, and investment management services to the scheme, charging £9.3 million and £14.7 million respectively, with a balance due from the scheme of £1.9 million as at 31 March 2004.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements are the responsibility of the trustee, Universities Superannuation Scheme Limited. Pension scheme regulations require the trustee to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year 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, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes".

The trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The trustee is also responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions (other than voluntary contributions) payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The trustee is also responsible for keeping records of contributions received in respect of any active member of the scheme, and for ensuring that contributions are made to the scheme in accordance with the schedule of contributions for the period from 22 May 2000 and, prior to this date, in accordance with the scheme rules and with the recommendations of the actuary.

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

INDEPENDENT AUDITORS' REPORT to the trustee of the Universities Superannuation Scheme

We have audited the accounts on pages 56 to 64.

This report is made solely to the scheme's trustee directors, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work and our work on contributions has been undertaken so that we might state to the scheme trustee directors those matters we are required to state to them in such an auditors' 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 trustee directors as a body, for our audit work, our work on contributions, for this report, or for the opinions we have formed.

Respective responsibilities of trustee and auditors

As described on page 65 the scheme's trustee is responsible for obtaining audited accounts which comply with applicable United Kingdom law and Accounting Standards. It is also responsible for making available, commonly in the form of a trustee's report, certain other information about the scheme which complies with applicable United Kingdom law. Further, as described on page 65 it is responsible for ensuring that a schedule of contributions payable to the scheme is prepared and maintained and for procuring that contributions are made to the scheme in accordance with that schedule. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

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

Bases of opinions

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

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

Opinions

Opinion on the accounts

In our opinion the accounts show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 March 2004 and of the amount and disposition at that date of the assets and liabilities (other than liabilities to pay pensions and benefits after the end of the 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.

Auditor's Statement about Contributions

In our opinion, contributions for the scheme year ended 31 March 2004 have been paid in accordance with the schedule of contributions certified by the actuary on 27 March 2003.

KPMG LLP
Chartered Accountants
Registered Auditor

Date: 29 July 2004

ACTUARIAL STATEMENT made for the purposes of Regulation 14 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

Name of scheme: Universities Superannuation Scheme

Effective date of valuation: 31 March 2002

1. Compliance with minimum funding requirement

In my opinion, on the effective date the value of the assets of the Scheme exceeds 120% of the amount of the liabilities of the Scheme.

2. Valuation principles

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

E S Topper

Fellow of the Institute of Actuaries

Mercer Human Resource Consulting Limited
Manchester M2 4DW
February 2003

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

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: Universities Superannuation Scheme

Effective date of valuation: 31 March 2002

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. This statement assumes the Scheme continues and does not mean that should the Scheme wind up there would be sufficient assets to provide the full accrued benefits.

I have made assumptions consistent with market values, prospective investment returns and economic conditions at the effective date. Variations in markets may mean divergence from those assumptions and changes in values of assets such that this statement would no longer be true unless different assumptions are made or contributions increased at or before the next valuation. The Institutions' abilities to meet future contribution requirements are outside the scope of my investigation. In giving this opinion, I have assumed that the following amounts will be paid to the Scheme:

Description of contributions

Employer contributions: 14% of Salaries per annum
Member contributions: 6.35% of Salary per annum

Subject to review at future actuarial valuations.

2. Summary of methods and assumptions used

Valuation method	Projected unit
Investment return - past service	5.0% per annum
- future service	6.0% per annum
Salary growth	3.7% per annum
Pension increases	2.7% per annum

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

E S Topper

Mercer Human Resource Consulting Limited
Manchester M2 4DW
February 2003

Fellow of the Institute of Actuaries

FIVE YEAR SUMMARY - FUND ACCOUNTS for years ended 31 March

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Contributions and benefits					
Contributions	698	661	611	565	523
PRS receipts	36	40	38	35	37
Transfers in	110	115	106	92	92
	844	816	755	692	652
Benefits payable					
Pensions	562	524	488	446	417
Lump sums	122	121	122	91	88
Transfers out	43	41	54	27	20
Refunds	2	2	2	1	1
	729	688	666	565	526
Investment income					
(net of investment management costs)	542	541	463	507	480
Administration costs of the trustee					
(excluding investment management costs)	9.3	7.6	5.8	6.3	6.5
Changes in value of investments					
	3,215	(5,036)	(629)	(2,562)	2,559
Investments of the fund (at current values) at 31 March					
Securities	16,876	12,914	16,890	17,452	19,664
Pooled investment vehicles	539	477	566	—	—
Property	1,553	1,650	1,667	1,592	1,516
Life assurance policies	4	15	183	212	250
Cash deposits	350	396	486	644	454
Stockbroker balances	(31)	(25)	(22)	(23)	(41)
	19,291	15,427	19,770	19,877	21,843

Note: Prior to year end 31 March 2002 pooled investment vehicles were not separately disclosed and were included with securities.

	2004	2003	2002	2001	2000
Contributing members	103,100	98,400	95,700	91,300	85,100
Pensioners	39,200	37,000	35,100	33,100	31,400
Deferred pensioners	56,700	51,400	49,500	45,400	42,000
	199,000	186,800	180,300	169,800	158,500

REPORT OF THE DIRECTORS for the year ended 31 March 2004

The directors submit their report and the accounts for the year ended 31 March 2004.

Principal activity

The company, which is limited by guarantee and does not have a share capital, was established to undertake and discharge the office of trustee of any superannuation scheme but in particular to act as the trustee of the Universities Superannuation Scheme (USS).

Operating costs and review of activities

The operating costs for the year amounted to £24,011,000 this amount being recoverable from USS. This compares with £21,134,000 for the year ended 31 March 2003 and represents a 21% increase in administration costs (excluding the prior year recovery of VAT in 2003) and a 9% increase in investment management costs.

Much of the increase in administration costs is non-recurring. Costs in respect of changes in senior management, following the retirement of the chief executive, the appointment of an interim chief executive and a restructuring of the management of the pensions department account for 6.5% of the increase. A software depreciation charge which related to prior periods, a full reprint and distribution of the scheme guide for member packs and professional fees in reviewing the expansion policy account for a further 4%. A continuing increase in the number of individual cases referred to the actuary has also contributed to the increase in costs. Costs have also been incurred with the actuary which will enable some of these calculations to be completed in-house in future while the government's pensions reforms should, in due course, further reduce the number of cases referred to the actuary.

The main reasons for the increase in investment management costs are an increase in property management costs, reflecting a revised agreement with our principal property consultants which resulted in increased costs through the accounts of USS Ltd and a corresponding decrease in the transactional costs which are included in the fund accounts; and a reduction in the extent to which investment costs could be met by third parties (as described in note 7 to the accounts).

This has been a year which has seen relatively few changes to the pensions administration system and service has continued throughout the year at a level which the directors believe is satisfactory. The Oracle payroll system was replaced in December 2003 by a system from Comino, the suppliers of our pensions administration system, which is designed specifically for pension payrolls. This change took place seamlessly and our pensioners should have been quite unaware of the change. The software is already giving some efficiency improvements and reduced maintenance costs and should, in due course, be fully integrated with the pensions administration software.

Progress has been made in taking on the non-academic schemes of three participating USS employers. Much has been learned from the work which has been carried out and a moratorium has been put in place on admitting further new schemes to enable lessons to be absorbed and any refinements to the expansion policy to be fully considered.

As part of its policy to review the appointment of its professional advisers, the management committee carried out a review of the external auditors and accepted a recommendation from the audit committee to appoint KPMG as auditors to replace PwC. The management committee recognises that this did not reflect upon the competencies or practices of PwC and expresses its appreciation of the professional way in which PwC has discharged its responsibilities whilst auditors to USS Ltd and USS.

Fixed assets

The details of movements in fixed assets are set out in Note 14 to the accounts.

Directors

The directors of the company during the year were as follows:

Professor Sir Graeme Davies (chairman)	Howard Jacobs
C D Donald (deputy chairman)	Lady Merrison (from 1.10.03)
A S Bell	Sir Howard Newby
Professor John Bull (from 1.3.04)	Michael S Potts
L Collinson (to 31.1.04)	Professor Charles Sutcliffe
Angela Crum Ewing (to 30.9.03)	J W D Trythall
Professor Sir Martin Harris	Baroness Warwick of Undercliffe

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the operating costs of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

PricewaterhouseCoopers LLP resigned as auditors during the year and the directors appointed KPMG LLP to fill the resultant casual vacancy. KPMG LLP has expressed a willingness to continue in office. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

J P Williams
Secretary

29 July 2004

STATEMENT OF OPERATING COSTS for the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Personnel costs			
Employees' emoluments	4	7,296	6,291
Directors' emoluments and expenses	5	451	378
Recruitment, training and welfare		370	294
		8,117	6,963
Premises costs			
Rent, rates, service charges and utilities		1,355	1,669
Depreciation and maintenance		260	178
		1,615	1,847
Investment costs			
Securities management		6,440	6,849
Securities management rebates	6	(2,005)	(2,158)
Property management		1,968	1,686
Custodial services		1,496	1,329
Legal costs - property management		410	390
- securities management		47	7
Property valuation		154	176
Investment performance measurement		92	85
Costs met by third parties	7	(19)	-
		8,583	8,364
Other costs			
Computer and information services costs	8	2,824	2,372
Professional fees	9	1,756	1,433
Travel and car costs		418	404
Institution liaison and member communication		327	175
Office equipment		255	245
Telephones and postage		213	201
Insurances		177	97
Printing and stationery		161	144
FSA/IMRO membership		75	89
Pensions Act Levy		69	55
Auditors' remuneration	10	60	40
Sundry (Income)/Expenditure		24	40
Profit on disposal of fixed assets		(26)	(18)
Costs met by third parties	7	(637)	(1,224)
		5,696	4,053
Total operating costs before prior year items		24,011	21,227
Recovery of costs incurred in prior years			
VAT		-	(93)
Total operating costs recoverable from USS	13	24,011	21,134

BALANCE SHEET as at 31 March 2004

	Note	2004 £'000	2003 £'000
Assets			
Fixed assets			
Tangible fixed assets	14	2,037	2,304
Current assets			
Debtors	15	3,122	3,530
Cash at bank and in hand		2	3
		3,124	3,533
Total assets		5,161	5,837
Liabilities			
Creditors - amounts falling due within one year	16	5,161	5,837
Total liabilities		5,161	5,837

The financial statements on pages 73 to 82 were approved by the board of directors on 29 July 2004 and were signed on its behalf by:

G J Davies
Chairman

M B Harris
Deputy Chairman

CASH FLOW STATEMENT for the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
Operating activities			
Cash received from USS		24,801	24,737
Operating costs paid	17	(24,107)	(22,597)
Net cash inflow from operating activities		694	2,140
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(770)	(2,167)
Sale of tangible fixed assets		75	27
		(695)	(2,140)
(Decrease) in cash		(1)	—

NOTES TO THE ACCOUNTS for the year ended 31 March 2004

1. The company, which is limited by guarantee and does not have a share capital, has no beneficial interest in the investments and other assets held in its name but not included in its balance sheet, since it holds these as the trustee of USS.

2. Format of accounts

A Profit and Loss Account is not presented with these accounts as such a statement is inappropriate to the operations of the company. The costs incurred and the method by which they are recovered are therefore set out in the Statement of Operating Costs.

A separate statement of total recognised gains and losses has not been presented as all gains and losses are included in the Statement of Operating Costs.

A separate note of historical cost profits and losses is not required as the accounts are prepared under the historical cost convention.

3. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention and on the accruals basis and comply with applicable Accounting Standards in the United Kingdom which have been consistently applied.

Depreciation of fixed assets

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Office equipment	15
Alterations to rented premises	20
Computer equipment	20 and 33 1/3
Motor cars	25
Computer software	33 1/3

Operating leases

Rental costs under operating leases are charged on a straight line basis over the lease term in the Statement of Operating Costs.

Pensions

USS Ltd participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Earnings Related Pension Scheme.

The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustee company on the advice of the actuary. In the intervening years the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the company benefits from the employees' services.

4. Employees' emoluments

	2004	2003
The average weekly number of persons employed by the company during the year (excluding directors) was	149	142
Staff costs for the above persons were:	£'000	£'000
Wages and salaries	5,871	5,300
Pension costs (superannuation contributions)	629	566
Social security costs (national insurance contributions)	554	472
Restructuring costs	251	15
	7,305	6,353
Less recovery (see note 11)	(9)	(62)
	7,296	6,291

Restructuring costs for 2004 represent payments made in connection with a restructuring of senior management and under the company's early retirement scheme.

	2004	2003
	£'000	£'000
Emoluments of the chief executive	225	189
D B Chynoweth	30	—
T H Merchant	255	189

The emoluments of the chief executive are shown on the same basis as for higher paid staff. USS Ltd's pension contributions to USS for D B Chynoweth amounted to nil (2003: nil) and for T H Merchant amounted to £2,310 (2003: nil). D B Chynoweth retired on 30 June 2003 but continued in a consultancy capacity until 31 March 2004. T H Merchant was appointed from 2 February 2004. In the intervening period T H Merchant was employed through a consultancy firm as the interim chief executive and payments to that firm for his services, which are also included in staff costs, amounted to £179,550, excluding VAT and expenses.

Remuneration of other higher paid staff, excluding employer's pension contributions but including benefits in kind:

	2004	2003
£70,001 - £80,000	6	2
£80,001 - £90,000	2	3
£90,001 - £100,000	—	1
£100,001 - £110,000	3	3
£110,001 - £120,000	1	1
£120,001 - £130,000	1	—
£130,001 - £140,000	1	1
£140,001 - £150,000	2	2
£150,001 - £160,000	1	—
£160,001 - £170,000	1	—
£200,001 - £210,000	1	—
£280,001 - £290,000	—	1
£450,001 - £460,000	—	1
£460,001 - £470,000	1	—

The salary figures above include bonus payments for the investment staff, totalling £557,690 (2003: £542,353) which relate directly to their contribution to fund out-performance. Both the bonus scheme and the annual outcome are reviewed by the remuneration committee.

5. Directors' emoluments and expenses

	2004 £000	2003 £000
Fees	360	299
Employer's costs - national insurance contributions	39	29
- VAT	5	4
Expenses	47	46
	<hr/> <hr/> 451	<hr/> <hr/> 378

Directors are remunerated on a basis which is approved by the Joint Negotiating Committee and is in accordance with the contribution which they make to the work of USS Ltd and their legal responsibilities.

No pension contributions are made on behalf of directors. As at 31 March 2004 seven of the directors are members of USS either as pensioners or through their employment with the institutions.

Directors' fees charged to the accounts reflect small differences between the amounts accrued in the accounts at each year end and the amounts paid. Actual emoluments paid to each director in respect of each of the last two years were as follows:

	2004 £000	2003 £000
Professor Sir Graeme Davies (chairman)	42	40
C D Donald (deputy chairman)	47	43
H Jacobs	42	12
A S Bell	41	36
J W D Trythall	38	26
M S Potts	27	25
L Collinson	25	23
Professor Charles Sutcliffe	24	23
Baroness Warwick of Undercliffe	22	20
Professor Sir Martin Harris	17	16
Mrs A Crum Ewing	13	25
Sir Howard Newby	11	11
Lady Merrison	8	-
Professor John Bull	1	-
	<hr/> <hr/> 358	<hr/> <hr/> 300

6. Securities management rebates

Management fees and other charges incurred by securities managers on investment in their own in-house funds are rebated from the fees chargeable to USS Ltd. These costs are included within the book cost of the investments held by USS.

7. Costs met by third parties

Costs met by third parties represent the amount of the commission paid by USS to certain stockbrokers which is directed by the stockbrokers to the purchase of equipment and services for USS Ltd for investment management purposes.

8. Computer and information services costs

	2004 £000	2003 £000
Investment information services	1,099	1,042
Computer running costs	733	708
Software depreciation	483	196
Investment accounting services	306	267
Hardware depreciation	188	145
Computer bureau fees	15	14
	<hr/> <hr/> 2,824	<hr/> <hr/> 2,372

Software depreciation in 2004 includes £160,000 which should have been charged between 2000 and 2003.

9. Professional fees

	2004 £000	2003 £000
Actuarial	780	593
Legal	569	531
Investment consultancy	183	73
Committee members (other than directors)	88	73
Member medicals	36	20
Taxation	30	44
Salary surveys	19	2
Public relations	18	29
Internal audit review	6	-
Pensioner mortality check	-	43
Other	27	25
	<hr/> <hr/> 1,756	<hr/> <hr/> 1,433

10. Auditors' remuneration

	2004 £000	2003 £000
USS	55	36
USS Ltd	5	4
	<hr/> <hr/> 60	<hr/> <hr/> 40

Remuneration of the company's auditors (KPMG) for provision of services other than for the audit of USS and USS Ltd was £5,000 for advice on taxation (2003: £50,400 – PwC for advice on taxation and investment matters. PwC remain the company's tax advisers).

11. Correction of prior year pension increase

	2004 £'000	2003 £'000
Other consultancy costs	10	66
Staff costs	9	62
IT consultancy costs	–	2
Other costs	–	2
	<u>19</u>	<u>132</u>

The above costs were incurred in processing a correction to the increase paid to a number of USS pensioners in 1997. These costs have been recovered from our solicitors and are not included in the statement of operating costs.

12. Value Added Tax

USS Ltd is registered for Value Added Tax activities and recovers a proportion of the input tax on administrative expenditure directly attributable to the scheme's investment activities.

13. Total operating costs – recoverable from USS

	2004 £'000	2003 £'000
Investment management costs	14,727	13,464
Other administration costs	9,284	7,670
	<u>24,011</u>	<u>21,134</u>

Investment management costs are those costs which are directly attributable to investment activities and include relevant personnel, premises and other costs.

Included in operating costs is a charge for depreciation of £988,000 (2003: £590,000) as set out in note 14.

14. Tangible fixed assets

Cost	Alterations					
	to Rented Premises £'000	Computer Equipment £'000	Computer Software £'000	Office Equipment £'000	Motor Cars £'000	Total £'000
At 1 April 2003	2,071	1,557	2,096	1,533	358	7,615
Additions	17	61	516	33	143	770
Disposals	–	–	(849)	(91)	(186)	(1,126)
At 31 March 2004	2,088	1,618	1,763	1,475	315	7,259
Accumulated Depreciation						
At 1 April 2003	1,384	1,198	1,489	1,031	209	5,311
Charge for year	160	188	483	90	67	988
Disposals	–	–	(849)	(91)	(137)	(1,077)
At 31 March 2004	1,544	1,386	1,123	1,030	139	5,222
Net Book Value						
31 March 2004	544	232	640	445	176	2,037
Net Book Value						
31 March 2003	687	359	607	502	149	2,304

15. Debtors – amounts falling due within one year

	2004 £'000	2003 £'000
Due from USS	1,885	2,675
Prepayments	830	835
Other debtors	407	20
	<u>3,122</u>	<u>3,530</u>

16. Creditors – amounts falling due within one year

	2004 £'000	2003 £'000
Accrued expenditure	3,462	3,275
Other creditors	1,506	2,402
Taxation and social security	193	160
	<u>5,161</u>	<u>5,837</u>

17. Reconciliation of operating costs paid

	2004 £'000	2003 £'000
Operating costs – recoverable from USS	24,011	21,134
Decrease in creditors (excluding USS)	676	1,597
Profit on sale of tangible fixed assets	26	18
Depreciation	(988)	(590)
Increase/(decrease) in debtors (excluding USS)	382	438
Operating costs paid	<u>24,107</u>	<u>22,597</u>

18. Operating lease commitments

	2004 £'000	2003 £'000
Less than one year	21	2
Between two and five years	9	18
Over five years	1,200	1,162

The payments relate to ongoing rent, rates and equipment leasing commitments in respect of USS Ltd's offices in Liverpool and London.

19. Pension costs

The company participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme, the cost recognised within the statement of operating costs for the year being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of pensionable salaries but it was agreed that the institution contribution rate will be maintained at 14% of pensionable salaries. To find this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current active members of the scheme) required the use of £82.5m of the surplus. This left a past service surplus of £79.5m (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the company's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the company was £628,120 (2003: £565,505). The contribution rate payable by the company was 14% of pensionable salaries.

20. Related party transactions

There are no related party transactions other than transactions between the trustee company and the scheme. The trustee company provides administration and investment management services to the scheme charging £9.3 million and £14.7 million respectively, with a balance due from the scheme of £1.9 million at 31 March 2004.

21. Special purpose companies

USS Ltd owns the share capital of a number of special purpose companies. The companies are dormant and have made neither a profit nor a loss in the period. Full details of these companies may be obtained by writing to the Company Secretary of USS Ltd, Mr John P Williams, at Royal Liver Building, Liverpool L3 1PY.

INDEPENDENT AUDITORS' REPORT

to the members of Universities Superannuation Scheme Limited

We have audited the financial statements on pages 73 to 82.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 72, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We 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

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

Date: 29 July 2004



Sir Graeme Davies
Chairman

CHAIRMEN OF PRINCIPAL SUB-COMMITTEES



**Professor
Sir Martin Harris**
Chairman
Finance & General Purposes
Committee



A S Bell
Chairman
Investment Committee



Dr Christine Chall
Chairman
Audit Committee



H R Jacobs
Chairman
Remuneration and Rules
Committees



Sir Kenneth Berrill
Chairman
Joint Negotiating
Committee



A D Linfoot
Chairman
Advisory Committee

PRINCIPAL OFFICERS



David Andrew
IT Manager

From left to right

John P Williams
Company Secretary

**Bernadine
Steventon**
Pensions Operatio
Manager

Peter Moon
Chief Investment Officer

Tom Merchan
Chief Executive

Colin Busby
Communication
Manager

Colin Hunter
Chief Financial
Officer

Brendan Mulkern
Pensions Policy
Manager

