



THE CHEVIOT TRUST

**Report and Accounts
For the Year Ended 31 December 2004**

Registered numbers: SF12/107206
SF12/107205

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Independent Advisers

Advisers to The Cheviot Trust during 2004 were as follows:

Actuaries	Phil Tranter of Mercer Human Resource Consulting Ltd (Money Purchase Scheme) Robert Sweet of Cartwright Consulting Ltd (Final Salary Schemes)
Investment Consultants	PSolve, part of the Punter Southall group
Auditors	Horwath Clark Whitehill LLP (from 16 March 2005) Horwath Clark Whitehill (to 16 March 2005)
Bankers	National Westminster Bank Plc Kas Bank N.V.
Investment Managers	Barclays Global Investors Limited (Money Purchase Scheme and Final Salary Schemes) Deutsche Asset Management Limited (Final Salary Schemes - Active Management) Legal and General (Money Purchase Scheme and Final Salary Schemes – Active Management)
Custodian	Kas Bank N.V.
Solicitors	Allen & Overy

Committee of Management's Report

The Cheviot Trust ("the Trust") is an industry-wide scheme established by The Law Society in 1930 for members of the legal profession providing:

- money purchase pension benefits through the Money Purchase Scheme and
- final salary pension benefits through the Final Salary Schemes

Management of the Trust

This report is presented by the Committee of Management (the "Committee"), which performs the majority of the trustee functions under the Trust documentation. Responsibility for management of the Trust lies with the Committee, which comprises six employer representatives, six member representatives and one representative of The Law Society. Day-to-day management is carried out from the Trust's offices in Southend-on-Sea, Essex, under the direction of the Chief Executive, Elspeth McKinnon and her management team.

Employer representatives are appointed either by The Law Society or by other members of the Committee. They continue in office until the representative resigns, ceases to be eligible or the other Committee members and the Trustee decide that the term of office should end. Member representatives are elected by the membership for a term of three years, unless the representative resigns, ceases to be a member or is prohibited by law from continuing as a member representative. Member representatives may put themselves forward for re-election. The Law Society's representative continues in office until death, removal by The Law Society or resignation.

The Committee would like to thank the firms of all Committee members for allowing them to contribute their time to the Trust. The Committee would also like to express its thanks to its advisers for their professional and effective support during the year.

The names of the Committee members are detailed in the Compliance Statement on pages 35 to 41, together with details of meetings held during the year.

Information relating to the investment management and custodian arrangements for the Trust are included in the Investment Report on pages 7 to 10.

Financial development of the Trust

Funds under management increased to £235.9m in 2004 from £225.4m in 2003, an increase of 4.7%. A net return on investments had an increase of £18.4m compared to an increase of £20.7m in 2003.

Contributions decreased overall to the Trust to £8.2m in 2004 from £8.6m in 2003. Benefits payable, including those to leavers, increased from £13.3m to £14.7m and administrative expenses decreased from £2.3m to £2.2m.

Possible incorporation of the Trustee function of The Cheviot Trust

The Cheviot Trust is currently structured so that, although the Committee of Management is responsible for all major decisions, the Trust's assets are held by a separate trustee, currently The Law Society. The Committee and The Law Society have agreed to bring together the roles of trustee and management functions into a single body, likely to be called "Cheviot Trustees Limited". Combining the trustee and management roles will bring Cheviot in line with other pension schemes and will make it administratively easier for the Committee to manage the scheme. All of the scheme assets would continue to be held on trust, as is currently the case. In addition, this decision will improve the Trust's ability to recover VAT.

The proposal for the new structure means that The Law Society will step down as trustee and be replaced by the newly incorporated body. The new body will be a company limited by guarantee, so no shares could be offered to any party. The members (and directors) of the new company would be the members at any given time of what is currently called the Committee of Management. If a board member steps down or is not re-elected, he or she would cease to be a member of the company. Similarly, if any person stands for election to the management of the Trust, he or she would become a member of the new company and would automatically be a director. In terms of responsibilities of the members of the Committee of Management, little would change and no additional remuneration would be payable as a result of incorporation, the principal purpose of which is to save rather than increase expenditure.

The Committee is conscious of the need to have appropriate expertise amongst its members, so the new company will include provision permitting its board to co-opt additional directors. The first of these will be Elspeth McKinnon, who will be joining the Board at outset. There would be a maximum number of additional directors (probably three), so that the authority of member-nominated directors is not compromised.

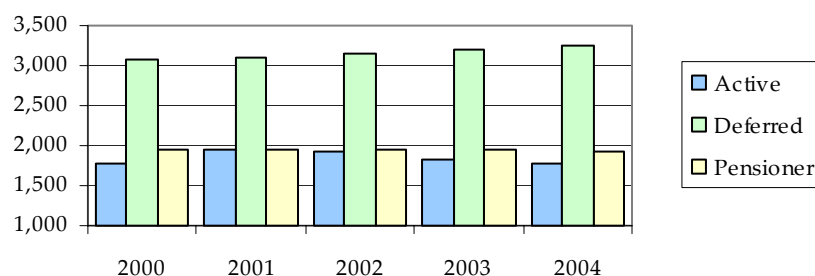
Annuity provision

Annuities are currently provided from the Scheme. There has been a significant increase in the number of members purchasing their annuities at retirement from external providers which the Committee considers to reflect in part the limited annuity options available from the Trust. The Committee has therefore concluded that it will cease to offer annuities from the Scheme and provide instead a facility that allows members to purchase their pensions from external providers. This change will take effect in the second quarter of 2005.

Scheme Membership

Money Purchase Scheme

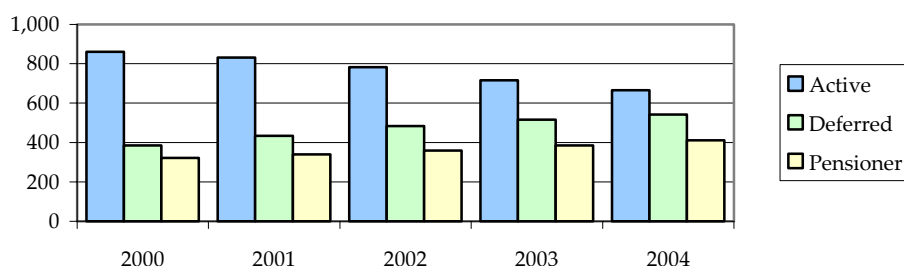
	Active	Deferred	Pensioner	Total	LAO*	Total
1 January 2004	1,814	3,198	1,952	6,964	1,465	8,429
Joiners	90	-	9	99	586	685
Change of status	(126)	110	58	42	(42)	-
Leavers	(10)	(68)	(86)	(164)	(437)	(601)
31 December 2004	1,768	3,240	1,933	6,941	1,572	8,513



* LAO = Life assurance only members included in the Scheme solely for lump sum death in service benefits as at 31 December 2004

Final Salary Scheme

	Active	Deferred	Pensioner	Total
1 January 2004	716	517	384	1,617
Joiners	13	-	9	22
Change of status	(63)	34	29	-
Leavers	-	(9)	(11)	(20)
31 December 2004	666	542	411	1,619



Scope of accounts

These accounts show the overall position of the Trust and the breakdown between the Money Purchase Scheme and the Final Salary Schemes. The Trust Deed (and the requirements of the Pensions Act 1995) makes it necessary for each participating scheme in the Final Salary Schemes to have separately audited accounts. These have been prepared and they are being sent to each participating employer with this report. The Trust's auditors, Horwath Clark Whitehill, are also the auditors to the individual participating schemes. Access to the Trust's accounts must be given to all participating scheme members of both the Money Purchase Scheme and the Final Salary Schemes and others who have a financial interest in the Trust.

Collection of contributions

Procedures are in place to monitor the collection of contributions to ensure they are paid across to the Trust on an accurate and timely basis for both the Money Purchase Scheme and the Final Salary Schemes. Monthly schedules of contributions are issued to all employers participating in the Money Purchase Scheme which show the pensionable salary of each member and the contribution expected in respect of them. If the contributions received do not correspond to those expected, the matter is raised with the employer. In addition, the benefit statements issued annually to members show

pensionable salaries to enable members to carry out their own checks and interim checks through letters to members are also made throughout the year. Schedules of Contributions as prescribed under Section 58 of the Pensions Act 1995 are in place for all Final Salary Schemes. Contributions are monitored on a monthly basis against those Schedules. A summary of contributions as required by Audit Practice Note 15 is included in the Compliance Statement on page 40.

Basis of preparation

The accounts have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995.

Auditors

Horwath Clark Whitehill, the auditors to the Trust, established a limited liability partnership on 1 April 2004. Horwath Clark Whitehill resigned as auditors on 16 March 2005 and Horwath Clark Whitehill LLP were appointed as auditors on the same date.

Contact for further information

For further information about the Trust, please write to:

Chief Executive's Office

The Cheviot Trust

Cheviot House

70 Baxter Avenue

Southend-on-Sea

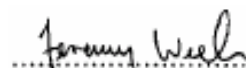
Essex SS2 6JA

Telephone: 01702 354024

Fax: 01702 354364

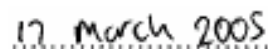
E-mail: ceo@cheviottrust.com

Signed on behalf of the Committee of Management



Jeremy Weeks

Chairman



Date

Investment Report

Review of investment performance

Money Purchase Scheme

There are five investment options available to the Members of the Money Purchase Section. The table below details the underlying approach for each of the strategies:

	Investment Strategy
Cautious	Invests 50% in equities and 50% in bonds until five years before retirement
Moderate	Invests 75% in equities and 25% in bonds until five years before retirement.
Growth	Invests entirely in equities until five years before retirement.
Retirement Protection	This option invests 70% in index linked bonds and 30% in cash
With Profits	65% in bonds and cash (structured to meet all pensioner and other near term liabilities) and 35% in equities and absolute return funds

The Retirement Protection Fund is only available to those within five years of retirement.

The With Profits option has been closed to all future contributions. Therefore, during the year, members were able to choose from the Cautious, Moderate and Growth options (and the Retirement Protection option if they were within five years of retirement).

“Unit-Linked” Options

The Unit Linked Options are currently managed by Barclays Global Investors (“BGI”) in unitised accounts. The Scheme rules allow the members to alter their choices, the Committee may impose any conditions it thinks fit for this purpose. The three different “unit linked” options; Cautious, Moderate and Growth seek to address the various risk profiles of different members. As members near their retirement date their investments are switched progressively (known as “lifestyling”) into lower risk investments (bonds and cash). The Cautious Fund is risk-averse with half of the assets invested in bonds until members near their retirement date. The Moderate Fund has 25% of its assets invested in bonds with a zero allocation to bonds in the Growth Fund. These funds switch in a predetermined manner over the five years to retirement so that the fund on retirement will be invested 30% cash and 70% index-linked.

Over the twelve months ended 31 December 2004, the returns for each of these options, along with their respective market index benchmarks and objectives, were as follows:

Option	1 Year			3 Years			Objective
	Fund	Benchmark	Objective	Fund	Benchmark	Objective	
Growth	12.2%	12.2%	8.5%	1.6%	1.8%	8.1%	RPI + 5.00%
Moderate	11.3%	11.4%	7.7%	3.5%	3.6%	7.3%	RPI + 4.25%
Cautious	10.4%	10.5%	7.0%	5.0%	5.1%	6.6%	RPI + 3.50%
Retirement Protection	7.6%	7.7%	8.4%	6.8%	7.0%	6.5%	Gilts

All three strategies performed broadly in line with their respective benchmarks on a gross of fees basis. However, performance of the Growth, Moderate and Cautious options has lagged their overall objectives over the three year period, owing to the negative returns from equity markets.

With Profits

Following a detailed investment review during 2002, the Committee decided to adopt the following investment strategy:

Asset Class	Weightings* (%)
Equities	29.4
• UK	16.3
• Overseas	13.1
Absolute Return Fund	5.6
Bonds and Cash	65.0
• Fixed Interest	49.5
• Index Linked	13.0
• Cash	2.5
Total	100.0

In 2003, the Committee decided to arrange for the bonds and cash to be managed more directly in line with the guaranteed liabilities of the With-Profits option. As such, a cashflow matching arrangement (ie where the investment manager focuses on delivering on a series of liability cashflows) was implemented with Legal & General Investment Management in October 2003.

The remainder of the assets are managed by BGI. Equities are managed passively through a series of index funds. The absolute return fund is actively managed.

Over the period ending 31 December 2004, the returns for the with profits option, along with its respective market index benchmark and objective, were as follows:

Option	1 Year			3 Years			Objective
	Fund	Benchmark	Objective	Fund	Benchmark	Objective	
With Profits	7.8%	8.0%	9.9%	1.5%	1.6%	8.0%	Gilts +1.5 - 2.0%

Performance of the With Profits Fund has been slightly behind its benchmark over the periods shown. Over twelve months, the fund underperformed its objective owing to the strong returns from the government bond market relative to equities and absolute return funds over the period together with the very poor equity return experienced in 2002 – 2003. This is further reflected in the performance of the fund against its objective over the three years to 31 December 2004.

Final Salary Schemes

The Scheme investments are managed in a series of equity, fixed interest, and index linked options. These options are managed on both an active and a passive basis.

Option	Objective/Description
Active Global Equity Option	To outperform a benchmark comprising a range of UK and international equity market indices
Passive Global Equity Option	To track the return on a benchmark comprising a range of UK and international equity market indices
Active Fixed Interest Option	To outperform the FTSE Over 15 Year Gilt Index (an index based on longer dated government fixed interest securities)
Passive Fixed Interest Option	To track the return on the FTSE Over 15 Year Gilt Index (an index based on longer dated government fixed interest securities)
Active Index Linked Option	To outperform the FTSE Over 5 Year Index Linked Gilt Index (an index based on longer dated government index linked securities)
Passive Index Linked Option	To track the return on the FTSE Over 5 Year Index Linked Gilt Index (an index based on longer dated index linked securities)

Following a review of the Active Global Equity Option in 2003, the structure of this option was changed in April 2004. This option now consists of 50% invested in Deutsche Asset Management (DeAM) Global Select Fund and 50% in BGI's Passive UK Equity Index Fund.

In October 2004, the Committee decided to consolidate the actively managed bond assets within the Cheviot Trust with Legal & General (Further information is detailed under Manager Arrangements). As a result, the Active Fixed Interest and Index-linked Options are now managed by Legal & General.

The passive options are managed entirely by BGI.

Over the twelve months ended 31 December 2004, the returns for each of these options, along with their respective market index benchmarks and objectives, were as follows:

Option	Active/Passive	1 Year			Objective
		Fund	Benchmark	Objective	
Equity Options	Active	10.5%	10.8%	12.8%	Outperform benchmark by +2.0% p.a.
	Passive	11.7%	11.7%	11.7%	To perform in line with the benchmark
Fixed Interest	Active	8.0%	8.4%	9.2%	Outperform benchmark by +0.75% p.a.
	Passive	8.4%	8.4%	8.4%	To perform in line with the benchmark
Index-linked	Active	8.5%	9.0%	9.8%	Outperform benchmark by +0.75% p.a.
	Passive	9.0%	9.0%	9.0%	To perform in line with the benchmark

All of the passive options have performed in line with their benchmark and objective over the twelve month period to 31 December 2004.

The Active Equity option has underperformed both its benchmark and objective. This is due to underperformance from DeAM's Global Equity Funds over the first half of 2004.

The Active Fixed Interest and Index-linked options have also lagged their benchmarks and objectives over the period. This is primarily due to underperformance by DeAM as well as the impact of restructuring the bond assets over Quarter 4 2004, to reflect the revised investment strategies and transition to LGIM.

Management Arrangements

Over 2004, the Committee conducted a review of the active bond management within the Cheviot Trust assets. Within the Final Salary Scheme, DeAM managed the allocation to active bonds. However, the Cheviot Trust had also appointed Legal & General (L&G) to manage a much larger bond portfolio as part of the Money Purchase Scheme.

The Committee therefore approached L&G to leverage the existing relationship (and good fee terms) for the Final Salary Scheme bond assets. Taking account the comparative fees of using L&G over DeAM and allowing for the costs of transition, this represented a financial improvement for the Final Salary Scheme.

The Committee therefore recommended that the actively managed bond assets were transferred from DeAM to L&G and consulted with the Principal Employers in September 2004. These assets were then transferred to L&G Quarter 4 2004.

Independent Auditors' Report

We have audited the financial statements on pages 15 to 34 which have been prepared under the accounting policies set out on pages 17 to 19.

This report is made solely to the Committee of Management "the Committee" in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Committee those matters we are required to state to it in 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 Committee, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee and auditors

The Committee's responsibility for obtaining an annual report, including audited financial statements prepared in accordance with applicable United Kingdom law and accounting standards, is set out in the Statement of Committee's responsibilities on page 36.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

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

Basis of audit opinion

We conducted our audit in accordance with auditing standards issues 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 or on behalf of the Committee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust'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.

Unqualified opinion

In our opinion the financial statements show a true and fair view of the financial transactions of the Trust during the year ended 31 December 2004, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year, and contain the information specified in Regulation 3 of and the Schedule of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

Horwath Clark Whitehill LLP

Horwath Clark Whitehill LLP
Chartered Accountants and
Registered Auditors
London

6/4/05

Independent Auditors' Statement About Contributions

Independent auditors' statement about contributions under regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Committee of Management of The Cheviot Trust

We have examined the summary of contributions payable to The Cheviot Trust, for the year ended 31 December 2004, which is set out in the Compliance Statement on page 40.

This report is made solely to the Committee of Management "the Committee", in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Committee those matters we are required to state to them in 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 Committee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee and auditors

As described on page 36 the Committee are responsible for ensuring that there is prepared, maintained and from time to time revised, schedules of contributions and payment schedules which set out the rates and due dates of certain contributions payable towards the Trust by or on behalf of the employer and the active members of the Trust. The Committee has a general responsibility for procuring that contributions are made to the Trust in accordance with the schedules of contributions and payment schedules.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and payment schedules and to report our opinion to you.

We read the other information contained in the annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

Basis of statement about contributions

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions on page 40 have been paid in accordance with the relevant requirements. For this purpose the work that we carried out included

examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Trust and the timing of those payments under the schedules of contributions and payment schedules. Our statement about contributions is required to refer to those breaches of the schedules of contributions and payment schedules which come to our attention in the course of our work.

Qualified statement about contributions – final salary schemes

As explained in the compliance statement on pages 35 to 41, during the year there were a total of six breaches of the schedule of contributions. The total monetary amount of the breaches was £979.

Except for the above, in our opinion contributions for the year ended 31 December 2004 as reported in the summary of contributions have been paid in accordance with the schedules of contributions certified by the actuary.

Qualified statement about contributions – money purchase scheme

As explained in the compliance statement on pages 35 to 41, during the year there were a total of thirty nine breaches of the payment schedules. The total monetary amount of the breaches was £42,303.

Except for the above, in our opinion contributions for the year ended 31 December 2004 as reported in the summary of contributions have been paid in accordance with the payment schedules approved by the Committee.

Horwath Clark Whitehill LLP
Horwath Clark Whitehill LLP
Chartered Accountants and
Registered Auditors
London

6/4/05

Fund Account

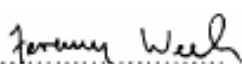
	<i>Note</i>	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Contributions and benefits					
Contributions receivable	2	3,558	4,668	8,226	8,574
Transfers in - Individual transfers	3	-	695	695	363
Life insurance death benefit		54	90	144	162
		3,612	5,453	9,065	9,099
Benefits payable	4	2,267	8,172	10,439	10,322
Payments to and on account of leavers	5	302	3,946	4,248	2,996
Premiums on death benefit life assurance		32	-	32	28
Administrative expenses	6	583	1,606	2,189	2,261
		3,184	13,724	16,908	15,607
Net additions / (withdrawals) from dealings with members		428	(8,271)	(7,843)	(6,508)
Returns on investments					
Investment income	8	7	4,873	4,880	1,097
Change in market value of investments	9, 10	6,219	7,391	13,610	19,705
Investment management expenses	11	(15)	(107)	(122)	(90)
Net returns on investments		6,211	12,157	18,368	20,712
Net movement in the fund during the year		6,639	3,886	10,525	14,204
Net assets of the scheme:					
At 1 January		69,646	155,744	225,390	211,186
At 31 December		76,285	159,630	235,915	225,390

Net Assets Statement

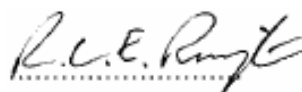
	Note	2004 £'000	2003 £'000
Final Salary Schemes			
Investments	9		
Pooled investment vehicles		72,726	66,236
Cash and short term deposits		1	0
AVC investments	9c	3,327	3,138
		76,054	69,374
Current assets and liabilities	12	231	272
Net assets as at 31 December		76,285	69,646

	Note	2004 £'000	2003 £'000
Money Purchase Scheme			
Investments	10		
Fixed interest securities		95,074	87,872
Pooled investment vehicles		60,982	67,322
Properties		1,370	1,370
Cash and short term deposits		3,048	255
AVC investments	10d	(3,327)	(3,138)
		157,147	153,681
Share of net assets of subsidiaries	14	139	131
		157,286	153,812
Current assets and liabilities	12	2,272	1,859
Fixed Assets	15	72	73
Net assets as at 31 December		159,630	155,744
Total net assets as at 31 December		235,915	225,390

These financial statements were approved by the Committee of Management and signed on behalf of the Committee by:



Jeremy Weeks
Chairman



Committee Member

Date: 17 March 2005

17 March 2005

Notes to the Accounts

(forming part of the financial statements)

1. Accounting policies

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

The Final Salary Schemes of the Trust exist to pool the resources of the participating schemes for investment purposes. Each individual scheme participates in the investments of the Final Salary Schemes by way of investment units (see Note 9).

Contributions payable by each participating scheme in the Final Salary Schemes are determined, at each participating scheme level, after consultation with the Actuary to the Final Salary Schemes.

The consolidated accounts summarise the transactions of the Trust's Money Purchase Scheme and Final Salary Schemes and deal with the net assets of the Trust and its subsidiary undertakings. They do not take account of liabilities to pay pensions and other benefits which fall due after the accounting year. The actuarial position of each participating scheme, which does take account of such liabilities, is dealt with in separate actuarial statements. For the Final Salary Schemes, the relevant actuarial statement is attached to each participating scheme's accounts, and these accounts should be read in conjunction with those individual scheme's accounts.

The following accounting policies are adopted by the Trust:

(a) Consolidated accounts

The consolidated accounts comprise the financial statements of the Trust together with its subsidiary companies using the single-line equity method of accounting. Separate accounts excluding its subsidiaries have not been prepared for the Trust. No adjustments have been made to change the book value of the subsidiaries to market value as, in the opinion of the Committee, book value equates to market value.

(b) Contributions

Contribution income reflects contributions payable in respect of earnings up to 31 December for both the Money Purchase Scheme and the Final Salary Schemes.

Notes to the Accounts

Additional Voluntary Contributions (AVCs) are accounted for on an accruals basis in the same way as other contributions and the resulting investments are included in the net assets statement.

Money Purchase Scheme

The rates of contributions for members and participating employers are governed by the Scheme rules.

Final Salary Schemes

Contributions to all the participating Final Salary Schemes are made at rates recommended by the Actuary, who reviews each scheme at three-yearly intervals. There were 18 participating firms with final salary schemes during the year.

(c) Fixed assets and depreciation

Depreciation is charged on a straight line basis at the following rates per annum:

	%
Freehold properties held as investments	Nil
Office fixtures and fittings	6.7
Improvements to premises	12.0
Office equipment	20.0
Computer equipment	33.3

(d) Investment income

Income from pooled investment vehicles is reinvested and used to purchase additional units in the fund, and consequently is not shown separately in the Fund Account, but is included within the change in market value of investments.

(e) Investment management expenses

Where investments are held in pooled investment vehicles the investment manager takes his fees from within the fund and consequently they are not shown separately in the Fund Account, but are included within the change in market value of investments.

Notes to the Accounts

(f) Investments

Money Purchase Scheme

Investments are included at market value with listed investments valued at mid-market prices, on recognised Stock Exchanges as at 31 December 2004. All other items are stated in the financial statements under the historical cost accounting rules. The aggregate increase in market value of investments is shown as movement under the 'Returns on investments' in the fund account and represents the change in market value of investments held during the year, part of which has been realised.

Final Salary Schemes

Investments are included at mid-market value. The aggregate increase in market value of investments is shown as movement under the 'Returns on investments' in the fund account and represents the change in market value of investments held during the year, part of which has been realised, together with investment income which is re-invested in the fund.

(g) Foreign currency

Investments denominated in foreign currencies are translated into their sterling equivalent at the rates ruling at the year end.

(h) Benefits and transfers

Benefits are accounted for on an accruals basis. Transfers to and from other schemes are accounted for on a cash basis, with the exception of bulk transfers where liability may be accepted before the funds are received, which are accounted for on an accruals basis.

Notes to the Accounts

2. Contributions receivable

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Employers				
Normal	2,628	2,118	4,746	4,903
COMPS	-	28	28	31
Special*	96	9	105	315
Members				
Normal	561	2,037	2,598	2,520
COMPS	-	45	45	50
Additional voluntary contributions	273	260	533	610
DSS				
COMPS	-	171	171	145
	3,558	4,668	8,226	8,574

* The special contributions in 2004 are additional payments in respect of augmented benefits and a one off payment in recognition in the funding position of the scheme.

3. Transfers in – Individual transfers

	Final salary schemes £'000	Money purchase scheme £'000	Total £'000	Total £'000
Transfers from final salary schemes	-	281	281	110
Transfers from third party schemes	-	414	414	253
	-	695	695	363

Notes to the Accounts

4. Benefits payable

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Pensions	1,700	6,494	8,194	8,127
Commutation of pensions	512	1,120	1,632	1,729
Payments on death	55	558	613	466
	2,267	8,172	10,439	10,322

5. Payments to and on account of leavers

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Refunds to members leaving service	1	7	8	22
Individual transfers to other schemes	20	1,905	1,925	2,430
Purchase of annuities to match preserved benefits	-	2,034	2,034	434
AVCs transferred to money purchase	281	-	281	110
	302	3,946	4,248	2,996

Notes to the Accounts

6. Administrative expenses

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Management expenses (see note 7)	445	1,606	2,051	2,219
Professional fees incurred on behalf of participating schemes	138	-	138	42
	583	1,606	2,189	2,261

7. Management expenses

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Staff salaries	191	588	779	583
Staff pension contributions	16	49	65	60
National Insurance and other staff costs	25	77	102	319
Staff training and recruitment	16	74	90	32
Accommodation charges	20	36	56	52
Printing and stationery	5	12	17	47
Postage and telephone	7	27	34	47
Computer expenses	22	68	90	87
Subscriptions and insurance	19	86	105	95
Motor expenses	7	28	35	6
Committee expenses	20	96	116	147
Actuarial fees	21	209	230	302
Audit fees	-	48	48	48
Other professional fees	71	139	210	339
Depreciation	-	52	52	38
Miscellaneous	5	17	22	17
	445	1,606	2,051	2,219

Notes to the Accounts

7a. Management expenses notes:

1. *Staff salaries* – During 2004 Cheviot employed an in house lawyer which has reduced the external professional fees. In addition, there were some one off employment costs incurred which are also reflected in the higher salary costs.

2. *National Insurance and other staff costs* – the other staff costs for 2003 include £215k of temporary staff costs to cover senior staff and maternity leave absences which was not required during 2004.

8. Investment income

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Income from fixed interest securities	-	4,696	4,696	922
Dividends from equities	-	-	-	3
Net rents from properties	-	107	107	107
Interest on cash deposits	7	20	27	28
Share of net profits of trading subsidiaries	-	8	8	37
Other	-	42	42	-
	7	4,873	4,880	1,097

During 2003 there was a change to the investment strategy to move the bonds previously held in unitised funds to a directly held, actively managed, portfolio which resulted in the increase in income from fixed interest securities during 2004.

Notes to the Accounts

9. Investments - final salary schemes

(a) Purchases, sales and change in value

	Market Value at 1 January 2004	Purchases at cost	Sales proceeds	Change in Market Value	Market Value at 31 December 2004
	£'000	£'000	£'000	£'000	£'000
Managed & unitised funds (BGI and DAM)	66,236	114,190	(113,725)	6,025	72,726
Cash and short term deposits	-	23,015	(23,014)	-	1
AVC investments	3,138	276	(281)	194	3,327
Total	69,374	137,481	(137,020)	6,219	76,054

The change in the market value of investments during the period comprises all increases and decreases in the market value of investments held at any time during the period, including profits and losses realised on sales of investments during the year. All associated costs of purchase are included in the cost of acquisition.

Notes to the Accounts

(b) *Holdings – final salary schemes*

Final salary schemes assets are held as unitised funds as shown.

	Unit mid market value 31		Units 000's
	2004 £'000	December 2004 £	
UK Equity Index Fund (BGI)	18,949	3.917	4,838
Deutsche Life Global Equity Fund (DeAM)	18,970	1.059	17,913
Index Linked Bond Fund (L&G)	4,813	1.067	4,512
UK Fixed Interest Over 15 Year (L&G)	23,763	5.234	4,540
Global Equity Fund (BGI)	2,765	2.510	1,102
UK Index Linked Fund (BGI)	2,823	3.971	711
UK Fixed Interest Fund (BGI)	643	4.450	144
Total	72,726		

(c) *Analysis of investments – final salary schemes*

	2004 £'000	2003 £'000
Managed and unitised funds		
UK unit trusts	72,726	66,236
Cash deposits		
Sterling	1	-
AVC investments		
Held in the money purchase scheme	3,327	3,138
Total	76,054	69,374

Notes to the Accounts

(d). Units

As explained in Note 1, the individual final salary schemes pool together their resources so that these may be invested jointly. Each individual scheme holds a number of units in the total assets of the Final Salary Schemes of the Trust.

The total number of units along with a summary of units held by each participating scheme as at 31 December 2004 is as follows:

DeAM	2004
	Global Equity Fund
	Units
<hr/>	
Beaumont & Son	683,258
Cobbetts	650,273
Dickinson Dees	2,554,231
Farrer & Co	757,170
Gouldens	703,692
Herbert Smith	7,896,504
Holman Fenwick & Willan	2,878,773
Latham & Co	44,657
Lawrence Graham	1,076,134
Simpson Millar	-
Staffurth & Bray	164,056
Stonehams	286,128
The Cheviot Trust	218,680
<hr/>	
Total	17,913,556
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Notes to the Accounts

Legal & General	2004	2004
	Fixed Interest Fund Units	Index-linked Fund Units
Beaumont & Son	-	180,795
Cobbetts	362,358	36,528
Dickinson Dees	1,557,324	67,231
Farrer & Co	984,358	99,230
Gouldens	-	280,660
Herbert Smith	-	1,687,851
Holman Fenwick & Willan	977,006	844,656
Latham & Co	-	70,364
Lawrence Graham	-	991,527
Simpson Millar	214,892	-
Staffurth & Bray	288,014	6,068
Stonehams	-	171,190
The Cheviot Trust	127,965	104,373
Total	4,511,917	4,540,473

Notes to the Accounts

BGI	2004	2004	2004
	Global Equity Fund Units	Fixed Interest Fund Units	Index-linked Fund Units
Moss Solicitors	128,371	41,691	6,446
Napthen Houghton Craven	69,943	-	173,370
Radcliffes	601,803	67,053	357,710
Seldon Ward & Nuttall	213,848	35,718	92,328
Wragge & Co	88,027	-	81,059
Total	1,101,992	144,462	710,913

	2004 UK Equity Index Units
Beaumont & Son	183,356
Cobbetts	174,509
Dickinson Dees	699,421
Farrer & Co	203,201
Gouldens	188,832
Herbert Smith	2,119,328
Holman Fenwick & Willan	788,530
Latham & Co	11,985
Lawrence Graham	288,831
Simpson Millar	-
Staffurth & Bray	44,032
Stonehams	76,798
The Cheviot Trust	58,692
Total	4,837,515

Notes to the Accounts

10. Investments – money purchase scheme

(a) Purchases, sales and change in value

	Market Value at 1 January 2004	Purchases at cost	Sales proceeds	Change in Market Value	Market Value at 31 December 2004
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	87,872	44,523	(38,979)	1,658	95,074
Managed and unitised funds:					
- with profit fund	60,389	35,256	(52,286)	4,810	48,169
- unit linked options fund	6,933	4,979	(216)	1,117	12,813
Freehold property	1,370	-	-	-	1,370
AVCs held on behalf of Final Salary Schemes	(3,138)	(276)	281	(194)	(3,327)
Total	153,426	84,482	(91,200)	7,391	154,099

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. All associated costs of purchase are included in the cost of acquisition.

The Trust's property has been valued by Blanking Associates, Chartered Surveyors, on an open market existing use basis, as at 31 December 2002. Listed investments are valued at mid market prices on recognised Stock Exchanges as at 31 December 2004. None of the unit trusts invest in property.

The Committee invests AVCs received from members of the Final Salary Schemes in the Money Purchase Scheme.

Notes to the Accounts

(b) Holdings – money purchase scheme (managed and unitised funds)

The following investments in the money purchase scheme are held in index-tracking funds through an insurance policy. The listing below identifies the Aquila Life funds at BGI in which investments are held through this policy.

(i) With profits fund

	2004	Unit mid market value 31 December 2004	Units
	£'000	£	000's
Global Equity	39,364	2.5095	15,686
Absolute Return Funds	8,805	1191.2500	7
Total	48,169		

(ii) Unit linked options

	2004	Unit mid market value 31 December 2004	Units
	£'000	£	000's
UK Equities	4,964	3.9170	1267
Overseas Equities	3,291	2.1240	1549
Over 15 Years UK Gilts	2,259	4.4500	508
Over 5 Years Index- linked	2,071	3.9705	522
Cash	228	3.1010	74
Total	12,813		

Notes to the Accounts

(c) Concentration of investments - money purchase scheme

The concentration of the money purchase scheme investments in the with profits fund is as follows, global equity 28%, fixed interest securities 66% and absolute return funds 6%.

(d) Analysis of UK and overseas investments – money purchase scheme

	2004 £'000	2003 £'000
Fixed Interest Securities	95,074	87,872
Managed and unitised funds		
UK unit trusts	60,982	67,322
Properties		
UK	1,370	1,370
Cash deposits		
Sterling	3,048	255
Other		
AVCs held on behalf of Final Salary Schemes	(3,327)	(3,138)
Total	157,147	153,681

11. Investment management expenses

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Investment managers fees	15	107	122	90
Total	15	107	122	90

Notes to the Accounts

12. Current assets and liabilities

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Contributions due				
Employers	128	172	300	313
Employees	50	264	314	218
Cash balances	219	713	932	699
Funds held on behalf of participating schemes in liquidation	(7)	-	(7)	(7)
Investment income receivable	-	1,259	1,259	1,214
Prepayments and accrued income	27	168	195	162
Amounts due (to)/from subsidiaries (Note 13)	(77)	208	131	123
Other debtors	8	-	8	5
Accruals and deferred income	(76)	(383)	(459)	(436)
Other creditors including taxation and social security	(41)	(129)	(170)	(160)
Total	231	2,272	2,503	2,131

13. Amounts due (to)/from subsidiary undertakings

	2004 Final salary schemes £'000	2004 Money purchase scheme £'000	2004 Total £'000	2003 Total £'000
Repayable within one year:				
- Inter-company management expenses	(77)	208	131	123
Total	(77)	208	131	123

Notes to the Accounts

14. Share of net assets of subsidiaries

The Trust owns 100% of the ordinary share capital of Cheviot Financial Planning Limited "CFPL", a company registered in England and Wales. The company provides independent financial advice to members of the legal profession. The company is an appointed representative of Investment Strategies (UK) Ltd, who provide regulatory support under the Financial Services and Markets Act 2000.

The Trust owns 100% of the ordinary share capital of Cheviot Pension Services Limited "CPSL", a company registered in England and Wales. The company provides pension administration and consultancy services to third parties.

15. Fixed assets

	Improve premises	Fixtures & fittings	Office equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2004	165	57	55	253	530
Additions	-	3	4	44	51
Disposals	-	(8)	(22)	(49)	(79)
At 31 December 2004	165	52	37	248	502
Depreciation					
At 1 January 2004	146	51	42	218	457
Charge for year	19	3	4	26	52
Written back on disposal	-	(8)	(22)	(49)	(79)
At 31 December 2004	165	46	24	195	430
Net book value					
At 31 December 2004	-	6	13	53	72
At 31 December 2003	19	6	13	35	73

Notes to the Accounts

16. Related party transactions

The Law Society is the trustee of The Cheviot Trust and was a client of Cheviot Pension Services Limited and Cheviot Financial Planning during 2004.

During the year The Law Society was charged by:

- Cheviot Pension Services Limited £235,034 (2003: £46,560)
- Cheviot Financial Planning Limited £132,245 (2003: £79,920)

At the year end The Law Society owed:

- Cheviot Pension Services Limited £65,230 (2003: £32,650)
- Cheviot Financial Planning Limited £78,482 (2003: £35,960)

The Cheviot Trust incurs expenses on behalf of its subsidiary companies, Cheviot Financial Planning Limited and Cheviot Pension Services Limited, which are recharged to those companies.

The Cheviot Trust charged:

- Cheviot Pension Services Limited £222,520 (2003: £161,135)
- Cheviot Financial Planning Limited £244,628 (2003: £221,123)

At the year end The Cheviot Trust was owed:

- Cheviot Pension Services Limited £48,495 (2003: £80,730)
- Cheviot Financial Planning Limited £82,369 (2003: £42,137)

17. Employer Related Investment

There were no employer related investments at any time during the year.

Contributions due at the year end were paid after the year end within the timescales set out in the schedules of contribution and payment schedule.

Compliance Statement

Trustee and Committee of Management

The Trustee of the scheme is The Law Society. Details of the Committee are as follows:

<i>Name</i>	<i>Firm</i>	<i>Location</i>	<i>Representative</i>
J W R Weeks Chairman	Glanvilles	Fareham	Member
R L E Rimmington Vice Chairman	Formerly Cobbetts	Manchester	Employer
K P Byass	Moss Solicitors	Loughborough	Employer (previously Law Society)
J A Dungay	Formerly Thomas Eggar	Reigate	Member
I Gault	Herbert Smith	London	Employer
A Hunt	Formerly RadcliffesLeBrasseur	London	Member
M Jenkins (appointed 28/06/04)	Dickinson Dees	Newcastle-upon- Tyne	Employer
S Makin	Cobbetts	Manchester	Employer
D McConnell	Formerly Jacksons	Stockton on Tees	Employer
G I Mitchell	Seldon Ward & Nuttall	Bideford	Member
G Sandercock (appointed 28/06/04)	Granville – West	Pontypool	The Law Society
L Trott	Edwin Coe	London	Member

At the end of 2004, there was a vacancy for one member representative. Members have been invited to put themselves forward for election for the member vacancy.

Statement of Committee of Management's responsibilities

The financial statements are the responsibility of the Committee of Management ("the Committee"). Pension scheme regulations require trustees to make available to members, beneficiaries and certain other parties, audited financial statements for each 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 that year 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, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Committee 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 Committee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

The Committee is also responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions and payment schedule showing the rates of contributions payable towards the Trust by or on behalf of the employer and the active members of the Trust and the dates on or before which such contributions are to be paid. The Committee is also responsible for keeping records in respect of contributions received in respect of any active member of the Trust and for procuring that contributions are made to the Trust in accordance with the schedule of contributions and payment schedule.

Committee meetings in 2004

The following meetings were held during the year:

Full Committee

24 & 25 March
28 & 29 June
22 & 23 September
15 & 16 December

Sub-Committees

3 March (Finance & Investment)
1 September (Investment)
17 November (Finance & Investment)

Tax status of the scheme

The scheme is an exempt approved scheme and, to the Committee's knowledge, there is no reason why such approval should be prejudiced or withdrawn.

Calculation of transfer values

In accordance with The Occupational Pensions Schemes (Disclosure of Information) Regulations 1996, the Committee reports that a member may be able to make a transfer payment either to the scheme of their new employer or to any other approved pension arrangement of their choice.

Money Purchase Scheme

The calculation of the transfer value for the With Profits option makes little or no allowance for future bonuses. This means that if a member takes his or her benefits early, the amount available is currently less than the member's account. The amount available for transfer has been calculated on a "cash equivalent" basis. This is the amount required today to provide the member's account, including any future guaranteed returns, at the member's Normal Retirement Date. The Scheme Actuary calculates this amount on the basis of assumptions about investment returns between the date of the transfer and the member's Normal Retirement Date. This does not mean that the amount in members' accounts with Cheviot has been reduced. Account values will be unaffected by this revised policy if members remain invested until their Normal Retirement Date.

The transfer value in respect of the Cautious, Moderate, Growth and Retirement Protection options is the value of the member's account at the next available investment date, following receipt of the completed documentation in respect of the transfer request.

Final Salary Schemes

A cash equivalent transfer value represents the actuarial value of the benefits which would otherwise be preserved under the scheme following a member's withdrawal with an entitlement to a deferred pension. It is calculated in accordance with statutory requirements and on a basis which is established by the scheme's Actuary following consultation with the Committee. The calculation involves the projection of the benefits payable on retirement or death and then the valuation of these benefits having regard to the current market rates of return available on investments at the date of calculation. The Committee has considered on a scheme by scheme basis whether the transfer value should include an allowance for discretionary benefits. In respect of five Schemes, it has concluded that it would be appropriate to include an allowance for discretionary pension increases.

Pension increases - final salary schemes

Increases to pensions in payment, other than increases required by statute, have been detailed in each participating scheme's accounts, where appropriate.

Valuations

Final Salary Schemes

Each individual scheme has its own actuarial valuation every three years. An actuarial statement that summarises the results of these valuations is attached to each Scheme's accounts.

Money Purchase Scheme

A funding review of the With Profits option is being completed at 31 December 2004 on the basis of the following assessment of its assets and liabilities.

Assets

The results are based largely on market values at 31 December 2004.

AVCs held on behalf of the Final Salary Schemes are a liability of the Money Purchase Scheme and included in members' account balances. They are therefore added to the total net assets to arrive at a total market value of £162.9m at 31 December 2004. Assets of approximately £12.8m in respect of funds invested in the unit linked options have been excluded from the valuation. The net market value of £150.1m of assets is being used for the valuation of the With Profits option.

Liabilities

The market value of the Scheme's assets will be compared with reserves for active and deferred members included on the basis of their cash equivalents as at 31 December 2004. A reserve, which had previously been created in respect of annuity guarantees for members who have not yet retired, is held. For pensioners, future pension payments will be discounted at interest rates which the Actuary considers appropriate for the liabilities.

Valuation results

The Actuary has discussed the preliminary valuation results with the Committee. These results showed that when the valuation is completed there will be no available funds for distribution as bonuses at this valuation. The Committee, on the advice of the Scheme Actuary, continues to pursue a very cautious approach given the continuing effects of very poor equity returns during the last five years.

Returns to members

For 2004, returns to members who have not yet retired will therefore be limited to the guaranteed rates of interest awarded.

No bonuses will be paid to with profits pensioners who retired before 1997. LPI pensioners will receive an RPI increase. With profit LPI pensioners will receive their guaranteed level of increase.

Interim annual bonus

The level of this bonus continues to be nil.

Final bonus

The level of the final bonus continues to be nil.

Summary of Contributions paid in year

During the year, the contributions paid to the scheme by the Employer under the Schedules of Contributions and Payment Schedules were as follows

	£'000	£'000
Employer normal contributions	4,746	
Members normal contributions	2,598	
Total		<u>7,344</u>

The following amounts were not covered by the Schedules of Contributions and Payment Schedules

	£'000	£'000
Employer special contributions	105	
COMPS	244	
AVC's	533	
Total		<u>882</u>
Total contributions as per note 2 on page 21		<u>8,226</u>

Breaches of contributions to the Scheme

Final Salary Schemes

There were six breaches of the Schedules of Contributions during the year (2003: seven breaches). These matters have all been resolved. The total amounts involved were £979 (2003: £49,581).

Money Purchase Scheme

There were thirty-nine breaches of the payment schedules during the year (2003: forty-seven breaches).

Of these, twenty-one related to contribution cheques not having been received for administrative reasons such as delays in posting and in processing the amount of contributions due. The remainder represent either one off payments or payments for a small number of individuals. The circumstances that have typically given rise to this situation are as follows:

- Late processing of joiners
- Errors in calculating contributions due in the case of maternity benefits
- Incorrectly advised salary levels

- Delays in processing amendments to contributions due for individual members

The delays in payment varied from one day to two months, although the majority were received within a few days, and amounted to £42,303 in total (2003: £157,137).

The Committee was of the view that no compensation for late payment was due.

The Myners Principles

Paul Myners' review of Institutional Investment in the UK recommended that trustees of occupational pension schemes review their working practices in relation to investment matters against a list of principles. The Government has endorsed this approach. The Committee of Management reviewed its practices against these principles. The principles set out below cover both the Final Salary Schemes and the Money Purchase Scheme.

The current position is set out below.

1. *Effective decision making*

Investment training for Committee members is incorporated into Committee meetings through presentations from management, advisers and fund managers. The effectiveness of training is assessed after every meeting. The Committee receives investment advice from qualified professionals before taking any investment decisions. A monitoring schedule sets out the detail of all decisions taken by the Committee together with the rationale and sets out the review process for each decision. The Committee considers this to comply with Myners' requirement for a business plan.

The full Committee takes all strategic decisions. An investment sub committee meets at least twice a year, more often if required, to undertake detailed monitoring of the investment managers. Either the employing firms or the Committee members themselves receive reimbursement for their time and for expenses at an agreed rate.

The Committee considers it complies with this principle.

2. *Clear objectives*

The Committee has considered in some depth the objectives for each fund and these are set out in the Statement of Investment Principles for both the Final Salary Schemes and the Money Purchase Scheme.

For the Money Purchase Scheme, the range of funds available is limited to facilitate a reasonably easy and accessible decision making process for members. The monitoring schedule (see above) requires an annual review of the options available. Details of the options are set out in the Members' Explanatory Booklet that is also regularly reviewed.

For the Final Salary Schemes, the Committee discusses investment strategy with each sponsoring firm and the Scheme Actuary and provides a framework of investment funds, both actively and passively managed, for consideration.

The Committee considers it complies with this principle.

3. *Focus on asset allocation*

The Committee reviews the asset allocation of both the money purchase and final salary scheme regularly with the assistance of its professional advisers. Its training programme allows it to consider a wide variety of asset classes on an on going basis.

The Committee considers it complies with this principle.

4. *Choice of a default fund (Money Purchase Scheme only)*

The Committee does not offer a default fund to new members as it considers it important that members take their own investment decision. As mentioned above, the choices have been limited to facilitate this. The issue is subject to annual review.

The Committee does not comply with the principle which suggests that a default option is the preferred route. It has considered the issue in March 2004 and will continue to review the decision annually.

5. *Expert advice*

The Committee uses professional investment advisers who are appointed separately from the actuarial advisers. All advice is provided on a fee basis. The performance of the investment advisers is reviewed at least annually as set out in the monitoring schedule.

The Committee considers it complies with this principle.

6. *Explicit mandates*

Explicit mandates are in place with all investment managers. Details of the arrangements are set out in full in the Statement of Investment Principles.

The timetable for reviewing the mandates, including issues such as soft commission and transaction costs, are set out in the monitoring schedule.

The Committee considers it complies with this principle.

7. *Activism*

The Committee reviews each manager's approach to activism on an annual basis, as set out in the monitoring schedule. As most assets are invested in pooled vehicles, it is not generally possible for the Committee to pursue an active policy directly. However, a manager's approach to activism is considered as part of any appointment process.

The Committee considers it complies with this principle as far as possible, given its extensive use of pooled vehicles.

8. *Appropriate benchmarks*

The monitoring schedule sets out a review process for the various benchmarks set for managers' benchmarks. This review process includes consideration of whether the type of management utilised remains appropriate.

The Committee considers it complies with this principle.

9. *Performance measurement*

Formal performance measurement reports are produced by the Committee's investment advisers each quarter. The investment advisers are reviewed at least annually.

The Committee has developed, with its investment advisers, mechanisms for measuring its own performance against its strategic benchmarks.

The Committee considers it complies with this principle.

10. *Transparency*

The Statement of Investment Principles for both money purchase and final salary arrangements have been reviewed and amended to comply with this principle.

The Committee considers it complies with this principle.

11. *Regular reporting*

The Committee has considered whether to publish the Statement of Investment Principles to members on an annual basis. It has concluded that the level of detail now contained in the Statements, partly in response to principle 10, makes them less accessible for the membership as a whole. It has therefore decided to include a feature on the Statements in the summarised report to members (Money Purchase Scheme only) and produce a summarised version for publication on the website.

The Committee does not therefore intend to comply with this principle.

ACTUARIAL STATEMENT – FINAL SALARY SCHEMES

The Cheviot Trust includes individual Final Salary Schemes, each of which has its own individual benefit and contribution structure. The financial statements show the total assets of the Final Salary Schemes as amounting to £76,285,000 on 31 December 2004. Each year actuarial valuations of a number of Final Salary Schemes are made and each Scheme is valued at least once every three years. All valuations made as at 31 December 2003 have been completed.

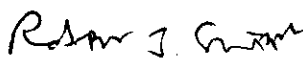
It would not be practical to include in this report the separate actuarial statements for each Scheme. Each Scheme is issued with its own individual statement and copies are available on request in accordance with disclosure requirements. A statement has been issued for each Scheme as at its last valuation date.

For all Schemes, the statement expresses my opinion that, allowing for appropriate contributions, the resources of each Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due.

For all Schemes calculations for the accrued liabilities have also been undertaken as at the last valuation date on the Minimum Funding Requirement (MFR) introduced by the Pensions Act 1995. In accordance with this legislation, on finalisation of the valuation Schedules of Contributions have been prepared and actuarial certificates have been provided expressing my opinion that the rates of contributions payable in accordance with the Schedule are adequate for the purpose of securing the meeting of the Minimum Funding Requirement. These certificates are subject to review at future actuarial valuations. Copies of the most recent certificates are available on request in accordance with disclosure requirements.

Compliance with the Minimum Funding Requirement does not necessarily mean that a Scheme's assets would have been sufficient to meet the cost of securing the members' accrued liabilities had that Scheme actually been wound up at the last valuation date, with the members' benefits being secured by the purchase of deferred and immediate annuities with an insurance company. In the light of the comparatively unfavourable annuity rates currently available from insurance companies, it is possible that in some cases the realisable value of the assets of a Scheme may not have been sufficient to provide the promised benefits in full.

Further details of the methods and assumptions used in each valuation are set out in each Scheme's valuation report and copies are available on request in accordance with disclosure requirements.


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R J SWEET

Date : 11 February 2005
Qualification: Fellow of the Institute of Actuaries

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