R&A 09

ANNUAL REPORT & ACCOUNTS

RAILWAYS PENSION SCHEME

Registration number: 10203279

R&A09

This year's Report and Accounts celebrates the construction of a brand new Peppercorn A1 Pacific steam locomotive, No. 60163 Tornado, by The A1 Steam Locomotive Trust. The locomotive was completed in 2008 after 19 years of incredible effort.

We would like to thank The A1 Steam Locomotive Trust, Alan Green (page 31) and Phil Beard (inside front cover) for their kind permission to reproduce the photographs in this year's Report and Accounts.

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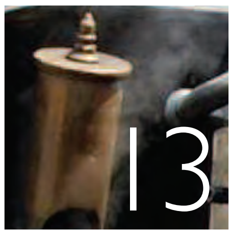


Chairman's introduction

I preface this latest Annual Report and Accounts of the industry-wide Railways Pension Scheme ('RPS'), for the year-ended 31 December 2009, with a question: 'Just how safe are members' pensions and benefits?' Many railway employers no doubt have similar concerns about rising contribution rates and their ability to continue to provide financial underwriting (their so-called 'covenants') for the inflation-linked pension benefits within their sections.

The payment of pensions in the 1994 Pensioners section of the RPS is protected by a government guarantee. Whilst members of other sections of the RPS do not have this guarantee I do assure you that we place security of benefits among our top priorities as we strive to maintain high standards of fiduciary governance, which exceed by some distance the requirements in terms of trustee knowledge and understanding set for us by regulators and also to meet stakeholders' expectations. I would refer you to page 18 of this report for some more detail about our governance approach. As this is essentially a financial report for the past year, I must now, however, turn to some of the key numbers.

This was a better year for investment returns. The performance of nearly all the Scheme's asset classes was positive and ahead of market benchmarks. Although the latest results have to be set against dramatic falls during the previous year, this is at least evidence that in 2009 the world did not slide into a 1930s-type depression.

The largest asset class, the Global Equity Pooled Fund, had a return in excess of 30% for the year. The structure of this fund has continued to evolve and benefited overall from excellent performance by a diverse range of investment managers. The performance of all three Bond Pooled Funds was also favourable. Property, on the other hand, was in the doldrums for much of the year, though a sharp rise in UK commercial valuations in the fourth quarter produced a net positive return of just over 5%.

The new Commodities Pooled Fund also returned over 30% between its inception in March 2009 and the year-end, while the funds of hedge funds investments in the Cash Plus Pooled Fund produced a return of 13%, thus recovering most of the previous year's losses. Against these better numbers, the returns on private equity and infrastructure were regrettably very poor compared to benchmarks and, as a result, the performance of sections with significant exposure to these asset classes was below their respective targets.

Your Trustee continues to research new investment strategies and asset classes. Following the introduction of a commodities futures fund in March, two further pooled funds were launched in October which allow members of the Scheme's additional voluntary contribution arrangement, 'BRASS', to invest their contributions in various combinations of the Scheme's other pooled funds, something which a number of you have been requesting for some time. I can also report that early in the New Year a 'Liability Driven Investment' pooled fund is being made available to sections needing to, or seeking the opportunity to, invest in assets designed to match inflation-linked liabilities more closely than was possible with the bond pooled funds previously on offer. Your Trustee is also investigating ways of reorganising the existing pooled funds to enable more dynamic management of real return-seeking assets and more flexibility to sections when revising their investment strategies, which previously have only tended to be carried out at three-yearly intervals after each actuarial valuation.

Your Trustee also works hard at monitoring and evaluating the actuarial position of the Scheme. In particular, on your behalf, we are committed to a regular assessment of the financial position of all the sponsoring companies (the employers' covenants I mentioned earlier), and in quite a few cases this has resulted in your Trustee securing further contribution payments and additional security from certain employers. Members should take comfort that we place a high priority on monitoring the strength of the employers' covenants and on securing the Scheme's funding position. Pensions legislation now requires the Scheme Actuary to provide annual updates of funding and the most recent of these were distributed to employers in the final quarter of last year. During the current year your Trustee has already begun preparing for the next formal valuation of the Scheme which is due at the end of 2010, with final results expected to be published late in 2011.

There were two changes in the membership of your Board during the year. Fred Maroudas retired as a director in June having served the Trustee Company since 2006, and Peter Duff was appointed to replace him. I would again like to express my gratitude to all those who served as directors during the year. I would also draw your attention to the notable retirement of James Jerram shortly after the year-end. James was appointed a director of the previous trustee in 1991 and of the new Trustee Company on its inception in 1994. He served the Scheme in its various forms for almost

20 years, including 11 years as your Chairman, during which time he steered it through some of the most difficult legal and regulatory changes it has faced so far. Members past and present have benefited enormously from his guidance, knowledge, experience and commitment. On behalf of all of the directors and members, I would wish to thank James for the outstanding contribution he has made to the Scheme and also wish him and his wife well in their retirement. James will continue to serve for a time on the Management and Investment Committees of the 1994 Pensioners Section and the British Railways Superannuation Fund.

I am pleased to be able to report another two corporate governance awards for the Trustee Company during this last year: 'Best use of corporate governance' from Professional Pensions and 'Best trustee training plan' from Engaged Investor. These awards follow a number of others won in recent years and have been achieved through the continuing endeavour and sheer hard work of many individuals at rpmi. On behalf of the Board and the members I should like to take this opportunity to thank them, indeed all of the staff, for the excellent support and service they provide.

Derek Scott
Chairman of the Trustee Company

MARCH 90

A1 Steam Locomotive Trust meet to discuss building a replica 'Peppercorn A1'. It was announced that the loco would carry the number 60163, the next in sequence after 60162 Saint Johnstoun.

The Railways Pension Scheme

The RPS is an industry-wide pension scheme created to provide secure and flexible pension arrangements in the multi-employer railway industry. It was created on 1 October 1994. Active members, preserved pensioners and pensioners of the BR Pension Scheme were transferred into the RPS on that date.

The RPS is the largest of the four pension schemes managed by the Trustee Company. It is one of the largest schemes in the UK and provides pensions for 176 companies operating within the railway industry.

The RPS comprises six parts: the 1994 Pensioners Section, the Shared Cost Arrangement, the Defined Contribution Arrangement, the Defined Benefit Arrangement, the Omnibus Arrangement and the Industry-Wide Defined Contribution Section. Employers may participate in more than one arrangement and be in more than one section of the Shared Cost Arrangement.

Advantages of an industry-wide scheme

The industry-wide structure allows the assets of most sections to be combined into 'pooled funds'. These investment funds are significantly larger than would be possible were sections to invest their assets separately, resulting in several advantages for the schemes and sections. Sections wishing to invest in pooled funds purchase, where possible, pooled fund units from sections wishing to sell, thus avoiding external investment transaction costs. In addition, the asset allocation needs of sections can be considered separately from the appointment and monitoring of investment managers. The size of the pooled funds also allows all sections to benefit from economies of scale in investment management costs and from access to a wide range of investments.

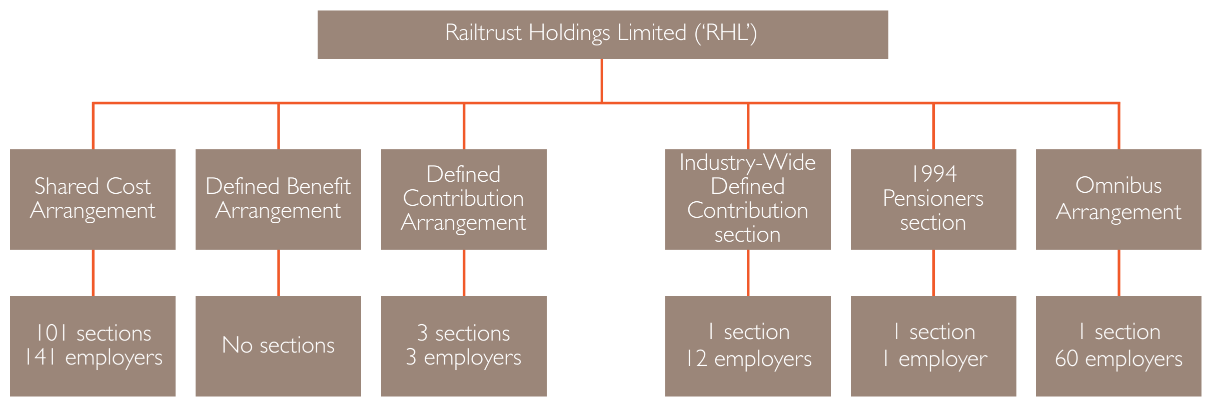
The industry-wide nature of the Scheme simplifies the movement of employees between railway companies, allowing them to change employers whilst remaining in the same scheme. The Trustee Company provides a pensions administration service, which is regularly benchmarked against other providers, and also benefits from experienced investment, secretariat, communications and finance teams.

A summary of the main provisions of the Scheme are shown in Appendix H.

The 1994 Pensioners Section

Pensioners and preserved pensioners in the BR Pension Scheme on 30 September 1994 were transferred into a separate section of the RPS – the 1994 Pensioners Section. On 30 December 2000 pensioners and preserved pensioners of the BR Section were transferred to the 1994 Pensioners Section. After agreement was reached between the Trustee and the Department for Transport, the assets and liabilities of six closed railway pension schemes were transferred into the 1994 Pensioners Section and this was effected by a Statutory Instrument in 2007.

The Secretary of State guarantees all past service liabilities and pensions in payment at 1 August 2007, plus any future increases for inflation for this section.



The Shared Cost Arrangement
All active members of the BR Pension Scheme were transferred into the Shared Cost Arrangement on 1 October 1994. Transferred members with protected rights have a statutory right to remain in the RPS while they continue to be employed in the railway industry.

A separate section within the Shared Cost Arrangement may be created for each designated employer. As each BR business was franchised or sold, a proportionate share of RPS assets was transferred to the new section of the Scheme. Subsequent sales and transfers of parts of businesses can result in the creation or mergers of sections.

If the section remains open to new members then employees of the designated employer who are employed in the railway industry may join the Scheme. If these members are not protected then their pension rights may differ from those who have protected rights.

The Omnibus Arrangement
Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus Section. Employers may remain in the arrangement if their membership increases above 50, as long as it does not exceed 75. At the end of 2009, 60 employers (2008 – 53 employers) were part of the Omnibus Section. A full list of sections and participating employers is given in Appendix B.

Defined Contribution, Defined Benefit and Industry-Wide Defined Contribution Arrangements
Employers may set up a different defined benefit section and/or defined contribution section or they can choose to join the Industry-Wide Defined Contribution Section. The Industry-Wide Defined Contribution Section was established on 1 November 2001. The section aims to provide employers with a flexible defined contribution scheme. At the end of 2009, 12 employers were part of this section (2008 – 12 employers).

At 31 December 2009, there were three defined contribution sections (2008 – three sections).

Reporting
There are separate records for each section. Each section receives quarterly reports including accounts, investment and administration performance. Each section is independently valued by the Scheme Actuary.

Pensions Committees
The designated employer of each section may establish a pensions committee to which the Trustee Company will delegate an agreed set of responsibilities such as setting investment strategy and/or determination of incapacity and discretionary benefits. All pensions committees have an equal number of employer and member nominees.

The chairmanship alternates annually between the employer and member nominees. The Trustee Company, however, retains responsibility for supervising the exercise of the powers of the committees.

"Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus Section. Employers may remain in the arrangement if their membership increases above 50, as long as it does not exceed 75."

Financial statements

Fund account for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Contributions and benefits			
Contributions	3	**637**	606
Individual transfer values		**27**	29
		664	635
Pensions		**(648)**	(612)
Lump-sum retirement benefits		**(165)**	(131)
Individual transfer values		**(17)**	(18)
Death benefits		**(22)**	(21)
		(852)	(782)
Administrative expenses (including PPF)	4	**(33)**	(40)
		(885)	(822)
Net withdrawals from dealings with members		**(221)**	(187)
Returns on investments			
Change in market values	5	**2,313**	(4,559)
Interest on loans and deposits		**–**	2
Net returns on investments		**2,313**	(4,557)
Net increase/(decrease) in the fund during the year		**2,092**	(4,744)
Net assets at the start of the year		**14,276**	19,020
Net assets at the end of the year		**16,368**	14,276

Net assets statement as at 31 December 2009

	Notes	2009 £m	2008 £m
Investments	5	**16,361**	14,273
Net current assets	6	**7**	3
Net assets at the end of the year	7	**16,368**	14,276

The financial statements summarise the transactions and net assets of the Scheme. They do not take account of the obligations to pay pensions and other benefits in the future. The ability to pay future pensions is addressed in the Actuary's report, which is summarised on page 38 and should be read in conjunction with these financial statements. Benefits payable for the 1994 Pensioners Section and the BR Section are backed by Crown Guarantees.

Approved by the Directors of the Trustee Company on 26 May 2010.

Derek Scott Chairman

John Mayfield Director

The notes numbered 1 to 9 form an integral part of these financial statements.

1. Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom law, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007)'.

2. Accounting policies

The financial statements have been prepared on an accruals basis. The principal accounting policies of the Scheme are as follows:

Investments

Investments are included in the financial statements at the year-end using the following valuation bases:

a. The majority of the assets of the Scheme are invested in a portfolio of pooled funds, which operate as internal unit trusts for the various railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued on the basis of the year-end unit price of the units held by the Scheme in each pooled fund at the year-end. Unit prices reflect the market valuations of the underlying assets held by the pooled fund and include income receivable on investments held. Further details of the pooled fund investment accounting policies are set out in the extracts from the pooled fund accounts in Appendix K.

b. The Trustee Company holds assets invested separately from the main Scheme to secure additional benefits on a defined contribution ('DC') basis. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The assets are held in pooled investment vehicles valued at their bid price or last traded price at the year-end date, as advised by the investment managers.

   Additional Voluntary Contribution ('AVC') investments (BRASS) in pooled investment vehicles are stated at market value at the year-end date as advised by the provider. The Pension Assured Fund ('PAF') is valued at the market value of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are guaranteed by Aviva to receive £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value dependent on their age.

c. Substitution orders refer to deferred payments due under the Transport Act 1980, and are valued as certified by the Scheme Actuary. The Scheme Actuary is James Wintle of Watson Wyatt Limited. The Government Actuary, Trevor Llanwarne, is joint Actuary for the 1994 Pensioners Section and the BR Section.

d. Loans and deposits and net current assets/(liabilities) are included at book cost, which the Trustee Company considers represents a reasonable estimate of accounting fair value.

Change in market values

Change in market values mainly comprises gains or losses arising in the year on investments.

Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the price and reported within change in market values.

Realised and unrealised gains and losses on investments, including income receivable, are dealt with in the pooled fund account in the year in which they arise and are reflected in the pooled fund unit price.

Contributions and benefits

Contributions, including AVCs, and benefits are accounted for in the year in which they fall due. Payments under the Transport Act 1980 are accounted for as they become payable. Amounts receivable to extinguish future liabilities under the Transport Act 1980 are accounted for when the future liability is discharged.

Benefits are accounted for in the period in which the member notifies the Trustee of his/her decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Administrative expenses

All administrative expenses are accounted for in the year in which they fall due except for the Pension Protection Fund ('PPF') levy which is accounted for on a cash received basis.

Transfer values

All transfer values are determined on the advice of the Scheme Actuary. Individual transfers in or out are accounted for when received or paid, which is normally when member liability is accepted or discharged. Group transfers are accounted for in accordance with the terms of the transfer agreement. Transfer of undertakings (protection of employment) ('TUPE') and other intra-RPS transfers are met by a mixture of pooled fund units and cash pro rata to the asset mix of the transferring section.

Financial statements

Notes to the financial statements for the year ended 31 December 2009

3. Contributions receivable

	2009 £m	2008 £m
Members' contributions		
Normal	**195**	185
Additional voluntary	**42**	43
Deficit funding*	**11**	11
Employers' contributions		
Normal	**295**	275
Deficit funding*	**40**	37
BRASS matching	**20**	23
Augmentation	**6**	3
Government support	**28**	29
	637	606

*Deficit funding contributions are being paid into the Scheme until April 2019 or earlier in accordance with recovery plans to improve the Scheme's funding position.

Further information on contribution rates can be found in the report of the Actuary on page 38. Information on late payments during the year can be found on page 53. Further information on government support can be found on page 36.

4. Administrative expenses

	2009 £m	2008 £m
Pensions administration	**9**	6
Trustee governance	**1**	2
Legal fees	**1**	1
Actuarial fees	**3**	2
PPF levies	**15**	25
Other	**4**	4
	33	**40**

Administration charges cover the processing of member transactions, preparation of financial statements and trustee governance expenses. These activities are carried out by rpmi Limited ('rpmi') and are allocated according to the membership of each section.

Administration and trustee governance expenses do not include investment management fees and costs, which are disclosed separately in the pooled fund accounts in Appendix K.

"Administration charges cover the processing of member transactions, preparation of financial statements and trustee governance expenses."

OCTOBER 91

The name Tornado was selected in view of the sacrifices being made at that time in the Gulf War by the RAF crews of the plane of the same name.

5. Investments

	Market values at 31/12/08 £m	% of pooled fund owned 31/12/08	Purchases at cost £m	Sales proceeds £m	Change in market values £m	Market values at 31/12/09 £m	% of pooled fund owned 31/12/09
Pooled funds							
Global Equity	5,625	92.9	107	(246)	1,658	**7,144**	**94.2**
Global Bond (Hedged)	1,665	91.6	50	(63)	193	**1,845**	**92.2**
Index Linked	622	85.6	-	(89)	56	**589**	**86.1**
Short Bond	161	99.2	2	(3)	8	**168**	**99.3**
Commodities	-		117	-	12	**129**	**79.1**
Cash Plus	891	94.3	2	(63)	113	**943**	**90.2**
Property	1,146	94.4	1	(10)	64	**1,201**	**93.3**
Private Equity	1,767	95.7	3	(20)	221	**1,971**	**95.8**
Infrastructure	807	95.2	-	-	(89)	**718**	**95.3**
	12,684		282	(494)	2,236	**14,708**	
Securities directly held by schemes							
BRASS (AVC) and DC	1,171		85	(108)	37	**1,185**	
Substitution orders	396		15	-	40	**451**	
	14,251		382	(602)	2,313	**16,344**	
Loans and deposits outside pooled funds	22					**17**	
	14,273					**16,361**	

BRASS investments include 770,425,044 units in the PAF. The PAF provider, Aviva, provides a guarantee that members' units will be worth £1 each on the guarantee date, which is the member's 55th birthday or next birthday if over 55 or on earlier death. On early retirement or transfer, the member may receive a discounted amount.

Income from pooled fund investments is capitalised within the price of the pooled fund units and, therefore, reflected within the market values of investments above. Although income is not distributed by means of a dividend, the pooled fund regulations allow the Scheme to extract its share of pooled fund income at no cost, by selling units at zero spread. The income withdrawn from the pooled funds in this way can then be used to pay benefits. The underlying movement of assets within the pooled funds can be found in the pooled fund accounts in Appendix K.

Investment administration includes the cost of selecting and monitoring the investment managers and custodians and the preparation of pooled fund financial statements. These activities are mostly carried out by rpmi. These charges and the fees incurred in relation to the management of the assets within the pooled funds are shown in the pooled fund accounts in Appendix K.

Further analysis of investments by pooled fund has been provided in an extract from the pooled fund accounts, in Appendix K. The percentages of the pooled funds' assets that relate to RPS investments are shown in the table above.

6. Net current assets/(liabilities)

	2009 £m	2008 £m
Contributions due from employers	**19**	16
Benefits payable	**(5)**	(4)
Taxation and social security	**(5)**	(4)
Investment debtor	**2**	5
Administration expenses	**(4)**	(10)
	7	3

None of the unpaid contributions at the year-end that are on the schedules of contributions are still outstanding. A total of £221,000 was paid after the due dates in the schedules of contributions.

7. Net assets at the end of the year
The net assets of each section of the Scheme at 31 December 2009 are shown in Appendix B.

8. Related party transactions
The Trustee Company and its subsidiaries provide services to the Scheme (explained on pages 16 to 19). The fees payable, and those of external service providers, are detailed in notes 4 and 5.

At 31 December 2009 net current assets included a liability of £2.3m in respect of these fees (2008 – a liability of £2.4m).

At 31 December 2009, eight directors of the Trustee Company were members of the Scheme and two of these directors were also Non-Executive Directors of rpmi. All Executive Directors of rpmi and Railpen are also members of the Scheme. All directors receive benefits on the same basis as other members of the Scheme. Certain directors of the Trustee Company and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Scheme bears its share of this remuneration through recharges.

9. Employer-related investments
As at 31 December 2009, investments in quoted employers amounted to 0.7% (2008 – 0.6%) of the assets of the Scheme, and for any single section, the investment in its sponsoring company was not greater than 5% of the assets of the section.

Independent Auditors' report

Independent Auditors' report to the Trustee of the RPS

We have audited the financial statements of the RPS for the year-ended 31 December 2009 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee 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 Scheme Trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditors

As described in the Statement of Trustee's responsibilities on page 15, the Scheme Trustee is responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the Trustee's report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, or on behalf of, the Trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the Scheme during the Scheme year-ended 31 December 2009 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Scheme year); and

- contain the information specified in Regulation 3 of, and 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.

Kevin Clark

Kevin Clark
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Canada Square
Canary Wharf
London
E14 5AG

26 May 2010

Trustee Company's responsibilities in respect of contributions and summary of contributions payable in the year

Statement of Trustee's responsibilities in respect of contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there are prepared, maintained and, from time to time, revised schedules of contributions showing the rates of contributions payable towards the Scheme, by or on behalf of the employers and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme has over 100 sections and approaching 200 participating employers. The impracticality of agreeing one schedule means that the Scheme's Trustee has decided to maintain schedules of contributions and payment schedules, drawn up in accordance with the Pensions Acts 2004 and 1995 respectively, relevant to each of the sections of the Scheme. The Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Scheme in accordance with the schedules as if the Pensions Act 1995 and 2004 applied to those individual schedules, or, where no schedule of contributions is in place, in accordance with the Scheme rules and recommendation of the Scheme Actuary.

Trustee's summary of contributions payable under the schedules in respect of the Scheme year-ended 31 December 2009

This summary of contributions has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Scheme under the schedules of contributions certified by the Scheme Actuary and the payment schedules in respect of the Scheme year-ended 31 December 2009. The Scheme Auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

Contributions payable under the schedules in respect of the Scheme year

	£m
Employer	
Normal contributions	295
Deficit contributions	40
BRASS matching contributions	20
Member	
Normal contributions	195
Additional voluntary contributions	42
Deficit contributions	11
Contributions payable under the schedules	**603**

Reconciliation of contributions

Reconciliation of contributions payable under the schedules to contributions reported in the accounts in respect of the Scheme year:

	£m
Contributions payable under the schedules (as left)	603
Contributions payable under the section rules and recommendations of the Actuary	
Government support	28
Augmentation	6
Total contributions reported in the accounts	**637**

Signed on behalf of the Trustee on 26 May 2010.

Derek Scott
Chairman

Independent Auditors' statement

about contributions, made under regulation 4 of the occupational pension schemes (requirement to obtain audited accounts and a statement from the auditor) regulations 1996, to the trustee of the RPS

We have examined the summary of contributions payable under the schedule of contributions and payment schedules to the RPS in respect of the Scheme year-ended 31 December 2009 which is set out on page13.

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an Auditors' statement about contributions 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's Trustee, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditors

As described on page13, the Scheme's Trustee is responsible, under the Pensions Act 2004, for ensuring that there is a prepared, maintained and from time to time revised schedule of contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employers and the active members of the Scheme. In view of the complexity of the arrangements and the number of employers participating in the Scheme, the Scheme's Trustee has decided to maintain schedules of contributions and payment schedules relevant to each of the participating employers and sections of the Scheme. The Trustee has a general responsibility for procuring that contributions are made to the Scheme in accordance with those schedules of contributions and payment schedules as if the Pensions Acts 1995 and 2004 applied to those individual schemes and employer, or, where there is no applicable schedule of contributions, in accordance with the Scheme rules and the recommendations of the Actuary.

It is our responsibility to provide a statement about contributions paid to the Scheme and to report our opinion to you.

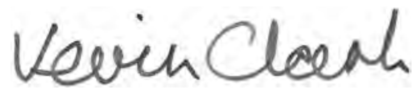
We read the Trustee's report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least 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 payable to the Scheme and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

Statement about contributions payable under the schedules

In our opinion contributions for the Scheme year-ended 31 December 2009 as reported in the summary of contributions have in all material respects been paid at least in accordance with either the schedules of contributions certified by the Actuary, the payment schedules or the Scheme rules and the recommendations of the Actuary.



Kevin Clark
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Canada Square
Canary Wharf
London
E14 5AG

26 May 2010

Statement of Trustee Company responsibilities in relation to financial statements

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

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the Trustee. 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 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 accounts 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 estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements the report accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee 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 Scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Approval of the accounts

The financial statements have been prepared and audited in accordance with regulations made under sections 41 (1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 26 May 2010.

The Trustee Company

Railways Pension Trustee Company Limited

The Railways Pension Trustee Company Limited ('Trustee Company') is the Trustee to four railway industry pension schemes. Two of these schemes are open to new members: the RPS and the British Transport Police Force Superannuation Fund. All the pension schemes participate in the pooled fund structure.

As a corporate trustee, trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee Company. The Trustee Company has overall fiduciary responsibility for the effective operation of the RPS and the other pension schemes, including administration of benefits, collection of contributions, payment of pensions and the investment and safe custody of assets. It must act fairly in the interests of active members, preserved pensioners, pensioners and employers.

	Total membership at 31/12/09
Railways Pension Scheme	339,339
British Railways Superannuation Fund	4,629
British Transport Police Force Superannuation Fund	5,761
BR (1974) Fund	3,689
	353,418

Railtrust Holdings Limited

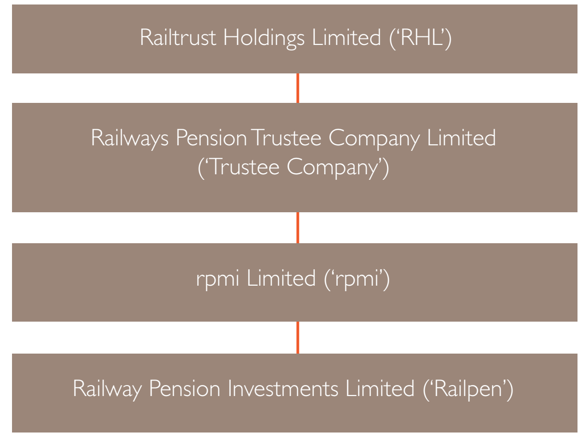
The Trustee Company is owned by Railtrust Holdings Limited ('RHL'), a company limited by guarantee. Designated employers of sections in the RPS are encouraged to become a member of RHL. The company is owned equally by its members irrespective of size. Each member of RHL is committed to contribute a maximum of £1 to its liabilities if it is wound up.

The primary purpose of RHL is to provide governance controls and appoint the directors of the Trustee Company. The Articles of Association set out the procedure for the appointment of directors. The aim is to achieve a balanced representation of the different employers and the members (or their representatives) of the RPS. The directors of RHL and the Trustee Company are the same.

There are sixteen directors in total, eight elected by the employers in the railway industry ('employer directors') and eight on behalf of the members of the railways pension schemes ('employee directors'). Six of the employee directors are nominated on behalf of the employees and two on behalf of the pensioners. Roughly a third of the directors retire by rotation every two years. The term of office is six years.

Trustee directors are non-executive and are entitled to emoluments which are disclosed in the financial statements of RHL.

The structure of the Trustee group



Employer director appointment procedure
Six employer directors are elected under an electoral college system and two by all the employers together. The process for the appointment of directors enables employers to have votes in proportion to each company's scheme active membership and allows all employers to participate.

For the electoral college arrangement, a ranking table of RHL members (Designated Employers) is prepared, at a date three months before the company's annual general meeting, according to the number of employees that the employers have in the railway pension schemes. The employers are then divided into three electoral groups, each representing approximately a third of the total employees. Each electoral group is entitled to appoint two directors. The remaining two directors are appointed by all the employers who are members of RHL.

If there are more nominations from an electoral group than vacancies, voting within the electoral group is on the basis of the number of active members employed by the employer. For the two directors appointed by all the employers, voting is one vote per employer. In both cases, the nominees with the most votes are appointed.

A review of the Trustee's employer director appointment procedure was carried out in 2009 and will be implemented during 2010. The current arrangement had been in place for over 12 years. The aim of the review was to find a procedure which was more representative of the current structure of the railway industry. The new procedure agreed by the Trustee Board and, following consultation with the members of Railtrust Holdings, is based on industry sub-sector constituencies. The nominating constituencies and the number of directors to be appointed by each constituency are set out in the table below. The 'All employer' constituency has been retained which provides an alternative means of nomination for all participating employers.

Nominating constituency	Number of Directors
Franchise operators (Train operating companies)	3
Network Rail	2
Support services (infrastructure, freight and other support services)	2
All employers (one employer/one vote)	1

The new procedure is relatively straightforward and provides consistency and continuity in the make-up of the constituencies.

The voting arrangements give some recognition to all members whilst giving the most emphasis to active members. Voting will be on the basis of one vote per active member and half a vote for pensioners and deferred pensioners. The 'All Employers' constituency will continue to be one employer, one vote. The aim is to implement the revised procedure from June 2010. The following chart shows the current Trustee Directors as at the end of December 2009, their date of retirement by rotation and deemed nominating constituency.

Name	Deemed nominating constituency	Date of retirement by rotation
Derek Scott	All employers	2010
John Chilman	Franchise operator	2012
Peter Duff	Network Rail	2014
Richard Goldson	Franchise operator	2010
John Hamilton	Franchise operator	2014
Chris Hannon	Network Rail	2012
James Jerram*	Support services	2010
John Wilson	Support services	2014

* James Jerram retired from Railtrust Holdings and the Trustee Company on 21 January 2010.

The Trustee Company

Employee director appointment procedure
Nominations for the six directors representing the employees are sought from the railway trade unions, the British Transport Police Federation and Pensions Committees.

Nominations for the two directors representing the pensioners are sought from the British Transport Pensioners' Federation, the Retired Railway Officers' Society, the railway trade unions and the British Transport Police Federation.

In all cases, if there are more nominations than vacancies, a secret ballot is held of all active members and pensioners, as appropriate, in the railway pension schemes. Again, the successful nominees will be those with the most votes.

Governance
The Trustee places great emphasis on maintaining high standards of fiduciary governance. Governance means having the people, structure and processes in place to provide the foundation for the efficient operation and effective decision-making of the Trustee Board.

The experience and skills of Trustee Directors are the cornerstones of the Board's effective way of working. Directors attend between 13 and 25 board and committee meetings a year. Attendance is reported to the Board and published in this report and accounts.

Directors have a comprehensive training programme on induction and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes. Our objective is that all Trustees should have completed the Pension Regulator's Trustee Toolkit and/or Award in Pension Trusteeship within six months of appointment. A wide range of training is offered by external providers and rpmi, including Trustee Knowledge and Understanding (TKU) Training, which is Pensions Management Institute accredited. Equally as important is training on the unique characteristics and complexity of the railways pension schemes. To further aid Trustee Directors, there is a dedicated area of the website which provides one easily accessible location for everything they need to assist them in their role. In 2009 the Trustee Company received the Engaged Investor award for trustee training and Professional Pensions trustee development award.

The Trustee Board has a Committee structure to aid its decision-making and make the most of Trustee Directors' skills and experience. The Trustee Board retains high-level oversight and concentrates on key Trustee reserved functions. It is supported by five Committees (Audit, Benefits & Funding, Case, Executive and Investment). Reports on the main activities of each of the Committees are included in the accounts and start on page 22. The operation of the new structure is monitored and refined. The Committees have clear, delegated powers which are reflected in their terms of reference and an allocation of responsibilities chart.

The Trustee Directors carry out individual self-assessments which cover a wide range of areas including TKU, operation of meetings, delegation and relationship with stakeholders, as well as feedback on the Board and Committee Chairmen and their own self-assessment.

The Trustee Board aims to maintain and continually improve the standards to which it operates. An independent review was carried out during 2009 of Trustee Board and Committee effectiveness. A working party has been set up to consider the findings and make further improvements to the way the Board works. Further information will be provided in the next report and accounts.

The operating subsidiaries
rpmi provides services to railway pension schemes. rpmi is based in Darlington and London and is responsible for pensions administration; communication with members;

strategic investment advice; investment manager monitoring; contribution collection; treasury management; investment, company and scheme accounting; and company secretarial, governance, legal and compliance matters. rpmi is authorised by the Financial Services Authority ('FSA') to carry out third-party administration services for insurance companies and others.

Railpen, a subsidiary of rpmi, is authorised by the FSA to carry out certain regulated investment business under an Investment Management Agreement with the Trustee Company.

During 2009 there was a reorganisation in rpmi that created three distinct business streams, each with its own managing director: Trustee services, administration and investments. This reorganisation was implemented to consolidate a successful period of business growth and to position the company for further expansion.

"Directors have a comprehensive training programme on induction and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes."

The Trustee Company's directors as at 31 December 2009

1	2	3	4	5	6
7	8	9	10	11	12
13	14	15	16		

Trustee board and committee meetings attended:

Number of meetings attended

Number of meetings eligible to attend

Fred Maroudas
Appointed by: Electoral Group 1 • Term of office ending: 2012

4
8

Fred was the Director of Funding at Network Rail, responsible for the Group's funding and cash management. His finance expertise spans almost 20 years. His background is as a solicitor, specialising in banking law. He has also worked as a financier of complex infrastructure projects in the rail and other sectors and as an advisor to HM Treasury on financial issues. Fred retired as a Director of the Trustee Company on 9 June 2009.

1 **Derek Scott (Chairman of the Trustee)**
Appointed by: All employers • Term of office ending: 2010
Derek is a Scottish chartered accountant specialising in professional trusteeships and has also held a number of Non-Executive Directorships. His other industry-wide, multi-employer scheme experience includes chairing the Stagecoach Group Pension Scheme since 1987. He is also a former trustee of the Mineworkers' Pension Scheme (2004-2008) and vice chairman of the NAPF's investment council (2005-2006). He was first elected as a Trustee Company Director in 1997.

2 **Mick Cash (Chairman of the Executive Committee)**
Nominated by: National Union of Rail, Maritime & Transport Workers (RMT) • Term of office ending: 2010
Mick is Senior Assistant General Secretary of the RMT. He joined British Rail in October 1978 and left railway employment to become a full time union official in April 2002. Mick sits on the Pensions Committees of the Carillion GTRM and Network Rail sections. He is also a trustee of the Network Rail Defined Contribution and CARE schemes. Mick was appointed as a Trustee Company Director in 2004.

3 **John Chilman (Chairman of the Investment Committee)**
Appointed by: Electoral Group 2 • Term of office ending: 2012
John is Director of Reward & Pensions at FirstGroup plc. A chartered accountant by qualification, he has worked for a number of large companies, including PricewaterhouseCoopers, South Western Electricity, Shell and HBOS in pensions, financial and commercial roles. John has pensions experience dating back almost 20 years and is a trustee of FirstGroup pension arrangements in the UK, USA and Canada. John was appointed as a director of the Trustee Company in 2007.

4 **Tony Cotgreave**
Nominated by: British Transport Pensioners' Federation
Term of office ending: 2014
Tony was employed in the railway industry for 39 years until retiring in 1990. He has been a member of the 1994 Pensioners Section Pensions Committee since 1997, representing the British Transport Pensioners Federation and the Retired Railway Officers Society. Tony was appointed as a Trustee Company Director in 2005.

5 **Peter Duff**
Appointed by: Electoral Group 1 • Term of office ending: 2014
Peter is Financial Controller (Operations and Group Reporting) at Network Rail having joined the company in 2002. A chartered accountant, he worked at Deloitte from leaving university in 1992 and managed one of the London office's four audit and assurance groups. He was appointed as a Director of the Trustee Company in 2009.

6 **Richard Goldson OBE (Chairman of the rpmi Board)**
Appointed by: Electoral Group 2 • Term of office ending: 2010
Richard is a non-executive Director of the Office of Rail Regulation. Prior to this, he spent 36 years working in the railway industry, including, for the final nine years, with National Express Group plc as Rail Development Director. He was a member of the BR Pensions Committee from its inception until 1997 and was elected as an employer director of the Trustee Company in 1998 and re-elected for a second term in 2006. He is also a trustee of the Railway Benefit Fund, one of the industry's leading charities. In 2009 Richard was appointed Chairman of the rpmi Board.

7 **Dave Gott**
Nominated by: National Union of Rail, Maritime & Transport Workers (RMT) • Term of office ending: 2012
Dave joined British Rail in 1980 and worked in the signalling grades in the Lincoln/Retford areas. He was elected to the BRSF Management Committee in 2001 and elected to the Network Rail Pensions Committee in 2005. Dave was appointed as a Director of the Trustee Company in 2007.

8 **John Hamilton**
Appointed by: Electoral Group 3 • Term of office ending: 2014
John is a chartered accountant and is the Group Taxation Director and the Director of Pensions and Employee Benefits at Stagecoach Group plc, where he is also an experienced trustee of the group's pension scheme. He joined Stagecoach in 1999, bringing previous experience from working at the large accountancy firms Deloitte and also Arthur Andersen, where he had specialised in taxation. John was appointed a Director of the Trustee Company in 2008.

9 **Chris Hannon (Chairman of the Benefits & Funding Committee) Appointed by: Electoral Group 1**
Term of office ending: 2012
Chris is Head of Pensions at Network Rail, having joined the company in November 2004 from Safeway Supermarkets plc where he was Pensions Manager. He has over 30 years' experience working in a company pensions environment and has supported the trustee boards of various company pension schemes. Chris was appointed a Director of the Trustee Company in 2005.

10 **Charles Harding**
Nominated by: Confederation of Shipbuilding & Engineering Unions (CSEU) • Term of office ending: 2014
Charles joined British Rail at Crewe ETD as an engineer in 1989 and currently works for a major rail freight operator. Charles has been a Senior CSEU Representative since 1998 and is a Lead Railway Organiser for Unite the Union. Charles was appointed a Director of the Trustee Company in 2007.

11 **James Jerram CBE**
Appointed by: All employers • Term of office ending: 2010
James joined the industry in 1991. He became a director of the then BR Trustee Company at the same time and has many years of pension experience. He served as Chairman of the Trustee Company from 1996 to 2007. He is also chairman of the pension trustees for three other schemes. James retired as a Director of the Trustee Company on 21 January 2010.

12 **John Mayfield (Chairman of the Audit Committee)**
Nominated by: Retired Railway Officers' Society
Term of office ending: 2014
John worked as the British Railways Board's Chief Internal Auditor and then as Finance Director at the British Rail Property Board until he retired in 1993. He is a past president of the Retired Railway Officers' Society, honorary treasurer of the British Transport Pensioners' Federation and a director of Railnews Limited. John was a member of the Pensions Committee of the 1994 Pensioners Section of the RPS between 1994 and 1997. He was appointed as a Director of the Trustee Company in 1996.

13 **Stephen Richards (Chairman of the Case Committee)**
Nominated by: Transport Salaried Staffs' Association ('TSSA')
Term of office ending: 2012
Stephen joined the rail industry in 1972. He has been the Transport Salaried Staffs' Association nominated Director of the Trustee Company and its predecessor since 1993. Stephen is also a member of the Atos Origin Pensions Committee.

14 **Gary Towse**
Nominated by: British Transport Police Federation
Term of office ending: 2010
Gary joined the British Transport Police in 1974 and served in the South East Area. He was a Committee member of the British Transport Police Force Superannuation Fund from 1992 to 2006. He was elected the Treasurer of the British Transport Police Federation between 1996 and 2006. Gary was appointed as a Director of the Trustee Company in 2004 and a Non-Executive Director of rpmi in 2009.

15 **David Tyson**
Nominated by: Associated Society of Locomotive Engineers and Firemen ('ASLEF') • Term of office ending: 2010
David was appointed as a Trustee Company director in 2001. He is a train driver based at Norwich, where he joined the railway industry in 1980. He has served on the BR, Anglia and 1994 Pensioners Pensions Committees. He is the former president of ASLEF's Executive which he served upon between 1994 and 2004. In 2009 David was appointed as a Non-Executive Director of rpmi.

16 **John Wilson**
Appointed by: Electoral Group 3 • Term of office ending: 2014
John is an actuary and was formerly employed by British Rail where he worked on establishing the Railways Pension Scheme. He has over 35 years' experience advising companies about their pension arrangements. John has been a member of the Pensions Committees of several sections of the RPS. He was appointed a Director of the Trustee Company in 2008.

The Trustee Company

Membership and activities of board and principal committees as at 31 December 2009

Attendance at the Trustee Board is shown in the table below. The Trustee Board maintains high-level oversight of the RPS and has delegated certain functions to five principal committees.

Member	Number of meetings attended	Number of meetings eligible to attend
Derek Scott (Chairman)	5	5
Mick Cash	4	5
John Chilman	5	5
Tony Cotgreave	5	5
Peter Duff [1]	3	3
Richard Goldson	5	5
Dave Gott	5	5
John Hamilton	4	5
Chris Hannon	5	5
Charles Harding	4	5
James Jerram	3	5
Fred Maroudas [2]	0	2
John Mayfield	5	5
Stephen Richards	5	5
Gary Towse	5	5
David Tyson	5	5
John Wilson	5	5

1 Peter Duff was appointed to the Trustee Board on 21 July 2009
2 Fred Maroudas retired from the Trustee Board on 9 June 2009

A short report has been prepared on each of the Trustee Board's principal committees which provides an overview of the main activities of each committee during the year. The reports also list all meetings which committee and board members were eligible to attend, except for the Trustee Monitoring Meetings which all Trustee Directors were eligible to attend and of which there were two during the year. All Trustee Directors may, and do, attend meetings of the Trustee Board's Committees, in addition to those of which they are formally members. In particular, they have attended meetings of the Benefits and Funding Committee to keep up to date on, and contribute to, the discussions on the actuarial valuation and actions arising from the valuation.

Audit Committee

The main responsibilities of the Audit Committee are to appoint the external auditors, review the work of external audit and Business Assurance and review the pension scheme and company accounts.

The Audit Committee comprises six directors of the Trustee Board. External auditors and the Business Assurance team attend meetings at the invitation of the Committee, and relevant directors and officers of rpmi and Railpen Investments also attend as appropriate. Membership and attendance during 2009 are shown in the following table.

Member	Number of meetings attended	Number of meetings eligible to attend
John Mayfield (Chairman)	3	3
Tony Cotgreave	3	3
Peter Duff [1]	1	1
John Hamilton [2]	3	3
Fred Maroudas [3]	0	1
Gary Towse	3	3
John Wilson	3	3

1 Peter Duff was appointed to the Committee with effect from 24 September 2009
2 John Hamilton was appointed to the Committee on 1 January 2009
3 Fred Maroudas retired from the Committee on 9 June 2009

The Committee meets at least twice a year to discuss, consider and review the audit work of the external auditors, financial reporting arrangements, the work of the rpmi Business Assurance team and general internal control issues. The Committee reviews the Annual Accounts prior to Board approval.

During 2009, the Committee met on three occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2008, received reports on the progress of the 2009 internal audit plans, and considered and approved the internal audit plan for 2010. In addition the Committee received and considered reports from Business Assurance summarising the activities of the Risk Management Committee and its work in facilitating the Trustee's risk management process.

Financial reporting matters considered by the Committee in 2009 included the Annual Report and Accounts of Railtrust Holdings and the Trustee Company, the operating companies (rpmi and Railpen Investments), railways pension schemes and pooled funds. The Committee also received and considered the Report by the External Auditor on the 2008 Report and Accounts and the External Audit Strategy for 2009.

At its meeting in June 2009, the Committee approved the removal of BDO Stoy Hayward LLP as auditors to the entities in the property structure, and approved the appointment of KPMG LLP as auditors to the property structure for 2009

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Construction begins with the rolling and cutting of the frame plates. It had been hoped to do this on the same machine that had been used to profile the original A1's, but it was sold just days before.

Trustee Company

Membership and activities of board and principal committees as at 31 December 2009

Other matters considered by the Committee were the Internal Control Assurance Reports (AAF 01/06) prepared for the pensions administration business of rpmi for the six-month periods ending December 2008 and June 2009 and the proposed changes to the format of the Scheme Report and Accounts for 2009. The Committee receives reports of any significant security incidents or frauds and will consider any governance issues arising from external or internal reports via the Policy for Confidential Reporting of Concerns. There was one minor attempted fraud by a pensioner reported during the year. There were no reports received under the Confidential Reporting of Concerns Policy.

At each meeting of the Committee private discussions are held in a closed session with the External Auditors and the Business Assurance Manager.

Benefits and Funding Committee

Valuation

The main responsibilities of the Benefits and Funding Committee (B&F) are to manage the actuarial valuation process for the RPS and decide on contributions, benefits and other changes to sections in the railways pension schemes.

The B&F has had a busy year with its main focus being the actuarial valuation of the Railways Pension Scheme as at 31 December 2007. This is a major undertaking which is required every three years. Each of the 97 sections of the RPS as at 31 December 2007 was treated as a separate entity with its own valuation results. This is the first valuation which falls under the Pensions Act 2004 and this has meant that agreement on the valuation results is needed from each sponsoring employer.

To deal with all these valuation results the B&F arranged additional meetings and met a total of 15 times during the year. The membership and attendance of the Committee during the year is shown in the table below.

Member	Number of meetings attended	Number of meetings eligible to attend
Chris Hannon (Chairman)	15	15
Mick Cash	10	15
John Chilman[1]	10	11
Richard Goldson	15	15
John Hamilton	9	15
Charles Harding	14	15
Stephen Richards	14	15
David Tyson	15	15
John Wilson[2]	4	4

Total of 7 scheduled meetings and 8 ad hoc meetings

1 John Chilman retired from the Committee with effect from 9 June 2009

2 John Wilson was appointed to the Committee with effect from 9 June 2009

The B&F considered the annual update, which set out the position at 31 December 2008 for the many sections that had concluded their 2007 valuations. Given the upheaval in the investment markets experienced during 2008 the B&F devoted a lot of time to this, in particular considering the best way of communicating the results to both sponsoring employers and the members.

Continuing with a valuation theme, the B&F considered the first valuations for the five new sections established during 2008. It also considered the annual update at 31 December 2008 for the British Transport Police Force Superannuation Fund.

Employer covenant

A key factor when considering the valuation is the strength of the sponsoring employer, and the B&F had the challenging task of assessing this for all the sponsoring employers in the RPS. As well as assessing employer strength for valuation purposes, the B&F also considered the impact of various corporate transactions. In many cases the B&F pursued and agreed mitigation payments with the employers which resulted in additional contributions going into specific sections of the Scheme.

Rule changes

During the year the B&F agreed a range of benefit and contribution changes for individual sections of the RPS in conjunction with the valuation process. Each proposal from an employer, after review by Pensions Committees where applicable, is considered in detail and the impact on funding and contributions addressed. Changes are then reflected in the rules of the section.

The approach taken to early retirement for deferred pensioners was reviewed by the B&F and it initiated a scheme-wide rule change which allowed early payment to be made on cost-neutral terms where appropriate. Prior to the change the only alternative to discretionary payment on the more favourable terms set out in Schedule 8 of the rules was to refuse payment until age 60.

The Omnibus Section is a section for non-associated employers where the assets and liabilities are pooled for investment and funding purposes. The B&F has considered the debts arising when Omnibus employers no longer have active members in the section. This has resulted in payments being made into the section.

The B&F also progressed the changes to arrangements for specific sections resulting from corporate reorganisations within groups of sponsoring employers or changes to franchises affecting train operating companies.

During 2009 our relationship with the Pensions Regulator has continued to develop. The Regulator's Office has an understanding of the complexity and the atypical shared-cost nature of the RPS and this has helped when it becomes involved with the Scheme in ensuring that sections remain appropriately funded.

Towards the end of the year the B&F reconsidered the Scheme Actuary appointment and this resulted in the Trustee continuing with the current Scheme Actuary, James Wintle of Towers Watson.

Case Committee

The Case Committee considers and makes decisions on individual case work applications from Scheme members which have not been delegated to a Pensions Committee or to rpmi. The Committee met nine times during 2009 and decided a wide variety of cases for over 80 sections of the RPS, including:

- 39 applications for incapacity benefits;
- 14 reviews of continued entitlement to incapacity benefits;
- 26 applications for death benefit lump sums;
- 19 applications seeking early payment of preserved benefits on preferential terms;
- 24 appeals under stage two of the internal disputes resolution procedure;
- 9 applications for dependants' and children's pensions; and
- 5 applications to continue payment of eligible dependant pensions beyond 10 years.

Membership and attendance during 2009 was:

Member	Number of meetings attended	Number of meetings eligible to attend
Stephen Richards (Chairman)	9	9
Tony Cotgreave	9	9
Dave Gott	6	9
James Jerram	7	9
Derek Scott	7	9
John Wilson	8	9

The rules dealing with death benefit lump sums were changed at the beginning of 2009. The changes gave the Trustee the power to decide who should receive the death benefit lump sums, meaning that these lump sums are not taken into account for inheritance tax on deceased members' estates. Members are strongly encouraged to complete a nomination form and to regularly update it, to ensure the Trustee has guidance on their wishes for payment of these lump sums.

During the year the Trustee medical advisor implemented internal organisational and operational changes. The Committee ensured that incapacity benefit cases continued to be dealt with efficiently and effectively.

The 2007 actuarial valuation results and the subsequent 2008 annual update revealed a serious deterioration in RPS Sections' funding levels. As a consequence, the Committee decided unanimously that it must change its general approach to exercising its discretion for granting early payment of preserved benefits, in order to secure an individual section's ability to continue to pay benefits, now and in the future. It has done this for the vast majority of sections for which it is responsible. A rule change was made to the Trustee's discretion on ensuring that, at the very least, the Trustee retains the ability to pay benefits earlier at a level equivalent in value to the benefits that would be paid at age 60 using what are termed as 'actuarial cost neutral factors'.

Executive Committee

The main responsibility of the Executive Committee is to provide oversight of the operation and management of rpmi on behalf of its shareholders. It also serves as the remuneration/nomination committee for Executive Directors of rpmi.

This work includes: approving the appointment and terms and conditions of employment of the directors of rpmi, other than the Chief Executive which is reserved for the Trustee Company, overseeing the financial performance of rpmi and reviewing the service provided to railway pension schemes and ensuring that stakeholder's views are taken into account and acted upon.

Trustee Company

Membership and activities of board and principal committees as at 31 December 2009

Membership and attendance during 2009 by Committee members are shown in the table below.

Member	Number of meetings attended	Number of meetings eligible to attend
Mick Cash (Chairman)[1]	4	4
John Chilman	3	4
Richard Goldson[2]	3	3
John Hamilton[3]	1	1
Charles Harding[4]	1	1
Rob Holden*	4	4
Gary Towse	4	4
David Tyson[5]	3	3

* External nomination
1 Mick Cash was appointed Chairman of the Committee on 24 September 2009
2 Richard Goldson, former Chairman, retired from the Committee on 24 September 2009
3 John Hamilton was appointed to the Committee on 24 September 2009
4 Charles Harding was appointed to the Committee on 24 September 2009
5 David Tyson retired from the Committee on 24 September 2009

The key task for the Executive Committee during the year was a review of the governance arrangements between the Executive Committee and rpmi. The aim of the review was to increase the transparency and accountability between rpmi and its parent, the Trustee Company, and to move towards a unitary structure with more efficient and responsive decision making.

As a result of this review, four Trustee Directors became Non-Executive Directors of rpmi. The terms of reference of the Executive Committee were amended so that no more than two members of the Executive Committee shall also be Non-Executive Directors of rpmi. In addition, the Chairman of the Executive Committee cannot be a Non-Executive Director of rpmi.

Trustee Directors who were Non-Executive Directors of rpmi during 2009 are Richard Goldson (non-executive Chairman of the Board of rpmi), John Chilman, Gary Towse and David Tyson. The first meeting of the revised rpmi Board was held in August 2009 and the first meeting of the revised Executive Committee was held in December 2009.

Prior to the Non-Executive Directors joining the rpmi board in August 2009, the Executive Committee was responsible for approving the remuneration policy for rpmi directors and staff. Accordingly, the Executive Committee, at its meetings in February and April 2009, approved the pay award for rpmi directors and staff. Following the Non-Executive Directors joining the rpmi board, the Executive Committee has retained its role as remuneration committee for the rpmi Executive Directors, but Non-Executive Directors' remuneration is now decided by the Trustee Board. Responsibility for the staff pay award has now passed to the rpmi Board.

Investment Committee

The main responsibilities of the Investment Committee are to consider the investment strategy and asset allocation for the RPS and to review and monitor the performance of the pooled funds, the underlying investment managers and the custodian.

The Investment Committee met on eight occasions in 2009. The number of meetings reflects the increasing complexity in pension fund investment and governance. The membership and attendance of the Committee is shown in the following table.

Member	Number of meetings attended	Number of meetings eligible to attend
John Chilman (Chairman)[1]	7	8
Tony Cotgreave	7	8
Chris Hannon[2]	2	3
Chris Hitchen*	8	8
James Jerram	7	8
Fred Maroudas[3]	4	5
John Mayfield	8	8
Stephen Richards	8	8
Derek Scott	7	8
Peter Stanyer**	8	8
Gary Towse	6	8

* Chief Executive of RPTCL
** External appointment
1 John Chilman was appointed Chairman of the Committee on 9 June 2009
2 Chris Hannon was appointed to the Committee on 24 September 2009
3 Fred Maroudas, former Chairman, retired from the Committee on 9 June 2009

The Committee's activities can be summarised under a number of broad headings and brief comments are provided on each of these below.

Strategy/Beliefs – prompted by the poor relative and absolute returns in 2008 the Committee commissioned a detailed review of investment advice and decision-making. A number of actions arose from this review including a re-examination of investment beliefs, a review of performance reporting and an evaluation of the use of external expertise to complement the in-house team. The review also confirmed that it was important to allow the work that had commenced in 2008 on portfolio development, not least a fundamental restructuring of the Global Equity Pooled Fund, to continue. It is pleasing to report much improved performance in 2009 following the changes made in 2008 and 2009, which saw the appointment or termination of some 20 managers. The Committee also considered a number of section-specific asset strategies.

The Committee considered and endorsed proposals to move towards 'risk-budgeting' as a way to reconsider investment strategy, focusing on risk (volatility) and return expectations relative to liabilities. This methodology has merit given that it has resulted in proposals to change the pooled funds to help achieve clearer separation between 'liability-matching' and 'return-seeking' assets and to develop both a 'growth pool' and a Liability Driven Investment ('LDI') pool that will be able to take more dynamic investment decisions, recognising some inflexibility in previous pooled fund arrangements. Consultation on these proposals will take place in 2010.

The Committee reviews periodically the extent to which action should be taken to hedge currency risk, which is an unavoidable consequence of investing in overseas markets. As a result of one such review in late 2009 the Committee amended its policy in respect of commodity investments, maintained existing policies in relation to other pooled funds and agreed that a further review would be undertaken in 2010 in respect of Global Equity Pooled Fund.

Pooled funds – continuing a rolling programme of fundamental reviews of selected pooled funds, reports were considered on the Cash Plus Pooled Fund (Funds of Hedge Funds) and the Infrastructure Pooled Fund.

Investigations were carried out into the reasons for the Cash Plus Pooled Fund return in 2008. The Committee noted that although the Funds of Hedge Funds investments did not suffer the extent of falls seen in equity markets, they did suffer from an unexpectedly high degree of correlation with other asset classes and from certain regulatory changes and problems in the wider financial system. The Committee agreed that the investment in the Cash Plus Pooled Fund should be maintained, but consideration should be given to improving risk measurement and reporting to clients.

The Committee commissioned an in-depth review of the Infrastructure Pooled Fund and the managers within it in view of the very disappointing absolute and relative returns. The Committee acknowledged that in hindsight many of the original infrastructure investments had been made around peak valuations and that the 'credit crunch' had then had a particularly severe impact on all leveraged investments including infrastructure. The Committee went on to review the Pool's return objectives and prospects for cash yield. It recognised that, in the post financial crisis environment, the original objectives were unlikely to be achieved, but that from this point onwards the expected returns did look realistic. In addition, the Committee indicated that if and when further infrastructure investment opportunities were considered, much more emphasis should be placed on both the relative valuations and the prospective annual cash flows for investors.

A significant development in respect of liability-matching assets has been the introduction of a Liability Driven Investments Pooled Fund offering the ability to protect against inflation and interest rate exposure in a section's liabilities. This will be made available for investment from 2010.

Dynamic asset allocation – one of the Committee's roles is to consider high-level asset allocation in light of views of the economy and investment markets. In this context the Committee considered, amongst other things, proposals in respect of quoted equities and commodities.

In the final meeting of the year, initial proposals for the management of return-seeking assets on a more dynamic basis were agreed by the Committee, with further details on the establishment and management of a liquid growth pool to be developed and consulted on in 2010.

Investment Manager appointments – a number of manager appointments are undertaken by Railpen Investments under delegated authority from the Investment Committee. The Committee, however, agreed that it should continue to have oversight of significant manager appointments and terminations, including some of those in the Global Equity Pooled Fund referred to above.

Corporate governance – the Committee retains high-level oversight of the extensive governance activities undertaken by the Scheme globally and congratulated rpmi on winning the Professional Pensions 'Best use of corporate governance' award in September 2009.

BRASS – the Committee approved a number of changes to the BRASS funds, notably the launch in late 2009 of an expanded range of fund choices and associated communication to members. BRASS continues to be a significant investment with funds of some £1billion and 65,000 members as at 31 December 2009.

Trustee Company report

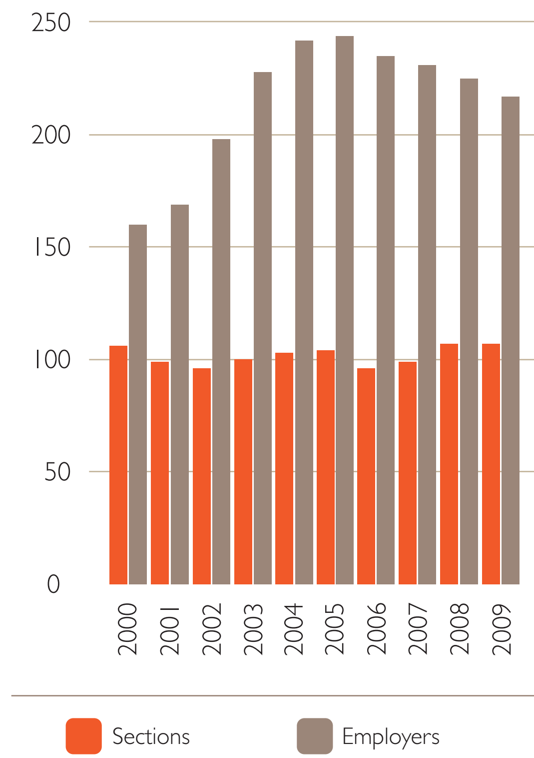
Introduction
The RPS is the largest of the four pension schemes to which the Trustee Company is the Trustee. It comprises 103 sections invested in a defined benefit arrangement and four sections that are invested in a defined contribution arrangement.

Participation in the major elements of the RPS is as follows:

	Employers *	Sections	Membership	% of membership
1994 Pensioners Section	1	1	142,562	42.0
Shared Cost Arrangement	141	101	193,939	57.1
Defined Benefit Arrangement	-	-	-	-
Defined Contribution Arrangement	3	3	69	-
Omnibus Arrangement	60	1	1,192	0.4
Industry Wide DC Section	12	1	1,577	0.5
	217	107	339,339	100.0

* Some employers participate in more than one section. Adjusting for those employers that participate in more than one section, the number of employers within the RPS reduces from 217 to 176 (2008 – 181).

The following graph shows the number of sections and employers over the last ten years.

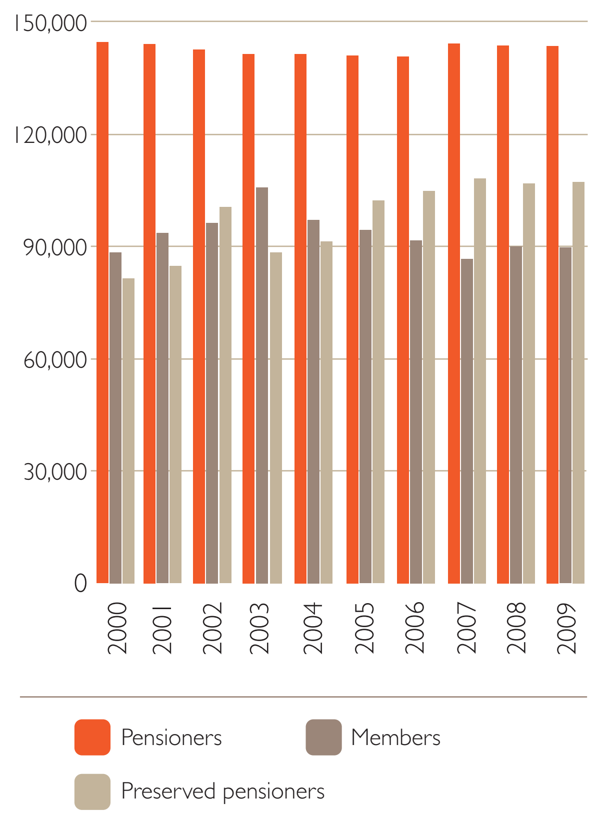


Membership

The membership of the RPS as at 31 December 2009 and 31 December 2008 is set out below.

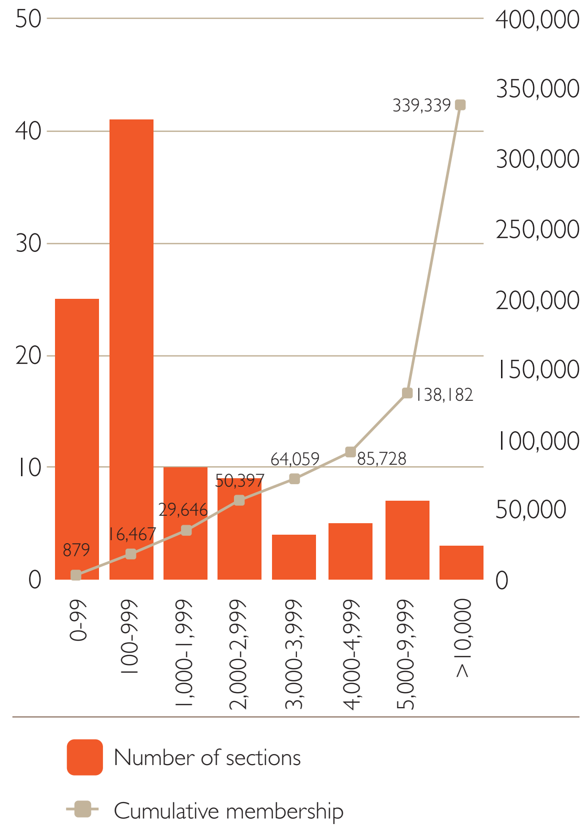
	2009	2008
Active members	**86,747**	89,735
Preserved pensioners	**108,252**	107,302
Pensioners	**144,340**	143,683
Total membership	**339,339**	340,720

The changes in membership over the past ten years are shown in the following graph.



There was one new section that opened during the year and one section that closed. The number of sections at the end of the year was 107. A complete list of sections and participating employers can be found in Appendix B.

The total membership of sections varies considerably as can be seen in the graph below. The median shared cost section has 382 (2008 – 382) members.



Trustee Company report

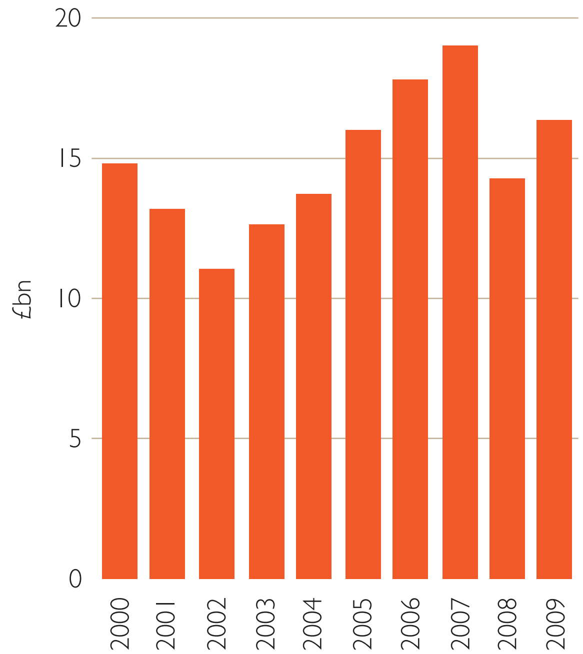
Financial development of the Scheme
During the year the net return on investments of the Scheme as a whole was a gain of £2,313m (2008 – loss of £4,557m).

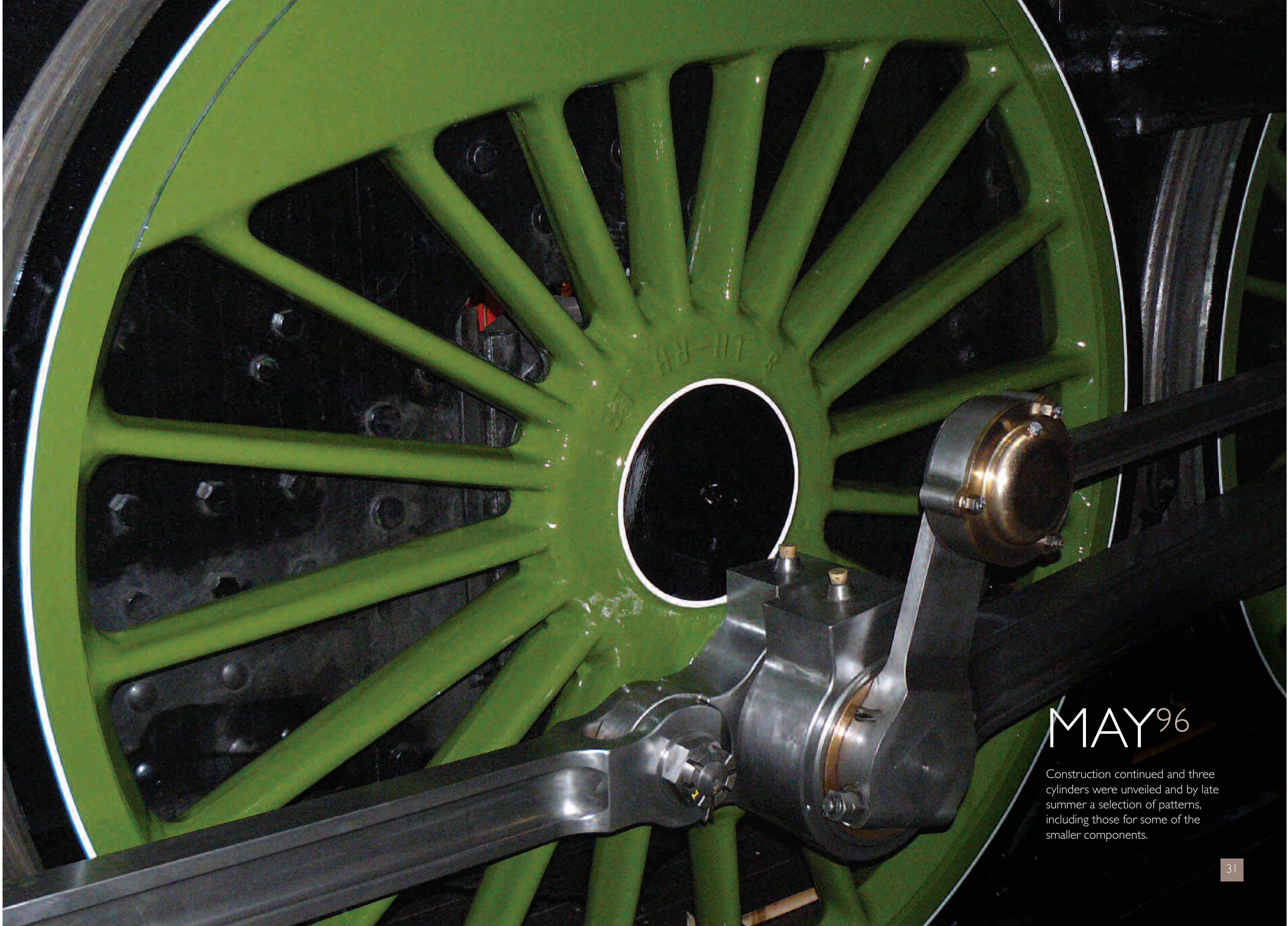
The Scheme received £637m (2008 – £606m) of contributions in 2009 and paid out benefits of £835m (2008 – £764m).

The following table is a five year summary of the financial statements of the RPS.

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Scheme benefits					
Pensions	**648**	612	586	562	549
Lump sums	**165**	131	128	111	96
Death benefits	**22**	21	19	17	19
Total benefits	**835**	764	733	690	664
Contributions income					
Employees	**248**	239	226	204	184
Employers	**361**	338	318	298	247
Government	**28**	29	30	31	32
Total contributions	**637**	606	574	533	463
Net transfer values	**10**	11	59	11	11
Administration expenses (including PPF)	**(33)**	(40)	(10)	(20)	(13)
Change in market values & interest	**2,313**	(4,557)	1,334	1,965	2,478
Net increase/(decrease) in the Scheme	**2,092**	(4,744)	1,224	1,779	2,275

The net assets of the RPS as at 31 December 2009 totalled £16,368m (2008 – £14,276m). The following graph shows the movement in the net asset position of the Scheme over the past ten years.





MAY96

Construction continued and three cylinders were unveiled and by late summer a selection of patterns, including those for some of the smaller components.

Trustee Company report

Actuarial review

The financial statements set out on pages 6 to 11 do not take into account the liabilities to provide pension benefits which fall due after the year-end. These liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position of the RPS and the level of joint contributions payable.

The most recent triennial actuarial valuation as at 31 December 2007 is completed for most sections of the RPS. There remain a very small handful of sections which are still to be finalised. This is the first valuation of the Scheme under the provisions of the Pensions Act 2004. Under these provisions the Trustee and employers need to agree a Statement of Funding Principles which sets out the basis for calculating the Technical Provisions (the amount required to make provision for a defined benefit scheme's accrued or past service liabilities) and the period within which any shortfall is to be recovered.

The new provisions also require the sponsoring employers' financial positions and prospects as well as their willingness to continue to fund the benefits of the Scheme, usually referred to as their employer covenant, to be assessed and the results incorporated into the valuation assumptions.

The Pensions Act 2004 introduced a requirement to obtain annual funding updates, and the first was issued for sections of the RPS in October 2009. This showed the estimated funding position at 31 December 2008 and reflected the upheaval in investment markets during 2008. There will be a further annual update at 31 December 2009 and the next formal valuation is scheduled for 31 December 2010.

A report from the Scheme Actuary is included on page 38, which refers to the requirement to produce individual Statement of Funding Principles and Schedules of Contributions for each section as at 31 December 2007. The individual actuarial certificates of the latest completed valuation for each section have not been included in the annual report but are available on request from rpmi.

Greg Alexander of Watson Wyatt Limited, the Scheme Actuary, resigned on 30 June 2009 and was replaced by James Wintle of Watson Wyatt Limited on 1 July 2009. As required by Regulations made under the Pensions Act 1995, Greg confirmed in his resignation letter that he was not aware of any circumstances connected with his resignation which, in his opinion, significantly affect the interests of members or prospective members of, or beneficiaries under, the Scheme.

Operational risk and the safe custody of assets

The Trustee Company was one of the first trustees to introduce a risk management process over ten years ago. The risk management process, which has been reviewed and updated during the year, identifies risks and actions to reduce their likelihood and consequences. The risk management process is explained in more detail in Appendix F.

The Trustee Company gives particular attention to the safekeeping of its assets including the efficiency of transaction settlement, income collection, foreign exchange dealing and tax records. The appointed custodian supplies the Trustee Company with reports, attested by their external auditors, on the effectiveness of internal controls. Regular visits are made to the custodian and an independent custody-efficiency monitoring service is retained. Foreign exchange dealing is also monitored.

Post balance sheet event

Jarvis plc and a number of its subsidiaries were entered into administration on 26 March 2010. Its remaining subsidiaries were entered into administration on 31 March 2010. The Jarvis Group has three sections in the RPS: the Fastline Section, the Jarvis Facilities Ltd Section and the Relayfast Group Section. The PPF is currently in the process of verifying that the events of 26 March and 31 March qualify as insolvency events in relation to an employer of an eligible scheme. Once this verification has been obtained the three Jarvis sections will enter an assessment period for entry into the PPF. Entry into the PPF depends on the funding position of each section at the time of the insolvency event which requires an actuarial valuation on a PPF basis. The Trustee has started this process and is keeping the situation under review.

Introduction

Each section of the Railways Pension Scheme has a Statement of Investment Principles, which details the policies that control how the section's assets are invested; copies are available on request.

The Trustee Company and Pensions Committees are responsible for setting investment strategy and the investment management arrangements; in this they are advised by rpmi. Railpen provides investment management services to the Trustee and acts as a manager of managers. In this capacity, it is regulated by the Financial Services Authority as an Occupational Pension Scheme firm.

Investment process

The assets of the Scheme are invested through a number of different pooled investment funds, each covering a different class of asset. These funds are run as if they are internal unit trusts and under the approval of HM Revenue and Customs. Only railway pension schemes may invest in these pooled funds. Each section holds units in the pooled funds. The use of these pools enables sections to hold a broader range of investments than may have been possible through direct ownership. A commodities pooled fund was set up in 2008 and funding commenced during 2009.

Each pooled fund has a performance benchmark and a 'risk budget' which may be used to target additional returns. All pooled funds are managed largely by external fund management companies and are predominantly actively managed, that is, they try to add value beyond the benchmark returns through skilled management of the investments. Passive management, that is, index-tracking, is used to some extent in asset classes where the Trustee considers this appropriate. The intention is to maximise the return generated per unit of risk against the benchmark. The managers are generally remunerated by fees which vary according to their performance against the benchmark.

Exposure to overseas currency is limited by currency hedging arrangements. This process removes some of the volatility of sterling returns inherent in investing in overseas markets. During 2009 the hedging policy was to hedge 100% of the exposure in the Cash Plus, Commodity and Global Bond Pooled Funds and 70% of the overseas exposure of the Global Equity Pooled Fund. All other pooled funds were unhedged.

Investment strategy

The Trustee's Investment Committee sets investment strategy for all sections without a Pensions Committee and approves strategies determined by Pensions Committees.

Investment strategies have been set on the basis of the expected long-term risk, return and correlation characteristics of the various asset classes that may be selected for investment. In this context risk is taken to be the expected volatility of returns.

Each section is able to follow a suitable investment strategy by selecting the appropriate mix of assets through holdings in the nine pooled funds operated by rpmi for the Trustee. In setting strategies for sections, the profile of the section liabilities and covenant of the sponsoring employer are taken into account.

Investment strategies for all sections are reviewed regularly. During 2009 sections have been encouraged to think about strategy in terms of risk budgets (that is, tolerated variability of risk and return relative to section liabilities) rather than fixed allocations to specific asset classes. Such an approach facilitates a more dynamic approach to asset allocation, which means that prevailing market conditions may be taken into account when measuring risk and when taking and implementing strategic investment decisions.

Liquidity of investments

Investments described in the financial statements as 'quoted' or 'exchange traded' are either listed on a recognised investment exchange or traded in a secondary market where prices are usually readily available from a broker, dealer, industry group or other pricing service, and where those prices are representative of actual market transactions on an arm's length basis. These investments are generally regarded as readily realisable at accounting fair value although on occasions markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices equal to accounting fair value.

Investments described as 'unquoted' in the financial statements – mainly property, private equity (including infrastructure), over-the-counter ('OTC') derivatives and hedge funds – are unlisted and there is no organised public market for such instruments. These investments are carried at fair value in accordance with the Trustee Company's accounting policies as set out in the notes to the financial statements. These asset classes are generally less liquid than quoted or exchange traded investments, either because of the lack of an organised public market, the nature of the instrument or contractual arrangements. For these reasons it is not always possible to realise such assets at short notice.

Between November 2008 and June 2009, lack of market making activity and the consequent increased costs of trading prompted the Scheme to suspend the rebalancing of sections back to long-term strategic goals and to meet all negative section cashflows out of the sale of units in the Global Equity Pooled Fund, where trading was less expensive. By July 2009, liquidity and trading costs had improved to the point where the Scheme was able to resume selling in the bond pooled funds to meet cashflows. In August 2009, following further improvements in the markets, rebalancing back to strategic targets was also reintroduced, although by that stage the equity market had regained sufficient ground that very few sections were outside their target allocations.

Economic commentary

The year 2009 saw a transition from the depths of economic despair – and genuine concerns about a second Great Depression – to some optimism that the global economy was slowly regaining some of its previous vigour. That transition was in large part due to significant monetary and fiscal stimulus around the world, reinforced by the recovery in financial markets. Nonetheless, significant risks remain and it is still to be seen whether the year 2010 can sustain a return to economic health.

The starting months of 2009 were characterised by a continuation of the severe economic contraction that began in late 2008. The Lehman Brothers default and associated trauma in financial markets had accelerated the weakening in economic activity that was already taking place. In particular, the slowdown in global demand and a lack of availability of finance contributed to a collapse in world trade with volumes declining by around 15% between the third quarter of 2008 and the first quarter of 2009. This in turn produced a sharp drop in industrial production. Countries that are heavily export-based were particularly affected. Indeed, by the first quarter of 2009, industrial production in Germany and Japan – ironically countries less exposed to the roots of the financial crisis – had dropped by an incredible 33% and 22% respectively from their pre-recession peaks (the average for developed economies as a whole was 17%).

The sharp fall in international trade and industrial production impacted rapidly on other aspects of economies. Firms cut back heavily on inventories and laid off workers. This in turn acted as a drag on household spending and residential property markets. While emerging market economies had generally avoided the first impact of the financial crisis, the collapse in global trade had a clear adverse effect, although they still fared better than the major developed economies.

In response, policymakers took further emergency action. Where possible, interest rates were reduced again (those in the US were already close to zero) and fiscal policy was eased. The estimated fiscal stimulus from the G20 group of countries was almost 2% of gross domestic product ('GDP') in 2009 and a further 1.5% in 2010. In addition, central banks implemented various unconventional measures to attempt to improve the operation of financial markets: these included the Federal Reserve System ('Fed') extending the purchase of residential mortgage-backed securities to $1.25trillion, and the Bank of England buying almost £200bn of government bonds from the market. The principle was to help lower long-term interest rates and support the economy. More generally, central banks had made it clear that they stood behind any bank deemed 'too big to fail'.

These measures brought back some confidence to financial markets. In March 2009, equity markets reached their lows: at this stage, the FTSE All-World index had declined by almost 60% from its October 2007 peak. But the bailing out of the financial sector and the injection of monetary and fiscal stimulus gradually began to have an impact. Confidence began to return and international trade flows started recovering. Having declined by 8% in the first quarter, industrial production in developed economies was broadly unchanged in the second quarter. Forward-looking indicators of economic momentum showed clear signs of improvement. And in its June 2009 report, the Organisation for Economic Co-operation and Development ('OECD') revised up their projections of economic growth for the first time in two years. Nonetheless, although the fall in output was approaching its trough, GDP in the developed economies had declined by almost 5%, the worst in post-war history.

The second half of the year brought a fairly smooth return to economic growth. Importantly, financial markets improved significantly: equity markets rallied and credit spreads declined. Some emerging market economies rapidly showed signs of strength, with China in particular benefiting from significant policy stimulus (including a surge in government-directed bank lending) and the recovery in global trade. By the third quarter, all the G7 economies – with the exception of the UK – had exited from recession. This momentum in both financial markets and the global economy carried into the fourth quarter. Indeed, many of the financial indicators that showed clear signs of distress during the crisis have returned at or close to levels prevailing before the financial blow-up. One notable aspect of 2009 was the sharp recovery in reported banking profits as the large banks benefited from cheap funding costs and the rally in many financial markets.

The consensus forecast for global growth in 2010 is around 3-4%, not dissimilar to the average of the past 30 years. While this economic recovery is welcome, it is important to recognise the downside risks. Unemployment levels remain elevated in many economies (the US unemployment rate remains close to 10%) and this will restrain growth for those economies with high household debt levels. Although monetary policy can remain loose due to low inflation, the markets are now contemplating the end (and possible removal) of unconventional policy measures. China has already started implementing measures due to concerns about the economy overheating. In addition, fiscal policy is set to provide less stimulus to the global economy than last year and, of particular relevance in Europe, there is some concern about the high level of government debt that has accrued during the crisis. Finally, the outlook for the banking sector itself remains clouded due to regulatory uncertainty. But, overall, 2009 ended on a much more optimistic note than that prevailing just one year earlier.

Investment performance

Financial markets experienced another rollercoaster year in 2009. Having already weakened significantly in 2008, most asset markets slumped further in the first quarter as fear over a financial and economic meltdown continued. It took unprecedented co-ordinated action from governments and central banks around the world to, firstly, halt the slide and, secondly, sow some seeds of economic recovery.

As markets started to expect such a recovery, the prices of assets began to retrace their losses. By the end of 2009, asset markets had rallied sharply, and were significantly higher than at the beginning of the year. Nonetheless, on the whole, prices were still lower than before the onset of the financial crisis.

Having declined by around 40% in 2008 (in local currency terms), the FTSE All-World equity market index shed another 20% before it reached its low in early March. But the sharp recovery seen in the months since then resulted in this global index recording a 27% rise in 2009 as a whole. The UK All Share Index showed a similar increase during the year. Emerging markets fared even better. As a result of this equity market rally and better performance by its range of managers, the Global Equity Pooled Fund had a return in excess of 30% and outperformed its benchmark.

Government bond markets had a rather volatile year, with yields falling heavily during the equity market sell-off in the first quarter, but then rising gradually during the remainder of the year. In general, returns were slightly negative from government bonds with the UK All Stocks Gilt index falling by just over 1%. However, index-linked bonds in the UK managed to produce a modest return of over 6%, aided by a steady decline in real yields.

All three bond pooled funds (Global Bond, Short Bond and Index-linked) produced strongly favourable returns compared to market benchmarks in 2009. They benefited from their ability to hold bonds issued by private-sector companies, since in 2009 the increased yield available to investors in corporate bonds (to protect against the higher perceived risk of default) declined sharply, that is, prices rose.

Returns from the Direct Investment (private equity) and Infrastructure Pooled Funds were poor. This was due in part to the fact that the valuation of unquoted investments is typically subject to 'mark to market' provisions but with a significant time-lag and so much of the volatility and bad news from 2008 was reflected in the 2009 performance results. Whilst it is undoubtedly true that many private equity investments (including infrastructure) did fall in value in 2009, these investments are held for the long-term and returns in any one year give limited information. Relative returns over the short-term can also be misleading and this was particularly the case in 2009 where returns were significantly behind their benchmarks, because they are based on quoted market returns (or an absolute return target in the case of infrastructure). Returns from private equity have however been ahead of benchmark when measured over a three, five and ten year period.

The hedge fund industry generally benefited from the improved environment for return-seeking assets and its performance lay somewhere between that of equities and bonds. The Cash Plus Pooled Fund reflected this, with returns for the year of over 13%, well ahead of the abnormally low cash returns.

The UK commercial property sector experienced a further decline in prices until around mid-year followed by a small recovery into year-end. Including the rental yield from properties, the total market return was just over 2%. However, the Property Pooled Fund managed to produce a return of over 6%, a healthy outperformance compared to benchmark.

Investment report

A new pooled fund was launched last year, with the purpose of investing in commodities. These are intended to offer diversification benefits and provide some protection against unexpected inflation. As with equities, commodity prices generally declined early in the year before rallying sharply as the year progressed. The first investment in this fund was made in early March, and over the following ten months the fund produced a return in excess of 34% on the back of this rally.

Section returns

There is a wide range of investment strategies amongst RPS sections, reflecting the diversity in terms of membership and liability profiles. Sections' strategies are determined by the Trustee Company Investment Committee and where applicable by their Pensions Committees. Following the completion of the triennial actuarial valuation as at 31 December 2007 section strategies are being reviewed, taking into account the maturity of the section (that is, the proportion of liabilities in respect of members who are no longer in service) and the strength of covenant of each sponsoring employer.

Section returns in 2009 were strongly influenced by the recovery in equity and credit markets that started in March and persisted through the rest of the year. Most sections experienced double-digit investment returns for the year of between 10% and 18%, with a median return of 14%, as RPTCL pooled funds produced positive performance in absolute and relative terms in 2009 in nearly all cases. Most sections have returns of between minus 1% and minus 3% per annum over three years. Over five years the majority of sections have experienced modestly positive returns of between 4% and 6% per annum. These returns have also exceeded inflation over the period.

All sections of the Scheme have a performance benchmark appropriate to their specific circumstances, in line with the practice recommended by the Myners Principles for Institutional Investment. Performance relative to these individual benchmarks varied, but sections exposed to the infrastructure and private equity pooled funds underperformed (by between 2% and 5% generally). This also affects longer-term results as sections underperformed benchmark returns by around 1% to 2% per annum over three years and by a slightly lesser margin over five years.

Securities lending

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. With the approval of the Trustee Company, and subject to the agreements in place and the constraints on certain portfolios, custodians are able to make a proportion of securities they hold available for lending to securities houses with short-term requirements. The lending does not impact on the fund managers' investment activities. In place of the lent securities, the Scheme receives collateral, in the form of cash or securities, that meet standards set by the Trustee Company. As a result of operating these securities lending arrangements, the Scheme receives a revenue. The custodians also operate indemnification programmes which protect the Scheme against defaulting borrowers. The Scheme retains economic exposure to the lent securities, for example by receiving dividends, but loses voting rights. The Trustee Company retains the right, however, to recall securities if an important vote is scheduled.

Government support

The Transport Act 1980 provides financial support for the British Railways Board's historical obligations. These obligations are met partly in cash and partly by means of substitution orders from the Government.

Self investment

The Pensions Act 1995 requires investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are limited to avoid the prospect of the employees losing their job and part of their pension at the same time, should the employer's business fail.

The RPS is in a special position. It is a multi-employer scheme for non-associated employers, with actuarially independent sections. The rules for self investment therefore apply on a section-by-section basis.

Investment decisions on the purchase and sale of employer-related investments are taken by external investment managers acting within discretions given to them by the Trustee Company. rpmi regularly monitors investment manager activity to ensure that statutory limits on self investment are not breached and that any self investment is suitably controlled.

Employer-related investments as at 31 December 2009 are disclosed in note 9 to the financial statements.

BRASS (AVC) investments (excludes IWDC and DC arrangement)

Railways Pension Scheme holding = £1,168m
Total value of fund at 31/12/09 = £1,176m
The main AVC arrangement for the RPS, known as 'BRASS', is administered by rpmi and invested in a number of different investment vehicles. The greater part of the fund is invested in the Pension Assured Fund ('PAF') with underlying investments managed by Aviva and Legal & General. Units in the PAF are guaranteed by Aviva to be worth £1 each to the unit holders at age 55 or on earlier death. Members retiring before age 55 may receive a discounted value dependent on their age. The fund has been closed to contributions since 2007. Aviva is responsible for provision of the guarantee and the overall management of the PAF, including the issue of bonus units, asset allocation, pricing and administration of dealing in the units, subject to monitoring by rpmi.

The five current BRASS funds into which new members can invest are the Global Equity Tracker Fund, Bond Fund, and three funds opened during 2009: the Growth Fund, Cautious Fund and the 2009 Pension Deposit Fund. The Trustee may change the range of funds made available to the members from time to time.

The remainder of the BRASS is invested in one of seven funds that are either closed to future contributions or which will only take new contributions from members who had already invested some money in them prior to 1 September 1996. These are the Pension Managed, Pension Deposit, Pension Overseas Equity, Pension Property, Pension Fixed Interest, Pension Equity and Pension Index Linked Gilt funds.

The investment benchmarks for the BRASS funds other than the PAF are shown in the table below:

Fund	Benchmark
2009 Pension Deposit Fund	Rolling 7 day LIBID
Bond Fund	FTSE All Stocks Gilt Index
Growth Fund	Composite benchmark comprising weighted average of benchmarks for RPTCL Pooled Funds held
Cautious Fund	Composite benchmark comprising weighted average of benchmarks for RPTCL Pooled Funds held
Pension Managed Fund	WM All Funds Index (excluding property)
Global Equity Tracker Fund	50% FTSE All-Share Index 50% Weighted FTSE World Series Regional Indices
Pension Equity Fund	The FTSE All-Share Index
Pension Overseas Equity Fund	Composite index comprising regional indices from the FTSE World Index Series
Pension Property Fund	IPD Total Return Index
Pension Fixed Interest Fund	Composite index comprising the FTSE Government and Warburgs Credit Indices
Pension Index Linked Gilt Fund	FTSE Over Five-Year Index-Linked Gilt Index
Pension Deposit Fund	Average 1 week LIBOR rate

Approximately 50% of the underlying assets are invested in a long-term bond fund managed by Aviva Investors with the balance in a series of index tracking funds managed by Legal & General.

Actuary's report

The 31 December 2007 valuation

An actuarial valuation of the Railways Pension Scheme ('RPS') was carried out as at 31 December 2007. This was the fifth valuation of the RPS, the previous valuation having been carried out as at 31 December 2004. It was the first occasion on which the valuation was carried out under the scheme-specific funding requirements of the Pensions Act 2004 in addition to the requirements of the RPS Trust Deed and Rules. The valuation was carried out separately for each of the 97 sections within the Shared Cost arrangement at 31 December 2007 and for the 1994 Pensioners section. The valuation showed that around three-quarters of all sections had a funding level of at least 100% (that is, an excess of assets over liabilities) as at 31 December 2007.

The 31 December 2007 valuation formal documentation which is required for each section includes a valuation report, a Statement of Funding Principles (which sets out the Statutory Funding Objective for the section), a Recovery Plan (for those sections with an overall valuation shortfall at 31 December 2007) and a Schedule of Contributions. The 31 December 2007 valuation process has been completed, and all necessary formal documentation issued, for all except a very small number of the Shared Cost sections. Work is ongoing to ensure completion of the valuations for these remaining sections as soon as possible.

A large proportion of the 31 December 2007 valuation was completed by the previous Scheme Actuary, Greg Alexander. I, James Wintle, took over as Scheme Actuary of the RPS with effect from 1 July 2009.

The 31 December 2008 annual update

In order to satisfy the requirements of the Pensions Act 2004, as well as carrying out a full actuarial valuation of the RPS at least every three years, an interim funding update needs to be completed for each section in intervening years. The legislative requirements in connection with the annual update do not require the assumptions used to be formally agreed between the Trustee and Designated Employer for each section; the assumptions used are set using a consistent approach with that used at the most recent full valuation and the Statement of Funding Principles. For each section a short report is issued which sets out how the funding position may have changed since the last assessment.

The annual update as at 31 December 2008 has been completed for all sections for which the 31 December 2007 formal valuation has been finalised. In the second half of 2008 market conditions deteriorated significantly resulting in a fall in the value of many asset classes. Consequently, the funding levels disclosed at the 31 December 2008 update were typically 15% -20% lower than at 31 December 2007, and a much larger proportion of sections were estimated to have a shortfall. However, no formal action is required to be taken by the Trustee or Designated Employers following this annual update; in particular, the Schedule of Contributions agreed following the 31 December 2007 valuation remains in force and is not required to be reviewed again until the next full actuarial valuation of the RPS as at 31 December 2010.

The 31 December 2009 annual update

The next interim update is currently underway as at 31 December 2009. The results of this update are expected to be available by mid-2010.

Over the course of 2009 as a whole, investment markets were generally positive resulting in an increase to asset values for most Sections. However, most markets remain below the levels reached in 2007 and current estimates of forward-looking investment returns are not sufficient to replace the value lost. Consequently, in general a significant improvement in funding positions is not anticipated over 2009 and it is therefore expected that many sections will be estimated still to have a shortfall as at 31 December 2009.

The 31 December 2010 valuation

Planning and preparation is already underway for the 31 December 2010 formal actuarial valuation, which will be the sixth such valuation of the RPS.

James C Wintle
Actuary to the Railways Pension Scheme
Watson Wyatt Limited,
a Towers Watson Company
Watson House
London Road
Reigate
RH2 9PQ

22 January 2010

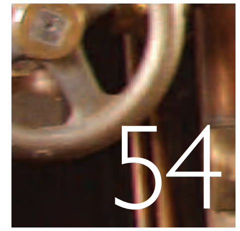
SEPTEMBER97

Tornado arrives in Darlington! The locomotive's frames were craned into the newly restored carriage works.

OCTOBER02

After progress slowing in 2001 due to external factors work now resumed and the frames had become a rolling chassis. 150 supporters of the project were treated to the sight of Tornado 'moving' for the first time.

APPENDICES



Appendix A

Advisers to the Trustee Company

Investment of managers	Railpen Investments, Broad Street House, 55 Old Broad Street, London, EC2M 1LJ
Scheme and investment administrator	rpmi, Stooperdale Offices, Brinkburn Road, Darlington, DL3 6EH
Actuaries	James Wintle, Watson Wyatt Limited (from July 2009), Greg Alexander, Watson Wyatt Limited (until June 2009) Trevor Llanwarne, Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)
External auditors	Scheme – KPMG LLP Property – KPMG LLP (from June 2009), BDO Stoy Hayward LLP (until June 2009)
Solicitors	CMS Cameron McKenna, Dickinson Dees, DWF, Freshfields Bruckhaus Deringer, Herbert Smith (from March 2010), Maclay Murray & Spens
Bankers	The Royal Bank of Scotland Group plc

Appendix B

Sections and employers as at 31 December 2009

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
***1994 Pensioners**	The Secretary of State for Transport	142,562	4,102
Alstom Railways Ltd	Alstom Ltd	2,127	129
Amey Rail	Amey Rail Ltd	2,539	132
Angel Trains	Angel Trains Ltd	234	28
Angel Trains International	Angel Trains International Ltd	27	3
Anglia Railways	London Eastern Railway Ltd	800	57
Arriva Trains Wales	Arriva Trains Wales/Trenau Arriva Cymru Ltd	3,138	154
Atkins Ltd	Atkins Rail Ltd Atkins Ltd Network Train Engineering Services Ltd Opal Engineering Ltd WS Atkins CEDAC Ltd WS Atkins Powertrack Ltd	945	163
ATOC Ltd	ATOC Ltd	288	29
Atos Origin	ATOS Origin IT Services UK Ltd	1,276	185
Babcock Rail Limited	Babcock Rail Ltd First Engineering Holdings Ltd First Projects Ltd	2,380	174
Balfour Beatty	Balfour Beatty Rail Ltd Balfour Beatty Group Ltd	3,275	241
BAM Nuttall	BAM Nuttall Ltd	22	2
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	377	32
Bombardier Transportation UK	Bombardier Transportation (Rolling Stock) UK Ltd	1,243	87

***** Denotes sections with a Crown Guarantee

Appendix B

Sections and employers as at 31 December 2009

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
Bombardier Transportation c2c	Bombardier Transportation UK Ltd	154	3
***BR**	Bombardier Transportation UK Ltd BRB (Residuary) Ltd London Underground Ltd Scottish Ministers The Secretary of State for Transport	532	61
British Transport Police	British Transport Police Authority	2,308	48
BT	British Telecommunications plc	328	11
BUPA Occupational Health	Occupational Health Care Ltd	101	8
c2c Rail	c2c Rail Ltd	1,400	58
Carillion Rail (Centrac)	Carillion Construction Ltd	382	29
Carillion Rail (GTRM)	Carillion Construction Ltd	4,104	208
Carlisle Cleaning Services Ltd	Carlisle Cleaning Services Ltd	75	2
Chiltern Railway Co. Ltd (Maintenance)	The Chiltern Railway Company Ltd	203	10
Clientlogic	Clientlogic (UK) Ltd	69	2
Colas Rail	Colas Rail Ltd	2,246	132
COMATEC	COMATEC UK Ltd	34	1
Corus	Corus Rail Consultancy Ltd Corus UK Ltd	556	32
CSC Computer Sciences	CSC Computer Sciences Ltd	10	0.3
DeltaRail Group (Link)	DeltaRail Group Ltd	214	28

***** Denotes sections with a Crown Guarantee

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
DeltaRail Group (Rail)	DeltaRail Group Ltd	278	59
DeltaRail Group (TCI)	DeltaRail Group Ltd	127	23
East Coast Main Line	East Coast Main Line Company Ltd	6,732	267
East Midlands	East Midlands Trains Ltd	3,826	192
Eurostar	Eurostar (UK) Ltd Channel Tunnel Rail Link Ltd HS1 Limited (from 01/07/08) London & Continental Railways Ltd	4,070	213
EWS	DB Schenker Rail (UK) Ltd Engineering Support Group Ltd English, Welsh & Scottish Railway Holdings Ltd English, Welsh & Scottish Railway International Ltd	10,228	815
Executive Group Ltd	Executive Group Ltd	36	0.5
Fastline	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,485	121
First Capital Connect	First Capital Connect Ltd	4,668	195
First Great Western	First Greater Western Ltd	9,958	441
First ScotRail	First ScotRail Ltd	6,821	349
Freightliner	Freightliner Ltd Freightliner Heavy Haul Ltd Freightliner Maintenance Ltd Management Consortium Bid Ltd	2,823	204
GB Railways	GB Railfreight Ltd GB Railways Group plc	230	21

Appendix B

Sections and employers as at 31 December 2009

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
	First Dublin Metro Limited Hull Trains Company Ltd		
Global Crossing	Global Crossing (UK) Telecommunications Ltd	2,224	32
Great Eastern Railway	London Eastern Railway Ltd	235	134
Halcrow Rail	Halcrow Group Ltd	247	36
HSBC Rail (UK) Ltd	HSBC Rail (UK) Ltd	111	23
Interfleet Technology	Interfleet Technology Ltd	347	35
Island Line	Stagecoach South Western Trains Ltd	73	4
ISS Transport Services	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	225	5
Jarvis Facilities Ltd	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,846	155
Lionverge	Lionverge Civils Ltd	111	4
London & South Eastern Railway	London & South Eastern Railway Ltd	8,104	373
London Eastern Railway (West Anglia)	London Eastern Railway Ltd	1,104	65
London Midland	London & Birmingham Railway Ltd	5,194	244
London Overground	London Overground Rail Operations Ltd	897	35
London Underground	London Underground Ltd	44	0.9
Merseyrail	Merseyrail Electrics 2002 Ltd	2,033	93
Mouchel Parkman Rail Ltd	Mouchel Rail Ltd	23	3

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
National Express Services Ltd	National Express Services Ltd	145	2
NedRailways	NedRailways Ltd	7	0.5
Network Rail	Network Rail Infrastructure Ltd	38,273	3,309
New Cross Country	XC Trains Ltd	3,423	176
Northern (ex North East)	Northern Rail Ltd	4,565	242
Northern (ex North West)	Northern Rail Ltd	4,262	198
Omnibus	Aggregate Industries UK Ltd	1,192	76
	Amec Group Ltd		
	Bailey Maintenance Ltd		
	Blue Diamond Services Ltd		
	Bombardier Transportation UK Ltd		
	Bridgen Group Ltd		
	CapGemini UK plc		
	Catalis Ltd		
	Cats Solutions Ltd		
	Colas Rail Ltd		
	Connaught Fire Services Ltd		
	Connex South Eastern Ltd		
	Corning Ltd		
	Crawford & Company Adjusters (UK) Ltd		
	Cross London Rail Links Ltd		
	CSC Computer Sciences Ltd		
	Dalkia Energy and Technical Services Ltd		
	DHL Services Ltd		
	EB Central Services Ltd		
	Engineering and Railway Solutions Ltd		
	Faceo FM UK Ltd		
	Fujitsu Services Ltd		
	Gart Renewals Ltd		
	Generation Telecom Ltd		
	Hitachi Rail Maintenance (UK) Ltd		

Appendix B

Sections and employers as at 31 December 2009

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
Omnibus (continued)	Interserve (Facilities Management) Ltd		
	KeenKleen UK Ltd		
	Keolis (UK) Ltd		
	Lorne Stewart plc		
	Manpower UK Ltd		
	Miller Fisher Ltd		
	Mitie Business Services Ltd		
	Modus Project Consultancy Ltd		
	Mouchel Rail Ltd		
	Orient Express Services Ltd		
	Orion Professional Services Ltd		
	Peak ICT Ltd		
	Puccino's Ltd		
	Rail Management Services Ltd		
	Railway Signalling and Control Technology Ltd		
	Rentokil Initial Facilities Services (UK) Ltd		
	Risksol Consulting Ltd		
	Selection Services plc		
	Signet Solutions Ltd		
	Sodexho Ltd		
	Stagecoach Supertram Maintenance Ltd		
	Staveley Industries plc T/A Integral		
	Telent Technology Services Ltd		
	TeleTech UK Ltd		
	TLC Tonbridge Ltd		
	VAE UK Ltd		
	Vital Rail Ltd		
	VolkerRail Signalling Limited		
	VolkerRail Plant Ltd		
	VolkerRail Ltd		
	Weatheralls Management Services Ltd		
	Weedfree Ltd		
	West Coast Railway Company Ltd		
	Western Track Engineering Ltd		
	Wetton Cleaning Services Ltd		
Owen Williams Railways		327	30
	Amey OWR Ltd		

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
Porterbrook	Porterbrook Leasing Company Ltd	159	19
Qjump	Qjump Ltd	129	2
Rail Europe	Rail Europe Ltd	40	6
Rail Gourmet UK Ltd	Rail Gourmet UK Ltd Rail Gourmet Waterloo International Ltd	465	24
Railcare (2007)	Railcare Ltd	344	31
Red Star	Lynx Express Ltd Red Star Parcels Ltd	363	26
Relayfast Group	Fastline Ltd Jarvis plc Jarvis Rail Ltd	634	51
rpmi	rpmi Ltd	527	38
RSSB	Rail Safety and Standards Board Ltd	351	43
Scientifics	Environmental Contamination Services Ltd Environmental Services Group Ltd Scientifics Ltd	297	20
Scott Wilson	Scott Wilson Ltd	215	36
SERCO	SERCO Ltd	622	50
Siemens	Siemens plc	83	2
Siemens Enterprise Communications Ltd	Siemens Enterprise Communications Ltd	5	0.04
Signalling Solutions Ltd	Signalling Solutions Ltd	27	3

Appendix B

Sections and employers as at 31 December 2009

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
South West Trains	Stagecoach South Western Trains Ltd	10,094	433
Southern	Southern Railway Ltd	9,113	304
Specialist Computer Centres	Specialist Computer Centres Ltd	34	1
Speedy Engineering Services	Speedy Engineering Services Ltd	6	0.3
Swirl Service Group	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	9	0.08
Thales Information Systems	Thales Information Systems Ltd	29	2
Thales Transport and Security	Thales Transport and Security Ltd	2,071	226
The Chiltern Railway	The Chiltern Railway Company Ltd Company	1,041	58
The QSS Group Ltd	RIQC Ltd The QSS Group Ltd	75	8
Torrent Trackside Ltd	Torrent Trackside Ltd	2	0.003
TransPennine Express (Former Arriva Trains Northern)	First/Keolis Transpennine Ltd	726	43
TransPennine Express (Former North Western Trains)	First/Keolis Transpennine Ltd	529	26
Unipart Rail - NRS	Unipart Rail Ltd	620	42
Unipart Rail - Railpart	Unipart Rail Ltd	356	35
Unisys	Unisys Ltd	30	2
Wabtec Rail Ltd	Wabtec Rail Ltd	10	0.7
West Coast Traincare	Alstom Ltd	1,015	71

Section	Employer	Total membership as at 31/12/09	Net assets at 31/12/09 £m
West Coast Trains Ltd	West Coast Trains Ltd	6,532	319
Westinghouse Rail Systems	Westinghouse Brake & Signal Holdings Ltd	857	101
Wrexham, Shropshire & Marylebone Railway Company	Wrexham, Shropshire & Marylebone Railway Company Ltd	40	0.5
		337,693	**16,351**
Defined contribution arrangement			
c2c Rail Ltd	c2c Rail Ltd	15	0.02
Wales and West Passenger Trains Ltd	Wales and West Passenger Trains Ltd	3	0.004
West Anglia Great Northern Railway	West Anglia Great Northern Railway Ltd	51	0.1
Industry-Wide Defined Contribution Section	Corus UK Ltd First Engineering Ltd First/Keolis Transpennine Ltd GB Railways Group plc GrantRail Ltd London Eastern Railway Ltd Midland Mainline Ltd Rail Gourmet UK Ltd Rail Gourmet Waterloo International Ltd Swietelsky Construction Company Ltd The Chiltern Railway Company Ltd Unipart Rail Ltd	1,577	17
		339,339	**16,368**

DECEMBER 04

The Trust could now announce that No. 60163 Tornado was now a Pacific following the fitting of all four coupling rods to its six 6ft 8in driving wheels (the name Pacific refers to the 4-6-2 wheel arrangement) which now rotated freely together for the first time.

Participating employers
The Trustee Company collects contributions from most employers participating in the Scheme. As at the year-end there were 176 participating employers. Each one may operate from several distinct locations, each with its own payroll department and combination of weekly, fortnightly, four-weekly and calendar-monthly paid employees. As a result the Trustee Company deals with employers based at approximately 140 different addresses and 240 distinct payroll combinations.

Due dates for payment of contributions
Under the provisions of the Pensions Act 1995 it is the responsibility of each employer to pay contributions on time. The Trustee Company is required to prepare, maintain and monitor schedules setting out the dates by which contributions should be received. These dates then become the legal due dates for application of the Pensions Act 1995.

Sections in the Shared Cost Arrangement
The Trustee Company is required to maintain a schedule of contributions for every section of the Scheme. This schedule sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and also shows the dates on which the contributions are due. Each schedule must be certified by the Scheme Actuary as being sufficient to ensure that the funding objective will continue to be met for the next five years, or will be met by the end of the recovery period.

The schedules of contributions that the Trustee Company has prepared for the Scheme require payment to be made by the due date set out in the rules, which is seven working days after the relevant members are paid. The Scheme Actuary revalues the Scheme every three years. The valuation and schedules of contributions must be signed off within 15 months of the valuation date. The schedules of contributions must be signed by both the designated employer and the Trustee Company.

Sections in the Defined Contribution (money purchase) Arrangement and the Industry-Wide Defined Contribution Section
As at 31 December 2009 there were 15 employers actively contributing to the Defined Contribution Arrangement and the Industry-Wide Defined Contribution Section. Collection of contributions from these employers is governed by a payment schedule. This is similar to a schedule of contributions, and again sets out as a percentage of pay, the rate of contributions payable to the Scheme by the employers and members, and the dates on which the contributions are due. Payment schedules do not have to be certified by the Actuary, but must be prepared by the Trustee Company and revised from time to time as circumstances require. Once put in place, the employer must pay contributions by the date shown in the schedule.

Late payment of contributions
The Trustee Company is required by law to report late payments of contributions which are of material significance to the Pensions Regulator.

The Trustee Company takes the collection of contributions very seriously, and also maintains a dialogue with the Pensions Regulator from which it seeks advice on best practice. Breaches of the regulations deemed significant by the Trustee Company are reported in accordance with both applicable law and the Pensions Regulator's recommendations.

Employers are encouraged to participate in the Trustee Company's direct debit arrangements for all invoiced amounts, which greatly reduces the risk of an employer failing to pay contributions on time.

During 2009, there were 339 instances of late payment of contributions with a total value of £3.3m, which represents 0.6% of contributions payable under the schedules of contributions. The largest individual amount was £683,000 which was paid one day after the due date.

Appendix D
Custody arrangements

The law of trust imposes a fiduciary duty on trustees to safeguard assets and this has been reinforced by the Pensions Act 1995. The Trustee Company has appointed custodians to hold the assets, including cash, that make up the various quoted securities portfolios managed by the investment fund managers. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

The custodians are responsible for the safekeeping of the assets and administration. Safekeeping can be defined as the preservation of assets under a system of control that ensures that assets are only released with proper authorisation, and that the custodian's clients' investments are segregated from those of the custodians.

Other arrangements which seek to ensure asset safety and to protect evidence of title are in place for certain asset classes such as hedge funds and property.

In the case of property, freehold and leasehold property is normally registered at HM Land Registry, where appropriate, and copies of all title documents are held by the Trustee Company's property lawyers or the Network Rail property deeds depository.

In the case of investments managed by US fund of hedge fund managers, the Trustee Company has appointed PNC Global Investment Servicing Inc (formerly PFPC) as the independent fund administrator to ensure that underlying hedge fund entitlements are properly monitored and accounted for, through effective and rigorous reporting and controls.

Core administrative functions performed by the custodians include the following:

- settlement of transactions;
- registration and safe keeping;
- collection of income (dividends and interest) arising from investments;
- tax recovery;
- processing corporate actions, including proxy voting where applicable;
- reporting;
- cash management;
- foreign exchange; and
- appointing and operating through sub-custodians in overseas markets.

As part of the service provided to the Trustee Company, rpmi reviews the effectiveness of custody arrangements on a regular basis. This includes monitoring the efficiency of transaction settlement, income collection, tax recovery, foreign exchange performance and the appointment and management of overseas sub-custodians. The verification of assets is also conducted by reference to independent records held by the custodians. Great emphasis is placed on asset safety.

In addition, all custodians appointed by the Trustee Company are required to publish an AAF 01/06, SAS70 or similar document in other jurisdictions. This is a report on the custodian's internal controls which is made available to third parties and is reviewed by the custodian's external auditor in accordance with guidance issued by the Audit and Assurance facility of the Institute of Chartered Accountants in England and Wales in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or SAS70 (as amended following the introduction of the Sarbanes-Oxley Act of 2002), the US equivalent issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards.

Although not a regulatory requirement, this constitutes best practice and the Trustee Company will not appoint a custodian that does not produce a report of this type. These reports are reviewed by rpmi's business assurance team and external audit as part of the ongoing monitoring of custodians.

Appendix E

Responsible investment and voting policy

Responsible investment encompasses corporate governance, shareholder activism and social, environmental and ethical ('SEE') considerations which are also sometimes generically described as environmental, social and governance ('ESG') issues. The Trustee Company's global approach to responsible investment is founded on a fundamental belief that companies with interested and involved shareholders are more likely to achieve superior long-term financial performance than those without.

Trustees of UK occupational pension schemes are required by law to address in their schemes' Statements of Investment Principles ('SIP') the extent (if at all) to which SEE considerations are taken into account in the selection, retention and realisation of investments and their policy (if any) directing the exercise of rights (including voting rights) attached to investments.

The Trustee Company believes that institutional investors have a fiduciary responsibility to ensure that investments are managed in the long-term interest of their beneficiaries, and that shareholder value can be improved through constructive consultation and engagement with companies and wider corporate governance initiatives. It attaches great importance to the maintenance of good standards of corporate governance by companies in which it invests and it accepts that ESG factors have a significant role to play in this.

The Trustee Company considers that its fund managers and voting overlay managers have a major role to play in ensuring that companies are run in a manner consistent with clients' best interests. The Trustee Company supports the following five principles in the guidelines issued by the UK's Institutional Shareholders' Committee ('ISC') and revised on 'The Responsibilities of Institutional Shareholders and Agents – Statement of Principles':

- maintain and publish statements of their policies on active engagement with investee companies;
- monitor performance of companies and maintain an appropriate dialogue with them;
- intervene where necessary;
- evaluate the impact of their policies; and
- report back to clients/beneficial owners.

The Trustee Company expects UK fund managers, where relevant, to comply with these principles, which have also been incorporated in its SIP, and requires managers to report regularly on their compliance with them and to provide post hoc quarterly reports on voting and other significant matters. This also extends to ESG matters that the fund managers consider are likely to have a material impact on the portfolio.

The ISC published a Code on the Responsibilities of Institutional Investors in November 2009. It is expected that the ISC Principles will shortly be superseded by a Stewardship Code for Institutional Investors to be issued by the UK Financial Reporting Council which was still under consultation at the time of preparation of this report. We will review and, if necessary, update our SIP once the final version of the new Code is published.

In addition to the monitoring performed by fund managers and voting overlay managers, the Trustee Company, through rpmi, will take further action in relation to individual companies, whether independently or with other parties, where it considers it in the best interests of beneficiaries to do so.

Although the Trustee Company's external UK fund managers are expected to advise and report on governance issues and to engage proactively with companies in line with the ISC principles, full voting authority ultimately rests with the Trustee Company.

The Trustee Company has published a UK corporate governance policy and voting guidelines which is available on request. The document draws on the UK Combined Code on Corporate Governance issued by the Financial Reporting Council. rpmi representatives have served for some years on the Performance Pay Group ('PPG'), an informal network of institutional investors with an interest in monitoring remuneration proposals, and have contributed as members to the drafting of PPG guidelines.

The Trustee is also supportive of industry guidelines issued by the National Association of Pension Funds and the Association of British Insurers ('ABI'), such as their joint statement on 'Best Practice on Executive Contracts and Severance' and the ABI's 'Guidelines on Responsible Investment Disclosure'.

The Trustee Company's investment managers and custodians are expected to implement the policy and to provide detailed voting reports which are closely monitored by rpmi on behalf of the Trustee Company. The policy applies to all UK listed companies, including those that participate as employers in railway industry pension schemes.

Appendix E

Responsible investment and voting policy

The policy was updated in February 2008 and will be reviewed again in 2010 in the light of further governance developments including the proposed new Stewardship Code.

Voting is a key step in engagement, and the Trustee Company votes on all resolutions at all Annual and Extraordinary General Meetings of UK companies in which it has holdings, and has done so since 1992. It has now extended voting selectively to overseas markets. It will continue to maintain its own corporate governance policies and to refresh them at regular intervals.

Active voting was extended to the US, Continental Europe and Japan in 2006, to Singapore and Australia in 2007 and Hong Kong in 2008. To support this increased voting activity overseas, a self-standing US corporate governance policy to deal with specific US governance issues was issued in March 2006. Similar self-standing policies were issued for Japan in May 2006, Singapore in May 2007, Australia in August 2007 and Hong Kong in May 2008. These are available on request.

The Trustee Company appointed Governance for Owners in October 2005 as its voting overlay adviser. Governance for Owners is an investment manager signatory for the United Nations Principles for Responsible Investment ('UNPRI') and currently provides the Trustee Company with a voting overlay service in respect of 750 larger stocks in Continental Europe and Japan.

The Trustee Company intends to extend voting to other overseas markets and reaffirm in its UK policy that the core principles that it contains are applicable to other markets where appropriate and it endorses the International Corporate Governance Network's ('ICGN') Statement on Global Corporate Governance Principles, updated in 2009. These serve as the starting point for future policies, taking into account local governance codes, where they exist. Consideration will be given to issuing separate policies for other major markets where appropriate or, as in the case of the US, where no satisfactory local code exists.

However, we feel that the ICGN Global Principles are not sufficiently detailed on executive remuneration issues and that some global guidance is useful. We have adopted the 'Shareholders International Principles on Remuneration' issued by the PPG in 2007 which is intended to complement our existing overseas policies.

The Trustee Company seeks to promote best practice by:

- maintaining communications with companies in which substantial interests are held, other investors in those companies, and those shaping the debate on corporate governance policy;
- widening the scope of the corporate governance debate to company strategy and shareholder value and contributing to consultations and other policy development activities;
- promoting compliance with the Combined Code on Corporate Governance, and other statements of recognised best practice;
- supporting improvements in the quality and clarity of company reporting; and
- working with other institutional investors to achieve these ends.

Remuneration is often perceived as a major issue in corporate governance and listed companies in the UK have been required by law to submit their remuneration reports to an advisory vote of shareholders for all financial years ending on or after 31 December 2002. Similar provisions also now apply to companies listed in Australia, the Netherlands and Sweden and will be introduced in France and Germany during 2010. It is currently in force in the USA for companies receiving financial assistance from the US government and may well be extended further.

Railpen Investments and PIRC Limited, the UK governance research firm, published a report on 22 September 2009 looking at remuneration practices in UK companies over the past six years. The report, 'Say on Pay: Six Years On – Lessons from the UK experience' documents how shareholders in UK companies have used the advisory vote on remuneration since its introduction under the Directors' Remuneration Report Regulations in 2002. The primary purpose of the report is to inform the debate in the US over the introduction of a similar advisory vote on compensation, so called 'Say on Pay', but it has also generated interest in the UK.

The Trustee Company has issued general guidance to companies on how it will vote on the level or structure of directors' remuneration packages. We expect to see significant alignment between the interests of directors and shareholders and urge companies to adopt:

- a simple and transparent structure which provides for a basic salary at market levels;
- a deferred element of the remuneration package to encourage loyalty; and

- the use of rigorous performance targets for annual bonuses and longer term incentives appropriate to the company and its sector which do not encourage excessive risk taking.

It should be noted that the regulatory authorities in the UK and elsewhere are imposing their own requirements for the deferral of annual bonuses as part of their perceived need for more prudent regulation.

Wherever possible, the Trustee Company endeavours, through investment managers or directly, to resolve areas of disagreement with the companies in which it invests prior to annual general meetings and strongly supports the principle of comply or explain. If it is not satisfied by the company's explanations it will vote against:

- rolling contracts for directors of more than one year's duration;
- fixed contracts for directors on initial appointment of over two years' duration;
- share option schemes for directors that do not contain demanding performance targets;
- the appointment of a director with no subsequent requirement for re-election;
- the posts of chairman and chief executive being held by the same person;
- an issue of shares which is not consistent with the pre-emption guidelines;
- bundled resolutions at general meetings;
- the adoption of the company's report and accounts if they contain material inadequacies;
- a dividend not covered by earnings unless there is a clear justification that this is in the company's and its investors' interest;
- insurance cover of auditors' liability and proposals for fixed cap monetary liabilities; and
- capital raising proposals which depart from established best practice on pre-emption without adequate justification.

This approach is carried to other markets as far as possible and we particularly seek to raise the bar in jurisdictions where shareholder rights are weak and the accountability of directors is less well developed.

We will also consider putting forward shareholder proposals or supporting resolutions filed by other investors at company meetings where we believe this is in the interests of shareholders and our beneficiaries, and where other engagement approaches have failed. In 2009 we put forward a shareholder proposal calling for the appointment of an independent chairman at Texas Instruments, an American semiconductor manufacturing company, which received significant support from 42% of shareholders at the AGM in April 2009 and the company is looking again at its board structure. This was the first shareholder proposal that we have submitted to a US company and one of the first to be filed by any foreign investor of a US company. We will consider filing further resolutions at other companies in 2010.

The Trustee Company as a major institutional shareholder prefers that disputes between companies and their owners are settled amicably. However, the Trustee Company recognises that the right to go to law is a fundamental right and that securities litigation, particularly in the USA and more occasionally in other jurisdictions, has sometimes succeeded in obtaining recoveries for investors that would not have been possible otherwise. In the event of a major economic loss involving a portfolio company, consideration may be given to joining a class action, an opt out action or a derivatives suit as a lead plaintiff, provided that the case has strong legal merit, a reasonable chance of success and the financial risks of losing are not disproportionately high.

The Trustee Company considers that the position in relation to settled class action claims and other civil remedies is more clear cut. In such a case class membership is conferred merely by holding a security during a specified period and a recovery is obtained by filing an appropriate claim with the claims administrator by the deadline. Legal advice suggests that the Trustee should attempt to claim such entitlements to the extent that it is practicable and cost effective to do so.

rpmi has established and participates actively on behalf of the Trustee Company in a number of national and international organisations dedicated to improvements in shareholder rights. These have proved to be a source of potential allies on company engagements and consultations. Examples include the Shareholder Affairs Sub-Committee of the NAPF, UKSIF – the sustainable investment and finance association, the Association of Investment Trust Companies, UK Corporate Governance Forum ('CGF'), the PPG, the Global Institutional Governance Network, the ICGN, the International Roundtable on Executive Remuneration, the Australian Council of Super Investors, the Asian Corporate Governance Association, Eumedion (a Dutch corporate governance forum) and the Japan Focus Group. By working with our peers we have the opportunity to learn and develop best practice in corporate governance and responsible investment.

Appendix E

Responsible investment and voting policy

The Trustee Company has clear views on ESG issues and whilst it considers that the board of directors should be accountable primarily to its shareholders, it recognises that it is very much in the shareholders' own interests that directors should also consider the significance of other stakeholders to the company's long-term prosperity.

The Trustee Company accepts that directors may be unable to pursue the objective of increasing long-term shareholder value without developing and sustaining these stakeholder relationships. By the same token, directors may also have an eye to ethical and environmental issues where appropriate, as these can have a material impact on the company's long-term performance. The publication of a Corporate Social Responsibility Report, whether incorporated in the annual accounts or as a stand-alone document, is strongly encouraged as part of the commitment to better disclosure.

The Trustee Company takes an interest in climate change issues, given the economic and financial implications for long-term investment and rpmi has been a long-standing investor signatory to the various phases of the Carbon Disclosure Project ('CDP') and is a participant in CDP 10 and the separate CDP Water Disclosure Initiative. The CDP is an independent not-for-profit organisation aiming to create a lasting relationship between shareholders and corporations regarding the implications for shareholder value and commercial operations presented by climate change.

As an investor, we believe that companies must evaluate the risks and opportunities associated with the need to adapt to climate change and that, as with any other business risk, these risks and opportunities should be identified and integrated into overall corporate risk management and strategic planning processes. We are working with other investors in promoting research on how unavoidable climate change will impact on specific companies or specific sectors. We expect that the results will be relevant to investors in asset classes other than equities.

We have also prepared a Climate Change Investment Risk Audit questionnaire with HSBC and Linklaters, a leading law firm, which we sent to our external investment managers in December 2009 to ascertain the extent to which they take climate change into account in investment decision making. We intend to publish a general indication of our findings during 2010. We hope that other investors and investment consultants take this forward too. The ultimate aim is to contribute to the generation of better long-term and sustainable investment performance which is very much in the interest of Scheme members.

Appendix F

Risk statement

Risk policy

The Trustee Company has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and uncertainty, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level. The policy takes note of the guidance and principles of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 and the guidance within the Pensions Regulator's Code of Practice on Internal Controls issued in November 2006.

The objective of the Trustee Company's risk policy is to limit the exposure of the Scheme and the assets that it is responsible for safeguarding to business, financial, operational, compliance and other risks. Implementation of the risk policy is delegated to the boards of the operating companies. The risk policy is reviewed regularly by management and annually by the Trustee Company, and provides a framework for managing risk on a day-to-day basis.

The risk policy covers all aspects of the Trustee Company's operations and includes the use of third-party service providers.

The Trustee Company strongly encourages its investment managers to publish internal control assurance reports, (AAF 01/06, SAS70 or equivalent style reports), on the effectiveness of internal controls, although investment managers are under no regulatory obligation to do so. The internal audit plan includes a rolling programme to review the internal control environment of the investment managers retained by the Trustee Company.

Risk identification and management

Risks are identified and regularly reviewed by management and directors in a formal process facilitated by the Business Assurance team, which is separate from operational management. Risks are evaluated by considering the likelihood of occurrence and the significance of the consequent impact on the business if they occur.

The risks identified, together with action plans for their management (including responsibilities and target dates for completion), are recorded in the risk register of each operating company, rpmi and Railpen Investments. Actions include implementing or adapting internal controls, risk transfer, risk sharing and contingency planning. These actions are monitored by the Business Assurance team.

The effectiveness of the internal controls is examined by the internal audit plan, which focuses on the significant risks in the risk registers and covers all major activities of the Trustee Company and operating companies. The internal audit plan is approved by the Audit Committee. Internal audit output, in terms of any significant findings or risks identified, together with planned actions to mitigate them, are reported to the Audit Committee.

In respect of the pensions administration service provided by rpmi, two internal control assurance reports have been prepared for the six-month periods from 1 January 2009 to 30 June 2009 and from 1 July 2009 to 31 December 2009. Each report sets out a description of the relevant control objectives and procedures which operated during each six-month period. These have been independently evaluated under the guidelines of the Institute of Chartered Accountants in England & Wales Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

Internal audit services are provided to the Trustee Company by the in-house Business Assurance team. The Business Assurance Manager reports to the Chief Executive of the Trustee Company and the Audit Committee, and has unrestricted access to the Chairman of the Audit Committee and the Trustee Board Chairman should the need arise. Internal audit activity is governed by the Audit Charter, which is reviewed periodically by the Audit Committee. The Risk Management Committee is chaired by the Chief Executive of the Trustee Company and includes representatives of executive management and is open to Trustee Directors. It meets regularly with the Business Assurance team with the external auditors in attendance, to consider the significant risks and assess how they have been identified, evaluated and managed, as well as the effectiveness of the internal controls associated with these significant risks.

Because of the limitations that are inherent in any system of internal control, the Trustee Company's risk management process is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and therefore can only provide reasonable, not absolute, assurance against material misstatement or loss.

The risk management process operated throughout the year-ended 31 December 2009 and continued up to the date of approval of the annual report and accounts.

Appendix G

Trustee liability insurance

Trustee liability insurance is a variant of directors' and officers' insurance which covers some of the insured's liabilities to third parties. Under the strict application of the law of trust, trustees are personally responsible to the full extent of their own wealth for the financial consequences of a breach of trust. This represents a significant risk exposure for the individuals who serve as pension fund trustees and the funds.

Trust deeds typically provide significant protection to trustees through exoneration and indemnification. In many cases individual trustees are protected from liability for any breach of trust 'not due to personal conscious wrongdoing or recklessness'. This is known as exoneration. The costs are then borne by the scheme rather than by individuals serving as trustees. If the scheme is unable to bear the cost, the sponsoring employer may have to meet it. This is known as indemnification.

Trustee liability insurance protects the scheme as well as the trustee. The protection of individual trustees is important and can be a factor in encouraging the best candidates to serve as trustees. However, the scheme assets are still vulnerable even though the trustees themselves have been exonerated. Insurance adds the external resources of the underwriter while exoneration and indemnification provisions merely shift the liabilities among the trustees, the beneficiaries and the employers.

In 1999 the Trustee Company, in recognising the potential benefits of trustee liability insurance, agreed a policy and became a full member of the Occupational Pensions Defence Union whose insurance policy is underwritten by ACE. The policy has been renewed each year since then.

The Trustee Company continues to believe that trustee liability insurance is a significant risk-mitigation measure that offers protection against otherwise irrecoverable losses.

"The Trustee Company continues to believe that trustee liability insurance is a significant risk mitigation measure that offers protection against otherwise irrecoverable losses."

Appendix H

Summary of the main provisions of the Scheme

Introduction
The RPS is a registered Scheme under the Finance Act 2004. All railway employees are eligible to join the Scheme if allowed by their contract of employment.

The members of each of the sections of the Shared Cost and the Defined Contribution Arrangements of the RPS are contracted-out of the State Second Pension ('S2P'). Members of the Industry-Wide Defined Contribution Section are not contracted-out of S2P.

Rules specific to sections
A broad outline of the main provisions of sections that have adopted the Shared Cost Arrangement is given below. However, some employers have introduced rules specific to their section only which override the summary given below. Each section's rules are available from rpmi to members of that section upon request.

Defined contribution sections
Industry-Wide Defined Contribution Arrangement participating employers can choose their contribution rates, normal retirement date and amount of lump sum on death in service. Contributions range from upwards of 5% of pensionable pay, and retirement ages range from 60 to 65. Lump sums are four times pensionable pay on death in service. At retirement, members use their accumulated funds to provide an annuity purchased from an insurance company under an open market option. They can also take tax-free cash up to the HM Revenue & Customs limit.

The remaining members within the Defined Contribution Arrangement are all preserved pensioners.

Pension increases
Pensions in payment and preserved pensions from the RPS were increased by 5%, in accordance with the Scheme rules, from 6 April 2009 with increases scaled down proportionately for those who had retired on or after 22 April 2008. Increases were granted in line with increases to pensions under the Pensions (Increase) Act 1971. Due to the negative rate of inflation as measured by the Retail Prices Index in autumn 2009, pensions were maintained at current levels and did not increase in April 2010.

Active members

Contributions

Contributions are based on section pay which is generally pensionable pay, plus any pensionable restructuring premiums ('PRPs') less 1½ times the basic State Pension for a single person. Pensionable pay is basic pay plus, where appropriate, pensionable allowances, excluding PRPs.

PRPs are earnings which, as part of an agreement with the employer to restructure pay, become pensionable for future service only from the date that pay was restructured. Pensionable pay and PRPs are re-assessed on the first Monday in July each year, based on the member's section pay on the previous 1 April. Contribution rates are subject to review at each actuarial valuation.

Additional voluntary contributions

Current members can pay extra contributions through BRASS and AVC Extra to secure additional benefits.

BRASS is the AVC arrangement for the Shared Cost sections. There are limits to the maximum amount that can be paid into BRASS. If members want to pay more than the maximum BRASS limit they can do so by paying the excess in to AVC Extra. AVC Extra contributions are invested in the same way as contributions to the Defined Contribution sections.

Death in service

Nominated dependants or personal representatives will receive:

A lump-sum death benefit of four times final average pensionable pay plus any PRPs.

Plus

A dependant's pension of one half of the pension the member would have received had he/she retired due to incapacity at the date of death. Pensions for up to two children may also be payable.

Full details of the provisions of the Scheme can be found in the Pension Trust and Rules.

Appendix H

Summary of the main provisions of the Scheme

Leaving the Scheme

When a member retires at or after 60

He/she will receive

A pension of 1/60th of final average pensionable pay less 1/40th of the basic State Pension for a single person for each year of pensionable service.

Plus, for members with PRPs a pension of 1/60th of the PRP for each year since the PRP was introduced.

Plus a 5% bonus pension on membership before 7 April 1991.

Plus

A tax-free lump sum of 1/40th of final average pay for each year of pensionable service.

For members with PRPs a lump sum of 1/40th of the PRP for each year since the PRP was introduced.

A 25% bonus lump sum on membership before 7 April 1991.

And on death

A dependant's pension of one half of the member's pension (before conversion of any lump sum). Pensions for up to two children may also be payable.

When a member retires between age 50 & 60

He/she will receive

A pension and lump sum calculated as for retirement at age 60 but reduced for early payment.

And on death

A dependant's pension of one half of the member's pension (before conversion of any lump sum). Pensions for up to two children may also be payable.

When a member retires because of incapacity

He/she will receive

A pension and lump sum calculated as for retirement at age 60 with no reduction for early payment. The length of service used to calculate the pension may also be enhanced by up to ten years.

And on death

A dependant's pension of one half of the member's pension (before conversion of any lump sum). Pensions for up to two children may also be payable.

When an immediate pension is not payable

He/she will receive

A preserved pension and lump sum payable from age 60 calculated as for retirement at age 60.

Or

A transfer value payment payable to another approved pension arrangement.

All transfer values out of the Scheme are calculated in accordance with the Occupational Pension Schemes (Transfer Values) Regulations 1996. Allowance is made in the calculation of transfer values for discretionary benefits payable upon early retirement on the basis of the assumed future experience of members retiring early. There are no other discretionary benefits to be taken into account.

Appendix I

Dispute resolution process

Introduction

Before a formal complaint is considered, members should contact rpmi to see if the matter can be resolved informally. However, if this is not possible, there is a formal procedure to settle any disagreements fairly.

Who is covered by the procedure?

The procedure is open to the people listed below who in the six months before making a complaint were either:

- members of the Scheme;
- preserved pensioners with the Scheme;
- pensioners or other beneficiaries from the Scheme;
- widows, widowers or surviving dependants of deceased members; or
- prospective members (those who may join the Scheme in the future).

How does the procedure work?

The complaint must be in writing and sent to:
Rail Administration Manager
rpmi
Stooperdale Offices
Brinkburn Road
Darlington
DL3 6EH

All applications under the procedure must include:

- full name, address, date of birth and National Insurance number;
- if the application is lodged by the member's spouse or surviving dependant, that person's full name, address and date of birth and the relationship with the Scheme member;
- the full name and address of any representative acting for the applicant and whether or not replies should be addressed to the representative;
- the facts of the case in sufficient detail to show why the applicant has a disagreement; and
- a signature by or on behalf of the applicant.

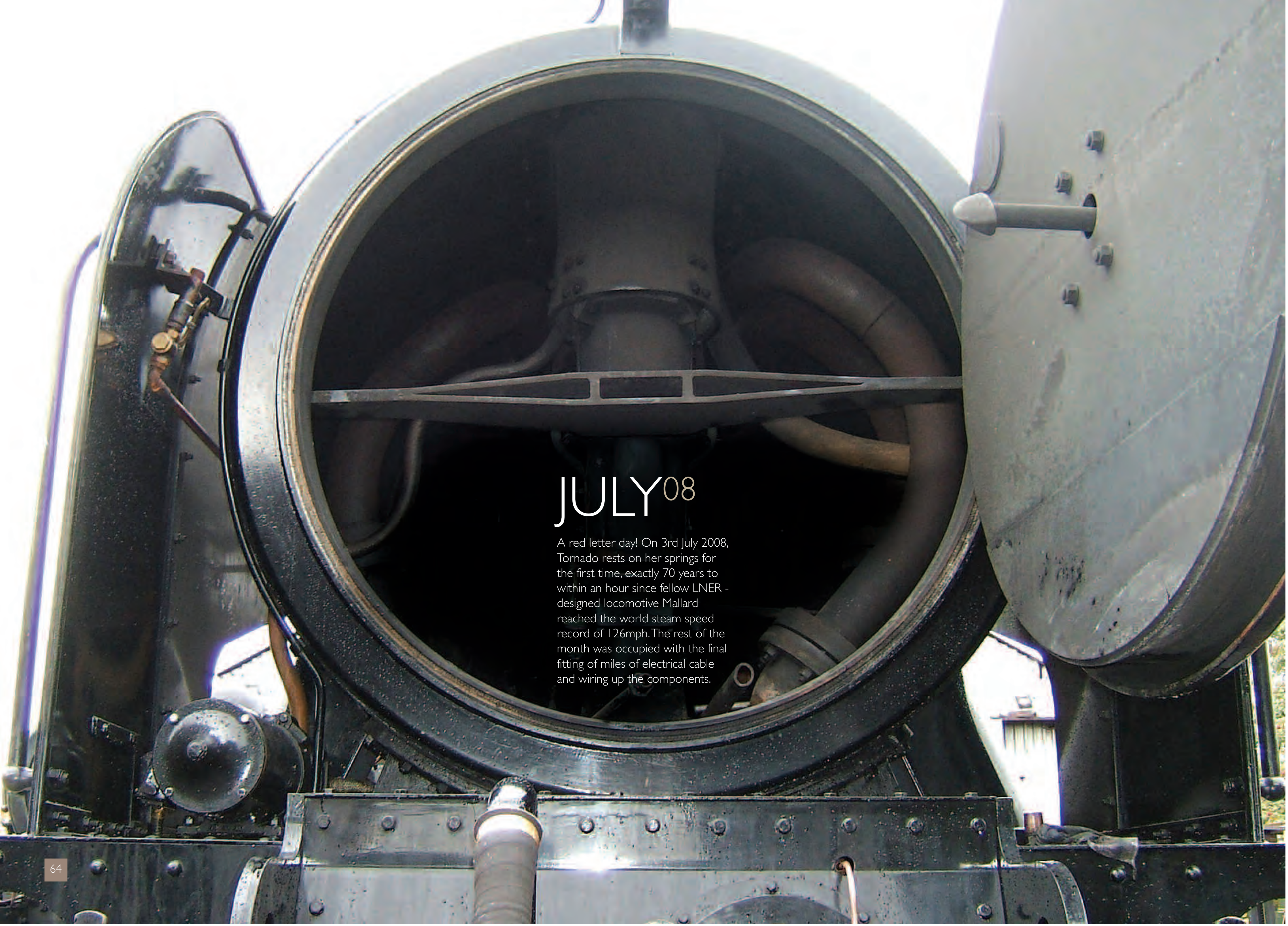
If the application does not contain all the above details it may result in delay in the complaint being considered. Within two months of receiving the application the Rail Administration Manager will write to the applicant with his decision. However, if a decision is not possible within two months he will send an interim reply giving the reasons for the delay and the expected date of his decision. The decision will be binding unless the applicant appeals. This decision will include a statement that The Pensions Advisory Service ('TPAS') is available to assist members and beneficiaries in connection with any difficulty with the Scheme which remains unresolved and the address where TPAS can be contacted.

Appeal

If the applicant is not satisfied with the decision he/she can appeal to the Pensions or Case Committee, as applicable, to reconsider the application. The appeal must be made within six months of the date of the original decision. Within two months of receiving the appeal the Committee will write to the complainant with a final decision. However, if a final decision is not possible within the two months an interim reply will be sent giving the reasons for the delay and an expected decision date.

The notice of the final decision will include:

- a statement that TPAS is available to assist members and beneficiaries in connection with any difficulties with the Scheme which have not been resolved with the Committee and the address where TPAS can be contacted; and
- a statement that the Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to the Scheme and the address where the Pensions Ombudsman may be contacted.



JULY08

A red letter day! On 3rd July 2008, Tornado rests on her springs for the first time, exactly 70 years to within an hour since fellow LNER - designed locomotive Mallard reached the world steam speed record of 126mph. The rest of the month was occupied with the final fitting of miles of electrical cable and wiring up the components.

Appendix J
Where to go for help

Trustee Company and Railpen
Company Secretary
Railways Pension Trustee Company Limited
Broad Street House
55 Old Broad Street
London
EC2M 1LJ

Tel: 020 7256 8003
Email: enquiries@rpmi.co.uk
Website address: www.railpen.co.uk

rpmi
Further information about the fund and individual entitlements can be obtained from:

Head of Client Services
rpmi
Stooperdale Offices
Brinkburn Road
Darlington
DL3 6EH

Tel: 0800 2 343434 (Customer Services Team)
Email: csu@rpmi.co.uk
Website address: www.railwaypensions.co.uk

The Pensions Advisory Service ('TPAS')
TPAS is an independent voluntary organisation with local advisers who are experts in pension matters. TPAS can be contacted either through any local Citizens Advice Bureau or at the following address:

TPAS Headquarters
11 Belgrave Road
London
SW1V 1RB

Tel: 0845 601 2923
Email: enquiries@pensionsadvisoryservice.org.uk
Website address: www.pensionsadvisoryservice.org.uk

Pensions Ombudsman
If TPAS cannot resolve a complaint or dispute then the Pensions Ombudsman could be contacted at the same address as TPAS, shown above.

The Pensions Regulator
The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Tel: 0870 606 3636
Email: customersupport@thepensionsregulator.gov.uk
Website address: www.thepensionsregulator.gov.uk

Pensions Tracing Service
Information about UK schemes (including a contact address) is provided to the Department for Work and Pensions ('DWP') Pension Tracing Service. This enables members to trace benefits from previous employers' schemes.

The DWP's Pension Tracing Service can be contacted at the following address:

Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA

Tel: 0845 600 2537
Website address: www.direct.gov.uk

Registration number: 10203279

Appendix K

Pooled fund accounts

Introduction to the Pooled Fund Accounts
This appendix represents a consolidated summary of the Annual Report and Accounts of the pooled funds of the railways pension schemes for the year-ended 31 December 2009.

The total valuation of the pooled assets as at 31 December 2009 was £15,767.79m (2008 – £13,604.85m). There are in addition £1,646.33m assets held directly by the railways pension schemes not included in the pooled fund arrangements (2008 – £1,597.66m), bringing total assets to £17,414.12m (2008 – £15,212.51m).

The pooled funds operate as internal unit trusts. They comprise a key element of the arrangements that the Trustee Company has put in place for the investment of schemes' and sections' assets.

There are currently 10 active pooled funds. Nine of these provide the railway pension schemes with a means to invest in UK and foreign equity and bond markets, funds of hedge funds, private equity, property, commodities and infrastructure. The tenth pooled fund is for the BRASS AVC arrangement and its investments consist mainly of units in the other pooled funds.

The table on page 67 summarises the investments of each of these pooled funds as at 31 December 2009. The notes on pages 70 to 91 analyse the total pooled assets of £15,767.79m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on page 72, and the unit prices on page 71.

Accounting Policies
Investments
The principal bases of investment valuation adopted by the pooled funds for the investments within them are set out below:

- Listed investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- Unquoted securities, including most investments in private equity and infrastructure (both direct and via managed funds), are included at the Trustee Company's estimate of accounting fair value based on advice from the investment managers.
- Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment managers.
- Properties are included at open market value as at the year-end date determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by independent external valuers, DTZ. DTZ are Chartered Surveyors and members of the Royal Institution of Chartered Surveyors.
- Exchange traded derivatives are stated at market values determined using market quoted prices. Over-the-counter ('OTC') derivatives are stated at the Trustee Company's estimate of accounting fair value based on advice from the respective fund managers using pricing models and relevant market data at the year-end date.
- Forward foreign exchange contracts are valued at the forward rate at the year-end date.
- All gains and losses arising on derivative contracts are reported within change in market values of investments during the year.
- Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

Foreign currencies
Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market values of investments during the year.

Investment income
Dividend and interest income is included in the accounts on the following bases:

- Dividends from quoted equities are accounted for when the security is declared ex-div.
- Interest is accrued on a daily basis.
- Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- Sub-underwriting, commission recapture and stocklending commission are accounted for on a receivable basis.
- Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles, reflected in the price and reported within change in market values.
- Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

Fund statement as at 31 December 2009

	Global Equity £m	Global Bonds (Hedged) £m	Index Linked £m	Short Bonds £m	Cash Plus £m	Property £m	Private Equity £m	Infrastructure £m	Commodities £m	BRASS £m	Cross holdings £m	Total £m
Equities	3,804.31	0.63	-	-	44.30	-	14.57	182.83	-	-	-	4,046.64
Fixed interest securities	739.84	1,532.79	107.58	158.91	-	-	2.73	-	117.16	-	-	2,659.01
Index-linked securities	-	2.01	490.62	-	-	-	-	-	-	-	-	492.63
UK property	-	-	-	-	-	1,046.38	-	-	-	-	-	1,046.38
Pooled investment vehicles	2,635.56	124.78	-	-	904.62	5.14	1,177.52	554.66	-	-	-	5,402.28
Derivative assets	144.24	27.02	14.48	-	5.61	-	-	2.32	10.84	-	-	204.51
Derivative liabilities	(96.90)	(32.75)	(0.31)	-	(15.28)	-	(0.08)	(0.28)	(3.34)	-	-	(148.94)
Cash deposits and cash instruments	1,315.52	321.56	72.63	8.62	181.89	202.38	10.26	13.20	39.00	5.25	-	2,170.31
Net current investment assets/(liabilities)	(87.80)	26.42	3.35	1.39	(0.64)	8.25	-	1.37	-	-	-	(47.66)
Net current assets/ (liabilities)	(2.00)	1.14	(3.43)	(0.11)	(74.74)	24.03	(1.86)	(0.29)	(0.16)	0.05	-	(57.37)
Sub total	**8,452.77**	**2,003.60**	**684.92**	**168.81**	**1,045.76**	**1,286.18**	**1,203.14**	**753.81**	**163.50**	**5.30**	**-**	**15,767.79**
Global Equity Pooled Fund	-	-	-	-	-	-	856.83	-	-	11.26	(868.09)	-
Global Bond Pooled Fund (Hedged)	-	-	-	-	-	-	-	-	-	3.76	(3.76)	-
Index-Linked Pooled Fund	-	-	-	-	-	-	-	-	-	0.83	(0.83)	-
Cash Plus Pooled Fund	-	-	-	-	-	-	-	-	-	0.08	(0.08)	-
Net assets attributable to unit holders	**8,452.77**	**2,003.60**	**684.92**	**168.81**	**1,045.76**	**1,286.18**	**2,059.97**	**753.81**	**163.50**	**21.23**	**(872.76)**	**15,767.79**
Movement in unit holders' funds												
In issue at start of year	6,853.37	1,818.52	726.96	162.18	944.48	1,213.61	1,847.01	846.61	-	-	(797.89)	13,614.85
Issued during year	279.76	96.73	0.89	2.26	39.33	18.39	3.34	-	142.55	20.81	-	604.06
Redeemed during year	(637.13)	(121.03)	(107.81)	(3.13)	(63.76)	(12.93)	(19.90)	-	-	-	-	(965.69)
Change in market values of investments	1,877.74	135.09	53.56	2.05	133.69	3.23	228.54	(98.86)	21.03	0.42	-	2,356.49
Reinvested income	79.03	74.29	11.32	5.45	(7.98)	63.88	0.98	6.06	(0.08)	-	-	232.95
Cross holdings	-	-	-	-	-	-	-	-	-	-	(74.87)	(872.76)
Total unit holders' funds	**8,452.77**	**2,003.60**	**684.92**	**168.81**	**1,045.76**	**1,286.18**	**2,059.97**	**753.81**	**163.50**	**21.23**	**(872.76)**	**15,767.79**

Appendix K

Pooled fund accounts

Fund statement as at 31 December 2008

	Global Equity £m	Global Bonds (Hedged) £m	Index Linked £m	Short Bonds £m	Cash Plus £m	Property £m	Private Equity £m	Infrastructure £m	Cross holdings £m	Total £m
Equities	3,104.82	1.21	-	-	29.74	-	9.36	167.64	-	3,312.77
Fixed interest securities	1,112.39	1,674.58	226.53	140.72	-	-	1.53	-	-	3,155.75
Index-linked securities	55.21	1.74	516.44	-	-	-	-	-	-	573.39
UK property	-	-	-	-	-	1,032.86	-	-	-	1,032.86
Pooled investment vehicles	2,165.21	38.60	-	-	1,010.77	1.43	1,016.39	628.78	-	4,861.18
Derivative assets	517.16	81.79	4.57	-	18.50	-	0.87	23.94	-	646.83
Derivative liabilities	(1,100.00)	(287.50)	(37.66)	-	(70.84)	-	-	(32.84)	-	(1,528.84)
Cash deposits and cash instruments	1,162.77	276.47	12.00	19.10	99.81	80.05	27.43	56.68	-	1,734.31
Net current investment assets/(liabilities)	(192.22)	29.44	5.30	2.42	10.17	7.95	-	3.14	-	(133.80)
Net current assets/(liabilities)	28.03	2.19	(0.22)	(0.06)	(153.67)	91.32	(6.46)	(0.73)	-	(39.60)
Sub total	**6,853.37**	**1,818.52**	**726.96**	**162.18**	**944.48**	**1,213.61**	**1,049.12**	**846.61**	**-**	**13,614.85**
Global Equity Pooled Fund	-	-	-	-	-	-	797.89	-	(797.89)	-
Net assets attributable to unit holders	**6,853.37**	**1,818.52**	**726.96**	**162.18**	**944.48**	**1,213.61**	**1,847.01**	**846.61**	**(797.89)**	**13,614.85**
Movement in unit holders' funds										
In issue at start of year	10,417.12	2,503.47	946.86	297.81	1,244.84	1,547.87	2,575.13	835.46	(1,661.86)	18,706.70
Issued during year	994.67	51.06	0.31	0.42	0.05	-	-	208.20	-	1,254.71
Redeemed during year	(608.49)	(653.03)	(242.66)	(149.77)	(69.64)	0.04	(59.84)	-	-	(1,783.39)
Change in market values of investments	(4,148.23)	(189.26)	2.17	2.10	(227.75)	(404.62)	(665.60)	(208.60)	-	(5,839.79)
Reinvested income	198.30	106.28	20.28	11.62	(3.02)	70.32	(2.68)	11.55	-	412.65
Cross holdings	-	-	-	-	-	-	-	-	(863.97)	(863.97)
Total unit holders' funds	**6,853.37**	**1,818.52**	**726.96**	**162.18**	**944.48**	**1,213.61**	**1,847.01**	**846.61**	**(797.89)**	**13,614.85**

AUGUST08

Finally, on the first weekend in August, Tornado moved in steam for the first time, the culmination of eighteen years' hard work. Waved away by the Mayor of Darlington, Tornado eased up the track...

Appendix K

Pooled fund accounts

Consolidated notes to the fund statement
1.1 Fund statement as at 31 December 2009

	Note	2009 £m	2008 £m
Assets			
Equities			
UK Quoted		675.13	457.64
UK Unquoted		9.88	2.57
Overseas Quoted		3,303.37	2,816.03
Overseas Unquoted		58.26	36.53
		4,046.64	**3,312.77**
Fixed interest securities			
UK quoted – public sector		118.47	114.27
UK quoted – non-public sector		147.60	170.31
UK unquoted – non-public sector		2.73	1.53
Overseas quoted – public sector		1,284.94	1,126.43
Overseas quoted – non-public sector		302.06	721.68
Overseas unquoted – non-public sector		803.21	1,021.53
		2,659.01	**3,155.75**
Index-linked securities			
UK quoted – public sector		447.41	476.52
UK quoted – non-public sector		43.21	39.92
Overseas quoted – public sector		2.01	56.95
		492.63	**573.39**
UK Property		**1,046.38**	**1,032.86**
Pooled investment vehicles			
UK unquoted – property partnerships		5.14	1.43
UK unquoted – unitised insurance policies		2,118.19	1,783.18
UK unquoted – partnerships		575.77	558.79
Overseas quoted – hedge funds		0.63	4.79
Overseas quoted – other managed funds		15.51	9.91
Overseas unquoted – partnerships		1,589.78	1,453.27
Overseas unquoted – hedge funds		968.36	1,005.98
Overseas unquoted – other managed funds		128.90	43.83
		5,402.28	**4,861.18**

	Note	2009 £m	2008 £m
Assets (continued)			
Derivative contracts			
Forwards – OTC	1.5	0.32	0.98
Futures – exchange traded	1.5	53.50	68.62
TBA contracts – OTC	1.5	1.54	18.88
Swaps – OTC	1.5	12.37	38.72
Options – OTC	1.5	1.00	24.10
Options – exchange traded	1.5	-	4.12
FX contracts – OTC	1.5	135.78	491.41
		204.51	**646.83**
Cash deposits and cash instruments		**2,170.31**	**2,505.16**
Other assets			
Other investment assets	1.6	104.07	183.85
Current assets	1.8	7.72	23.34
		111.79	**207.19**
Holdings in other pooled funds			
Global equity pooled fund		868.09	797.89
Global bond pooled fund (hedged)		3.76	-
Index-linked pooled fund		0.83	-
Cash plus pooled fund		0.08	-
		872.76	**797.89**
Total assets		**17,006.31**	**17,093.02**

Consolidated notes to the fund statement (continued)

1.1 Fund statement as at 31 December 2009 (continued)

	Note	2009 £m	2008 £m
Liabilities			
Derivative contracts			
Forwards – OTC	1.5	(1.04)	(0.34)
Futures – exchange traded	1.5	(11.11)	(6.91)
TBA contracts – OTC	1.5	(0.85)	(0.40)
Swaps – OTC	1.5	(3.23)	(155.13)
Options – OTC	1.5	(0.83)	(10.54)
FX contracts – OTC	1.5	(131.88)	(1,355.52)
		(148.94)	**(1,528.84)**
Cash deposits and cash instruments		-	**(770.85)**
Other liabilities			
Other investment liabilities	1.7	(151.73)	(317.65)
Current liabilities	1.9	(65.09)	(62.94)
		(216.82)	**(380.59)**
Total liabilities		**(365.76)**	**(2,680.28)**
Cross holdings		(872.76)	(797.89)
Net assets attributable to unit holders		**15,767.79**	**13,614.85**

1.2 Pooled Fund Unit Prices as at 31 December 2009

	2009 £/unit	2008 £/unit
Global Equity Pooled Fund	45.40	34.83
Global Bond Pooled Fund (Hedged)	16.88	15.13
Indexed-Linked Pooled Fund	37.84	34.64
Short Bond Pooled Fund	22.55	21.56
Cash Plus Pooled Fund	11.90	10.49
Property Pooled Fund	46.41	43.93
Commodities Pooled Fund	13.46	-
Infrastructure Pooled Fund	7.12	7.99
Direct Investment Pooled Fund 1995	993.23	117.52
Direct Investment Pooled Fund 1997	27.71	21.27
Direct Investment Pooled Fund 1998	7.97	3.27
Direct Investment Pooled Fund 1999	7.72	5.65
Direct Investment Pooled Fund 2000	14.49	15.04
Private Equity Pooled Fund 2001	17.08	17.18
Private Equity Pooled Fund 2004	17.42	16.55
Private Equity Pooled Fund 2005	13.23	11.71
Private Equity Pooled Fund 2007	8.87	7.43
Private Equity Pooled Fund 2009	9.68	-
BRASS Pooled Fund (Growth)	10.59	-
BRASS Pooled Fund (Cautious)	10.36	-

Appendix K

Pooled fund accounts

Consolidated notes to the fund statement (continued)

1.3 Value of the Pooled Funds

	2009 £m	2008 £m
Global Equity Pooled Fund	8,452.77	6,853.37
Global Bond Pooled Fund (Hedged)	2,003.60	1,818.52
Index-Linked Pooled Fund	684.92	726.96
Short Bond Pooled Fund	168.81	162.18
Cash Plus Pooled Fund	1,045.76	944.48
Property Pooled Fund	1,286.18	1,213.61
Commodities Pooled Fund	163.50	-
Infrastructure Pooled Fund	753.81	846.61
Direct Investment Pooled Fund 1995	0.33	0.04
Direct Investment Pooled Fund 1997	3.57	3.08
Direct Investment Pooled Fund 1998	6.72	2.75
Direct Investment Pooled Fund 1999	3.59	2.63
Direct Investment Pooled Fund 2000	75.15	94.95
Private Equity Pooled Fund 2001	386.88	391.31
Private Equity Pooled Fund 2004	123.80	118.06
Private Equity Pooled Fund 2005	304.04	270.32
Private Equity Pooled Fund 2007	1,153.62	963.87
Private Equity Pooled Fund 2009	2.27	-
BRASS Pooled Fund (Growth)	12.60	-
BRASS Pooled Fund (Cautious)	8.63	-
	16,640.55	**14,412.74**
Cross Holdings	(872.76)	(797.89)
	15,767.79	**13,614.85**

1.4 Investment income

	2009 £m	2008 £m
Dividends from equities	91.00	155.82
Income from fixed interest securities	105.36	177.12
Income from index-linked securities	9.76	13.48
Income from UK property	72.71	70.74
Interest from cash deposits	13.94	63.73
Income from preferred securities	0.07	0.12
Other income	5.29	6.60
	298.13	**487.61**
Irrecoverable withholding tax	(4.56)	(8.93)
Total income	**293.57**	**478.68**
Administration, custody and other expenses	(16.73)	(17.06)
Investment management fees – base	(27.07)	(39.87)
Investment management fees – performance	(8.46)	(11.03)
rpmi fees	(8.16)	(3.56)
Tax	(0.14)	-
Interest paid	(0.06)	-
Reinvested income (accrued in unit price)	**232.95**	**407.16**

Consolidated notes to the fund statement (continued)
1.5 Derivative contracts

Futures: Future contracts are standardised, transferable, exchange traded contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open futures contracts at the year-end are as follows:

Type of future	Economic exposure at year-end £m	Asset value at year-end £m	Liability value at year-end £m
FTSE 100 Index	839.29	21.21	-
S&P 500 Index	866.98	7.27	-
Other equity index	99.65	1.18	(0.07)
Canadian government bonds	5.64	-	(0.11)
Eurodollar	286.42	8.30	-
German government bonds	(24.65)	1.48	(0.82)
UK government bonds	(49.10)	-	(1.10)
US government bonds	78.97	3.35	(8.23)
Australian government bonds	(11.02)	-	(0.07)
Commodity futures	158.46	10.71	(0.71)
	2,250.64	**53.50**	**(11.11)**

Included within cash balances is £89.61m in respect of initial and variation margins arising on open futures contracts at the year-end.

The duration of futures is between one and eighteen months.

Forwards: Forward contracts are non-standardised, OTC contracts that require delivery of a commodity, bond, currency or stock index, at a specified price, on a specified future date. The details of open forward contracts at the year-end date are as follows:

Type of forward	Economic exposure at year-end £m	Asset value at year-end £m	Liability value at year-end £m
Australian government bonds	6.74	0.11	(0.06)
French government bonds	(2.41)	0.07	-
Austrian government bonds	0.16	0.01	(0.01)
German government bonds	(3.53)	0.07	-
Japanese government bonds	(21.47)	0.05	(0.21)
UK government bonds	5.28	-	(0.09)
Finland government bonds	2.24	0.01	-
US government bonds	16.76	-	(0.66)
Italian government bonds	(2.72)	-	(0.01)
	1.05	**0.32**	**(1.04)**

The duration of forwards is between one and two months.

Consolidated notes to the fund statement (continued)
1.5 Derivative contracts (continued)

TBA contracts: TBA ('To be announced') contracts are forward contracts for delivery on a future date of mortgage backed securities issued by US government sponsored entities. In this respect they are similar to futures, but TBAs are over-the-counter arrangements, and no margin payments are required on unsettled contracts. The details of unsettled TBA contracts at the year-end date are as follows:

Type of TBA	Economic exposure at year-end £m	Asset value at year-end £m	Liability value at year-end £m
FNMA mortgage backed	59.12	1.54	(0.68)
GNMA mortgage backed	(18.43)	-	(0.15)
FHLMC mortgage backed	(2.54)	-	(0.02)
		1.54	**(0.85)**

TBA contracts typically remain outstanding for around one month between the time the contract is entered into and settlement date.

Swaps: Swap contracts are over-the-counter arrangements in which the parties agree to exchange one stream of cashflows for another. The details of swap contracts in place at the year-end date are as follows:

Type of swap	Duration (years)	Economic exposure at year-end £m	Asset value at year-end £m	Liability value at year-end £m
Credit default swaps	1 to 5	303.03	0.55	(2.27)
Credit default swaps	5 to 10	83.40	1.32	(0.13)
Credit default swaps	more than 20	2.00	-	(0.67)
Interest rate swaps	1 to 5	27.49	0.01	(0.11)
Interest rate swaps	5 to 10	19.87	0.37	(0.05)
Interest rate swaps	more than 20	13.16	0.47	-
Inflation swaps	1 to 5	48.89	9.65	-
			12.37	**(3.23)**

Under the terms of swaps, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above swap contracts the Trustee Company had deposited £8.75m of UK Government bonds and £17.3m of cash collateral at the year-end. These amounts are included in the net assets of the pooled fund at the year-end. Collateral deposited by counterparties with the Trustee Company in respect of swap contracts at the year-end date amounted to £0.26m of US Treasury index-linked bonds and £1.63m of cash. Collateral received in this way is not reported within the pooled fund's net assets.

Consolidated notes to the fund statement (continued)
1.5 Derivative contracts (continued)

Options: Options are contracts which confer the right, but not the obligation, to buy ('call' options) or sell ('put' options) a security, currency, commodity or derivative contract on a specified future date at the price specified in the contract. Options may be either over-the-counter or exchange traded and may be 'bought,' which means they carry the right to buy or sell if exercised by the holder or 'sold,' meaning they carry the obligation to buy or sell if exercised by the counterparty. The details of option contracts in place at the year-end date are as follows:

Type of option	Bought or sold	Notional value £m	Asset value at year-end £m	Liability value at year-end £m
Foreign currency	Bought	57.12	1.00	-
Foreign currency	Sold	6.64	-	(0.03)
Interest rate swaps	Sold	173.02	-	(0.80)
			1.00	**(0.83)**

The above options expire within two months and two years of the year-end date.

Forward foreign exchange ('FX') contracts: The pooled funds had open FX contracts at the year-end as follows:

Type of contract	Currency bought million	Currency sold million	Value at year-end £m
Assets			
US dollar / Euro	2,087.23	1,406.66	42.85
Sterling / US dollar	1,608.10	2,553.83	26.52
US dollar / Yen	1,048.02	94,606.89	20.20
US dollar / Sterling	1,354.67	823.83	15.21
Sterling / Euro	658.16	728.47	10.82
Sterling / Yen	148.43	21,488.37	5.43
US dollar / Swiss franc	292.46	296.32	3.54
Sterling / AU dollar	54.08	97.49	0.19
Euro / Sterling	37.00	32.75	0.12
Other			10.90
			135.78
Liabilities			
Sterling / US dollar	5,752.92	9,453.07	(102.62)
Euro / Sterling	319.52	289.20	(5.26)
Yen / Sterling	17,846.77	123.93	(5.18)
US dollar / Canadian dollar	112.40	121.70	(2.28)
US dollar / Danish krone	17.44	103.72	(1.58)
US dollar / Korean won	17.97	20,991.65	(0.05)
US dollar / Sterling	1.94	1.22	(0.02)
Other			(14.89)
			(131.88)

Most FX contracts will settle within three months of the year-end, and the remainder within nine months.

Appendix K

Pooled fund accounts

Consolidated notes to the fund statement (continued)

1.6 Other investment assets

	2009 £m	2008 £m
Asset in respect of investment transactions	56.64	113.88
Investment income accrued	36.55	56.83
Recoverable tax	2.67	5.35
Rent receivable	8.21	7.79
	104.07	**183.85**

1.7 Other investment liabilities

	2009 £m	2008 £m
Liability in respect of investment transactions	(151.40)	(316.42)
Tax payable	(0.33)	(0.57)
Other	-	(0.66)
	(151.73)	**(317.65)**

1.8 Current assets

	2009 £m	2008 £m
Asset in respect of unit trades	2.77	3.21
Trade debtors	4.44	8.10
Tax	-	10.99
Other	0.51	1.04
	7.72	**23.34**

1.9 Current liabilities

	2009 £m	2008 £m
Accrued management fees and expenses	(28.49)	(25.28)
Property income received in advance	(16.01)	(16.75)
Trade creditors	(9.22)	(8.24)
Liability in respect of unit trades	(4.38)	(9.09)
Other	(1.49)	(2.57)
Tax	(5.50)	(1.01)
	(65.09)	**(62.94)**

1.10 Stocklending

The Trustee Company has given limited approval to custodians to lend stock in the market. A principal condition of this approval is that borrowers must meet the Trustee Company's collateral specifications.

At 31 December 2009, the market valuation of stock that had been lent in the market was £180.96m (2008 – £221.59m).

Collateral held in respect of the stock on loan at 31 December 2009 had a total value of £185.99m (2008 – £227.82m).

Consolidated notes to the fund statement (continued)

1.11 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2008 £m	Units issued/ (redeemed) £m	Income £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market values £m	Value at 31 December 2009 £m
Directly held assets							
Equities	3,312.77	-	-	3,041.64	(3,111.81)	804.04	4,046.64
Fixed interest securities	3,155.75	-	-	6,037.89	(6,478.81)	(55.82)	2,659.01
Index-linked securities	573.39	-	-	969.92	(1,075.34)	24.66	492.63
Pooled investment vehicles	4,861.18	-	-	912.41	(668.20)	296.89	5,402.28
UK property	1,032.86	-	-	12.92	(6.00)	6.60	1,046.38
	12,935.95	**-**	**-**	**10,974.78**	**(11,340.16)**	**1,076.37**	**13,646.94**
Derivatives							
Forwards	0.64	-	-	4.86	(6.14)	(0.08)	(0.72)
Futures	61.71	-	-	300.30	(760.15)	440.53	42.39
TBAs	18.48	-	-	92.56	(119.63)	9.28	0.69
Swaps	(116.41)	-	-	111.70	(47.87)	61.72	9.14
Options	17.68	-	-	9.19	(29.73)	3.03	0.17
FX contracts	(864.11)	-	-	120,650.39	(120,378.95)	596.57	3.90
	(882.01)	**-**	**-**	**121,169.00**	**(121,342.47)**	**1,111.05**	**55.57**
Cross holdings	797.89	-	-	15.51	(147.67)	207.03	872.76
Other							
Cash and current assets	1,560.91	(361.63)	232.95	(132,159.29)	132,830.30	(37.96)	2,065.28
	14,412.74	**(361.63)**	**232.95**	**-**	**-**	**2,356.49**	**16,640.55**
Cross holdings	(797.89)						(872.76)
Net assets	**13,614.85**						**15,767.79**

Appendix K

Pooled fund accounts

Consolidated notes to the fund statement (continued)
1.12 Investment managers during the year

The investment managers used by the pooled funds during the year, together with their net assets under management at the year-end were as follows:

	2009 £m	2008 £m
BlackRock Advisors (UK) Limited	2,989.75	2,295.94
Orchard Street Investment Management	1,236.56	1,188.80
Wellington Management International	803.69	753.98
Pacific Investment Management Company ('PIMCO')	801.96	1,060.33
Western Asset Management	745.43	689.80
Legal and General Investment Management ('L&G')	731.21	569.33
Lazard Asset Management	699.54	637.06
Prudential M&G Investment Management	669.95	724.63
Blackstone Alternative Asset Management	456.55	456.41
Edinburgh Partners	406.73	341.27
Grosvenor Capital Management	333.93	379.30
Legg Mason International	320.32	297.82
TT International	299.64	246.09
William Blair & Company	285.34	177.84
Southeastern Asset Management	279.17	199.91
Brandes Investment Partners	259.81	241.20
Longview Partners LLP (from February 2009)	244.51	-
Cinven	221.07	196.04
Goldman Sachs	219.48	259.65
The Rock Creek Group	209.27	229.82
NewSmith Asset Management	208.20	163.07
JP Morgan Asset Management	206.66	80.04
Fidelity Pensions Management	201.97	277.34
Morgan Stanley Investment Management (from December 2009)	183.28	-
Alinda Capital Partners	170.20	196.42
Neuberger Berman Europe Limited (from March 2009)	160.31	-
HarbourVest Partners	158.31	144.56
Railpen Investments/rpmi	156.83	230.68
Bridgewater Associates	151.31	147.14
Taiyo Pacific Partners	146.72	107.14
Pantheon Ventures	140.85	137.31
Governance for Owners Group ('GO')	139.46	114.45
Aberforth Partners LLP (from July 2009)	137.80	-
Relational Investors	137.02	108.46
Apax Partners	128.79	118.48
Horsley Bridge Partners	114.35	90.78
Bluecrest Capital Management (from May 2009)	105.99	-
Sub-total	**14,861.96**	**12,861.09**

Consolidated notes to the fund statement (continued)
1.12 Investment managers during the year (continued)

	2009 £m	2008 £m
Balance carried forward	14,861.96	12,861.09
Martin Currie	105.37	59.61
Babcock and Brown Investment Management	101.08	78.98
Adams Street Partners	89.96	84.70
Standard Life Investments	82.95	78.43
Blakeney management (from April 2009)	71.26	-
River and Mercantile	69.37	56.00
Oaktree Capital Management	66.77	46.17
Goodhart Partners LLP (from July 2009)	64.38	-
CP2	61.64	50.91
Indicus Advisors	30.82	21.81
Sankaty Advisors	29.03	15.79
HSBC Private Equity Management	23.19	23.08
Warburg Pincus	21.34	13.89
Innisfree	19.00	1.55
Archer Capital	17.35	4.20
Bain Capital	14.26	13.25
EQT Funds Management	12.07	1.27
Capital Dynamics	8.28	9.75
Anacap Financial Partners	3.36	0.14

	2009 £m	2008 £m
Columbia Capital (from January 2009)	2.82	-
Balderton (from January 2009)	2.63	-
Scale Ventures (from January 2009)	2.47	-
Great Hill Partners	2.25	2.37
KPS Capital Partners (from August 2009)	1.39	-
Hony Capital	1.31	1.04
Charlesbank Capital Partners (from July 2009)	0.65	-
Bridges Community Ventures	0.45	0.49
Domain Partners (from July 2009)	0.35	-
Innova (from January 2009)	0.03	-
Henderson Equity Partners	-	68.80
Aberdeen Asset Management (until November 2009)	-	362.55
Record Currency Management (until October 2009)	-	(241.02)
	15,767.79	**13,614.85**

NOVEMBER08

By the beginning of November Tornado had been transferred to the National Railway Museum which would act as her base for the three planned mainline test runs. These were a stepped series of trips with increasing loads and speeds finishing with a 75mph dash to Newcastle and back on the 17 November.

Consolidated notes to the fund statement (continued)
1.13 Benchmarks

The performance of the Global Equity Pooled Fund is measured against a composite benchmark which at the year-end comprised:

	2009 %	2008 %
FTSE All Share Index	30.0	30.0
FTSE All World North America Index	25.0	25.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Japan Index	9.4	11.2
FTSE All World Developed Asia Pacific (ex Japan) Index	3.0	4.4
MSCI Emerging Markets Free (net dividends reinvested) Index	12.6	9.4
	100.0	**100.0**

A passive hedging strategy is employed whereby 70% of the overseas currency exposure in the pooled fund is hedged back to Sterling.

The benchmark for the Global Bond Pooled Fund (Hedged) is the Barclays Capital Global Aggregate Index – ex Japan (hedged).

The benchmark for the Index-Linked Pooled Fund is the FTSE UK Gilts Index-Linked All Stocks Index.

The benchmark for the Short Bond Pooled Fund is the FTSE UK Gilts 0 to 5 year index.

The Cash Plus Pooled Fund benchmark is three month sterling LIBOR, fixed at the British Bankers' Association fixing on the last UK business day of the preceding calendar quarter. LIBOR is the London Inter Bank Offer Rate, being the rate at which banks in the City of London are willing to lend money from one another in the wholesale money markets. The fund of fund managers' benchmark is three month US dollar LIBOR, fixed at the British Bankers' Association fixing on the last US business day of the preceding calendar quarter.

BlackRock Advisors (UK) Limited provides a passive hedge back into sterling for 100% of the pooled fund, and is also mandated to run a liquidity portfolio benchmarked to three month sterling LIBOR.

The benchmark of the Property Pooled Fund is the IPD All Properties Index. (IPD = 'Investment Property Databank')

The performance of the Private Equity Pooled Fund is assessed relative to the benchmark of the Global Equity Pooled Fund.

The benchmark of the Infrastructure Pooled Fund is the UK Retail Prices Index (RPI).

The performance of the Commodities Pooled Fund is measured against a composite benchmark which at year-end comprised:

	2009 %
DJ AIG Commodities Index	75.0
S&P GSCI Petroleum Index	25.0
	100.0

The performance of the BRASS Pooled Fund is measured against a composite benchmark comprising the benchmarks of the pooled funds the BRASS Pooled Fund invests in.

Appendix K
Pooled fund accounts

Consolidated notes to the fund statement (continued)
1.14 Performance

The return of each pooled fund as measured by WM Performance Services and rpmi is shown in the table below:

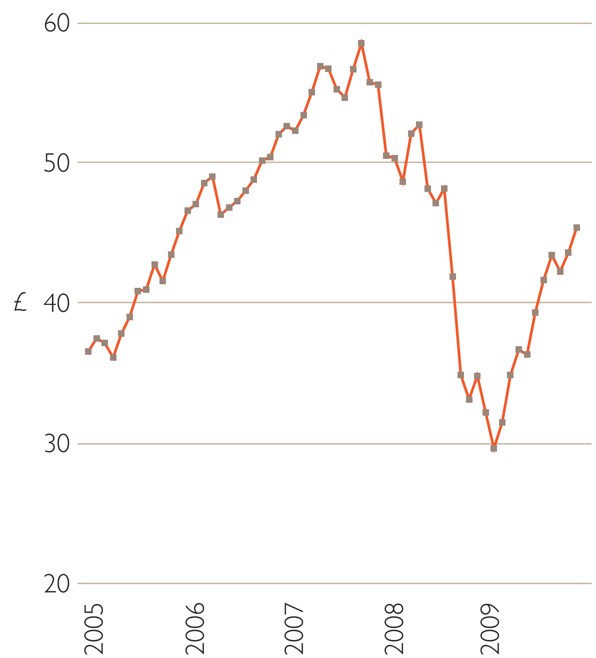
Pooled Fund	Bench 2009 (%)	Actual 2009 (%)	Bench last 5 years (%)	Actual last 5 years (%)
Global Equity Pooled Fund	29.0	30.9	6.2	5.0
Global Bond Pooled Fund (Hedged)	6.0	12.0	5.5	4.1
Index-Linked Pooled Fund	6.4	8.3	6.1	6.1
Short Bond Pooled Fund	2.7	4.7	5.4	5.3
Cash Plus Pooled Fund	1.5	13.6	4.6	3.7
Property Pooled Fund	2.2	6.6	1.0	4.3
Commodities Pooled Fund	34.8*	33.0*	n/a	n/a
Infrastructure Pooled Fund	2.4	(25.3)	n/a	n/a
Private Equity Pooled Fund	29.0	4.1	6.2	8.8
BRASS Pooled Fund (Growth)	n/a	5.6*	n/a	n/a
BRASS Pooled Fund (Cautious)	n/a	3.6*	n/a	n/a

* return since inception of the pooled fund.

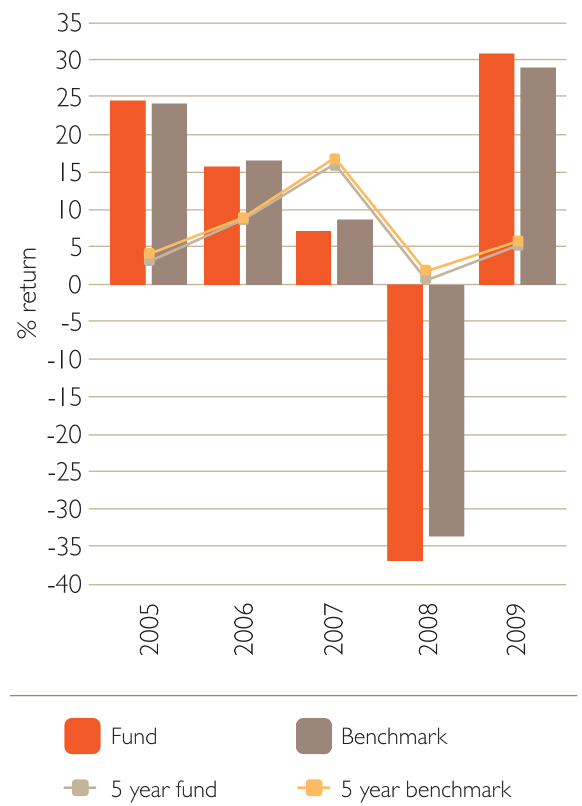
Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

The following graphs illustrate the performance of each pooled fund and the movement in the unit price during the last five years, or since inception where the fund has been in existence for less than five years.

Equity Pooled Fund unit price



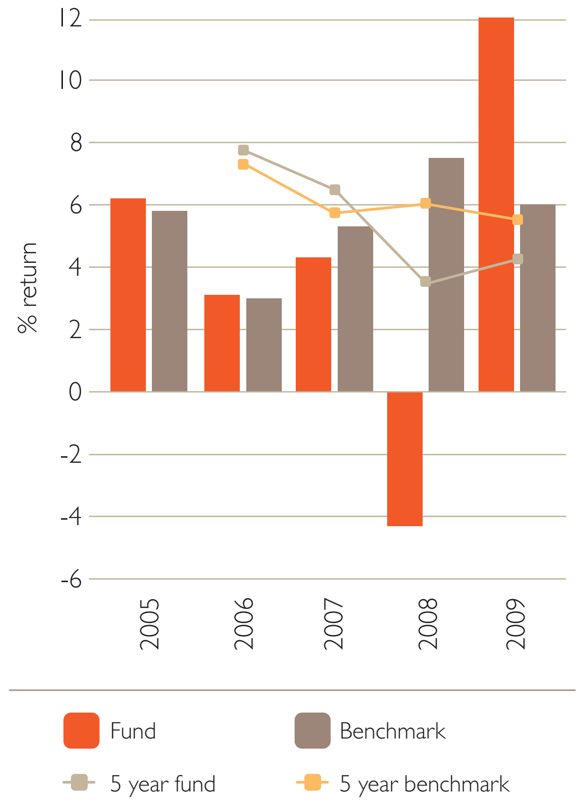
Equity Pooled Fund performance



Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

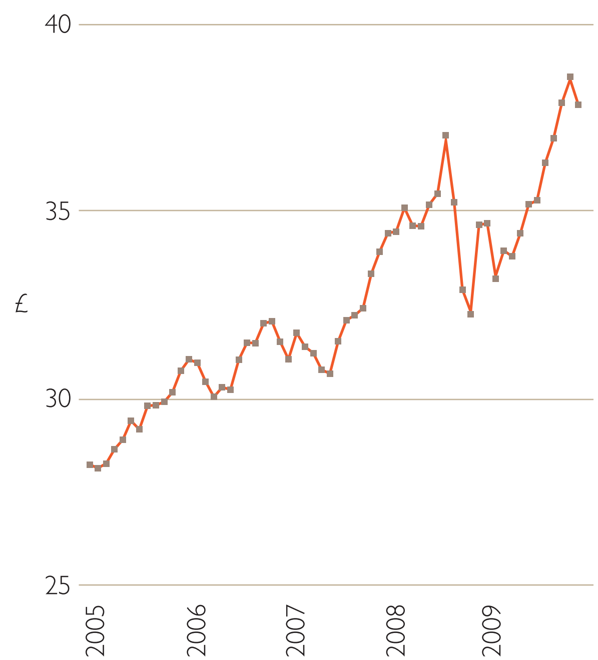
Global Bond Pooled Fund unit price

Global Bond Pooled Fund performance

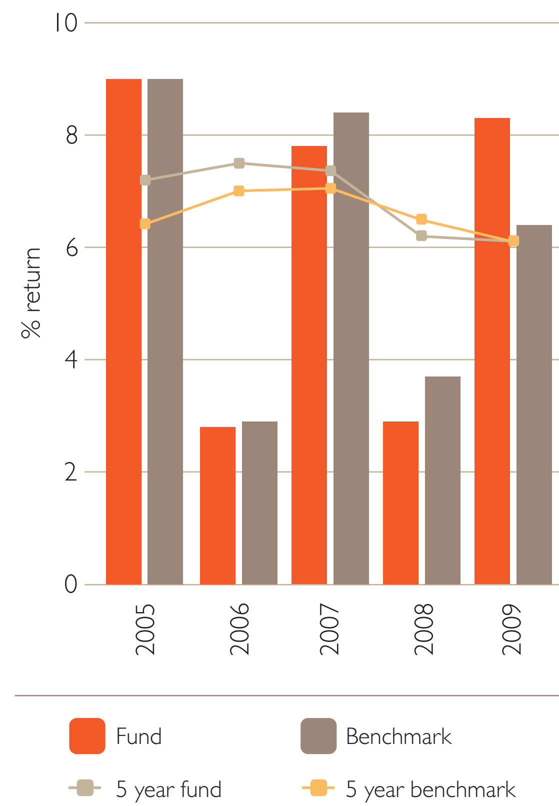


Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Index-Linked Pooled Fund unit price



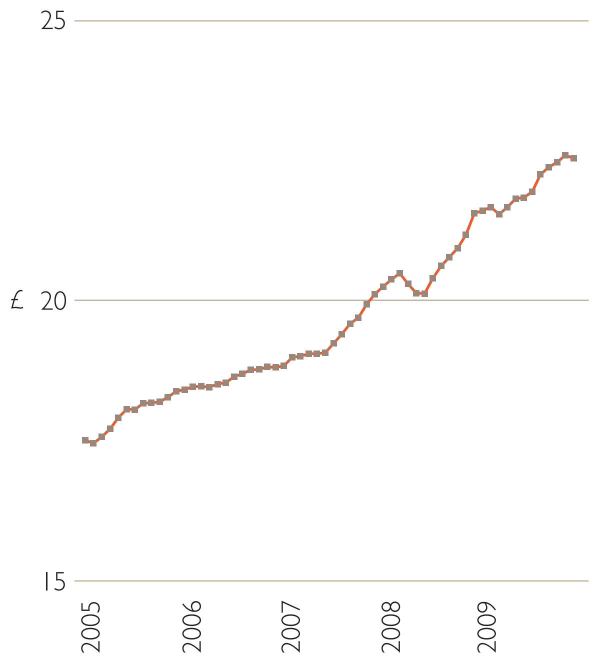
Index-Linked Pooled Fund performance



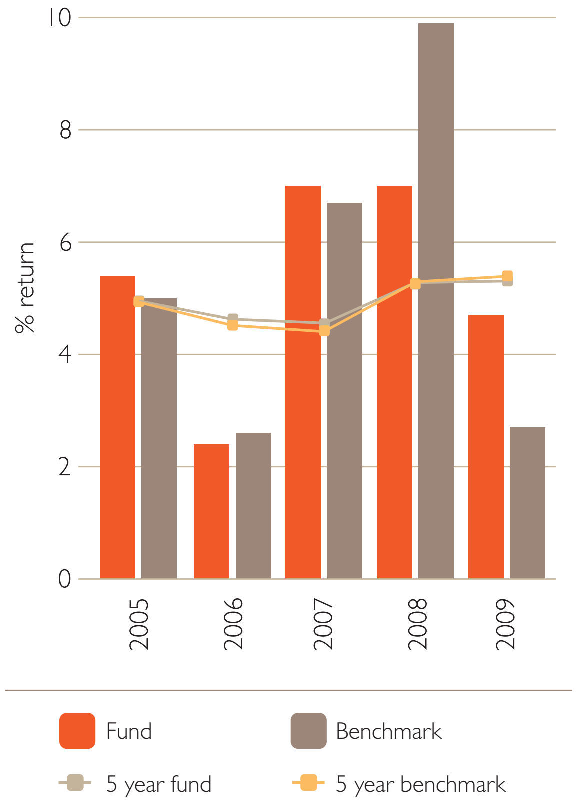
Appendix K
Pooled fund accounts

Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Short Bond Pooled Fund unit price

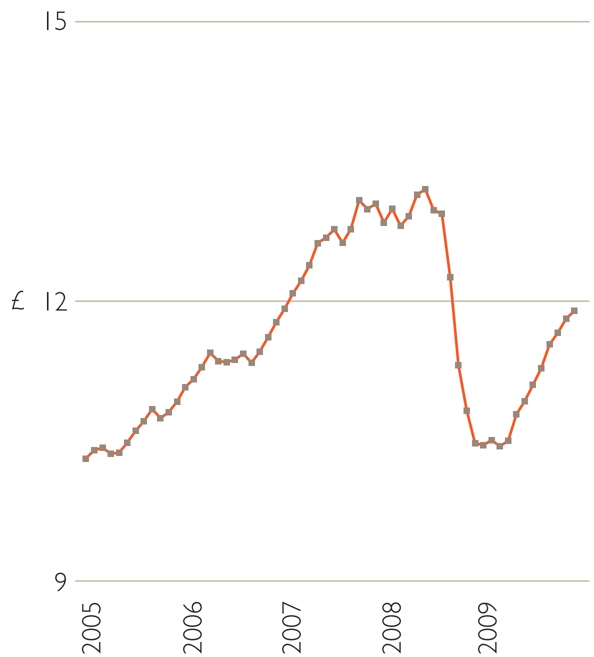


Short Bond Pooled Fund performance

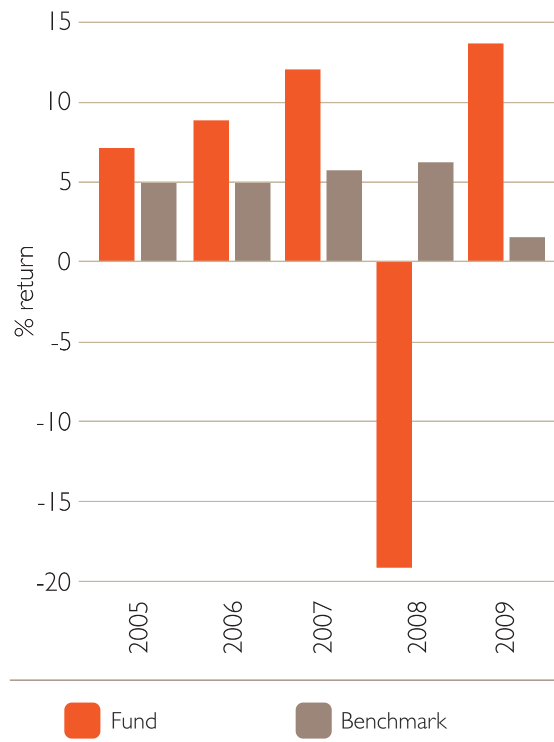


Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Cash Plus Pooled Fund unit price



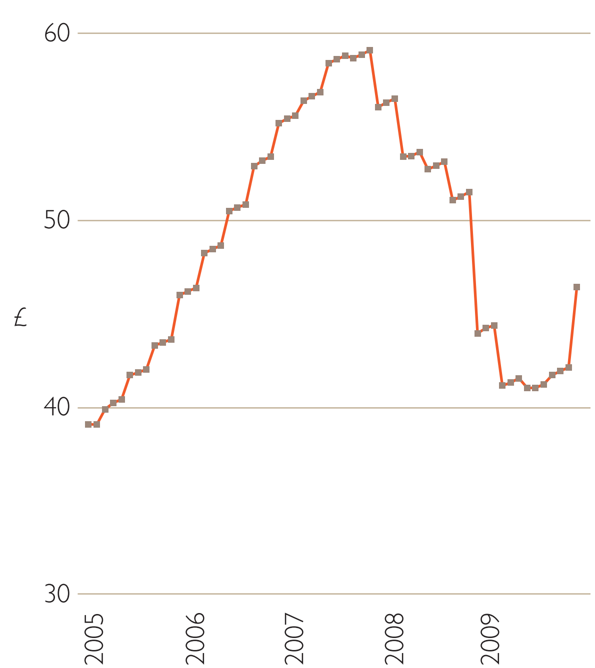
Cash Plus Pooled Fund performance



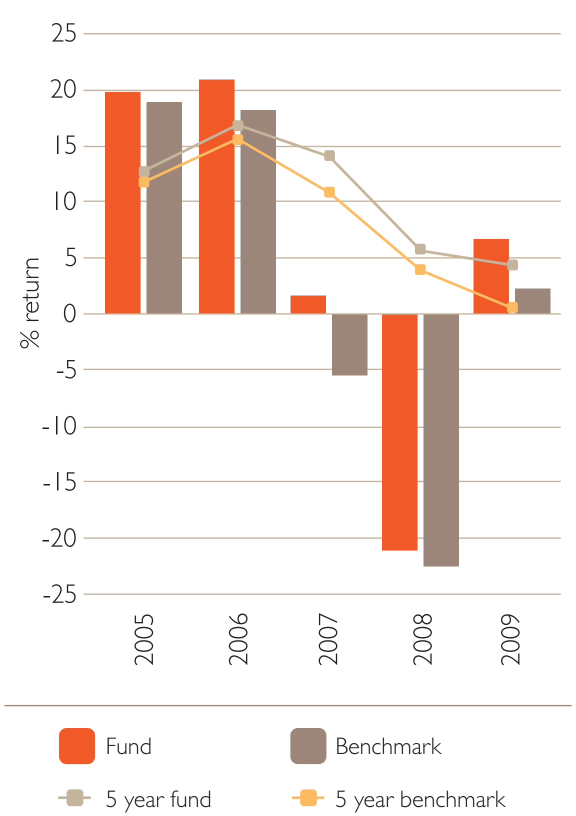
Appendix K
Pooled fund accounts

Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Property Pooled Fund unit price

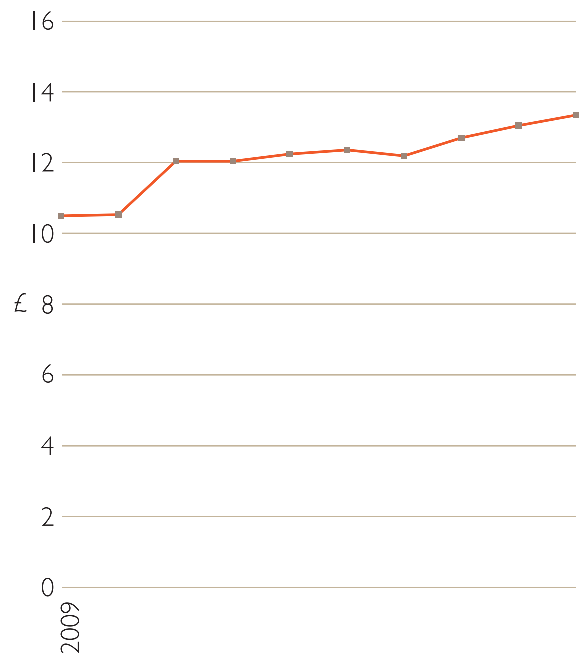


Property Pooled Fund performance

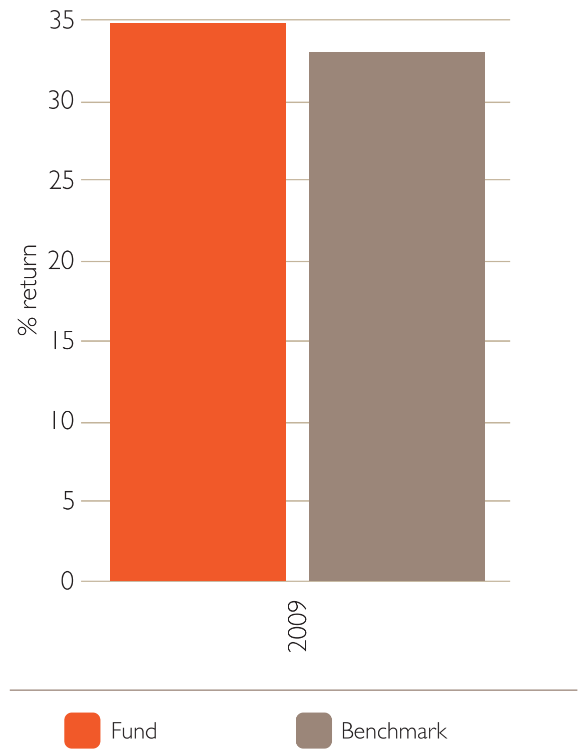


Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Commodities Pooled Fund unit price

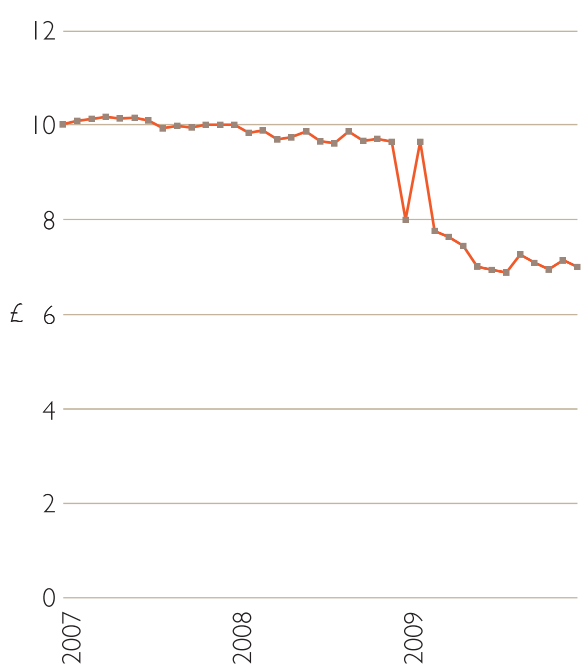


Commodities Pooled Fund performance

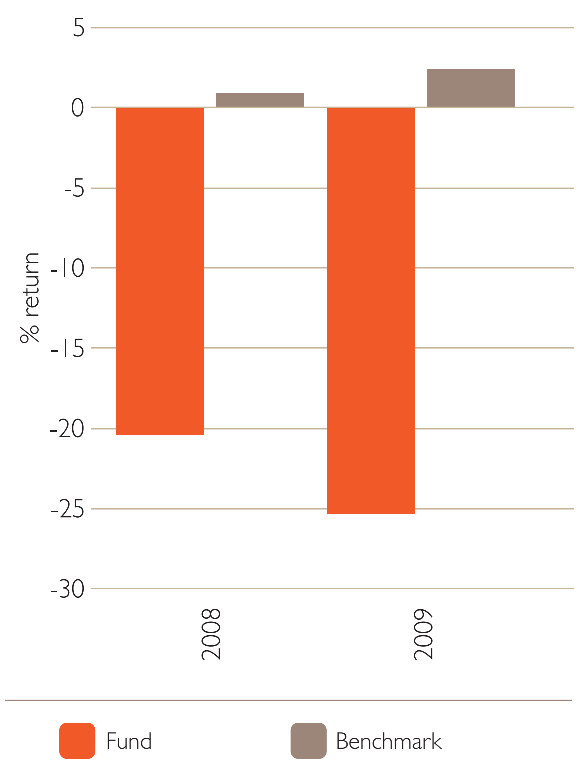


Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Infrastructure Pooled Fund unit price

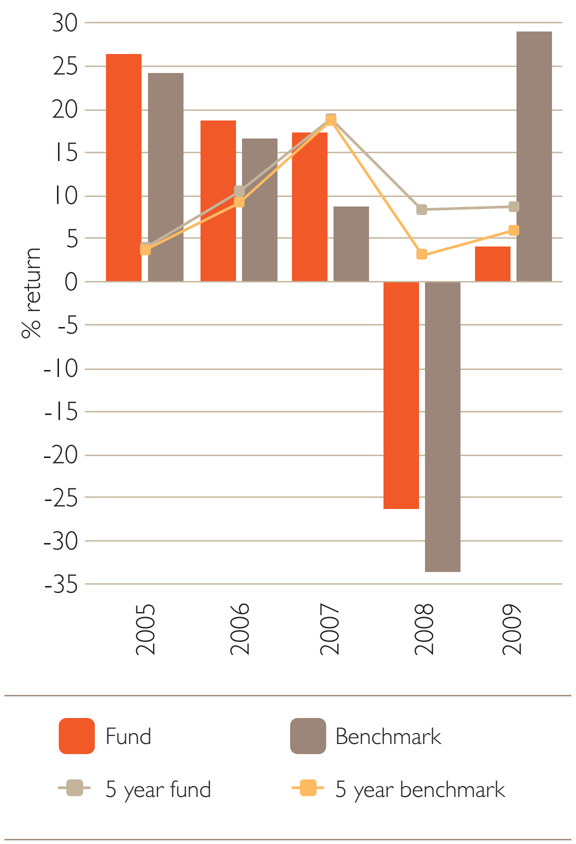


Infrastructure Pooled Fund performance



Consolidated notes to the fund statement (continued)
1.14 Performance (continued)

Direct Investment Pooled Fund performance



RAILWAYS PENSION SCHEME

ANNUAL REPORT & ACCOUNTS 2009