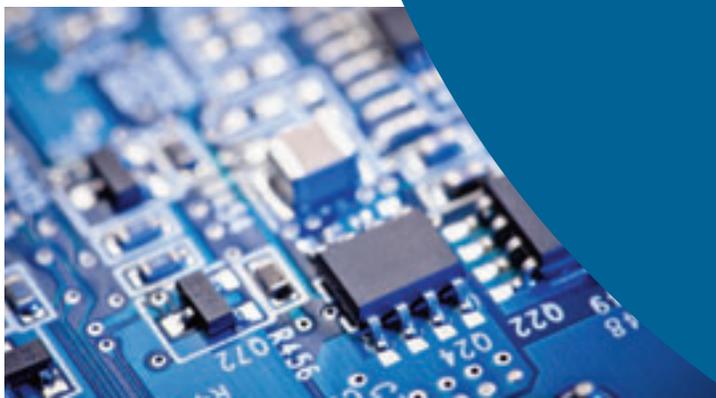
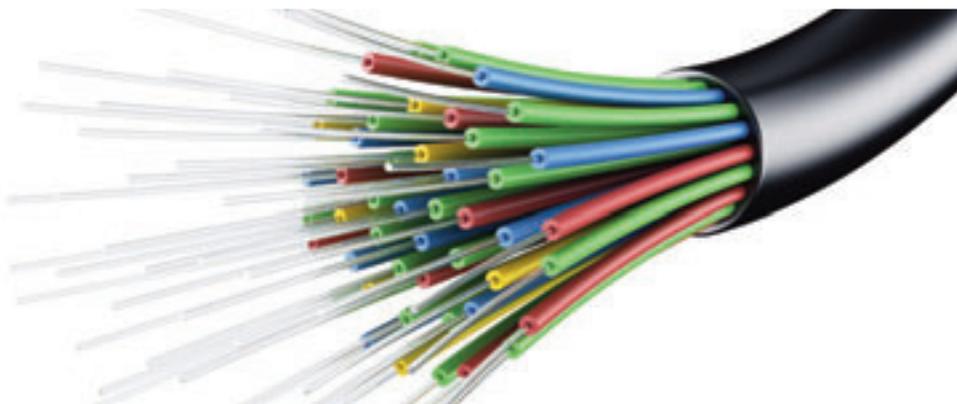
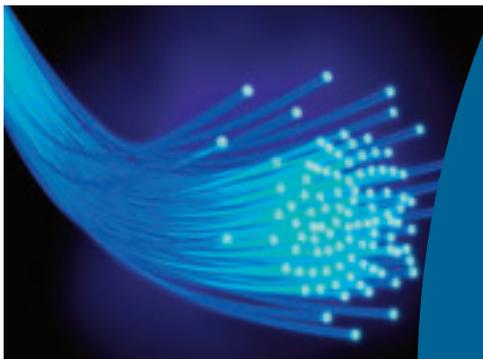
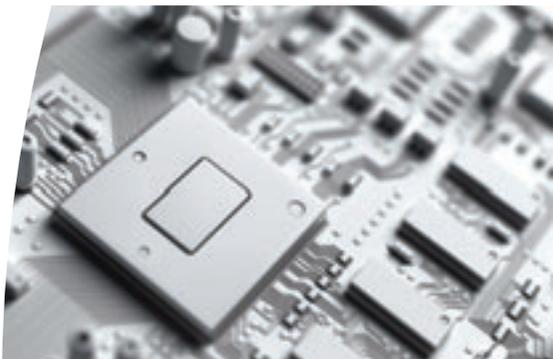


Railways Pension Scheme



Seventeenth

Annual Report & Accounts 2011



This year's Report & Accounts takes a look at some of the investments of the Railways Pension Scheme, from commodity futures to shares in companies developing ground-breaking new technologies.

Railways Pension Scheme

Annual Report & Accounts 2011

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Chairman's introduction

It is a privilege for me to present for a fifth time the Annual Report and Accounts of the Railways Pension Scheme ('the Scheme') for the year ended 31 December 2011, and we're now over 17 years on from railway privatisation.

2011 was another of those years in which investment markets were somewhat difficult for our managers, but the Trustee's policies of diversification, dynamic asset allocation and some active management at least helped to cushion the Scheme from the negative returns of most equity markets, and to limit our average losses to only 0.5% overall. As is so often the case in such comparatively poor years for investment, equities were the worst performing asset class, and the return of our Global Equity Pooled Fund was negative 8.6%.

Our Commodities Pooled Fund also fell during 2011, but with hindsight this was to be expected following some large gains during its first two years of operation. Positive returns were achieved by some of the other pooled funds, including Government and Non-Government Bonds, Private Equity and Property, while the small Index-Linked Pooled Fund achieved a remarkable return in excess of 26%, on the back of an increased aversion to risk that characterised markets in the latter part of 2011 along with the impact of quantitative easing and other gilt supply/demand distortion brought about by central bank policy and pensions and other regulation.

I'd like to look at index-linked gilt returns in just a little more detail. Over the five years ending 31 December 2011 the UK all stocks index nominal returns have averaged 9.4% per annum, a total return of which only an average of 1.9% per annum can be attributed to interest income. The rest is attributable to capital gains, mostly unrealised, while over the same period the underlying rate of RPI inflation for which the gains are intended to compensate has averaged 3.8%. The yield on the index at the beginning of this most recent five-year period was 1.26%, but by 31 December 2011 the equivalent yield had fallen to a negative

0.29%, so that in effect buyers of UK index-linked gilts are now paying a premium to the UK Government in return for RPI inflation 'protection'.

These underlying fundamentals help to explain why I believe it is unwise to use index-linked gilt yields mechanistically derived from current markets as the principal basis for actuarial estimates of pension costs and future inflation, just as it is also unrealistic to expect that real returns from gilts like we saw in one year in 2011 may be sustained over the much longer term. I'm also reminded of something Warren Buffett wrote (in 1977) that 'You can't pay far above par for a 12% bond and earn 12% for yourself'. But another way of looking at these almost unprecedented prices for index-linked gilts, is that the UK could be facing a period of high(er) inflation, so a recent comment by Jonathan Ruffer is also pertinent: 'This new inflation could be really exciting, although rather like admiring the pretty pattern of the tracer bullets as they arc towards you interest rates will be nailed to the floor cash on deposit will lose money in real terms and most investments will not match cash. But index-linked gilts are exactly designed for this eventuality. They prosper not so much from high inflation, as high inflation coupled with low interest rates'. Buffett or Ruffer or neither: time will tell.

I then turn to our Growth Pooled Fund, which was introduced in July 2010 with a target return of 5% above RPI over market cycles estimated typically to be of the order of five to seven years. While that target was met initially, in 2011 the overall return was disappointing, negative 2.8%. The Growth Pooled Fund did, however, generate a return above the original mix of assets it inherited by actively managing the subsequent asset allocation. The Fund reduced volatility risk further in 2011 by diversifying away from equities, but equities remained the largest asset exposure in this pool, and the performance of equity markets was thus the main contributory factor to the pool's overall return.

During 2011, around 40 more sections of the Scheme exchanged their fixed-weight investment strategies in the return-seeking pooled funds for RPMI's risk-budgeting framework, which uses a more dynamic asset allocation process to invest across asset classes, using the Growth Pooled Fund. These new sections joined 50 sections that had already invested in the Growth Pooled Fund in 2010 and, as a result, the overall size of the fund grew by over £1bn to just over £7bn as at 31 December 2011.

The Scheme carries out actuarial valuations every three years, and the valuation at 31 December 2010 has now been finalised for many, but not all, sections. Indicative valuation results were issued to most sections in March 2011, followed by draft valuation results at the end of June 2011. This earlier (compared with the 2007 valuation) release of results was done to help employers develop proposals in time for most of the section valuations to be signed off by the statutory deadline of 31 March 2012. By 31 March 2012, the Trustee had agreed with sponsoring employers contribution proposals covering almost 95% of the Scheme's active membership.

In all cases, your Trustee has considered the proposals carefully and will only agree to them if they are in the overall best interests of members. Both the 1994 Pensioners and the BR sections of the Scheme are protected by Crown Guarantee, and while other sections of the Scheme do not benefit from such a guarantee, the Trustee Company continues to do all it can to ensure the security of members' benefits. This includes obtaining parent company guarantees or other security enhancements from employers where they are available and beneficial to the Scheme.

Each year I take this opportunity to record my gratitude to all who have served as Trustee Directors during the year. The wide range of their knowledge and expertise is invaluable in ensuring that your Trustee continues to have a broad understanding of the railway industry and that it represents effectively the interests of the many stakeholders.

I would also like to use this occasion to pass on my condolences to the families of Maurice Williams and Ken Ball, who both passed away during the year. Maurice was a director of the Trustee Company and its predecessor since its formation in 1981 until 2007, and prior to that was a member of the BR Pension Investment Committee. Ken served as a director of the Trustee Company for 11 years from when it was established in 1994, and was employed in the railway industry for over 40 years. Both will be sadly missed.

I'm able to report that your Scheme has won a number of awards during 2011, including 'Premier Scheme of the Year' from 'Professional Pensions' and both 'Best Scheme Governance (Private Sector)' and 'Best Trustee Training' from 'Engaged Investor'. I can also report that in early 2012, RPMI won the award for 'Best Pensions Administration' at the Financial News Awards for Excellence in Institutional Pensions UK. I close my report by thanking the staff of RPMI for their continuing hard work in the interests of the Scheme and for the excellent service they continue to provide which surely makes such a vital contribution to the success of your Scheme.



Derek Scott
Chairman of the Trustee Company

The Railways Pension Scheme

The Railway Pensions Scheme (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 170 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 Section and the Industry-Wide Defined Contribution Arrangement. 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 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.

For example, the asset allocation needs of sections can be considered separately from the appointment and monitoring of individual 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. Sections wishing to invest in pooled funds purchase, where possible, pooled fund units from sections wishing to sell, thus avoiding some of the external investment transaction costs.

The industry-wide nature of the Scheme can simplify the movement of employees between railway companies, allowing them to change employers while remaining in the same scheme.

The Trustee Company provides high-quality pensions services through its experienced administration, investment, secretariat, pensions policy, communications and finance teams, all of whom are regularly benchmarked against other providers.

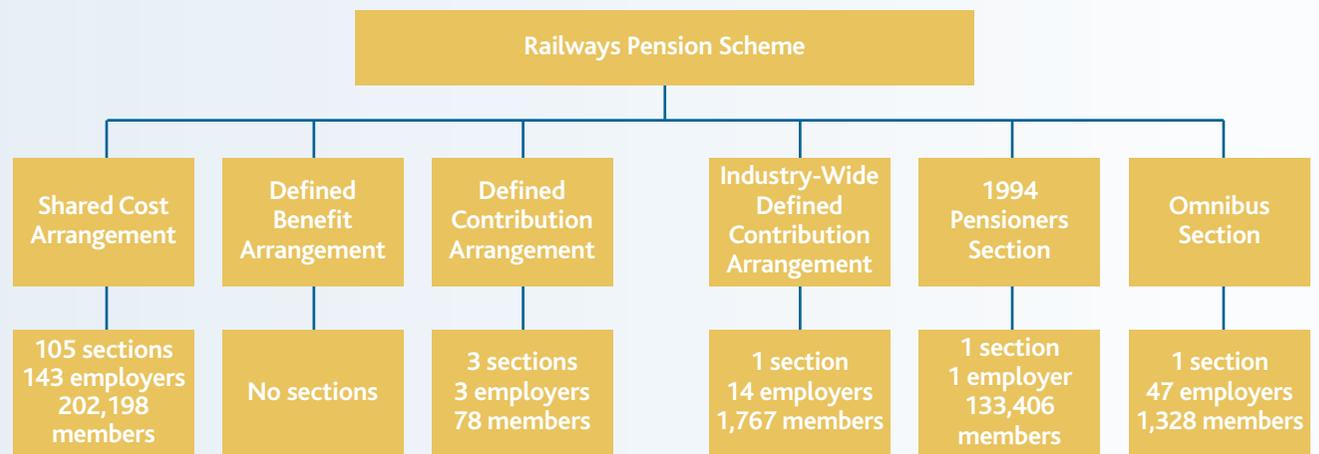
A summary of the main provisions of the Scheme is shown in Appendix H.

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 also transferred to the 1994 Pensioners Section. The assets and liabilities of another six closed railway pension schemes were transferred to the 1994 Pensioners Section in 2007, after agreement between the Trustee Company and the Department for Transport.

The Secretary of State guarantees all past service liabilities and pensions in payment at 1 August 2007, plus any future annual pension increases for the 1994 Pensioners Section.



Some employers participate in more than one section of the RPS. Adjusting for those employers that participate in more than one section, the number of employers within the RPS reduces from 208 to 170 (2010 – 166).

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. Originally, 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 now result in the creation or mergers of sections.

As at 31 December 2011, 94 of the 105 shared cost sections had active members. 45 sections remain open to new members. For these sections, employees of the participating employer who are employed in the railway industry may join the Scheme. New members are not protected under the Railways Act 1993, so their pension rights may differ from those who have protected rights.

The Omnibus Section

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 2011, 47 employers (2010 – 52 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 Arrangement

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 Arrangement. The Industry-Wide Defined Contribution Arrangement was established on 1 November 2001. The Arrangement aims to provide employers with a flexible defined contribution scheme. At the end of 2011, 14 employers were part of this Arrangement (2010 – 14 employers).

At 31 December 2011, there were three defined contribution sections (2010 – three sections).

Reporting

There are separate records for each section and 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 Appendix 5 of the Pension Trust, which includes responsibilities such as the determination of incapacity and discretionary benefits. Setting investment strategy can also be vested in the committees under Clause 5x of the Pension Trust. 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 how the committees exercise their powers.

Financial Statements

Fund account and net assets statement for the year ended 31 December 2011

Fund account for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Contributions and benefits			
Contributions	3	703	655
Individual transfer values		42	56
		745	711
Pensions			
Lump-sum retirement benefits		(684)	(664)
Individual transfer values		(129)	(170)
Death benefits		(10)	(19)
		(21)	(19)
		(844)	(872)
Administrative expenses			
PPF levies	4	(21)	(20)
		(22)	(36)
		(887)	(928)
Net withdrawals from dealings with members			
		(142)	(217)
Returns on investments			
Change in market values	5	(3)	1,702
Net returns on investments			
		(3)	1,702
Net increase/(decrease) in the Scheme during the year			
		(145)	1,485
Net assets at the start of the year		17,853	16,368
Net assets at the end of the year			
		17,708	17,853

Net assets statement as at 31 December 2011

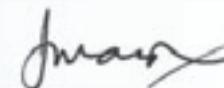
	Notes	2011 £m	2010 £m
Investments	5	17,705	17,853
Net current assets	6	3	-
Net assets at the end of the year			
	7	17,708	17,853

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 33 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 17 May 2012.



Derek Scott
Chairman



John Mayfield
Director

The notes numbered 1 to 9 on the following pages form an integral part of these financial statements.

Financial Statements

Notes to the financial statements for the year ended 31 December 2011

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 those railway pension schemes under the control of the Trustee. Pooled fund unit holdings are valued on the basis of the year-end unit prices 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 funds 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 these arrangements 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 manager. The Pension Assured Fund ('PAF') is valued as a whole by reference to 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, however, guaranteed by Aviva to receive at least £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 Towers Watson 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 to be a reasonable estimate of accounting fair value.

Change in market values

Change in market values mainly comprise 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 funds, reflected in the unit prices 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 accounts in the year in which they arise and are reflected in the pooled fund unit prices.

Financial Statements - Notes to the financial statements for the year ended 31 December 2011

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

Administrative expenses

Administrative expenses are accounted for in the year in which they fall due.

Pension protection fund ('PPF') levies

PPF levies are accounted for in the year in which they fall due.

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.

3. Contributions receivable

	2011 £m	2010 £m
Members' contributions		
Normal	204	204
Additional voluntary	43	43
Deficit funding*	8	8
Employers' contributions		
Normal	309	308
Deficit funding*	94	43
Government support	25	26
BRASS matching	17	18
Augmentation	3	5
	703	655

*Deficit funding contributions are being paid into the Scheme by both employees and employers until December 2021, or earlier, in accordance with recovery plans to improve the Scheme's funding position.

Further information on contribution rates can be found in the Actuary's report on page 33. Information on late payments during the year can be found on page 49. Further information on government support can be found on page 31.

4. Administrative expenses

	2011 £m	2010 £m
Pensions administration	10	9
Actuarial fees	5	4
Legal fees	2	2
Trustee governance	2	2
Communications	1	1
Other overheads	1	1
Other professional fees	-	1
	21	20

Pensions administration charges cover the processing of member transactions and preparation of financial statements. 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 deducted from the unit prices of pooled fund investments and disclosed separately in the pooled fund accounts in Appendix K.



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Financial Statements - Notes to the financial statements for the year ended 31 December 2011

5. Investments

	Market values at 31/12/10 £m	% of pooled fund owned 31/12/10	Purchases at cost £m	Sales proceeds £m	Change in market values £m	Market values at 31/12/11 £m	% of pooled fund owned 31/12/11
Pooled funds							
Growth	5,967	99.0	630	(89)	(183)	6,325	89.9
Global Equity	4,700	90.7	60	(607)	(366)	3,787	99.0
Private Equity	1,510	95.6	224	(187)	215	1,762	95.8
Government Bond	698	92.4	96	(15)	62	841	93.4
Infrastructure	734	95.3	-	-	(5)	729	95.3
Property	716	89.4	-	(89)	51	678	98.3
Non-Government Bond	652	89.3	40	(127)	27	592	95.0
Cashflow Matching	571	90.3	224	(334)	4	465	91.1
Hedge Funds	314	75.6	-	(96)	(2)	216	90.5
LDI	-	-	111	(30)	69	150	100.0
Index Linked	154	79.5	3	(50)	34	141	77.2
Cash Fund	6	100.0	481	(405)	1	83	95.9
Commodities	54	56.3	28	(28)	(3)	51	100.0
Short Bond	36	97.0	-	(37)	1	-	-
	16,112		1,897	(2,094)	(95)	15,820	
Securities directly held by schemes							
BRASS (AVC) and DC	1,216		90	(98)	67	1,275	
Substitution orders	467		14	-	25	506	
	17,795		2,001	(2,192)	(3)	17,601	
Other cash and cash instruments	58					104	
	17,853					17,705	

BRASS investments include 750,802,289 units in the PAF.

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, 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.

Investment administration includes the cost of selecting and monitoring the investment managers and custodians and the preparation of pooled fund accounts. These activities are carried out by RPMI.

Further analysis of investments, charges and fees for each pooled fund is provided in 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)

	2011 £m	2010 £m
Contributions due from employers	21	21
PPF levies	(1)	(6)
Investment debtor/ (creditor)	(3)	(2)
Administration expenses	(4)	(3)
Benefits payable	(5)	(5)
Taxation and social security	(5)	(5)
	3	-

None of the unpaid contributions at the year-end that are on the schedules of contributions are still outstanding. A total of £16,000 was paid after the due dates in the schedule of contributions.

7. Net assets at the end of the year

The net assets of each section of the Scheme at 31 December 2011 are shown in Appendix B.

8. Related party transactions

The Trustee Company and its subsidiaries provide services to the Scheme (explained on page 15). The charges payable, and those of external service providers, are detailed in note 4.

At 31 December 2011, net current assets included a liability of £4.4m in respect of these charges (2010 – a liability of £3.0m).

At 31 December 2011, 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 Investments 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 2011, investments in employers amounted to no greater than 5% 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.

Investment securities issued by HM Government are excluded from the definition of employer-related investments for the purposes of these accounts.

Independent Auditor's report

Independent Auditor's report to the Trustee of the RPS

We have audited the financial statements of the RPS for the year ended 31 December 2011 set out on pages 5 to 10. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Scheme Trustee, as a body, 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 them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's responsibilities set out on page 14, the Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

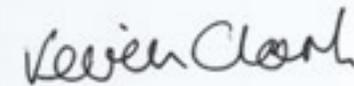
Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the scheme year ended 31 December 2011 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;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

17 May 2012

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 and payment schedules 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 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 2011

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 2011. The Scheme Auditor reports on contributions payable under the schedules in the Auditors' Statement about Contributions.

Contributions payable under the schedules in respect of the Scheme year

	£m
Employer:	
Normal contributions	309
Deficit contributions	94
BRASS matching contributions	17
Member:	
Normal contributions	204
Additional voluntary contributions	43
Deficit contributions	8
Contributions payable under the schedules	675

Reconciliation of contributions

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

	£m
Contributions payable under the schedules	675
Contributions payable under the section rules and recommendations of the Actuary:	
Government support	25
Augmentation	3
Total contributions reported in the financial statements	703

Signed on behalf of the Trustee on 17 May 2012.



Derek Scott
Chairman

Independent Auditor's 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 2011 which is set out on page 12.

This statement is made solely to the Scheme's Trustee, as a body, 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 Auditor's 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, as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and Auditor

As described on page 12, the Scheme's Trustee is responsible, under the Pensions Act 2004, for ensuring that there are prepared, maintained, and from time to time revised, schedule of contributions and payment schedules which set 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 sections and employers, or, where there is no applicable schedule, in accordance with the Scheme rules and the recommendations of the Actuary.

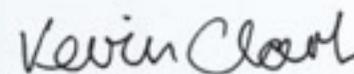
It is our responsibility to provide a statement about contributions paid to the Scheme and to report our opinion to you. We read the Trustee's report and the other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for 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 2011 as reported in the summary of contributions and payable under the schedules have in all material respects been paid at least in accordance with 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

KPMG

15 Canada Square

Canary Wharf

London

E14 5GL

17 May 2012

Statement of Trustee Company responsibilities in relation to financial statements

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 in accordance with UK GAAP 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. The Trustee 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 should be consistent with the accompanying financial statements.

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 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 17 May 2012.

The Trustee Company Annual Report

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.

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee as a corporate trustee. The Trustee 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 31/12/11
Railways Pension Scheme	338,777
British Transport Police Force Superannuation Fund	5,871
British Railways Superannuation Fund	4,049
BR (1974) Fund	3,106
	351,803

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 guarantor 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 16 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 employee members and two on behalf of the pensioner members. Roughly a third of the directors retire by rotation every two years. The term of office is six years.

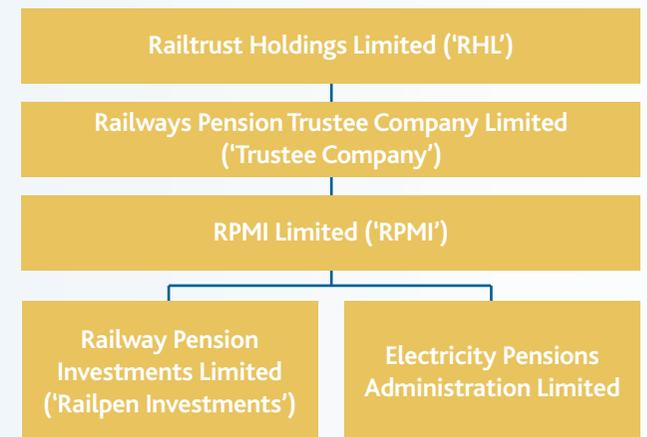
Trustee directors are non-executive and are entitled to emoluments which are disclosed in the financial statements of RHL.

The operating subsidiaries

RPMI provides services to the railway pension schemes. RPMI is based in Darlington, Coventry and London and is responsible for a wide range of services including: pensions administration; communication with members; strategic investment advice; contribution collection; treasury management; investment, company and scheme accounting; and company secretarial, governance, legal, responsible investment and compliance matters. RPMI is also authorised by the Financial Services Authority ('FSA') to carry out third-party administration services for insurance companies and others.

RPMI's wholly owned subsidiary, Railway Pension Investments Limited ('Railpen Investments'), carries out investment management for the Trustee of the Railways Pension Scheme. Railpen Investments is an FSA authorised body which permits it to carry out regulated investment business for the Trustee.

The structure of the Trustee group



Employer director appointment procedure

The current procedure, which was introduced in 2010, is based on industry sub-sector constituencies. The nominating constituency groups and the number of directors to be appointed by each constituency are set out in the table below.

Nominating constituency	Number of directors
Passenger train operating companies	3
Network Rail	2
Freight train operating companies and support services	2
All employers (including above)	1

The voting arrangements recognise all members while giving the most emphasis to active members. If there are more nominations than vacancies, voting within the constituency groups is on the basis of the number of employee members and pensioner members associated with the employer. There is one vote for each active member and half a vote for each pensioner and deferred pensioner. The 'All Employers' group continues to be one employer, one vote.

The following chart shows the current employer Trustee directors as at the end of December 2011, their date of retirement by rotation and deemed nominating constituency.

Name	Nominating constituency	Date of retirement by rotation
Derek Scott	All employers	2016
John Chilman	Passenger train operating companies	2012
Richard Goldson	Passenger train operating companies	2016
John Hamilton	Passenger train operating companies	2014
Chris Hannon	Network Rail	2012
Russell Mears	Freight train operating companies and support services	2016
David Simpson	Network Rail	2014
John Wilson	Freight train operating companies and support services	2014

Employee director appointment procedure

Nominations for the six directors representing the employee members are sought from the railway trade unions, the British Transport Police Federation and Pensions Committees.

Nominations for the two directors representing the pensioner members 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 or pensioners, as appropriate, in the railway pension schemes. Again, the successful nominees will be those with the most votes.

The following chart shows the current employee Trustee directors as at the end of December 2011, their date of retirement by rotation and deemed nominating constituency.

Name	Nominating constituency	Date of retirement by rotation
Mick Cash	National Union of Rail, Maritime and Transport Workers ('RMT')	2016
Tony Cotgreave	British Transport Pensioners' Federation (Pensioners Federation)	2014
Dave Gott	National Union of Rail, Maritime and Transport Workers ('RMT')	2012
Charles Harding	Confederation of Shipbuilding and Engineering Unions ('CSEU')	2014
John Mayfield	Retired Railway Officers' Society ('RROS')	2014
Stephen Richards	Transport Salaried Staffs' Association ('TSSA')	2012
Gary Towse	British Railways Superannuation Fund Management Committee ('BRSF')	2016
Dave Tyson	Associated Society of Locomotive Engineers & Firemen ('ASLEF')	2016

The Trustee Company Annual Report

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 ways of working. Directors attended between 6 and 27 Board and Committee meetings in 2011. 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 Trustee directors complete a minimum standard which meets the Pensions Regulator's and the Trustee Company's requirements 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 support Trustee directors, there is a dedicated area of the RPMI website which provides one easily accessible location for information relevant to their role. For the last three successive years since 2009, the Trustee Company has received the 'Engaged Investor' award for trustee training and in 2011 also received their award for best scheme governance.

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 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 21. The Committees have delegated powers which are reflected in their terms of reference and allocation of responsibilities charts.

Trustee directors carry out regular self-assessment of the Trustee Board individually and collectively. Performance assessment is recommended best practice in the pensions industry and is a valuable tool to help the Trustee board assess how it is performing and where improvements may be made. A summary of the results is considered by the Trustee Board and appropriate action taken.

The Trustee Board aims to maintain and, where possible, improve the standards to which it operates. This includes regular benchmarking against good practice in other pension funds and internal or independent reviews of Trustee Board and Committees' effectiveness.

In addition to ensuring high standards of fiduciary governance, the Trustee also reviews compliance with the Myners principles which codify best practice in investment decision-making. The current six principles were issued at the end of 2008 and cover: effective decision-making, clear objectives, risk and liabilities, performance assessment, responsible ownership, and transparency in reporting. The Trustee Board is pleased to confirm continuing compliance with the Myners principles. There is also a separate report on responsible investment at Appendix E.

Exposure of investments

RPS assets are invested in a number of pooled investment vehicles that operate as internal unit trusts. These offer the RPS the ability to invest in a wide range of investments including UK and foreign equity, bonds, hedge funds, private equity, property, commodities and infrastructure. Each of these types of investments has its own risks associated with it. Therefore the asset classes that the RPS is invested in are closely monitored to ensure that assets are not exposed to unnecessary risk as a result of investment choices. Further details of pooled fund investment exposures can be found within the consolidated pooled fund accounts in Appendix K.

2010 valuation

The most recent triennial actuarial valuation is as at 31 December 2010. This is the second 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 and the period within which any shortfall is to be recovered.

The bases of the assumptions made by the Actuary were presented to employers at the beginning of the consultation period in September 2010. An initial assessment of employer covenant was performed during 2010 and indicative valuation results were produced in March 2011. Draft valuation results were provided to employers at the end of June 2011. The employers are presenting funding proposals to the Trustee for approval based on these draft valuation results. If the results agreed between the employer and the Trustee would result in an increase in the contribution rates paid by members, then a 60 day consultation period with members has to be completed by employers before the valuation is finalised.

The deadline for the Trustee and employers to finalise the valuation reports is 15 months after the valuation date, which for this valuation was 31 March 2012. 12 sections finalised their valuation reports by the 31 March 2012 deadline. Although documentation was not finalised for all of them, agreement had been reached between the Trustee and Employers for 55 sections in total, representing 90% of the members of the RPS and nearly 95% of the active members. The main factors that led to sections missing the deadline were the difficulty in finalising the valuation assumptions and the employers' covenant assessments with some employers.

PPF

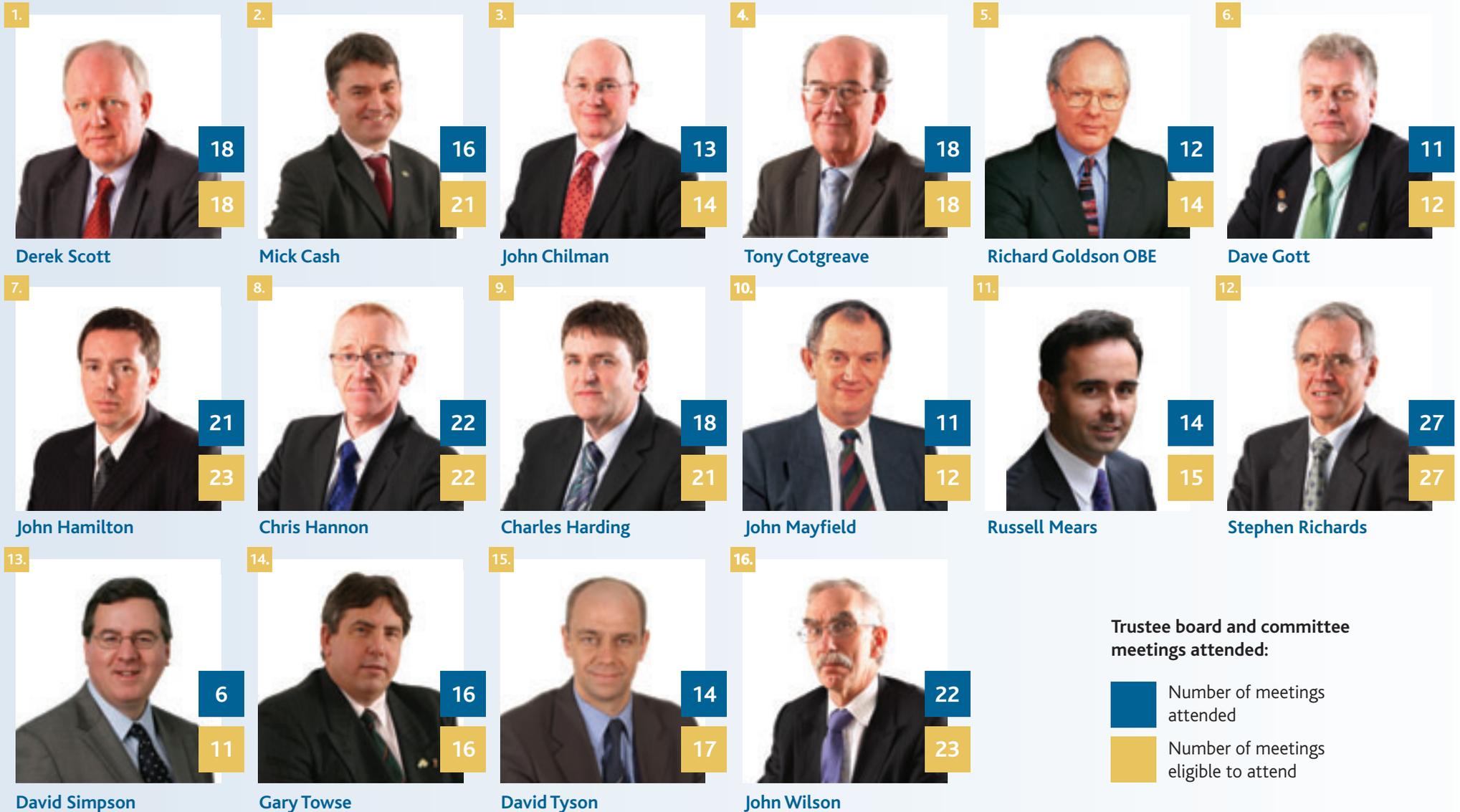
The PPF became operational on 6 April 2005 and impacts upon most defined benefit schemes in the UK who have to pay levies to the PPF. The PPF will pay compensation to members of eligible defined benefit schemes when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover PPF levels of compensation. Schemes or sections with a Crown Guarantee are ineligible to join the PPF and therefore do not pay the PPF levy.

Insolvent employers

During November 2010, the Pension Protection Fund ('PPF') confirmed that the Fastline, Jarvis Facilities Limited and Relayfast Group Sections of the RPS entered a PPF assessment period as a result of the insolvency of the Jarvis Group in March 2010. In addition, three employers in the Omnibus Section also entered a PPF assessment period during 2010, due to the companies entering administration. These three employers are: Catalis Limited, Bridgen Holdings Limited and Western Track Engineering Limited. The Trustee is assisting the PPF in completing the assessment period and ensuring a smooth transition of the sections into the PPF.

In addition to the above companies, there are some other participating employers within the RPS that are no longer trading or who are in administration. Further details are given in Appendix B.

The Trustee Company Annual Report - The Trustee Company's Directors as at 31 December 2011



Trustee board and committee meetings attended:

-  Number of meetings attended
-  Number of meetings eligible to attend

1. **Derek Scott (Chairman of the Trustee)**
Appointed by: All employers • Term of office ending: 2016
 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, and he is also a former Government-appointed trustee of the Mineworkers' Pension Scheme (2004-2008). Derek was a member of the NAPF Investment Council from 1998 to 2006 and vice chairman for 2005 and 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: 2016
 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 Network Rail Pensions Committee and was previously a member of the Carillion GTRM Pensions Committee. 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: Passenger Train Operating Companies • 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 20 years and is a trustee of FirstGroup pension arrangements in the USA and Canada. John was appointed as a director of the Trustee Company in 2007 and a Non-Executive Director of RPMI in 2009.
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 nominated by the British Transport Pensioners Federation and the Retired Railway Officers Society. Tony was appointed as a Trustee Company Director in June 2005.
5. **Richard Goldson OBE (Chairman of the RPMI Board)**
Appointed by: Passenger Train Operating Companies • Term of office ending: 2016
 Richard was, until 31 March 2011, a non-executive Director of the Office of Rail Regulation. Since 1 April 2011, he has been a Specialist Adviser to the House of Commons Transport Committee. In his earlier career, 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 as a Non-Executive Director of RPMI and Chairman of its Board.
6. **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.
7. **John Hamilton**
Appointed by: Passenger Train Operating Companies • 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. John was appointed a director of the Trustee Company in 2008.
8. **Chris Hannon (Chairman of the Benefits & Funding Committee)**
Appointed by: Network Rail • Term of office ending: 2012
 Chris is Head of Pensions at Network Rail where he is responsible for the management and operation of its defined benefit and defined contribution pension schemes. In that role he also supports the trustee board of the in-house pension arrangements and serves on the Network Rail Pensions Committee. He has over 30 years of company pensions experience and, prior to joining Network Rail in 2004, has held management and trustee supporting roles with several private sector employers, including Safeway Supermarkets plc and Thomas Cook Group. Chris was appointed a director of the Trustee Company in 2005.
9. **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 as a director of the Trustee Company in 2007.
10. **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 and a director of Railnews Limited. He was a member of the 1994 Pensioners Section Pensions Committee from 1994 to 1997 and was appointed as a director of the Trustee Company in 1996.
11. **Russell Mears**
Nominated by: Freight Train Operating Companies & Support Services • Term of office ending: 2016
 Russell joined Railfreight Distribution in 1993 after qualifying as a chartered accountant with Kingston Smith. He has since held a variety of senior financial posts within the Freightliner Group becoming Chief Financial Officer in January 2005. Russell was appointed as a director of the Trustee Company in July 2010.
12. **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 February 1993. Stephen is also a member of the Atos Origin Pensions Committee.
13. **David Simpson**
Nominated by: Network Rail • Term of office ending: 2014
 David joined the rail industry in 1986 as a BR Management Trainee and since then has worked in a variety of operational roles across the UK, including in East Anglia and the Midlands. In 2005, he moved to Scotland where he is Network Rail's Route Managing Director. He was appointed a director of the Trustee Company in 2010.
14. **Gary Towse**
Nominated by: British Railways Superannuation Fund Management Committee • Term of office ending: 2016
 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 as 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: 2016
 David was appointed as a Trustee Company director in February 2001 and a Non-Executive Director of RPMI in 2009. 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.
16. **John Wilson**
Appointed by: Freight Train Operating Companies and Support Services • Term of office ending: 2014
 John is an Actuary and was formerly employed by British Rail where he worked with others in establishing the Railways Pension Scheme. He has nearly 40 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 Annual Report

- Membership and activities of board and principal committees as at 31 December 2011

Attendance at the Trustee Board is shown in the table below. The Trustee Board maintains 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)	6	6
Mick Cash	4	6
John Chilman	6	6
Tony Cotgreave	6	6
Richard Goldson	6	6
Dave Gott	6	6
John Hamilton	4	6
Chris Hannon	6	6
Charles Harding	4	6
John Mayfield	6	6
Russell Mears	6	6
Stephen Richards	6	6
David Simpson	3	6
Gary Towse	6	6
Dave Tyson	6	6
John Wilson	6	6

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 of which there were two during the year. All Trustee Directors may, and some often do, attend meetings of the Trustee Board's Committees in addition to those of which they are formally members.

Audit Committee

The purpose of the Audit Committee is to decide, consider and report on matters relating to the appointment of external auditors, financial reporting arrangements, the work of external audit and Business Assurance and internal control systems.

The Audit Committee comprises six directors of the Trustee Board, and includes members with appropriate accounting qualifications and experience. 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 2011 are shown in the following table.

Member	Number of meetings attended	Number of meetings eligible to attend
John Mayfield (Chairman)	2	2
Tony Cotgreave	2	2
John Hamilton	2	2
Russell Mears	1	2
Derek Scott	2	2
Gary Towse	2	2

In addition to the above scheduled Audit Committee meetings, there were also three Risk Management Committee meetings during the year that all Audit Committee members were eligible to attend.

The key responsibilities of the Audit Committee are outlined in a formal Terms of Reference which is regularly reviewed and updated and includes:

- appointment of the external auditor;
- reviewing the adoption of accounting principles and policies;
- reviewing aspects of the annual accounts;
- reviewing the scope and plans of external audit and Business Assurance; and
- overseeing the control and risk management systems of the Trustee Company and operating companies.

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 2011, the Committee met on two occasions.

It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2010, received reports on the progress of the 2011 internal audit plans, and considered and approved the internal audit plan for 2012. 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.



The Trustee Company Annual Report

- Membership and activities of board and principal committees as at 31 December 2011

The Audit Committee co-ordinates and monitors the risk management process, ensuring that it is effective in identifying, evaluating and managing the key risks faced by the Trustee. On a day-to-day basis, this is delegated to the Risk Management Committee, which meets three times a year and is attended by representatives of the Audit Committee. The risk management process is outlined in more detail at Appendix F.

Financial reporting matters considered by the Committee in 2011 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 2010 Report and Accounts and the External Audit Strategy for 2011.

As part of these reviews, the Audit Committee has specifically considered the processes that enable reliable and relevant valuations of the Scheme's assets. The Trustee Company retains BNY Mellon to provide the valuation of quoted securities, and an independent property valuer for UK properties. BNY Mellon in turn relies, wherever possible, on independent sources of data, ensuring that the vast majority of the Scheme's assets are priced completely independently of the fund managers' valuations. In addition, as part of the audit of the year-end financial statements, the external auditors perform their own independent valuation of scheme assets and compare this to the Trustee Company's valuation, reporting any material discrepancies to the Audit Committee. The Audit Committee is satisfied that these arrangements are robust.

More detail on the specific valuation principles adopted for each category of investments can be found in the accounting policies set out on pages 6 and 7.

At its meeting in December 2011, the Committee approved the reappointment of KPMG as external auditors for a further two years, 2011 and 2012. In addition, the Committee agreed to nominate two of its members to sit on an interview panel for the tender of pensions legal services. Other matters considered by the Committee were the Internal Control Assurance Report (AAF 01/06) prepared for the pensions administration business of RPMI for the period from 1 January 2010 to 31 December 2010, the implications of the introduction of the Bribery Act 2010, the Pensions Regulator requirements for record keeping and how RPMI achieve value for money in its provision of administration services.

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 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.

The Audit Committee is satisfied that it has received sufficient, reliable and timely information to satisfy itself that the control and risk management systems are operating effectively.

Benefits and Funding Committee

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 membership and attendance of the Committee during the year is shown in the following table.

Member	Number of meetings attended	Number of meetings eligible to attend
Chris Hannon (Chairman)	11	11
Mick Cash	8	11
Richard Goldson ¹	2	4
John Hamilton	11	11
Charles Harding	10	11
Russell Mears ²	7	7
Stephen Richards	11	11
David Tyson	8	11
John Wilson	10	11

¹ Richard Goldson retired from the Committee with effect from 18 May 2011

² Russell Mears was appointed to the Committee with effect from 18 May 2011

Valuation

The B&F has had another very busy year. The actuarial valuation of the Railways Pension Scheme as at 31 December 2010 is substantially complete for most sections/most of the membership. This is a major undertaking which is required every three years. Each of the 101 sections of the RPS as at 31 December 2010 is treated as a separate entity with its own valuation results. This valuation falls under the Pensions Act 2004, and means that agreement on the valuation results is needed from each sponsoring employer.

Indicative draft results were issued on 31 March 2011 to provide an early indication of the expected results. These were followed on 30 June 2011 by formal draft results based on full membership data.

The second half of the year, and in particular the final quarter, has seen extensive engagement with employers. This has covered proposals on the valuation assumptions, changes to benefits and agreeing contributions going forward.

A report from the Scheme Actuary is included on page 33 which refers to the requirement to produce individual Statements of Funding Principles and Schedules of Contributions for each section as at 31 December 2010. 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.

Employer covenant

A key factor when considering each valuation is the strength of the sponsoring, statutory employer, and the B&F continues to have the challenging task of assessing this for all the sponsoring employers in the RPS. In undertaking this work, the B&F is now advised by an experienced in-house team within RPMI.

For the 2010 valuation, the B&F has been in the process of agreeing a range of covenant enhancement proposals with employers to improve their covenant assessments. These are anticipated to include a range of guarantees, loan subordination agreements, and security over assets and other arrangements with a value of in excess of £600m.

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. Since the 2007 valuation, cash mitigation payments received have totalled some £70m – in addition to other forms of mitigation such as contingent assets.

Rule changes

During the year, the B&F agreed a range of benefit and contribution changes for individual sections of the RPS. 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 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 2011, our relationship with the Pensions Regulator has continued to develop. The Regulator's representatives have a better understanding of the complexity and the atypical shared cost nature of the RPS. This has helped the Regulator's funding team when it becomes involved with the Scheme in considering whether sections remain appropriately funded. We have also shared with them the consultation document for the 2010 valuation to keep them aware of the approach and we have taken their staff's interim comments into account.

Case Committee

The Case Committee meets to consider decisions on case work applications from individual members, where the decision making powers have not been delegated to a Pensions Committee or to RPMI. The membership and attendance of the Committee during the year is shown in the following table.

Member	Number of meetings attended	Number of meetings eligible to attend
Stephen Richards (Chairman)	6	6
Tony Cotgreave	6	6
Dave Gott	5	6
Chris Hannon	1	1
Derek Scott	6	6
David Simpson	3	5
John Wilson	6	6

In 2011, the Case Committee held six scheduled meetings and one special meeting.

As at 31 December 2011, the Case Committee had responsibility for 85 sections of the Railways Pension Scheme.

During 2011, the Case Committee considered and made decisions on 167 cases which can be categorised as follows:

- 62 applications and reviews of incapacity benefits
- 56 applications for payment of lump sum death benefit
- 13 applications for spouses', children's and dependants' pensions
- 11 appeals under stage 2 of the internal disputes resolution procedure
- 8 applications to rejoin the Railways Pension Scheme
- 6 applications for early payment of preserved benefits
- 5 reviews of an eligible dependant's pension after 10 years
- 4 forfeiture of benefits cases
- 1 request for Trustee to use discretion under Rule 31 of Schedule 1A
- 1 application to transfer out of the Industry-Wide Defined Contribution Arrangement

The Trustee Company Annual Report

- Membership and activities of board and principal committees as at 31 December 2011

In November 2011, the Case Committee decided that all external transfers into sections of the RPS for which they have responsibility would cease, unless otherwise directed by the employer or Pensions Committee, if one exists.

In 2011, the Committee agreed that the cost-neutral early retirement factors applied if a member takes their benefits early continue to be appropriate.

Executive Committee

The main responsibility of the Executive Committee is to provide oversight of the operations and management of RPMI on behalf of its shareholder and parent, the Trustee Company. 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 stakeholders' views are taken into account and acted upon.

Membership and attendance during 2011 by Committee members are shown in the table below.

Member	Number of meetings attended	Number of meetings eligible to attend
Mick Cash (Chairman)	4	4
John Chilman	3	4
John Hamilton	4	4
Charles Harding	4	4
Rob Holden*	4	4
Gary Towse	4	4

* External nomination

Richard Goldson, as Chairman of the RPMI Board, is invited to attend meetings of the Executive Committee. He attended three out of the four meetings held in 2011.

Transparency and accountability between RPMI and the Trustee Company is ensured through a governance structure that involves four Trustee Directors as Non-Executive Directors of RPMI. The terms of reference of the Executive Committee ensure that no more than two members of the Executive Committee are also 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 2011 are Richard Goldson (non-executive Chairman of the Board of RPMI), John Chilman, Gary Towse and David Tyson.

There were two key tasks for the Committee in 2011. First, there was a review of the charges from RPMI to the RPS. Charges are reviewed every two or three years. The Trustee Company agreed that there should be no increase in RPMI charges for the two years 2012 to 2013. The next charging review will be in 2013. Second, a mutual trading relationship was formalised between the Trustee Company and RPMI recognising the established practice. The Trustee Company acts as both corporate trustee for the RPS and as corporate parent to RPMI, a company established to carry out the executive functions of the Trustee Company. This relationship is very much that of a mutual trading relationship and this has been formalised by contract with effect from 1 January 2012.

Investment Committee

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

The Investment Committee met on four occasions in 2011. 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) ²	4	4
Tony Cotgreave	4	4
Richard Goldson	4	4
Chris Hannon	4	4
Chris Hitchen *	4	4
Virginia Holmes ^{1 **}	3	3
John Mayfield ²	3	4
Stephen Richards	4	4
Derek Scott ²	4	4
Peter Stanyer ^{2 **}	3	4
Gary Towse	4	4

¹ Virginia Holmes was appointed as an external appointee on 1 April 2011

² There were two Asset Allocation Sub-Committee ('AASC') meetings during 2011, which John Chilman, John Mayfield, Derek Scott and Peter Stanyer were eligible to attend. Derek attended one meeting and the other Committee members attended two.

* Chief Executive of RPTCL

** External Appointees

In addition to the four formal meetings, there were two meetings of the AASC and an AASC workshop was held which is commented on further in the 'Pooled Funds' section on the next page. The Committee's activities can be summarised under a number of broad headings and brief comments are provided on each of these as follows:

Strategy/Beliefs – the Committee continued its work overseeing a general move towards 'risk-budgeting' as a way to reconsider investment strategy, focusing on risk (volatility) and return expectations relative to liabilities. This initiative commenced in 2010 and was linked at that time to a wide-ranging review of all pooled funds which led to a number of changes last year. The changes in 2011 were consequently less significant and are commented on below and in the Investment Report, which starts on page 28.

At each meeting the Committee receives an economic and market update which allows it to consider its overall strategy in light of recent events and emerging trends. These updates provide the general context against which decisions are made, such as modifications to the characteristics of pooled funds and strategic asset allocation considerations for the Growth Pool. The Committee also approved a number of changes to section-specific asset strategies linked to the 2010 Actuarial Valuation and this continues into 2012.

Pooled Funds – some further changes to Pooled Funds were agreed in 2011 although not on the scale of those in 2010. The closure of the Short Bond Pooled Fund was approved in May 2011. In addition, the benchmark for the Non-Government Pooled Fund was re-examined, as was the structure of the Hedge Fund Pooled Fund and the minimum credit rating of the investments in the Government Bond Pooled Fund. The Committee also continued its consideration of its approach to infrastructure investment and as part of this decided to stop any further commitments from the existing pooled fund.

As reported last year, the main area of focus for AASC is the Growth Pool although it also reviews the asset composition for the BRASS 'Growth' and 'Cautious' funds. The Growth Pool was launched in July 2010 and the opportunity was taken, following the first six months of operation, to undertake a review of the fund and associated governance arrangements in a workshop held in January 2011 between AASC and members of RPMI's investment team. The review identified some changes to the overall governance process for the Growth Pool which were considered and approved by the Investment Committee at its meeting in February 2011. This resulted in more emphasis being given at full Committee meetings to the economic and market environment and how this might affect strategic decisions. One aspect of this was consideration by the Committee of new asset classes for the Growth Pool which resulted, for example, in the addition of Investment Grade Credit, Emerging Market Debt and Insurance-Linked Securities as approved asset classes. The level of ex-ante risk in the Growth Pool was further reduced in 2011, following the moves made in 2010, with allocations to a range of assets including the new asset classes noted above.

A major review of funds that support the Trustee's AVC (BRASS) and DC arrangements was initiated in the second half of 2011 and a range of proposals was considered at the final two Committee meetings in 2011. This work continues into 2012.

Investment Manager Appointments – manager appointments are undertaken by Railpen Investments under an investment management agreement with the Trustee. The Committee, however, agreed that it should continue to comment on significant manager appointments and terminations. In addition, there were two 'Trustee Monitoring Meetings' at which Trustee directors met a selection of the Scheme's external fund managers.

Corporate Governance – the Committee retains high-level oversight of the extensive governance activities undertaken by the Scheme globally. In this regard, the Committee received regular reports on key issues arising from AGM activity in the main global markets in which the Scheme has investments. The Committee approved revised Corporate Governance and Engagement Policies for the UK, US and Japan. In addition, the Committee considered a report which summarised the findings of a Climate Change Investment Risk Audit undertaken by RPMI (in conjunction with two other parties) and received information on the external review of carbon intensity of the Scheme's equity portfolios.

The Trustee Company Annual Report - Key statistics

Five year summary of RPS participation

	2011	2010	2009	2008	2007
Sections	111	109	107	107	99
Employers	208	212	217	225	231
Active membership	84,411	84,304	86,747	89,735	90,083
Preserved membership	109,088	109,138	108,252	107,302	106,906
Pensioners	145,278	145,118	144,340	143,683	143,787
Total membership	338,777	338,560	339,339	340,720	340,776

Comparison of membership of sections

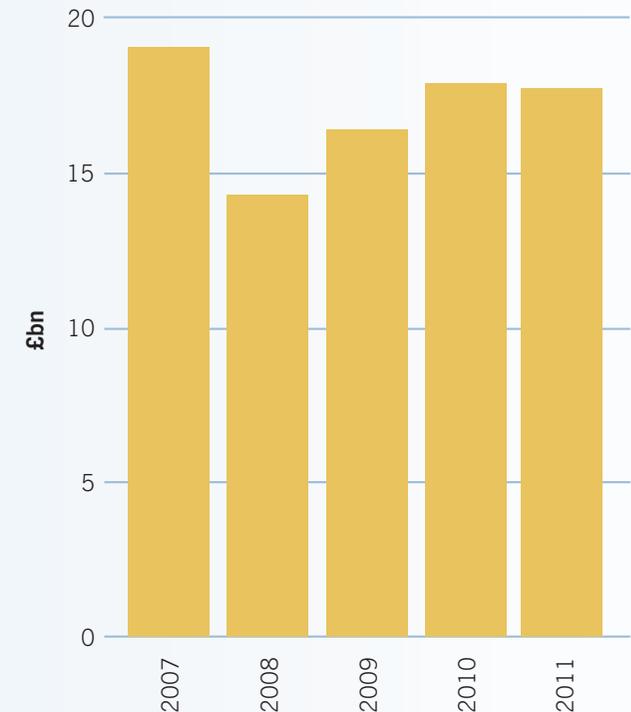


Five year summary of financial statements of RPS

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Scheme benefits					
Pensions	684	664	648	612	586
Lump sums	129	170	165	131	128
Death benefits	21	19	22	21	19
Total benefits	834	853	835	764	733
Contributions income					
Employees	255	255	248	239	226
Employers	423	374	361	338	318
Government	25	26	28	29	30
Total contributions	703	655	637	606	574
Net transfer values	32	37	10	11	59
Admin expenses (including PPF)	(43)	(56)	(33)	(40)	(10)
Change in market values & interest*	(3)	1,702	2,313	(4,557)	1,334
Net increase/(decrease) in the Scheme	(145)	1,485	2,092	(4,744)	1,224
Net assets of Scheme					
	17,708	17,853	16,368	14,276	19,020

* Change in market values & interest includes £340m of investment income in 2011 (2010 - £28bn).

Five year summary of net assets of RPS



Investment Report

Introduction

The Trustee Company and individual Pensions Committees are responsible for setting investment strategy and the investment management arrangements, with strategic advice provided by RPMI and third parties. Railpen Investments provides investment management services to the Trustee and act as a manager of managers. In this capacity, it is regulated by the Financial Services Authority as an Occupational Pension Scheme firm.

The policies that control how the assets of each section of the Railways Pension Scheme are invested are set out in Statements of Investment Principles; copies are available on request.

Investment management arrangements

The assets of the Scheme are invested through a number of pooled investment funds, each with a different risk and return profile. In most cases each pooled fund covers a unique class of asset. These funds are managed as if they are internal unit trusts and each pooled fund is approved by HM Revenue and Customs. Only railway pension schemes may invest in these pooled funds. Each section holds units in some or all of the pooled funds. The use of these pools enables sections to hold a broader range of investments more efficiently than may have been possible through direct ownership.

Each pooled fund has a performance benchmark and risk parameters within which additional returns may be targeted. Pooled funds are managed largely by external fund management companies selected by Railpen Investments and are predominantly actively managed, that is, the fund management companies try to add value in addition to the benchmark returns through their skilled management of the underlying investments.

Passive management, that is index-tracking, is also used to some extent in asset classes where the Trustee considers this appropriate. The intention of active management is to optimise the return generated per unit of risk against the benchmark. In order to align more closely the interests of the managers with those of the Scheme, active managers are partially remunerated by fees which vary according to their performance against their benchmark.

During 2011, the specifications of a number of the pooled funds were refined and their management arrangements revised, to ensure they remain fit for purpose in meeting sections' needs. The most significant activities were:

- revision of the management arrangements for the Government Bond Pooled Fund;
- a change in the investment management approach of the Index-Linked Gilts Pooled Fund from active to passive, and accordingly, the appointment of a new external fund manager;
- a number of changes in the roster of managers within the Global Equity Pooled Fund;
- the creation of a new tranche of the Private Equity Pooled Fund designed to have a commitment period of two years;
- the implementation of additional Growth Pool manager mandates and direct positions;
- a reduction in the level of risk in the Growth Pooled Fund, primarily through a cut in the quoted equity holdings and greater diversification, including a number of new asset classes;
- the cessation of commitments to new investments by the Infrastructure Pooled Fund;
- the closure of the Short Bond Pooled Fund;
- the introduction of a Passive Global Equity Pooled Fund.

Exposure to overseas currency risk is controlled by the use of currency hedging. This process removes some of the volatility of sterling returns inherent in investing in overseas markets. There is full hedging of foreign exchange exposure in the Hedge Funds, Government Bond and Non-Government Bond Pooled Funds and a 50% hedge of the overseas currency exposure of the Global Equity Pooled Fund, excluding emerging markets. The Growth Pool may vary the extent of its currency hedging over time. All other pooled funds are unhedged.

Investment strategy

The Trustee's Investment Committee sets investment strategy for all sections without a Pensions Committee; the Trustee reviews and approves strategies determined by Pensions Committees. In setting strategies for sections, the profile of the liabilities, along with the covenant strength and views of the sponsoring employer, are taken into account.

Investment strategies had traditionally been set as a fixed asset allocation over a three-year period, based on the expected long-term risk, return and correlation characteristics of the various asset classes that may be selected for investment. However, for most sections, strategy is now being set as a risk budget, where risk is taken to be the expected volatility of returns relative to long-dated index-linked gilts (a proxy for the liabilities). The risk budgeting approach facilitates a more dynamic approach to asset allocation, which means that prevailing market conditions can be taken into account when managing the level of volatility risk. Each section's strategy is implemented through investment in the appropriate mix of the pooled funds operated by RPMI for the Trustee. For those adopting risk budgeting or wanting to introduce a fixed element of dynamic asset allocation into their strategy, investment is usually made in the Growth Pooled Fund, which invests in a range of liquid return-seeking assets.

Investment Report

A number of section investment strategies were reviewed during the year. The Trustee has adopted a policy of de-risking where there is the scope and the desire to do so and, accordingly, a number of sections were de-risked somewhat during the year following a modelling exercise by the Scheme Actuary. As results of the 2010 actuarial valuation became available and funding plans were agreed, further sections' strategies were reviewed and revised where appropriate. Section strategies continue to be reviewed as the outcomes of the 2010 actuarial valuation become clear and future funding plans are agreed.

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 assumed to be realisable at accounting fair value although, on occasion, markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices at least equal or close 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 estimated fair values 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 instruments or contractual arrangements. For these reasons it is not usually possible to realise part or all of such assets at short notice.

Economic commentary provided by RPMI

2011 started with a reasonable sense of optimism. This was partly due to the Federal Reserve having agreed in November 2010 to a further programme of quantitative easing (the purchase of an extra \$600bn of US Treasury bonds) and a sharp rally in equity markets into the close of 2010. In addition, there was a degree of economic momentum: the JP Morgan Global Purchasing Managers Index – a barometer of activity across countries – was at levels consistent with a reasonable recovery in gross domestic product ('GDP') growth in early 2011. Global industrial production increased at an annualised pace of almost 8% in the final quarter of 2010 and the first quarter of 2011. World trade also increased at a robust rate. Against this backdrop, equity markets continued to rally with the MSCI All Country World index up by around 4% in the first quarter in US dollar terms. Other return-seeking assets, such as commodities, were also higher.

The natural disaster that struck Japan in March did have a noticeable impact on the global economy. Industrial production in Japan declined by 15%. This, along with the disruption to supply chains, caused global industrial production to be flat in the second quarter, with world trade down slightly. The JP Morgan PMI index weakened significantly between the first and second quarters. More generally, the problems around sovereign debt in the Euro area continued: in May 2011 Portugal agreed a bailout package with the European Union ('EU') /

International Monetary Fund ('IMF'), making it the third European country after Greece and Ireland to do so. The yields on Euro peripheral economies' (Italy, Spain, Greece, Portugal, Ireland) government bonds rose above 6% (on a GDP-weighted basis). Equity markets drifted slightly lower during the second quarter.

The European sovereign debt crisis continued into the summer and quickly became a source of increasing strain for global financial markets. In July, a second bailout package for Greece was announced. Nonetheless, ongoing concern about a possible default in one or more Euro economies led to a further increase in the borrowing costs of peripheral economies. In August, the European Central Bank used its Securities Market Programme to purchase Spanish and Italian government bonds in an attempt to lower their yields. The volatile situation was not assisted by economic data being weaker than expected. Moreover, inflation in emerging markets (Chinese inflation reached 6.5% in July) led to worries that these economies could slow as policy was tightened to restrain inflationary pressures. Against this uncertain background, there was a sharp correction in equity markets with the MSCI AC World index declining by almost 18% during the third quarter. Markets were also highly volatile; for example, the realised 30-day volatility of the S&P 500 equity index increased four-fold on average between May and September.

The final months of the year saw policymakers across the world make efforts to support economic growth and restore confidence to financial markets. In September, the Federal Reserve announced it would extend the maturity of \$400bn of its US Treasury holdings in an attempt to lower long-term

interest rates. In October, the Bank of England increased its own quantitative easing by £75bn. At the end of November, six central banks (including the Federal Reserve) took co-ordinated steps to address the rising cost of European banks' funding needs. In early December, European authorities agreed a path to closer fiscal union (the UK aside) and boosted the size of potential bailout funds. Importantly, as well as reversing the policy rate increases of earlier in the year and continuing its purchases of government bonds, the European Central Bank ('ECB') offered unlimited funds to the banking sector (on a three-year term) and agreed to accept a wider list of collateral. All of these moves – along with a small improvement in some of the economic data, especially from the US economy – helped equity markets rally into the year-end. The MSCI AC World index was up by 7% in the fourth quarter, although this still left the index down by almost 10% for the year as a whole.

One of the corollaries of the Euro sovereign debt crisis during 2011 and the weakening in economic momentum was a persistent decline in bond yields of economies judged to be safe havens (such as the US, Germany and the UK). The yields of the peripheral economies continued to rise and finished the year at significantly elevated levels (almost 9% on a GDP-weighted basis). In stark contrast, the yield on ten-year UK government bonds ended the year at only 2%. The yield on index-linked gilts, which offer protection against inflation, continued its decline of recent years and actually finished 2011 in negative territory. Overall, the year 2011 will be remembered as a year of significant uncertainty, especially with regards to Euro sovereign

debt. There was also a clear slowdown in economic activity, especially across Europe; indeed, it is widely expected that the area has entered into a mild recession. Although the year ended on a more positive note following action taken by various policymakers, the uncertain background weighed on return-seeking assets (such as equities, commodities and hedge funds). The outlook for 2012 is also mixed. It is by no means clear that the Euro sovereign debt crisis has been resolved nor that a full-scale country default will be avoided. In addition, the global economy remains vulnerable to continued deleveraging in the face of high debt burdens and a possible decline in sentiment. On the positive side, the authorities have shown in 2011 that they remain aware of the need to continue supporting the global recovery with exceptional measures. Moreover, many companies across the globe have significantly improved their financial fundamentals in recent years.

Investment performance

During 2011, financial markets experienced significant volatility and a wide range of return outcomes, as the ongoing issues with regard to Euro sovereign debt hung over markets for much of the year. There were double-digit returns from many defensive assets, such as government bonds with a high credit rating (e.g. US Treasury Bonds, German Bunds, and UK Gilts) and in particular inflation-linked bonds issued by these governments (e.g. UK Index Linked Gilts). Meanwhile, many return-seeking assets produced poor returns for the year, in particular global equities which fell by around 9% in 2011 despite a rally in the fourth quarter.

The Growth Pooled Fund invests in a wide range of return seeking assets with flexible allocations based on a risk budget range and a target level of long-term return. Global equities remain the largest asset class holding in the Fund, but the allocation at the start of 2011 of around 50% was considerably lower than the allocation of almost 70% at inception in July 2010. The equity allocation was further reduced during the year as a lower risk allocation was maintained in the uncertain market environment. Other significant asset segments in the Fund include non-government bonds, property, commodities, fund-of-hedge-funds, absolute return, and emerging market debt.

The Growth Pooled Fund targets a long-term real return of 5% above UK inflation over a market cycle, but the return in 2011 was negative 2.8%. However, the reduction in exposure to equities did mitigate some of the losses that would have been suffered if the portfolio allocations of inherited assets had been retained.

The Global Equity Pooled Fund provides diversified exposure to global equities and uses a blend of active and passive management. The Global Equity Pooled Fund produced a return of negative 8.6% in 2011 and this return was ahead of benchmark for the third successive year.

The Private Equity Pooled Fund provides exposure to a highly diversified range of private equity investments. It is made up of a series of sub-funds, each representing a different vintage of private equity investment. The latest tranche is the PE 2011 sub-fund which was established in the first quarter of the year.

Investment Report

The Private Equity Pooled Fund produced a return of 13.9% in 2011, and this was ahead of the benchmark return. Because of the unquoted nature of these investments, there is often a significant time lag for revised information on underlying investments to flow through to the Fund valuation. Therefore the return for 2011 in part reflects the recovery in asset values that occurred in the latter part of May 2010, and may not fully reflect the falls in value that risk assets suffered in the second half of 2011.

The Infrastructure Pooled Fund had a modestly negative return of 0.5% for the year and this was behind the RPI benchmark. The Property Pooled Fund achieved a positive result in absolute and relative terms, with an overall return of over 8.7%, as the recovery in the UK commercial property market continued.

The Hedge Funds Pooled Fund had a slightly negative return of 0.6% in 2011, which was also behind the benchmark return by around 1.5%. The Commodities Pooled Fund saw a return of negative 4.2% in 2011 which was nevertheless ahead of benchmark for the third successive year.

The return of 8.2% for the Government Bond Pooled Fund reflected the decline in yields of government bonds in economies perceived as safe havens. The fund return was marginally ahead of its benchmark. The Non-Government Bond Pooled Fund produced a return of 4.8%, which was slightly behind the benchmark return. The strongest return in 2011 came from the relatively small Index Linked Pooled Fund at 26.6%. This Fund is managed on a passive basis so the return was broadly in line with the benchmark index. Following a review,

the Short Bond Pooled Fund was closed during the year and the modest amounts held in the Fund were invested elsewhere. The Trustee also provides a series of Cashflow Matching Pooled Funds within an LDI Pooled Fund which offer the opportunity for more precise matching of section liabilities where appropriate.

Section returns

There is a range of investment strategies amongst RPS sections, reflecting the diversity in terms of liability profiles and employer covenant. In 2011 the investment return produced by section assets ranged between negative 4% and positive 17%, although most section returns were in a narrower range of negative 1% to positive 1%. This reflected the diversity of returns seen in the major asset classes over the year.

Over a three year period the investment returns of RPS sections ranged from 7% to 12.5% per annum, while over a five-year time horizon the range of returns was negative 1% to positive 7% per annum.

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 other securities that meet standards set by the Trustee Company. As a result of operating these securities lending arrangements,

the Scheme receives revenues. 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 temporarily. 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 and the Occupational Pension Schemes (Investment) Regulations 2005 require 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 jobs and part of their pensions at the same time, should their 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.

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

Railways Pension Scheme holding at 31/12/11 = £1,253m
Total value of fund at 31/12/11 = £1,259m

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 Investors and Legal & General. Units in the PAF are guaranteed by Aviva to be worth at least £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. 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.

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

The remainder of the BRASS is invested in one of six 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 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
Pension Deposit Fund	Rolling 7 day LIBID
Bond Fund	FTSE All Stocks Gilt Index
Growth Fund	n/a
Cautious Fund	n/a
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 UK Equity Fund	The FTSE All-Share Index
Pension Overseas Equity Fund	Composite index comprising regional indices from the FTSE World Index Series
Pension UK Property Fund	IPD Total Return Index
Pension Fixed Interest Fund	Composite index comprising the FTSE Government All Stocks and iBoxx Non-Government Bond Indices
Pension Index Linked Gilt Fund	TSE Over Five-Year Index-Linked Gilt Index

Actuary's report

The 31 December 2010 valuation

An actuarial valuation of the Railways Pension Scheme as at 31 December 2010 is currently in progress. This is the sixth valuation of the Scheme, the previous valuation having been carried out as at 31 December 2007. As for the 2007 valuation, the current valuation is being carried out to satisfy the scheme funding regulations under the Pensions Acts, in addition to satisfying the requirements of the Scheme's Trust Deed and Rules.

The main purpose of the valuation is to set the future contributions to be paid into each section. To conduct a valuation it is first necessary to project the assets and liabilities into the future. A large number of assumptions therefore need to be made and the Trustee and I have consulted widely on the assumptions and methodology for this valuation. Ultimately it is necessary to reach agreement on these matters with the Designated Employer of each section.

The Shared Cost sections

Separate valuations are required for each section of the Shared Cost Arrangement. During 2011, detailed reports were issued showing the draft valuation results and other relevant information for all the Shared Cost sections.

These draft results showed that around a quarter of the Shared Cost sections are expected to have more assets than funding liabilities (that is, a funding level of at least 100%) at the valuation date. For the remaining sections a plan to remove the shortfall (that is, the gap between the assets and the liabilities) needs to be agreed between the Trustee and the Designated Employer.

The formal documentation required to complete the valuation for each section includes a Statement of Funding Principles (which sets out the Statutory Funding Objective for the section), a valuation report, a Recovery Plan (for those sections with an overall valuation shortfall) and a Schedule of Contributions. Discussions are underway with relevant parties to finalise the valuation, the contributions and the necessary formal documentation for all Shared Cost sections.

The 1994 Pensioners Section

The valuation of the 1994 Pensioners Section, which sits outside the Shared Cost Arrangement of the Scheme, is exempt from the requirements of the scheme funding regulations as it benefits from a Government guarantee. The valuation under the Rules of the section disclosed a shortfall of assets compared with the funding liabilities.

In accordance with the Rules, the Trustee and the Secretary of State have agreed that the shortfall will be met by transfers from the Special Reserve Fund over a period of ten years.

The Scheme's governing documents provide that the Actuary to the Scheme, as appointed by the Trustee, shall act jointly with the Government Actuary in relation to the 1994 Pensioners Section. The Government Actuary has advised that he agrees with the basis, methodology and assumptions for the 2010 valuation of the 1994 Pensioners Section. The formal documentation for this section has been completed reflecting these agreements.

Defined Contribution Arrangements

The Scheme also contains the Defined Contribution Arrangement and the Industry-Wide Defined Contribution Section. These arrangements are excluded from the valuation.

The 31 December 2011 annual update

When the 31 December 2010 valuation is completed, an interim funding update will be carried out as at 31 December 2011. This will provide an approximate indication of the likely movement of each section's funding position over the year. The results of this exercise will be prepared and communicated during 2012.

James C Wintle

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20 January 2012





Appendices

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Appendix A - Advisers to the Trustee Company

Manager of investment managers

Railpen Investments, 2nd Floor, Camomile Court, 23 Camomile Street, London, EC3A 7LL

Scheme and investment administrator

RPMI, Stoopdale Offices, Brinkburn Road, Darlington, DL3 6EH

Actuaries

James Wintle, Towers Watson Limited
Trevor Llanwarne, the Government Actuary (joint actuary for the 1994 Pensioners Section and BR Section)

External auditors

KPMG LLP

Solicitors

Dickinson Dees, DWF, Herbert Smith, Maclay Murray & Spens, Simmons & Simmons, Eversheds

Bankers

The Royal Bank of Scotland Group plc

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
*1994 Pensioners	The Secretary of State for Transport	133,406	3,704
Abellio	Abellio Transport Holdings Ltd	18	2
Alpha Trains	Alpha Trains (UK) Limited	27	6
Alstom Railways	Alstom Ltd	2,109	136
Amey Rail	Amey Rail Ltd	2,540	148
Angel Trains	Angel Trains Ltd	236	37
Anglia Railways	London Eastern Railway Ltd	850	64
Arriva Trains Wales	Arriva Trains Wales/Trenau Arriva Cymru Ltd	3,239	182
Atkins Ltd	Atkins Rail Ltd Atkins Ltd Network Train Engineering Services Ltd Opal Engineering Ltd WS Atkins CEDAC Ltd WS Atkins Powertrack Ltd	879	165
ATOC Ltd	ATOC Ltd	320	33
Atos	ATOS Origin IT Services UK Ltd	1,276	198
Babcock Rail Limited	Babcock Rail Ltd First Engineering Holdings Ltd First Projects Ltd	2,394	182
Balfour Beatty	Balfour Beatty Group Ltd Balfour Beatty Rail Ltd	3,236	254
BAM Nuttall	BAM Nuttall Ltd	22	2
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	375	33

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Bombardier Transportation c2c	Bombardier Transportation UK Ltd	161	4
Bombardier Transportation UK	Bombardier Transportation (Rolling Stock) UK Ltd Bombardier Transportation UK Ltd	1,234	92
*BR	BRB (Residuary) Ltd Channel Tunnel Rail Link Ltd London & Continental Railways Ltd London Underground Ltd Scottish Ministers The Secretary of State for Transport	1,542	104
British Transport Police	British Transport Police Authority	2,595	64
BT	British Telecommunications plc	329	13
BUPA Occupational Health	Occupational Health Care Ltd	99	8
c2c Rail	c2c Rail Ltd	1,448	65
Carillion Rail (Centrac)	Carillion Construction Ltd	374	30
Carillion Rail (GTRM)	Carillion Construction Ltd	4,032	218
Carlisle Cleaning Services Ltd	Carlisle Cleaning Services Ltd	82	3
Chiltern Railway Co. Ltd (Maintenance)	The Chiltern Railway Company Ltd	217	12
Clientlogic	Clientlogic (UK) Ltd	65	2
Colas Rail	Colas Rail Ltd	2,229	135
COMATEC	*** COMATEC UK Ltd	34	1
CSC Computer Sciences	CSC Computer Sciences Ltd	10	1
DeltaRail Group (Link)	DeltaRail Group Ltd	208	30

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
DeltaRail Group (Rail)	DeltaRail Group Ltd	276	63
DeltaRail Group (TCI)	DeltaRail Group Ltd	127	25
East Coast Main Line	East Coast Main Line Company Ltd	7,061	301
East Midlands	East Midlands Trains Ltd	3,940	221
Environmental Scientifics Group	Environmental Scientifics Group Ltd ESG Asbestos Ltd	298	22
Eurostar	Eurostar International Ltd	3,842	252
Eversholt Rail (UK) Limited	Eversholt Rail (UK) Ltd	114	32
EWS	Axiom Rail (Cambridge) Limited DB Schenker Rail (UK) Ltd Engineering Support Group Ltd English, Welsh & Scottish Railway Holdings Ltd English, Welsh & Scottish Railway International Ltd	10,200	876
** Fastline	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,479	150
First Capital Connect	First Capital Connect Ltd	4,985	231
First Great Western	First Greater Western Ltd	10,328	507
First ScotRail	First ScotRail Ltd	7,349	408
Freightliner	Freightliner Ltd Freightliner Heavy Haul Ltd Freightliner Maintenance Ltd Management Consortium Bid Ltd	2,911	239
GB Railways	GB Railfreight Ltd	242	23

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Global Crossing	Global Crossing (UK) Telecommunications Ltd	236	35
Great Eastern Railway	London Eastern Railway Ltd	2,266	150
Halcrow Rail	Halcrow Group Ltd	243	38
HS1	HS1 Ltd	36	6
Hull Trains	Hull Trains Company Ltd	49	4
Intelenet (UK) Services Ltd	Intelenet (UK) Services Ltd	6	0.04
Interfleet Technology	Interfleet Technology Ltd	340	39
Island Line	Stagecoach South Western Trains Ltd	73	4
ISS Transport Services	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	213	6
** Jarvis Facilities Ltd	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,832	195
Lionverge	Lionverge Civils Ltd	109	4
London & South Eastern Railway Ltd	London & South Eastern Railway Ltd	8,392	431
London and North Western Railway	London and North Western Railway Company Ltd	67	0.25
London Eastern Railway (West Anglia)	London Eastern Railway Ltd	1,164	74
London Midland	London & Birmingham Railway Ltd	5,239	276
London Overground	London Overground Rail Operations Ltd	1,134	52
London Underground	London Underground Ltd	42	1
Merseyrail	Merseyrail Electrics 2002 Ltd	2,164	109
MITIE Facilities Services	MITIE Facilities Services Ltd	45	1

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Mouchel Parkman Rail Ltd	*** Mouchel Rail Ltd	7	1
National Express Services Ltd	National Express Services Ltd	144	2
Network Rail	Network Rail Infrastructure Ltd	41,099	3,795
New Cross Country	XC Trains Ltd	3,575	210
Northern (ex North East)	Northern Rail Ltd	4,755	280
Northern (ex North West)	Northern Rail Ltd	4,391	229
Omnibus	Aggregate Industries UK Ltd Amec Group Ltd *** Blue Diamond Services Ltd Bombardier Transportation UK Ltd ** Bridgen Holdings Ltd CapGemini UK plc ** Catalis Ltd Cats Solutions Ltd Colas Rail Ltd Connex South Eastern Ltd Corning Ltd Crawford & Company Adjusters (UK) Ltd Crossrail Ltd CSC Computer Sciences Ltd DHL Services Ltd EB Central Services Ltd Fujitsu Services Ltd Interserve (Facilities Management) Ltd *** KeenKleen UK Ltd Keolis (UK) Ltd Lorne Stewart plc	1,328	93

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Omnibus (continued)	Manpower UK Ltd		
	MITIE Technician Facilities Management Ltd		
	*** Mouchel Rail Ltd		
	NG Bailey Facilities Services Ltd		
	Orient Express Services Ltd		
	Phoenix IT Services Ltd		
	*** Puccino's Ltd		
	Rail Management Services Ltd		
	Railways Vehicle Engineering Ltd		
	Rentokil Initial Facilities Services (UK) Ltd		
	Selection Services plc		
	Signet Solutions Ltd		
	Sodexo Ltd		
	Stagecoach Supertram Maintenance Ltd		
	Staveley Industries plc		
	Telent Technology Services Ltd		
	TeleTech UK Ltd		
	VAE UK Ltd		
	Vital Rail Ltd		
	VolkerRail Signalling Limited		
	VolkerRail Specialist Businesses Ltd		
	Weatheralls Management Services Ltd		
	Weedfree Ltd		
West Coast Railway Company Ltd			
** Western Track Engineering Ltd			
Wetton Cleaning Services Ltd			
Owen Williams Railways	Amey OWR Ltd	334	50
Porterbrook	Porterbrook Leasing Company Ltd	161	28
Qjump	Qjump Ltd	126	2

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m	
	Rail Europe	Rail Europe Ltd	40	7
	Rail Gourmet UK Ltd	Rail Gourmet UK Ltd Rail Gourmet Waterloo International Ltd	457	26
	Railcare (2007)	Railcare Ltd	342	35
	** Relayfast Group	Fastline Ltd Jarvis plc Jarvis Rail Ltd	626	61
	RPMI	RPMI Ltd	607	45
	RSSB	Rail Safety and Standards Board Ltd	374	54
	Scott Wilson	URS Infrastructure and Environment UK Ltd	212	38
	SERCO	SERCO Ltd	572	49
	Siemens	Siemens plc	84	4
	Siemens Enterprise Communications Ltd	Siemens Enterprise Communications Ltd	5	1
	Signalling Solutions Ltd	Signalling Solutions Ltd	35	4
	South West Trains	Stagecoach South Western Trains Ltd	10,428	491
	Southern	Southern Railway Ltd	9,538	356
	Specialist Computer Centres	Specialist Computer Centres	33	2
	Speedy Engineering Services Limited	Speedy Engineering Services Ltd	6	0.3
	Swirl Service Group	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	9	0.07
	Tata Steel UK Ltd	Tata Steel UK Rail Consultancy Ltd Tata Steel UK Ltd	554	35

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Thales Information Systems	Thales Information Systems Ltd	29	3
Thales Transport and Security	Thales Corporate Services Ltd Thales Transport and Security Ltd Thales UK Ltd	2,012	232
The Chiltern Railway Company Ltd	The Chiltern Railway Company Ltd	1,118	70
The QSS Group Ltd	RIQC Ltd The QSS Group Ltd	74	8
Torrent Trackside Ltd	Torrent Trackside Ltd	8	0.1
TransPennine Express (Former Arriva Trains Northern)	First/Keolis Transpennine Ltd	773	52
TransPennine Express (Former North Western Trains)	First/Keolis Transpennine Ltd	569	33
Unipart Rail - NRS	Unipart Rail Ltd	619	47
Unipart Rail - Railpart	Unipart Rail Ltd	355	39
Unisys	Unisys Ltd	30	2
UPS	UPS Limited	362	33
Wabtec Rail Ltd	Wabtec Rail Ltd	10	1
West Coast Traincare	Alstom Ltd	1,039	79
West Coast Trains Ltd	West Coast Trains Ltd	6,738	368
Westinghouse Rail Systems	Westinghouse Brake & Signal Holdings Ltd	924	115
Wrexham, Shropshire & Marylebone Railway Company	*** Wrexham, Shropshire & Marylebone Railway Company Ltd	42	1
		336,932	17,685

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Defined contribution arrangement			
	c2c Rail Ltd		
	c2c Rail Ltd	18	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	57	0.1

*Denotes sections with a Crown Guarantee

** Denotes sections/employers that have entered a PPF assessment period

***Denotes employers that are in administration or are no longer trading

Appendix B - Sections and employers as at 31 December 2011

Section	Employer	Total membership as at 31/12/11	Net assets at 31/12/11 £m
Industry-Wide Defined Contribution Section	Corus UK Ltd	1,767	23
	East Midlands Trains Ltd		
	Eversholt Rail (UK) Ltd		
	First Engineering Ltd		
	First/Keolis Transpennine Ltd		
	GB Railways Group plc		
	London Eastern Railway Ltd		
	Porterbrook Leasing Company Ltd		
	Rail Gourmet UK Ltd		
	Rail Gourmet Waterloo International Ltd		
	Swietelsky Construction Company Ltd		
	The Chiltern Railway Company Ltd		
	Unipart Rail Ltd		
	Volkerrail Ltd		
	338,777	17,708	

*Denotes sections with a Crown Guarantee

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Appendix C - Payment of contributions

Participating employers

The Trustee Company collects contributions from most employers participating in the Scheme. As at the year-end there were 170 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 170 different addresses and 200 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 (compared to the 19th day of the following month under legislation). 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 2011, there were 17 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 Scheme 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 to the Pensions Regulator late payments of contributions which are of material significance.

The Trustee Company takes the collection of contributions very seriously, and also maintains a dialogue with the Pensions Regulator from whom 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 2011, there were 204 instances of late payment of contributions with a total value of £0.8m, which represents 0.1% of contributions payable under the schedules of contributions. The largest individual amount was £63,000 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 and the Occupational Pension Schemes (Investment) Regulations 2005. 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 administration and safekeeping of the assets. 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 legally segregated from those of the custodian.

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 The Bank of New York Mellon 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 safekeeping;
- 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, ISAE 3402 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 reporting accountant 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 ISAE 3402 (formerly 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

Responsible investment

Responsible investment encompasses corporate governance, shareholder activism and social, environmental and ethical ('SEE') considerations, now more generically described as environmental, social and governance ('ESG') issues. The Trustee Company believes that companies with robust corporate governance structures and 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.

General principles

The Trustee Company seeks to promote best practice in responsible investment and voting by:

- maintaining communications with investee companies, 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 at a market level by responding to relevant consultations and other policy development activities;
- promoting compliance with the UK Corporate Governance Code and the UK Stewardship Code, and other statements of recognised best practice in other markets;
- supporting improvements in the quality and clarity of company reporting; and
- working with other institutional investors to achieve these ends.

Wherever possible, the Trustee Company endeavours, through its external fund 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.

UK Stewardship Code

The Trustee Company considers that its fund managers and other intermediaries have a major role to play in ensuring that companies are run in a manner consistent with clients' best interests. We support, and encourage our fund managers to adopt the Financial Reporting Council's UK Stewardship Code, published in July 2010, which sets out through seven principles how institutional investors can enhance the quality of engagement with investee companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. We expect our external fund managers, where relevant, to comply with the Code and its principles, which have also been incorporated in our own SIPs, and to publish a compliance statement. Our full statement on how we apply the Code and its seven principles, together with our approach to responsible investment, can be found on our website at www.rpmi.co.uk

The guidance in Principle 7 on reporting to clients recommends that asset managers consider obtaining an independent audit opinion on their stewardship compliance and specifically refers to the AAF 01/06 guidance on internal control published by the Institute of Chartered Accountants in England & Wales. We encourage our external fund managers to make an AAF 01/06 report on Stewardship Code compliance and to obtain an independent audit opinion which can be disclosed to clients. The Trustee Company wishes to lead by example on this and has obtained an independent audit opinion on aspects of its own Stewardship Code compliance as at 30 September 2011 from KPMG.

Voting and engagement

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

In addition to the monitoring of the activities performed by fund managers and other intermediaries, the Trustee Company, through Railpen Investments, will undertake further engagement activities in relation to individual companies, whether independently or with other parties, where it considers it in the best interests of beneficiaries to do so.

UK voting and engagement alliance

Since 2010, Railpen Investments has worked with the Universities Superannuation Scheme, another major UK pension fund with a strong commitment to responsible investment, to establish a voting and engagement alliance through a joint UK corporate governance and voting policy which was updated in December 2011 and will continue to be regularly refreshed in light of major governance developments. It can again be found on our website at www.rpmi.co.uk

The policy applies to all UK listed companies including those that participate as employers in railway industry pension schemes. It draws heavily on the UK Corporate Governance Code and we expect companies to comply with the Code or explain any departures. Our policy document aims to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards. This should help investment managers and company directors to understand our views on these issues.

Appendix E - Responsible investment

UK voting disclosure

Voting is a key step in engagement, and the Trustee Company has voted on all resolutions at all annual and extraordinary general meetings of UK companies in which it has holdings since 1992. We publicly disclose on our website www.rpmi.co.uk our voting record in respect of all UK company meetings held after 1 January 2010, subject to a waiting period of three months from the end of the month in which the meeting is held, so that we can balance transparency without undermining our ongoing dialogue with companies.

Executive remuneration

Executive remuneration is often perceived as a major issue in corporate governance. 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; 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 and provide for clawback.

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. The UK Government consulted extensively on executive pay reform in 2011 and will consult on firmer legislative proposals during 2012.

Overseas markets

In addition to our activities in the UK, active voting and engagement has been extended selectively to overseas markets since 2006 and currently extends to the USA, Continental Europe, Japan, Singapore, Australia and Hong Kong. Self-standing policies for several of our overseas markets can be found on our website www.rpmi.co.uk

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

We work informally with other investors and pension funds around the world, and benefit from the local market expertise that they bring to our own thinking on ESG matters. Railpen Investments is an active and lead participant in several national, regional and global investor networks, alliances and trade bodies in line with the active share-ownership principles outlined in the Stewardship Code.

These include, but are not limited to, the NAPF, the International Corporate Governance Network, the UK Corporate Governance Forum, the UK Social Investment Forum, the Global Investors

Governance Network, the Working Group of the International Integrated Reporting Council and various other investor corporate governance bodies, including the Council of Institutional Investors in the USA, Eumedion in the Netherlands, the Australian Council of Super Investors and the Asian Corporate Governance Association in the Far East. We are also members of Institutional Investors Group on Climate Change.

In addition, we are signatories to the following major responsible investor initiatives:

UN Principles for Responsible Investment ('UNPRI')
Extractive Industries Transparency Initiative
Carbon Disclosure Project
Forest Footprint Disclosure Project

As well as taking part in UNPRI activities, we also encourage our external fund managers to become asset manager signatories.

Railpen Investments joined five other institutional investors during 2011 to form the Investor Stewardship Working Party which published '2020 Stewardship - Improving the quality of investor stewardship' on 19 March 2012. This seeks to ensure that the UK Stewardship code becomes embedded in practice and does not just become a box-tickers' chart. The report provides a framework to help achieve better investor stewardship, in partnership with companies, and contains recommendations for action.

Appendix E - Responsible investment

Pooled fund equity holdings

The largest ten equity holdings within the pooled fund investments as at 31 December 2011 were as follows

	£m
Samsung Electronics	43.34
Microsoft Group	39.81
Vodafone Group	38.68
British American Tobacco	38.34
Sanofi	35.15
Pfizer Inc	29.69
GlaxoSmithKline	28.65
Zimmer Holdings	27.29
Illinois Tool Works	26.79
Cisco Systems	26.57

Environmental and social issues

The Trustee Company has clear views on ESG issues and, while 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.

Diversity

This has emerged as a key theme in the debate about the quality and performance of boards, and as a way to improve board effectiveness, in many markets around the world. We agree with the FRC's view that 'diversity, in all its aspects, serves an important purpose in connection with board effectiveness'.

One aspect of diversity relates to gender. We endorse the Davies report published in 2011 on 'Women on Boards' which calls on the chairmen of FTSE 350 companies to disclose their aspirational goals on the percentage of women they aim to have on their boards in 2013 and 2015 and we encourage companies to meet those goals.

We also support the FRC's amendments to the UK Corporate Governance Code that will require listed companies to report annually on their boardroom diversity policy, including gender. While the Code amendments will only apply to financial years beginning on or after 1 October 2012, we encourage all companies to comply ahead of the formal deadline.

We also support the work of the 30% Club, a group of chairs of UK public companies, and organisations committed to bringing more women onto UK corporate boards through voluntary support for the 30% goal and taking action to achieve it. The 30% Club complements the many other efforts underway in this area and, as a neutral, non-commercial body, can help to co-ordinate these and deliver actions beyond words.

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 UK Corporate Governance Code issued by the Financial Reporting Council in May 2010 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, ISAE 3402 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 as part of 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 reviewed, approved and monitored by the Trustee's 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, an internal control assurance report has been prepared for the year ended 31 December 2011. The report sets out a description of the relevant control objectives and procedures which operated during the period. These have been independently evaluated under the guidelines of the International Standard on Assurance Engagements 3402 (ISAE 3402) and 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 2011.

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 the ACE Group. 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 some 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 RPM1 to members of that section upon request.

The outline of the main provisions of sections covers the standard situation whereby a section remains ongoing with a solvent employer backing the section. In the rare event of the employers in a section suffering a qualifying insolvency event, the benefits available from that section will depend on the assets in the section. If there are insufficient assets available to secure a minimum level of benefits, the Pension Protection Fund ('PPF') will pay compensation to members at this minimum level. In these situations, the PPF will take over the pension scheme's assets and provide the compensation to the scheme's members. The compensation provided by the PPF would in almost all cases be lower than the pensions that members could have received from the scheme that has been taken over.

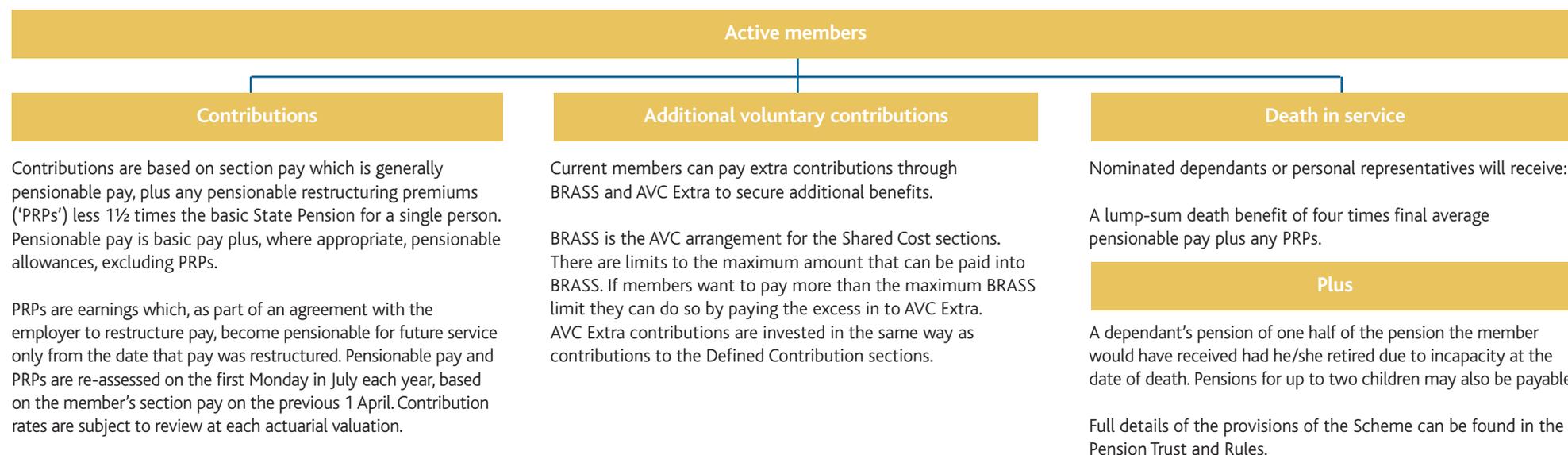
Defined contribution sections

Industry-Wide Defined Contribution Section 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 increased by 3.1% with effect from 11 April 2011. This is based on the Consumer Price Index (CPI) inflation figure as at September 2010. The move from RPI to CPI was introduced for the Fund following the decision by the Government that future public sector pensions would be increased by CPI rather than RPI. The increase from April 2012 was 5.2%. Pensions in payment and deferment in the Fund are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971.



Appendix H - Summary of the main provisions of the Scheme

Leaving the Scheme

When a member retires at or after age 60	When a member retires between age 50 and age 60	When a member retires because of incapacity	When an immediate pension is not payable
He/She will receive	He/She will receive	He/She will receive	He/She will receive
<p>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.</p> <p>Plus, for members with PRPs a pension of 1/60th of the PRP for each year since the PRP was introduced.</p> <p>Plus a 5% bonus pension on membership before 7 April 1991.</p>	<p>A pension and lump sum calculated as for retirement at age 60 but reduced for early payment.</p>	<p>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.</p>	<p>A preserved pension and lump sum payable from age 60 calculated as for retirement at age 60.</p>
Plus	And on death	And on death	Or
<p>A tax-free lump sum of 1/40th of final average pay for each year of pensionable service.</p> <p>For members with PRPs a lump sum of 1/40th of the PRP for each year since the PRP was introduced.</p> <p>A 25% bonus lump sum on membership before 7 April 1991.</p>	<p>A dependant's pension of one half the member's pension (before conversion of any lump sum). Pensions for up to two children may also be payable.</p>	<p>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.</p>	<p>A transfer value payment payable to another approved pension arrangement.</p> <p>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.</p>
And on death			
<p>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.</p>			

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:

Head of Rail Administration
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 of the member;
- 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 a delay in the complaint being considered. Within two months of receiving the application the Head of Rail Administration 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.

Appendix J - Where to go for help

Trustee Company and Railpen Investments

Group Company Secretary
Railways Pension Trustee Company Limited
2nd Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

Tel: 020 7220 5000
Email: enquiries@rpmico.uk
Website address: www.rpmico.uk

RPMI

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

Head of Rail Administration
RPMI
Stooperdale Offices
Brinkburn Road
Darlington
DL3 6EH

Tel: 0800 2 343434 (Customer Services Team)
Email: csu@rpmico.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 following address:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Tel: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk
Website address: www.pensions-ombudsman.org.uk

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 0707
Email: customersupport@tpr.gov.uk
Website address: www.thepensionsregulator.gov.uk

Pensions Tracing Service

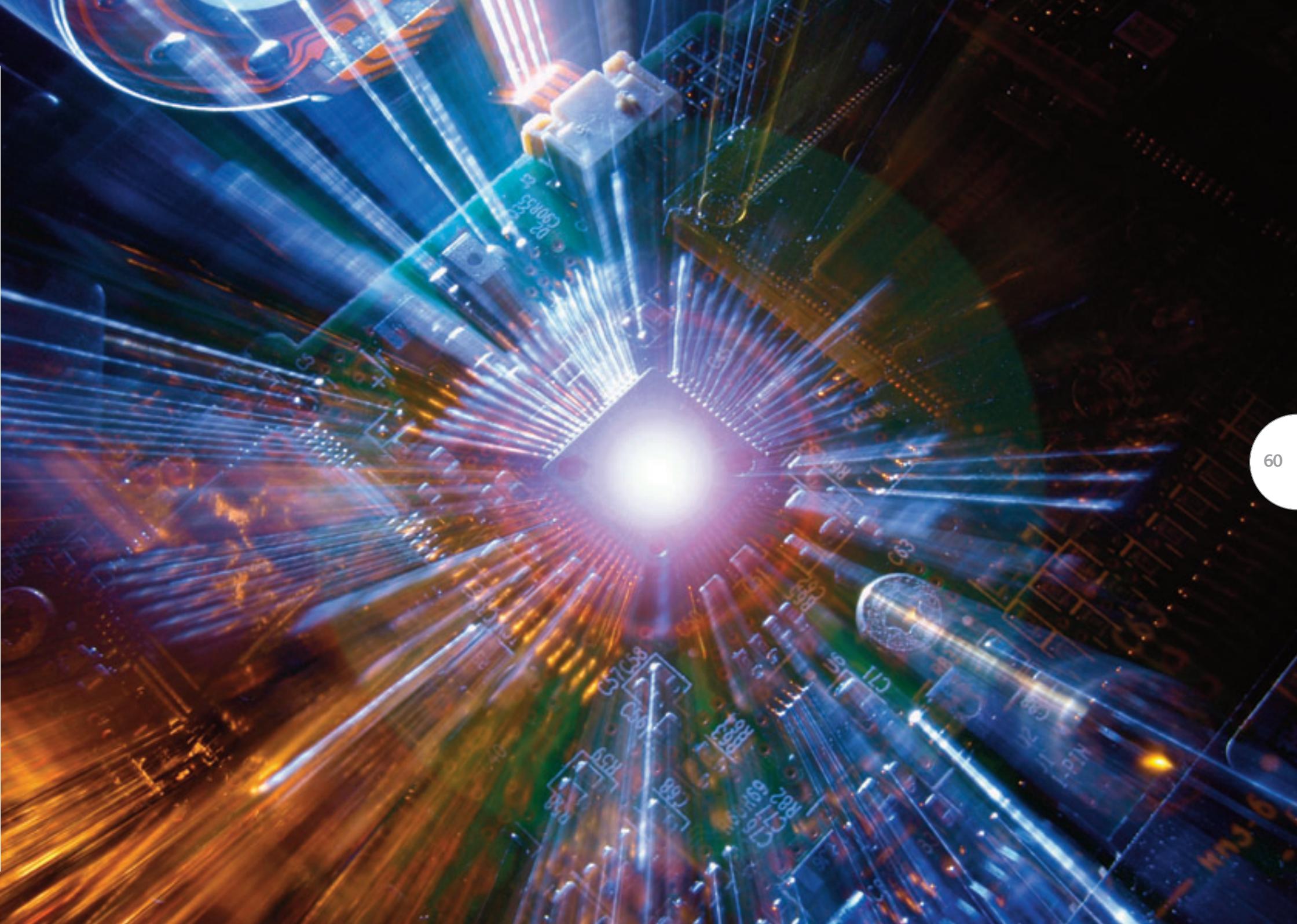
Information about UK schemes (including a contact address) is provided to the Department for Work and Pensions ('DWP') Pension Tracing Service. This enables members to trace benefits from previous employers' schemes.

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

RPS 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 2011.

The total valuation of the pooled assets as at 31 December 2011 was £16,966.04m (2010 - £17,275.94m). There are in addition £1,832.40m (2010 - £1,704.21m) assets held directly by the railways pension schemes not included in the pooled fund arrangements bringing total assets to £18,798.44m (2010 - £18,980.15m).

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 and provide the railways 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.

During the year, the Short Bond Pooled Fund was closed, a new segment of the Private Equity Pooled Fund was opened, and the first investments were made in the Liability Driven Investments ('LDI') Pooled Fund. The LDI Pooled Fund invests in a number of externally managed inflation swap products in order to provide cashflows to match approximately the liability profile of each section investing in the pooled fund. So far, the LDI Pooled Fund has only been used by three sections that are being assessed for possible transfer to the Pension Protection Fund, but is available for consideration by any section when investment strategies are reviewed.

The Trustee Company also operates a pooled fund for the BRASS AVC arrangement, which invests through cross-holdings in the other pooled funds.

The table on page 65 summarises the investments of each of these pooled funds as at 31 December 2011. The notes on pages 69 to 95 analyse the total pooled assets of £16,966.04m 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.

The economic exposure of pooled fund assets

The increasing use of derivatives and pooled investment vehicles by pension schemes can make it difficult for the reader of pension scheme accounts to gain an insight into the economic exposures of schemes' investment portfolios and the related risks and rewards. Based on guidance prepared by the Pensions Research Accountants Group, the table on page 62 presents an alternative classification of the pooled fund assets, which is intended to complement the analysis given in the accounts, and give an understanding of the underlying economic exposure of the pooled funds.

Appendix K - Pooled fund accounts

THE ECONOMIC EXPOSURE OF POOLED FUND ASSETS AS AT 31 DECEMBER 2011

	Segregated investments	Futures	Swaps	Options	Forwards	TBAs	CDS	Pooled investment vehicles	FX	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK equities	575.16	45.95	-	-	-	-	-	633.91	-	1,255.02
Overseas equities	3,590.25	502.89	16.44	-	-	-	-	1,658.19	(5.40)	5,762.37
Property	1,367.79	-	-	-	-	-	-	23.97	-	1,391.76
Private equity	12.80	-	-	-	-	-	-	1,713.15	-	1,725.95
Commodities	-	-	265.07	-	-	-	-	-	-	265.07
Hedge funds	-	-	-	-	-	-	-	1,422.78	(10.75)	1,412.03
Infrastructure	-	-	-	-	-	-	-	713.44	-	713.44
UK Index linked securities	7.44	-	-	-	-	-	-	187.63	-	195.07
Overseas Index linked securities	4.62	-	-	-	-	-	-	-	-	4.62
Liability driven investments	-	-	-	-	-	-	-	149.14	-	149.14
UK public sector bonds	363.88	(27.60)	-	-	-	-	-	-	-	336.28
UK non-public sector bonds	186.93	-	-	-	-	-	-	-	-	186.93
Overseas public sector bonds	1,368.80	(179.84)	(16.73)	-	(12.90)	(250.85)	-	0.10	(0.02)	908.56
Overseas non-public sector bonds	1,018.29	-	54.18	(0.01)	-	-	1.58	99.08	(0.20)	1,172.92
Cash	1,938.47	(331.90)	(331.05)	0.10	12.91	-	-	-	11.72	1,300.25
Other assets and liabilities	(65.55)	-	-	-	-	252.18	-	-	-	186.63
Total	10,368.88	9.50	(12.09)	0.09	0.01	1.33	1.58	6,601.39	(4.65)	16,966.04

Appendix K - Pooled fund accounts

The investments in the Liability Driven Investments ('LDI') Pooled Fund are in a series of funds designed to match part of the pension liabilities of the schemes investing in the pooled fund. The underlying investments are in cash and a series of swaps providing cashflows which provide the approximate liability matching return. These swaps operate on a partially funded or 'geared' basis. The level of this gearing varies by fund, but the broad overall result is a gearing ratio of just under two and a half times for the fund as a whole. This means that each pound invested in the LDI Pooled Fund might be expected to achieve a gain or loss of roughly two to three times that of a pound invested directly in liability matching gilts. From the point of view of risk and return, the net asset value of £149.14m reported in the table on the previous page as at 31 December 2011 is therefore roughly equivalent to a direct investment of £346.46m in a comparable gilt or index linked gilt portfolio.

FX contracts are used either to hedge overseas investments in the pooled funds, as an active investment decision designed to generate investment return in sterling or to settle investment transactions. In the table on page 62, the net asset value of those contracts used to hedge investments held at the year-end has been shown against the asset category they are designed to hedge; the net asset value of other FX contracts has been shown against cash.

Credit default swaps ('CDSs') are contracts whereby, in exchange for a stream of income, one party agrees to make payments to another in the event of the insolvency (or other suitably defined credit event) of the issuer of the 'reference security' that is the subject of the contract.

In this respect, CDSs are somewhat similar to insurance arrangements, since they allow the buyer to reduce credit risk in exchange for an annual fee. The market value of a CDS is the fair value of the contract, which reflects the market's best estimate of the likelihood of the relevant future credit event occurring on the reference security. As part of the efficient management of bond portfolios, fund managers are allowed to enter into CDSs in order to reduce costs or generate additional return, and in view of this the Trustee considers that the accounting fair value of £1.58m is the best measure of the economic exposure of CDSs, as disclosed in the table on page 62.

ACCOUNTING POLICIES

Investments

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

- (i) 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.
- (ii) Fixed interest securities are stated at their 'clean' prices, with accrued income accounted for within investment income.
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) 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 Markit, external valuers retained by the Trustee Company through BNY Mellon, who provide a valuation service independent of the fund managers, using pricing models and relevant market data at the year-end date.
- (vii) Forward foreign exchange contracts are valued at the forward rate at the year-end date.
- (viii) All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.
- (ix) Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

Appendix K - Pooled fund accounts

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 value of investments during the year.

Investment income

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

- (i) Dividends from quoted equities are accounted for when the security is declared ex-div.
- (ii) Interest is accrued on a daily basis.
- (iii) Property rental income is accounted for on an accruals basis in accordance with the terms of the lease.
- (iv) Sub-underwriting, commission recapture and stocklending commission are accounted for on a receivable basis.
- (v) 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.
- (vi) 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 value.
- (vii) Income has been accumulated within the unit prices of the pooled funds and no income distributions have been made to the participating schemes.

Appendix K - Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2011

Pooled Fund	Equities £m	Fixed interest securities £m	Index linked securities £m	UK property £m	Pooled investment vehicles £m	Derivative assets £m	Derivative liabilities £m	Cash deposits and cash instruments £m	Other investment assets £m	Other investment liabilities £m	Cross holdings £m	Net assets attributable to unit holders £m
Growth	444.94	402.45	5.45	-	536.63	7.44	(17.60)	436.71	9.53	(22.53)	5,232.13	7,035.15
Global Equity	3,681.95	186.55	0.03	-	2,136.46	52.59	(44.10)	491.49	15.26	(63.68)	-	6,456.55
Private Equity	12.80	-	-	-	1,713.15	0.01	-	114.51	-	(0.39)	-	1,840.08
Property	-	-	-	1,367.79	19.95	-	-	185.39	15.47	(33.39)	-	1,555.21
Hedge Funds	65.01	-	-	-	933.80	0.01	(10.69)	140.49	2.97	(2.19)	-	1,129.40
Non Government Bond	-	927.11	-	-	17.94	18.14	(15.34)	111.06	13.28	(0.64)	-	1,071.55
Government Bond	-	855.80	6.58	-	-	14.95	(4.61)	25.78	10.21	(1.69)	-	907.02
Infrastructure	38.52	-	-	-	713.44	0.38	(0.18)	13.96	0.24	(0.73)	-	765.63
Cashflow Matching	-	399.80	-	-	-	-	-	107.63	3.18	(0.35)	-	510.26
Commodities	-	166.19	-	-	128.24	4.14	(9.37)	117.90	0.48	(13.42)	-	394.16
Cash	-	-	-	-	-	-	-	186.28	2.84	(0.03)	-	189.09
Index Linked	-	-	-	-	187.63	-	-	0.39	-	(0.03)	-	187.99
LDI	-	-	-	-	149.14	-	-	0.58	-	(0.08)	-	149.64
BRASS	-	-	-	-	-	-	-	6.30	0.15	(0.01)	61.17	67.61
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(5,293.30)	(5,293.30)
Total	4,243.22	2,937.90	12.06	1,367.79	6,536.38	97.66	(101.89)	1,938.47	73.61	(139.16)	-	16,966.04
%	25.00	17.32	0.07	8.06	38.53	0.58	(0.60)	11.43	0.43	(0.82)	-	100.00

The accounting policies on pages 63-64 and the notes on pages 69-95 form part of these accounts.

Appendix K - Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2011

MOVEMENT IN UNIT HOLDERS' FUNDS

Pooled Fund	In issue at start of year £m	Issued during year £m	Redeemed during year £m	Change in market value of investments £m	Reinvested income £m	Change in cross holdings £m	Total unit holders' funds £m
Growth	6,029.23	1,389.68	(178.20)	(226.38)	20.82	-	7,035.15
Global Equity	8,148.49	732.60	(1,754.09)	(747.76)	77.31	-	6,456.55
Private Equity	1,579.35	233.10	(197.30)	225.20	(0.27)	-	1,840.08
Property	1,452.82	161.96	(175.77)	48.61	67.59	-	1,555.21
Hedge Funds	1,142.54	188.28	(186.56)	(5.92)	(8.94)	-	1,129.40
Non Government Bond	1,066.83	150.13	(193.20)	7.39	40.40	-	1,071.55
Government Bond	759.74	127.81	(46.99)	40.65	25.81	-	907.02
Infrastructure	770.63	-	-	(6.77)	1.77	-	765.63
Cashflow Matching	632.69	262.30	(388.73)	(19.22)	23.22	-	510.26
Commodities	383.10	101.87	(70.45)	(18.45)	(1.91)	-	394.16
Cash	308.77	1,009.73	(1,132.02)	-	2.61	-	189.09
Index Linked	195.50	5.26	(57.64)	44.88	(0.01)	-	187.99
LDI	-	128.74	(48.15)	39.92	29.13	-	149.64
BRASS	47.72	27.01	(6.74)	(0.39)	0.01	-	67.61
Short Bonds	37.26	-	(37.87)	0.23	0.38	-	-
Cross Holdings	(5,278.73)	-	-	-	-	(14.57)	(5,293.30)
Total	17,275.94	4,518.47	(4,473.71)	(618.01)	277.92	(14.57)	16,966.04

Approved on behalf of the Trustee Company on 17 May 2012



Derek Scott
Chairman



John Mayfield
Director

The accounting policies on pages 63-64 and the notes on pages 69-95 form part of these accounts.

Appendix K - Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2010

Pooled Fund	Equities £m	Fixed interest securities £m	Index linked securities £m	UK property £m	Pooled investment vehicles £m	Derivative assets £m	Derivative liabilities £m	Cash deposits and cash instruments £m	Other investment assets £m	Other investment liabilities £m	Cross holdings £m	Net assets attributable to unit holders £m
Global Equity	4,327.29	341.95	0.09	-	2,767.80	62.47	(96.67)	946.41	14.88	(215.73)	-	8,148.49
Growth	211.26	252.00	1.25	-	282.94	0.28	(2.67)	55.98	4.72	(12.34)	5,235.81	6,029.23
Private Equity	18.48	3.06	-	-	1,530.59	-	(0.04)	28.87	0.02	(1.63)	-	1,579.35
Property	-	-	-	1,216.77	15.41	-	-	234.81	14.14	(28.31)	-	1,452.82
Hedge Funds	62.07	-	-	-	951.27	0.38	(15.38)	143.98	2.38	(2.16)	-	1,142.54
Non Government Bond	-	962.99	-	-	23.64	8.65	(20.85)	74.30	45.32	(27.22)	-	1,066.83
Infrastructure	103.12	-	-	-	655.58	0.09	(3.03)	14.34	1.07	(0.54)	-	770.63
Government Bond	-	734.56	4.20	-	-	5.37	(14.63)	19.82	11.03	(0.61)	-	759.74
Cashflow Matching	-	529.75	-	-	-	-	-	97.76	7.73	(2.55)	-	632.69
Commodities	-	169.51	-	-	138.46	21.32	(0.15)	54.31	0.02	(0.37)	-	383.10
Cash	-	-	-	-	-	-	-	307.37	1.43	(0.03)	-	308.77
Index Linked	-	-	194.23	-	-	-	-	0.76	0.59	(0.08)	-	195.50
BRASS	-	-	-	-	-	-	-	4.72	0.08	-	42.92	47.72
Short Bond	-	28.67	-	-	-	-	-	8.40	0.25	(0.06)	-	37.26
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(5,278.73)	(5,278.73)
Total	4,722.22	3,022.49	199.77	1,216.77	6,365.69	98.56	(153.42)	1,991.83	103.66	(291.63)	-	17,275.94
%	27.33	17.50	1.16	7.04	36.85	0.57	(0.89)	11.53	0.60	(1.69)	-	100.00

The accounting policies on pages 63-64 and the notes on pages 69-95 form part of these accounts.

Appendix K - Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2010

MOVEMENT IN UNIT HOLDERS' FUNDS

Pooled Fund	In issue at start of year £m	Issued during year £m	Redeemed during year £m	Change in market value of investments £m	Reinvested income £m	Change in cross holdings £m	Total unit holders' funds £m
Global Equity	8,452.77	4,526.89	(5,751.38)	829.91	90.30	-	8,148.49
Growth	-	5,514.52	(5.06)	519.09	0.68	-	6,029.23
Private Equity	2,059.97	177.49	(915.72)	258.75	(1.14)	-	1,579.35
Property	1,286.18	628.22	(645.70)	120.46	63.66	-	1,452.82
Hedge Funds	1,045.76	698.92	(686.37)	94.14	(9.91)	-	1,142.54
Non Government Bond	-	1,996.22	(961.94)	9.99	22.56	-	1,066.83
Infrastructure	753.81	-	-	12.91	3.91	-	770.63
Government Bond	-	1,679.80	(922.28)	(9.95)	12.17	-	759.74
Cashflow Matching	-	721.43	(90.80)	(7.91)	9.97	-	632.69
Commodities	163.50	300.73	(140.68)	60.75	(1.20)	-	383.10
Cash	-	1,059.07	(751.44)	-	1.14	-	308.77
Index Linked	684.92	7.51	(527.96)	25.05	5.98	-	195.50
BRASS	21.23	25.18	(2.49)	3.78	0.02	-	47.72
Short Bond	168.81	3.70	(139.54)	1.67	2.62	-	37.26
Global Bond (Hedged)	2,003.60	113.90	(2,233.87)	84.05	32.32	-	-
Cross Holdings	(872.76)	-	-	-	-	(4,405.97)	(5,278.73)
Total	15,767.79	17,453.58	(13,775.23)	2,002.69	233.08	(4,405.97)	17,275.94

The accounting policies on pages 63-64 and the notes on pages 69-95 form part of these accounts.

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT

1.1 Fund statement as at 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Equities			
UK quoted		575.16	797.01
Overseas quoted		3,586.34	3,841.36
Overseas unquoted		81.72	83.85
		4,243.22	4,722.22
Fixed interest securities			
UK quoted - public sector		357.12	549.36
UK quoted - non public sector		193.69	138.33
UK unquoted - non public sector		-	3.06
Overseas quoted - public sector		1,368.81	1,195.03
Overseas quoted - non public sector		1,018.29	1,136.71
		2,937.91	3,022.49
Indexed linked securities			
UK quoted - public sector		6.58	194.23
UK quoted - non public sector		0.86	0.31
Overseas quoted - public sector		4.62	5.23
		12.06	199.77

	Note	2011 £m	2010 £m
UK Property		1,367.79	1,216.77
Pooled investment vehicles			
UK unquoted - property partnerships		19.95	15.41
UK unquoted - unitised insurance policies		2,046.44	2,368.62
UK unquoted - other partnerships		501.45	507.50
UK quoted - other managed funds		79.28	76.64
Overseas quoted - hedge funds		0.26	0.53
Overseas quoted - other managed funds		280.10	141.26
Overseas unquoted - partnerships		2,311.27	2,076.37
Overseas unquoted - unit trusts		0.09	-
Overseas unquoted - hedge funds		1,126.86	1,155.72
Overseas unquoted - other managed funds		170.67	23.64
		6,536.37	6,365.69
Derivative contracts			
Forwards - OTC	1.5	0.89	-
Futures - exchange traded	1.5	20.96	44.37
TBA contracts - OTC	1.5	1.33	0.43
Swaps - OTC	1.5	6.93	16.82
Options - OTC	1.5	0.10	0.25
Options - exchange traded	1.5	-	2.89
FX contracts - OTC	1.5	67.45	33.80
		97.66	98.56

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT

1.1 Fund statement as at 31 December 2011 (continued)

	Note	2011 £m	2010 £m
Cash deposits and cash instruments	1.6	1,938.47	1,991.83
Other assets			
Other investment assets	1.7	64.03	94.68
Current assets	1.9	9.58	8.98
		73.61	103.66
Total assets		17,207.09	17,720.99
Liabilities			
Derivative contracts			
Forwards - OTC	1.5	(0.88)	-
Futures - exchange traded	1.5	(16.69)	(7.68)
TBA contracts - OTC	1.5	-	(0.21)
Swaps - OTC	1.5	(12.21)	(13.88)
Options - OTC	1.5	(0.01)	(1.94)
Options - exchange traded	1.5	-	(1.64)
FX contracts - OTC	1.5	(72.10)	(128.07)
		(101.89)	(153.42)
Other liabilities			
Other investment liabilities	1.8	(80.54)	(236.42)
Current liabilities	1.10	(58.62)	(55.21)
		(139.16)	(291.63)
Total liabilities		(241.05)	(445.05)
Net assets attributable to unit holders		16,966.04	17,275.94

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.2 Pooled fund unit prices as at 31 December	2011 £/unit	2010 £/unit		2011 £/unit	2010 £/unit
BRASS Pooled Fund (Cautious)	11.68	11.24	Private Equity Pooled Fund 2001	24.38	21.37
BRASS Pooled Fund (Growth)	11.39	11.80	Private Equity Pooled Fund 2004	22.38	20.09
Cash Pooled Fund	10.08	10.02	Private Equity Pooled Fund 2005	18.66	16.16
Commodities Pooled Fund	15.40	16.20	Private Equity Pooled Fund 2007	11.87	10.48
Global Equity Pooled Fund	46.50	51.11	Private Equity Pooled Fund 2009	13.15	12.79
Government Bond Pooled Fund	10.77	9.98	Private Equity Pooled Fund 2011	9.84	-
Growth Pooled Fund	10.72	11.03	Liability Driven Investment Pooled Fund		
Hedge Funds Pooled Fund	12.69	12.85	LDI Nominal 2025 Pooled Fund	16.50	-
Index Linked Pooled Fund	54.07	42.77	LDI Nominal 2030 Pooled Fund	18.08	-
Infrastructure Pooled Fund	7.23	7.28	LDI Nominal 2035 Pooled Fund	18.76	-
Non Government Bond Pooled Fund	10.86	10.39	LDI Nominal 2040 Pooled Fund	18.93	-
Property Pooled Fund	57.37	53.10	LDI Nominal 2045 Pooled Fund	18.34	-
Short Bond Pooled Fund (until September 2011)	-	23.39	LDI Nominal 2050 Pooled Fund	17.68	-
Cashflow Matching Pooled Fund			LDI Nominal 2055 Pooled Fund	17.11	-
Cashflow Matching 2010 Pooled Fund (until March 2011)	-	9.99	LDI Nominal 2060 Pooled Fund	16.63	-
Cashflow Matching 2011 Pooled Fund	10.08	10.03	LDI RPI 2015 Pooled Fund	10.17	-
Cashflow Matching 2012 Pooled Fund	10.17	10.08	LDI RPI 2020 Pooled Fund	13.55	-
Cashflow Matching 2013 Pooled Fund	10.34	10.14	LDI RPI 2025 Pooled Fund	16.27	-
Private Equity Pooled Fund			LDI RPI 2030 Pooled Fund	17.73	-
Direct Investment Pooled Fund 1995	339.51	2,310.23	LDI RPI 2035 Pooled Fund	18.22	-
Direct Investment Pooled Fund 1997	156.54	22.95	LDI RPI 2040 Pooled Fund	18.24	-
Direct Investment Pooled Fund 1998	7.75	10.36	LDI RPI 2045 Pooled Fund	18.07	-
Direct Investment Pooled Fund 1999	10.85	12.32	LDI RPI 2050 Pooled Fund	17.37	-
Direct Investment Pooled Fund 2000	17.61	16.68	LDI RPI 2055 Pooled Fund	16.92	-
			LDI RPI 2060 Pooled Fund	16.55	-

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.3 Value of the pooled funds	2011 £m	2010 £m
Growth Pooled Fund	7,035.15	6,029.23
Global Equity Pooled Fund	6,456.55	8,148.49
Private Equity Pooled Fund*	1,840.08	1,579.35
Property Pooled Fund	1,555.21	1,452.82
Hedge Funds Pooled Fund	1,129.40	1,142.54
Non Government Bond Pooled Fund	1,071.55	1,066.83
Infrastructure Pooled Fund	765.63	770.63
Government Bond Pooled Fund	907.02	759.74
Cashflow Matching Pooled Fund*	510.26	632.69
Commodities Pooled Fund	394.16	383.10
Cash Pooled Fund	189.09	308.77
Index Linked Pooled Fund	187.99	195.50
Liability Driven Investment Pooled Fund*	149.64	-
BRASS Pooled Fund (Growth)	39.92	29.82
BRASS Pooled Fund (Cautious)	27.69	17.90
Short Bond Pooled Fund	-	37.26
	22,259.34	22,554.67

	2011 £m	2010 £m
Analysis of cross holdings		
Global Equity Pooled Fund	(2,631.69)	(2,966.34)
Hedge Fund Pooled Fund	(891.38)	(726.91)
Property Pooled Fund	(865.16)	(652.21)
Non Government Bond Pooled Fund	(448.86)	(336.89)
Cash Pooled Fund	(102.96)	(303.05)
Commodities Pooled Fund	(342.98)	(287.65)
Government Bond Pooled Fund	(5.97)	(3.92)
Index Linked Pooled Fund	(4.30)	(1.76)
	(5,293.30)	(5,278.73)
	16,966.04	17,275.94

* See breakdown into pooled fund segments on page 73.

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.3 Value of the pooled funds (continued)	2011 £m	2010 £m
Cashflow Matching Pooled Fund		
Cashflow Matching 2010 Pooled Fund	-	93.89
Cashflow Matching 2011 Pooled Fund	97.45	391.13
Cashflow Matching 2012 Pooled Fund	365.06	100.87
Cashflow Matching 2013 Pooled Fund	47.75	46.80
	510.26	632.69
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	0.01	0.77
Direct Investment Pooled Fund 1997	0.83	0.32
Direct Investment Pooled Fund 1998	6.07	8.73
Direct Investment Pooled Fund 1999	2.90	5.73
Direct Investment Pooled Fund 2000	52.74	69.41
Private Equity Pooled Fund 2001	294.80	355.68
Private Equity Pooled Fund 2004	112.92	118.36
Private Equity Pooled Fund 2005	301.06	270.74
Private Equity Pooled Fund 2007	962.86	719.95
Private Equity Pooled Fund 2009	94.20	29.66
Private Equity Pooled Fund 2011	11.69	-
	1,840.08	1,579.35

1.3 Value of the pooled funds (continued)	2011 £m	2010 £m
Liability Driven Investment Pooled Fund		
LDI Nominal 2025 Pooled Fund	1.02	-
LDI Nominal 2030 Pooled Fund	6.55	-
LDI Nominal 2035 Pooled Fund	10.06	-
LDI Nominal 2040 Pooled Fund	20.10	-
LDI Nominal 2045 Pooled Fund	15.18	-
LDI Nominal 2050 Pooled Fund	13.81	-
LDI Nominal 2055 Pooled Fund	10.37	-
LDI Nominal 2060 Pooled Fund	16.94	-
LDI RPI 2015 Pooled Fund	2.19	-
LDI RPI 2020 Pooled Fund	7.35	-
LDI RPI 2025 Pooled Fund	13.19	-
LDI RPI 2030 Pooled Fund	13.67	-
LDI RPI 2035 Pooled Fund	10.68	-
LDI RPI 2040 Pooled Fund	2.66	-
LDI RPI 2045 Pooled Fund	1.66	-
LDI RPI 2050 Pooled Fund	1.30	-
LDI RPI 2055 Pooled Fund	1.06	-
LDI RPI 2060 Pooled Fund	1.85	-
	149.64	-

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.4 Investment income	2011 £m	2010 £m
Dividends from equities	122.32	108.08
Income from fixed interest securities	117.96	99.30
Income from index linked securities	0.38	5.53
Income from UK property	77.59	73.46
Interest from cash deposits	8.99	12.34
Income from preferred securities	-	0.02
Income from pooled investment vehicles	29.69	-
Other income	4.37	8.81
	361.30	307.54
Irrecoverable withholding tax	(5.39)	(7.06)
Total income	355.91	300.48
Administration, custody and other expenses	(20.29)	(17.11)
Investment management fees - base	(37.51)	(34.03)
Investment management fees - performance	(8.88)	(6.41)
RPMI fees	(11.29)	(9.84)
Tax	(0.02)	(0.01)
Reinvested income (accrued in unit price)	277.92	233.08

1.5 Derivative contracts

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	123.72	0.96	-
GNMA mortgage backed	84.98	0.24	-
FHLMC mortgage backed	42.16	0.13	-
		1.33	-

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:

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.5 Derivative contracts (continued)

Futures (continued)

Type of future	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
US S&P 500 index	99.78	2.78	(1.92)
Commodities	265.07	4.14	(9.37)
FTSE 100 index	45.95	1.11	(0.48)
Eurostoxx 50 index	183.98	4.67	(0.67)
Swiss market index	61.24	1.99	-
Other equity indices	57.66	1.94	(0.37)
Japanese Topix	42.98	-	(1.15)
Eurodollar	71.26	0.30	-
Australian government bonds	2.26	0.03	-
UK government bonds	(27.60)	-	(0.19)
Canadian government bonds	27.67	0.26	(0.03)
Japanese government bonds	(50.02)	-	(0.28)
German government bonds	141.14	3.15	(0.27)
US government bonds	(300.89)	0.59	(1.96)
	620.48	20.96	(16.69)

Included within net assets is £123.00m cash, £58.31m US Treasury bills, £2.92m US Treasury bonds, £25.74m certificates of deposit, £104.85m US Treasury notes, £0.03m US inflation linked securities and £0.72m US Government mortgage backed securities 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.

Collateral deposited by counterparties with the Trustee Company in respect of futures contracts at the year-end date amounted to £5.74m of cash bonds. Contingent collateral received in this way is not reported within the pooled fund's net assets.

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)	Nominal amount £m	Asset value at year end £m	Liability value at year end £m
Credit default swaps	0 to 5	(11.92)	0.81	(2.47)
Credit default swaps	5 to 10	244.78	2.57	(1.04)
Credit default swaps	10 to 15	43.57	1.76	(0.05)
Total return swaps	0 to 5	16.73	-	(0.29)
Interest rate swaps	0 to 5	46.19	1.24	(6.00)
Interest rate swaps	5 to 10	29.90	0.55	(2.36)
			6.93	(12.21)

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 £2.95m of US Treasury bills, £0.15m US Treasury notes, £0.38m of US Treasury bonds and £15.49m of cash collateral at the year end. These amounts are included in the net assets of the pooled funds at the year end.

Collateral deposited by counterparties with the Trustee Company in respect of swap contracts at the year-end date amounted to £5.06m of cash and £1.51m US Treasury notes. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.5 Derivative contracts (continued)

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
French government bonds	(9.62)	-	(0.06)
Spanish government bonds	(1.45)	0.60	(0.66)
Italian government bonds	(1.83)	0.29	(0.16)
	(12.90)	0.89	(0.88)

Under the terms of forward contracts, 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 forward contracts the Trustee Company had deposited £0.43m cash collateral at the year end. These amounts are included in the net assets of the pooled funds at the year end. Collateral deposited by counterparties with the Trustee Company in respect of forward contracts at the year end date amounted to £0.69m cash. Contingent collateral received in this way is not reported within the pooled funds' net assets.

Options:

Options are contracts which confer to the purchaser 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
OTC option				
Interest rate swaps	Sold	12.42	-	(0.01)
Foreign currency	Bought	1.09	0.10	-
			0.10	(0.01)

The above options expire within six months and one year 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 £m	Currency sold £m	Value at year end £m
Assets			
US dollar / Euro	1,519.95	1,130.70	33.36
US dollar / Sterling	601.82	383.12	4.15
US dollar / South Korean won	141.90	160,106.77	2.76
US dollar / Swiss franc	205.95	185.65	4.68
Sterling / Euro	284.41	330.38	8.21
Sterling / US dollar	2,134.51	3,309.29	4.61
Other	-	-	9.68
			67.45

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.5 Derivative contracts (continued)

Forward foreign exchange ('FX') contracts (continued)

Type of contract	Currency bought £m	Currency sold £m	Value at year end £m
Liabilities			
Sterling / US dollar	3,615.24	3,881.93	(44.55)
US dollar / Yen	430.74	33,326.65	(1.82)
Euro / US dollar	31.54	42.13	(0.76)
US dollar / AU dollar	74.05	77.36	(3.30)
Swiss franc / Sterling	83.37	58.82	(1.39)
US dollar / Canadian dollar	138.53	144.47	(2.10)
Euro / Sterling	252.92	217.68	(6.28)
Sterling / Yen	163.46	19,885.36	(3.22)
Sterling / AU dollar	8.56	13.18	(0.09)
US dollar / Sterling	149.40	96.94	(0.80)
Other	-	-	(7.79)
			(72.10)

Under the terms of the FX contracts, 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 FX contracts the Trustee Company had received £2.07m cash collateral at the year end. Collateral received in this way is not reported within the pooled funds' net assets. Included within net assets is £0.74m US Treasury inflation linked notes in respect of collateral arising on open FX contracts at the year end.

Most FX contracts will settle within three months of the year end, and the remainder by April 2014.

1.6 Cash deposits and cash instruments

Included within cash balances is £102.96m in respect of repo transactions. (2010 - £455.01m).

1.7 Other investment assets	2011 £m	2010 £m
Asset in respect of investment transactions	10.24	35.27
Investment income accrued	42.82	47.41
Recoverable tax	1.53	2.15
Rent receivable	9.44	9.85
	64.03	94.68

1.8 Other investment liabilities	2011 £m	2010 £m
Liability in respect of investment transactions	(80.11)	(236.00)
Tax payable	(0.43)	(0.41)
Other	-	(0.01)
	(80.54)	(236.42)

1.9 Current assets	2011 £m	2010 £m
Asset in respect of unit trades	2.90	3.45
Trade debtors	5.95	3.49
Tax	-	0.69
Other	0.73	1.35
	9.58	8.98

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.10 Current liabilities	2011 £m	2010 £m
Accrued management fees and expenses	(22.37)	(23.82)
Property income received in advance	(18.46)	(16.19)
Trade creditors	(7.92)	(7.01)
Liability in respect of unit trades	(0.04)	(1.24)
Other	(4.68)	(4.18)
Tax	(5.15)	(2.77)
	(58.62)	(55.21)

1.11 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 2011, the market valuation of stock that had been lent in the market was £494.64m (2010 - £314.56m).

Collateral held in respect of the stock on loan at 31 December 2011 had a total value of £506.67m (2010 - £325.78m).

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.12 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2010 £m	Units issued/ (redeemed) £m	Income £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31 December 2011 £m
Directly held assets							
Equities	4,723.19	-	-	3,274.08	(3,252.08)	(501.97)	4,243.22
Fixed interest securities	3,022.48	-	-	4,014.69	(4,099.25)	(1.95)	2,935.97
Index linked securities	199.77	-	-	216.96	(397.61)	(7.06)	12.06
Pooled investment vehicles	6,365.69	-	-	1,568.90	(1,519.74)	123.47	6,538.32
UK property	1,216.77	-	-	248.70	(146.50)	48.82	1,367.79
	15,527.90	-	-	9,323.33	(9,415.18)	(338.69)	15,097.36
Derivatives							
Forwards	-	-	-	1.55	(2.11)	0.57	0.01
Futures	36.70	-	-	229.12	(244.35)	(17.20)	4.27
TBAs	0.22	-	-	19.21	(39.26)	21.16	1.33
Swaps	2.94	-	-	169.82	(168.73)	(9.31)	(5.28)
Options	(0.44)	-	-	5.54	(17.43)	12.42	0.09
FX contracts	(94.27)	-	-	97,769.95	(97,650.31)	(30.01)	(4.64)
	(54.85)	-	-	98,195.19	(98,122.19)	(22.37)	(4.22)
Cross holdings	5,278.73	-	-	1,442.34	(1,180.08)	(247.69)	5,293.30
Other							
Cash and current assets	1,802.89	44.76	272.92	(108,960.86)	108,717.14	(9.26)	1,872.90
	22,554.67	44.76	277.92	-	-	(618.01)	22,259.34
Cross holdings	(5,278.73)						(5,293.30)
Net assets	17,275.94						16,966.04

The sales and purchases of FX contracts in the above table are shown on a gross basis. In practice, the majority of these FX contracts settle on a net basis.

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.13 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:

	2011 £m	2010 £m		2011 £m	2010 £m
BlackRock Advisors (UK) Limited	2,442.41	2,973.22	Morgan Stanley Investment Management	240.06	215.69
Orchard Street Investment Management	1,517.07	1,416.83	Cinven	234.75	262.07
Wellington Management International	1,275.80	1,067.05	Alinda Capital Partners	228.20	231.12
Legal and General Investment Management ('L&G')	966.68	824.95	Horsley Bridge Partners	228.06	165.44
Lazard Asset Management	673.48	607.15	NewSmith Asset Management	223.21	240.61
Railpen Investments	612.91	222.01	Bridgewater Associates	216.38	206.31
Pacific Investment Management Company ('PIMCO')	549.01	889.34	Unigestion	213.86	127.96
Blackstone Alternative Asset Management	507.25	498.34	Fidelity Pensions Management	212.89	243.74
Western Asset Management	506.95	745.48	The Rock Creek Group	205.47	220.64
Edinburgh Partners	412.35	443.59	Rogge Global Partners (from July 2011)	191.02	-
Grosvenor Capital Management	310.70	315.46	Standard Life	190.26	179.01
Longview Partners LLP	308.35	285.18	Aberforth Partners LLP	184.08	207.48
Southeastern Asset Management	291.40	340.73	Relational Investors	171.82	171.97
Brandes Investment Partners	280.32	292.25	River and Mercantile	164.21	74.48
Neuberger Berman Europe Limited	265.40	243.65	Taiyo Pacific Partners	163.93	177.40
Marathon Asset Management LLP	256.99	229.25	Pantheon Ventures	155.81	162.69
Harbour Vest Partners	252.77	204.89	Insight (from May 2011)	153.16	-
William Blair & Company	250.54	366.24	Apax Partners	144.86	148.34
Goldman Sachs	249.51	246.18	New Finance Capital LLP	128.24	138.46
JP Morgan Asset Management	240.42	248.62			
			Carried forward	15,820.58	15,633.82

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.13 Investment managers during the year (continued)

	2011 £m	2010 £m		2011 £m	2010 £m
Brought forward	15,820.58	15,633.82	Institutional Venture Partners	6.82	1.28
Adams Street Partners	114.05	109.63	Capital Dynamics	6.03	7.27
Arcus Infrastructure	105.47	85.88	Highland Capital Partners	5.87	2.05
Blakeney Management	97.64	86.14	KPS Capital Partners	5.78	2.32
CP2	96.87	90.19	Domain Partners	5.54	2.97
Newton	71.81	50.78	Governance for Owners Group ('GO')	5.40	17.39
Graham Capital (from November 2011)	67.10	-	Charlesbank Capital Partners	5.25	3.03
Goodhart Partners LLP	65.08	66.52	CI Capital Investors (from May 2011)	5.11	-
Warburg Pincus	55.98	39.76	Westbridge Capital Partners (from August 2011)	4.63	-
Oaktree Capital Management	48.44	88.00	Innova	4.00	2.80
Indicus Advisors	43.29	42.68	Martin Currie	3.61	135.45
Bain Capital	40.67	25.16	Navis Capital Partners Ltd	3.59	1.32
Archer Capital	40.05	35.04	Accel Partners (from May 2011)	3.47	-
EQT Funds Management	32.72	11.55	Southern Cross Group	1.73	0.24
Innisfree	32.49	25.60	Morningside Ventures (from July 2011)	1.50	-
Headland Capital Partners	30.50	25.94	Bessemer Venture Partners (from August 2011)	0.98	-
Sankaty Advisors	29.74	29.79	Clearsight (from June 2011)	0.84	-
Scale Ventures	17.55	7.98	Berkshire Partners (from August 2011)	0.69	-
Great Hill Partners	17.51	11.85	Abry Partners (from August 2011)	0.64	-
Hony Capital	15.33	6.08	Bridges Community Ventures	0.50	0.40
Balderton Capital	13.43	6.73	TT International	0.06	327.87
Columbia Capital	11.08	6.84	Legg Mason International (until June 2011)	-	79.55
Khosla Ventures	10.62	6.22	Prudential M&G Investment Management (until February 2011)	-	194.84
Anacap Financial Partners	8.51	3.54			
Sequoia Capital	7.49	1.44			
				16,966.04	17,275.94

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.14 Benchmarks

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

	2011 %	2010 %
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	20.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	20.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	15.0
	100.0	100.0

A passive hedging strategy is employed whereby 50% of the overseas developed markets currency exposure in the pooled fund is hedged back to Sterling.

The benchmark for the index linked pooled fund is the FTSE UK Gilts – Index Linked > 15 Years Index.

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

The Hedge Funds Pooled Fund benchmark is SONIA 3 month swap rate. The SONIA swap rate represents a sterling overnight index average rate for brokered unsecured overnight trades between banks.

The fund of fund managers' benchmark is 3 month US dollar LIBOR, fixed at the British Bankers' Association fixing on the last US business day of the preceding calendar quarter.

BlackRock Advisors provide a passive hedge back into Sterling for 100% of the Hedge funds pooled fund, and is also mandated to run a liquidity portfolio.

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

The benchmark of the Private Equity Pooled Fund is the MSCI All countries world index.

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:

	2011 %	2010 %
DJ AIG Commodities Index	75.0	75.0
S&P GSCI Petroleum Index	25.0	25.0
	100.0	100.0

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

The performance of each annual segment of the Cashflow Matching Pooled Fund is measured against a customised benchmark designed to reflect the specific maturity profiles of that segment.

The benchmark of the Government Bond Pooled Fund is the Citigroup World Government Bond Index – ex Japan (hedged).

The benchmark for the Non Government Pooled Fund is the Barclays Capital Global Aggregate Index – ex Treasury ex Government (hedged).

The benchmark for the Cash Pooled Fund is 7 Day Sterling London Inter-Bank Intra Day Interest Rate.

The benchmark for the Growth Pooled Fund is the Retail Price Index. The target for the Growth Pooled Fund is the Retail Price Index plus 5%.

Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.15 Performance

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

Pooled Fund	Actual 2011 (%)	Bench 2011 (%)	Actual last 5 years (%)	Bench last 5 years (%)
Growth Pooled Fund	(2.8)	4.8	n/a	n/a
Global Equity Pooled Fund	(8.7)	(9.0)	(1.8)	(1.1)
Private Equity Pooled Fund	13.9	(6.2)	12.8	(0.4)
Property Pooled Fund	8.7	8.1	1.4	(1.5)
Hedge Funds Pooled Fund	(0.6)	0.5	2.4	2.9
Non Government Bond Pooled Fund	4.8	5.5	n/a	n/a
Government Bond Pooled Fund	8.2	7.4	n/a	n/a
Infrastructure Pooled Fund	(0.5)	4.48	n/a	n/a
Cashflow Matching 2010 Pooled Fund**	0.2	0.2	n/a	n/a
Cashflow Matching 2011 Pooled Fund	0.5	0.6	n/a	n/a
Cashflow Matching 2012 Pooled Fund	1.0	1.0	n/a	n/a
Cashflow Matching 2013 Pooled Fund	2.1	2.2	n/a	n/a
Commodities Pooled Fund	(4.2)	(7.46)	n/a	n/a
Cash Pooled Fund	0.7	0.5	n/a	n/a
Index Linked Pooled Fund	26.6	25.9	0.0	0.0
BRASS Pooled Fund (Growth)	(3.2)	(3.0)	n/a	n/a
BRASS Pooled Fund (Cautious)	4.0	4.4	n/a	n/a
Short Bond Pooled Fund*	1.9	1.6	5.2	5.2

* return to 30 June 2011

** return to 31 March 2011

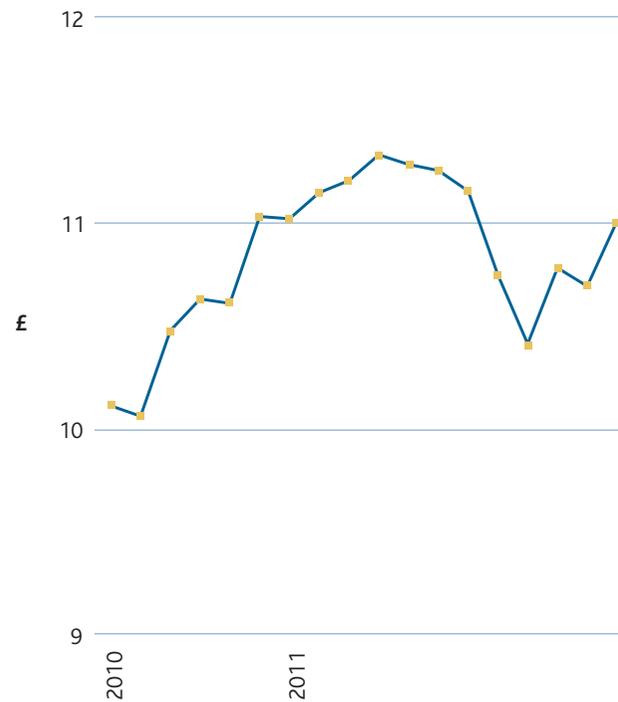
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

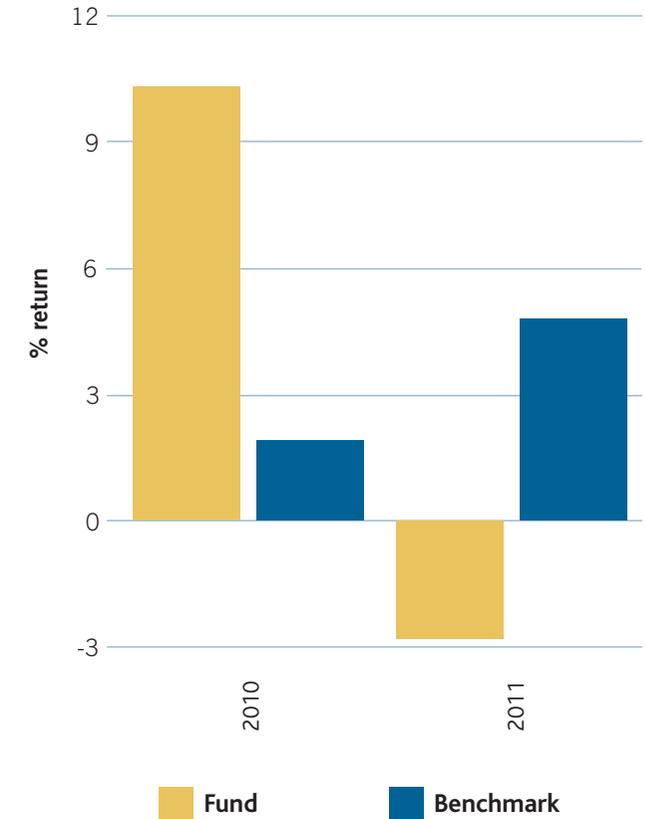
1.15 Performance (continued)

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.

Growth pooled fund unit price



Growth pooled fund performance



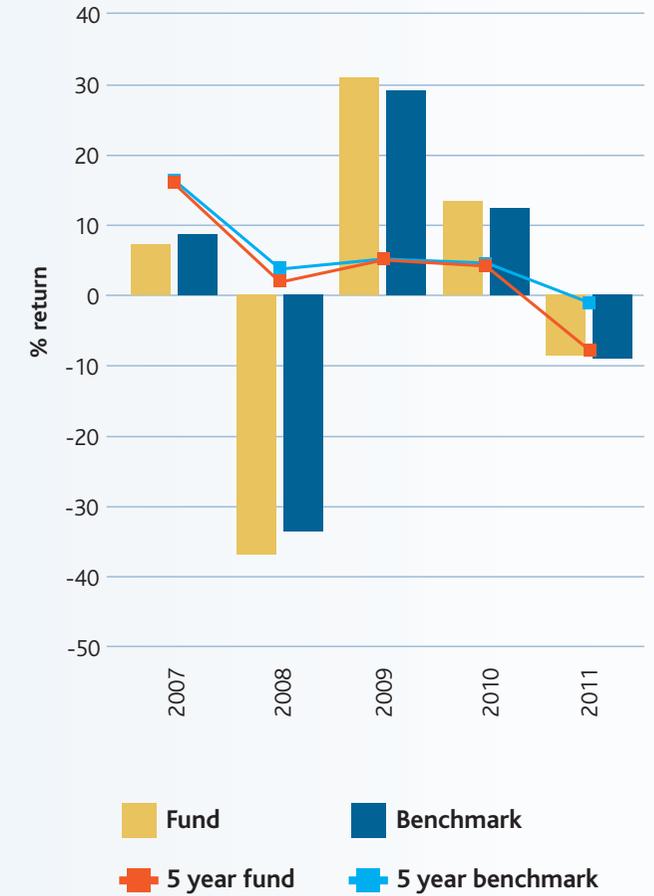
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Global equity pooled fund unit price



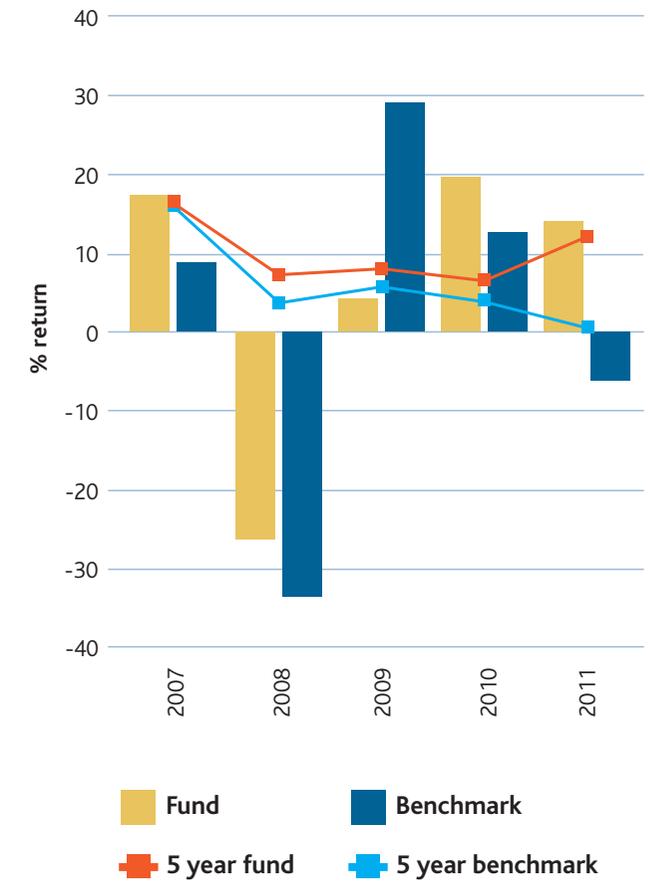
Global equity pooled fund performance



Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

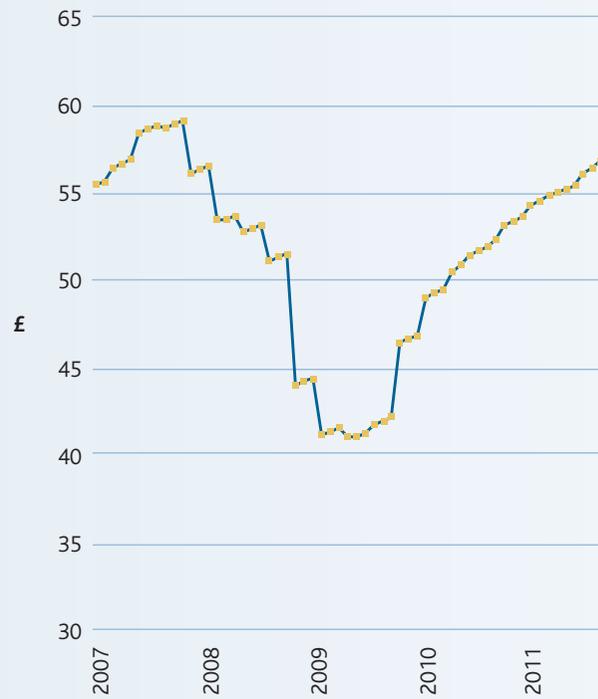
Private equity pooled fund performance



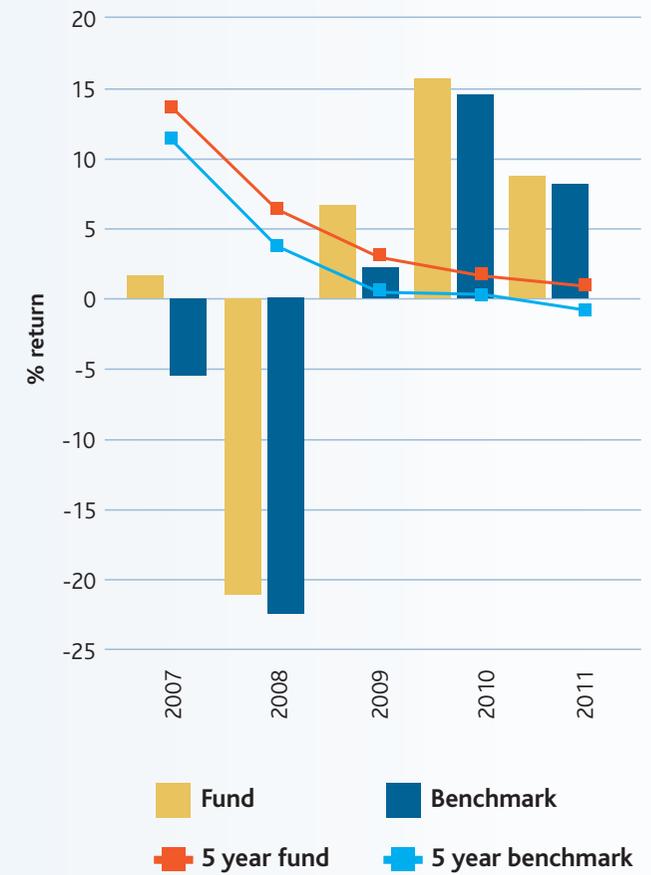
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Property pooled fund unit price



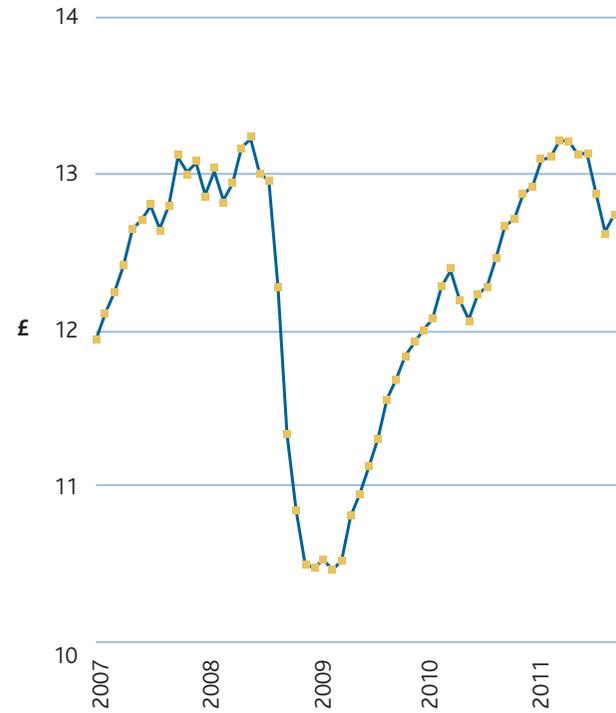
Property pooled fund performance



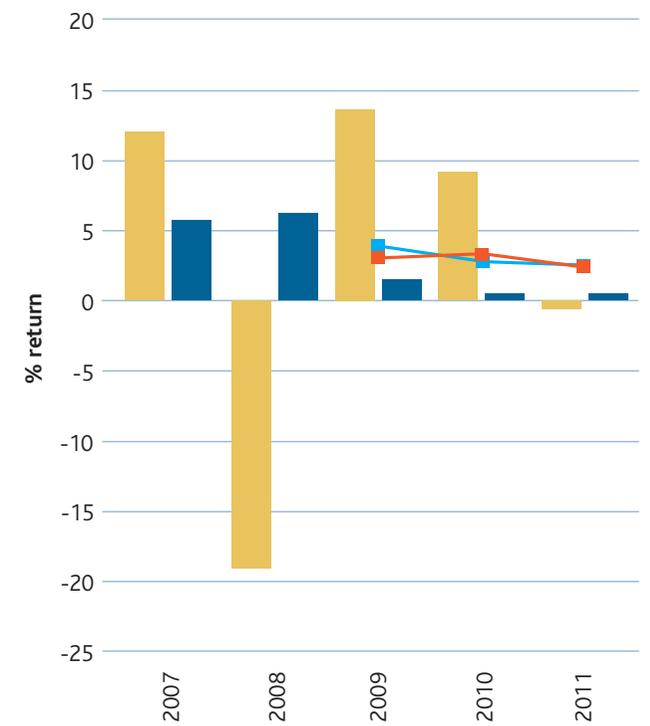
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Hedge funds pooled fund unit price



Hedge fund pooled fund performance

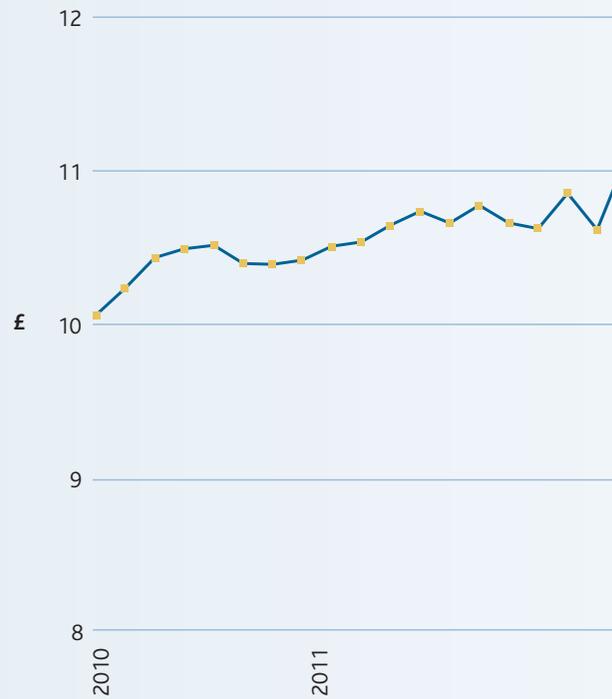


■ Fund ■ Benchmark
■ 5 year fund ■ 5 year benchmark

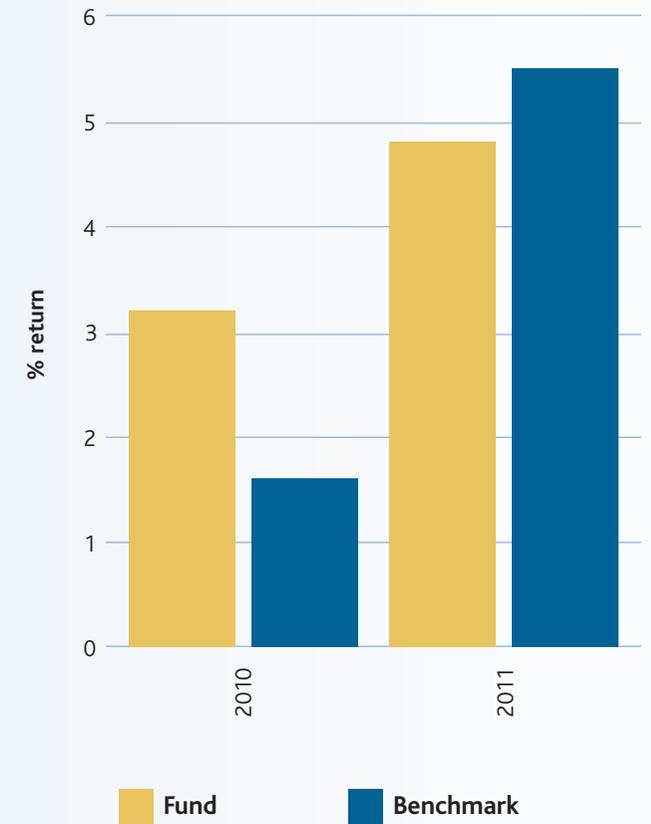
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Non Government bond pooled fund unit price



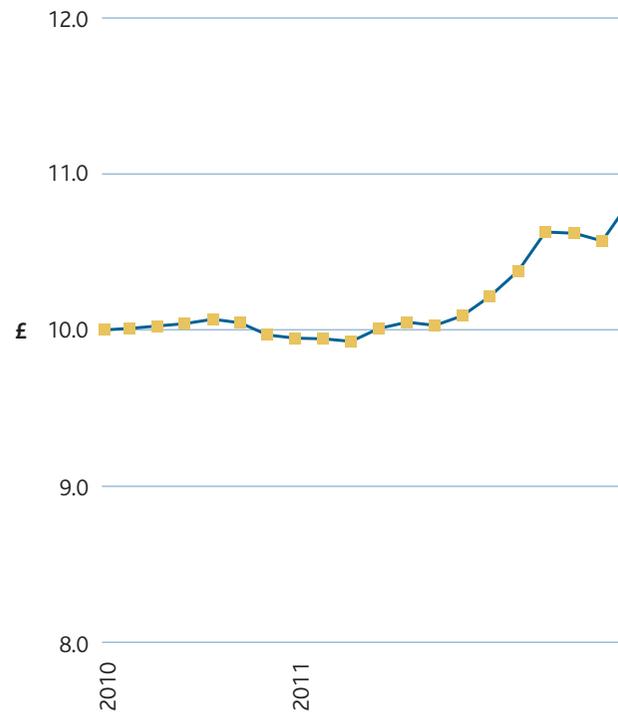
Non Government bond pooled fund performance



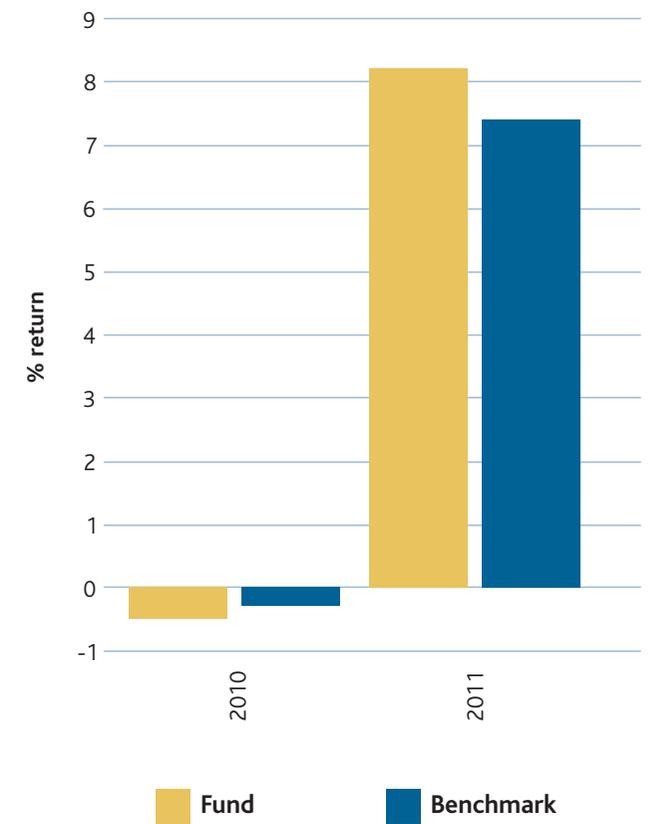
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Government bond pooled fund unit price



Government bond pooled fund performance



Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Infrastructure pooled fund unit price



Infrastructure pooled fund performance



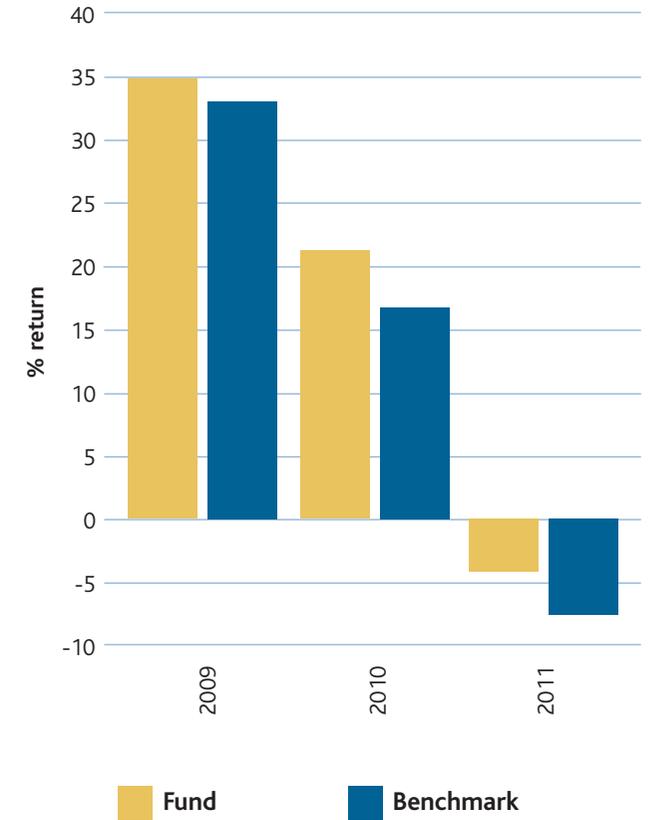
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Commodities pooled fund unit price



Commodities pooled fund performance



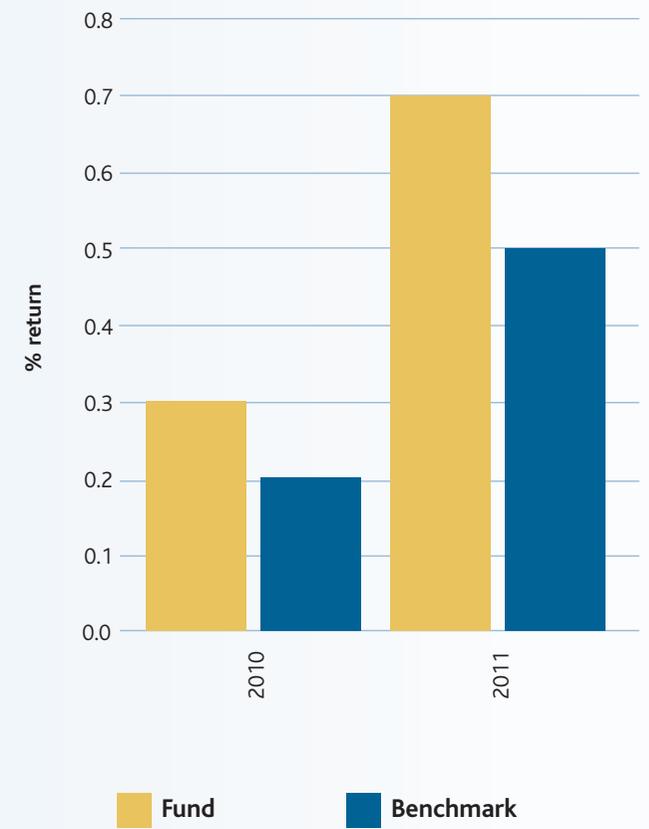
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Cash pooled fund unit price



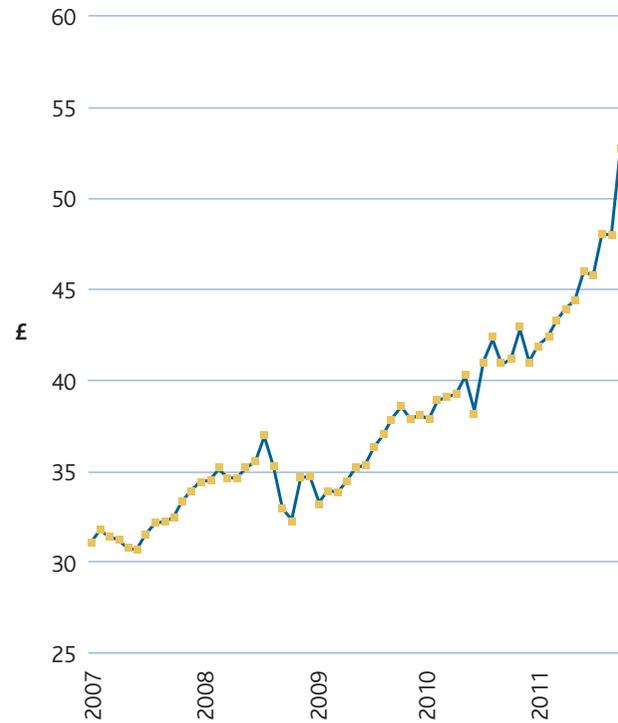
Cash pooled fund performance



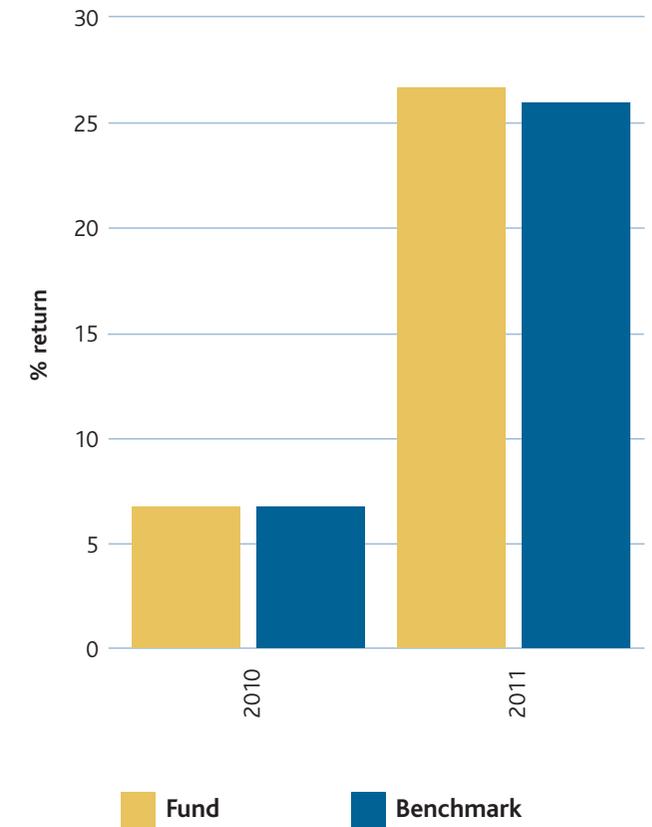
Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Index linked pooled fund unit price



Index linked pooled fund performance



Appendix K - Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT
(Continued)

Short bond pooled fund unit price



Short bond pooled fund performance



