



RAILWAYS PENSION SCHEME

Registration number 10203279



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Chairman's introduction

I'm honoured to be able to present for a fourth time the Annual Report and Accounts of the Railways Pension Scheme ('the Scheme') for the year ended 31 December 2010.

Before introducing a brief overview of the year's lows and relative highs, I'd like first to share with you an idea expressed so eloquently by Don Ezra, a leading international pensions expert, speaking on the final morning of the 2011 NAPF investment conference in Edinburgh. Rather than 'speculate-to-accumulate' (and I'm pretty sure you don't expect your trustees to engage in speculation when it comes to our investment policy!) the message I heard was instead one of 'accumulate-to-decumulate'. Don Ezra explained how research suggests for a typical retirement plan it may be appropriate nowadays to think of only 15% or so of the required invested savings for a longer average retirement coming from monthly contributions, only 35% or so coming from investment returns added during the years of employment and the balance, that is around half, coming from investment returns to be realised during the 'decumulation' years of average retirement.

A number of members of your Trustee Board and senior management of RPMI then met in London the following week with one of Don Ezra's erstwhile research colleagues, Keith Ambachtsheer, who led us in an interactive afternoon discussion on the thought-provoking subject of 'Building tomorrow's pension fund today'.

Ezra and Ambachtsheer's timely analyses are a serious challenge to pensions fiduciaries, including your Trustee Board and our RPMI colleagues, to try to make sure that our investment outcomes live up to the perfectly reasonable expectations of our members and other stakeholders and that we all play our part in continuing to provide decent and affordable pensions for those working in the railway industry – past, present and future.

Turning now to the period under review, we have also seen another challenging year in the world of pensions. The new Coalition Government wasted no time in making modifications to the UK regulatory and tax regime under which the Scheme

operates, and many of these changes will affect members. One of the most publicised developments is the Government's change to the basis on which public sector pensions are increased from the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI'). Although the Scheme is a private sector scheme, the rules provide that pensions will rise in line with Orders made under the Pension (Increase) Act 1971, which mirrors an approach used by public sector schemes. CPI has historically usually been lower than RPI, and it is generally expected to be lower in most years in the future. Although this is expected to lead to lower pensions, the corollary is that the Scheme should be more affordable. Concerned at the impact the change to CPI could have over time, the Trustee Board and others asked me to write to the Secretaries of State respectively for Transport and for Work & Pensions, which I did jointly with RPMI's Chief Executive, Chris Hitchen, at the beginning of March 2011. A response has been received confirming that unfortunately a proposal to increase members' benefits in excess of those already provided for in the rules would not be supported.

In addition to changing the basis for pension increases, the Government is also changing increases in the basic State Pension and the annual tax allowances available to members, alongside a gradual equalisation of the State Pension Age for men and women to age 66 by the year 2020. Although these changes are not specific to the Scheme, they may have a significant impact on the retirement planning of many members, and I encourage members to keep abreast of these developments on the Scheme website (www.railwaypensions.co.uk) and other places.

2010 was a better year for investment returns, both generally and for the Scheme in particular. The performance of all the Scheme's asset classes was positive in absolute terms and ahead of market benchmarks in the majority of cases.

The strongest performance was again from the Commodities Pooled Fund, which achieved a return of over 21% during the year. The Commodities Pooled Fund was introduced during 2009 as part of a major review of the investment strategies and asset classes made available to the Scheme for investment.

This review continued during 2010 with possibly the most radical overhaul of the pooled funds in which the Scheme invests since the inception of the Scheme post-privatisation in 1994. A Growth Pooled Fund was introduced in July, which uses a dynamic asset allocation process to invest across asset classes, within a risk budget framework. The structure of the Growth Pooled Fund allows a more flexible approach to investment, with the aim of achieving a real return of 5% over RPI per annum over a market cycle.

In its first six months of operation the fund achieved an absolute return of over 10% while also reducing risk. In addition, the Global Bond (Hedged) Pooled Fund was replaced with two new pooled funds – the Government and Non-Government Bond Pooled Funds – in order to facilitate separate investment in either or both of these asset classes. There were also changes to the Index Linked Pooled Fund, accompanied by the creation of special Cashflow Matching pooled funds, of particular benefit to mature sections to enable them to pay pensions without selling equities first.

The next triennial valuation of the Scheme at 31 December 2010 will be completed during 2011 or the early part of 2012. Each section of the Scheme will be given its own valuation results that take into account the rules, demographic factors, benefits and contribution rates in each section. The first draft set of results will be made available during the spring of 2011. The positive investment returns of the last two years, although welcome, came in the wake of dramatic falls during 2008, and it is likely that many sections will show deficits at this latest valuation.

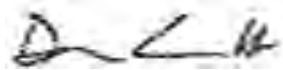
Where deficits arise, they need to be addressed by additional contributions, higher investment returns, or through changes to the benefit structure of the affected sections. Members and employers can be assured that, when agreeing valuation results with employers, your Trustee takes various possible options into consideration and will only agree to an outcome that is in the interests of that section of the Scheme as a whole, and not just one particular stakeholder. The payment of pensions in the 1994

Pensioners Section and the BR Section 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 maintain and, where possible, improve the security of members' benefits.

There were four changes in the membership of your Board during the year. Peter Duff retired as a Director in October 2010 and was replaced by David Simpson, nominated by the Network Rail electoral group, in December 2010. Russell Mears joined the Trustee Board in July 2010, nominated by the freight train operating companies and support services electoral group. Russell replaced James Jerram CBE, who retired in January 2010. As I highlighted in last year's report, members benefited from James's outstanding contribution to the Scheme for almost 20 years, including 11 years as your Chairman. We would again express our gratitude to James, and indeed to all those who have served as your Trustee Company Directors during the past year. The collective knowledge, experience and guidance they bring to the Scheme are invaluable.

I also report that the Trustee Company won more awards during 2010, including 'Best Trustee Training Plan' from 'Engaged Investor' and 'Premier Scheme of the Year' from 'Professional Pensions'. In addition, the Scheme received recognition for RPMI's commitment to excellent communications when it was awarded 'Best Defined Benefit Communications', again from 'Professional Pensions'.

I would like, as always, to end by taking this opportunity to thank all the staff at RPMI for their hard work in the interests of the Scheme's members and other stakeholders. The excellent service they continue to provide makes a huge contribution to the well-being of the Scheme.



Derek Scott
Chairman of the Trustee Company



The Railways Pension Scheme

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

The RPS is the largest of the four pension schemes managed by the Trustee Company. It is one of the largest schemes in the UK and provides pensions for 166 companies operating within the railway industry.

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

ADVANTAGES OF AN INDUSTRY-WIDE SCHEME

The industry-wide structure allows the assets of most sections to be combined into 'pooled funds'. These investment funds are significantly larger than would be possible were sections to invest their assets separately, resulting in several advantages for the schemes and sections.

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 a pensions administration service and also benefits from experienced investment, secretariat, communications and finance teams, all regularly benchmarked against other providers.

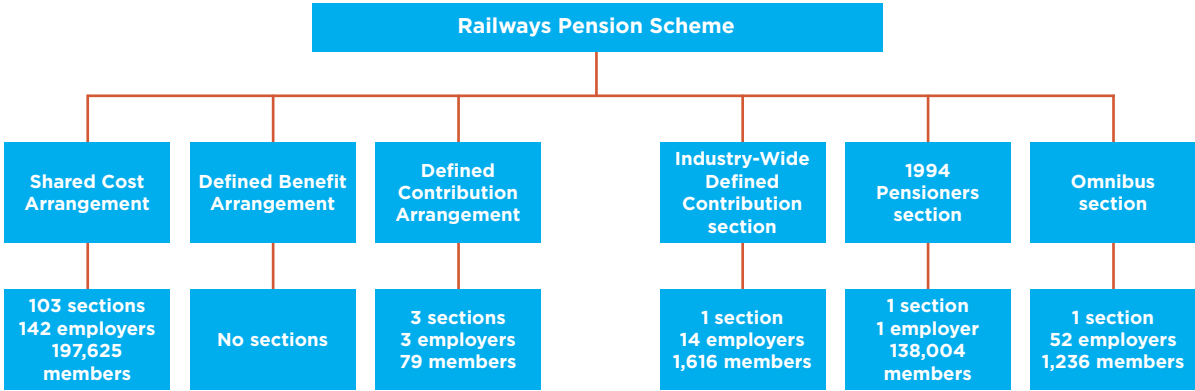
A summary of the main provisions of the Scheme is shown in Appendix H.

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 transferred to the 1994 Pensioners Section. The assets and liabilities of another six closed railway pension schemes were transferred to the 1994 Pensioners Section as effected by a Statutory Instrument 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 inflation 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 212 to 166 (2009 – 176).

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 2010, 94 of the 103 shared cost sections had active members. 42 sections remain open to new members. For these sections, employees of the designated employer who are employed in the railway industry may join the Scheme. If these members are not protected then their pension rights may differ from those who have protected rights.

THE OMNIBUS ARRANGEMENT

Employers with fewer than 50 members are eligible to combine in a multi-employer Omnibus Section. Employers may remain in the arrangement if their membership increases above 50, as long as it does not exceed 75. At the end of 2010, 52 employers (2009 – 60 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 SECTION

Employers may set up a different defined benefit section and/or defined contribution section or they can choose to join the Industry-Wide Defined Contribution Section. The Industry-Wide Defined Contribution Section was established on 1 November 2001. The section aims to provide employers with a flexible defined contribution scheme. At the end of 2010, 14 employers were part of this section (2009 – 12 employers).

At 31 December 2010, there were three defined contribution sections (2009 – 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 an agreed set of responsibilities such as setting investment strategy and/or determination of incapacity and discretionary benefits. All pensions committees have an equal number of employer and member nominees. The chairmanship alternates annually between the employer and member nominees. The Trustee Company, however, retains responsibility for supervising the exercise of the powers of the committees.

‘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 166 companies operating within the railway industry.’

Financial

statements

Fund account and net assets statement for the year ended 31 December 2010


	Notes	2010 £m	2009 £m
Contributions and benefits			
Contributions	3	655	637
Individual transfer values		56	27
		711	664
Pensions		(664)	(648)
Lump-sum retirement benefits		(170)	(165)
Individual transfer values		(19)	(17)
Death benefits		(19)	(22)
		(872)	(852)
Administrative expenses	4	(20)	(18)
PPF levies		(36)	(15)
		(928)	(885)
Net withdrawals from dealings with members		(217)	(221)
Returns on investments			
Change in market values	5	1,702	2,313
Net returns on investments		1,702	2,313
Net increase in the fund during the year		1,485	2,092
Net assets at the start of the year		16,368	14,276
Net assets at the end of the year		17,853	16,368

	Notes	2010 £m	2009 £m
Investments	5	17,853	16,361
Net current assets	6	–	7
Net assets at the end of the year	7	17,853	16,368

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 25 May 2011.



Derek Scott
Chairman

John Mayfield
Director

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

Financial

statements

Notes to the financial statements for the year ended 31 December 2010

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 this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. The assets are held in pooled investment vehicles valued

at their bid price or last traded price at the year-end date, as advised by the investment managers.

Additional Voluntary Contribution ('AVC') investments (BRASS) in pooled investment vehicles are stated at market value at the year-end date as advised by the provider. The Pension Assured Fund ('PAF') is valued at the market value of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are guaranteed by Aviva to receive 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 consider represents a reasonable estimate of accounting fair value.

CHANGE IN MARKET VALUES

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

Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled 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.

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 his/her 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

	2010 £m	2009 £m
Members' contributions		
Normal	204	195
Additional voluntary	43	42
Deficit funding*	8	11
Employers' contributions		
Normal	308	295
Deficit funding*	43	40
Government support	26	28
BRASS matching	18	20
Augmentation	5	6
	655	637

*Deficit funding contributions are being paid into the Scheme until June 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 report of the Actuary on page 33. Information on late payments during the year can be found on page 47. Further information on government support can be found on page 31.

4. ADMINISTRATIVE EXPENSES

	2010 £m	2009 £m
Pensions administration	9	9
Actuarial fees	4	3
Legal fees	2	1
Trustee governance	2	2
Other professional fees	1	1
Communications	1	1
Other	1	1
	20	18

Pensions administration charges cover the processing of member transactions and preparation of financial statements. These activities are carried out by RPMI Limited ('RPMI') and costs 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.

'Unit prices reflect the market valuations of the underlying assets held by the pooled funds and include income receivable on investments held.'



5. INVESTMENTS

	Market values at 31/12/09 £m	% of pooled fund owned 31/12/09	Purchases at cost £m	Sales proceeds £m	Change in market values £m	Market values at 31/12/10 £m	% of pooled fund owned 31/12/10
Pooled funds							
Growth	–	–	5,448	–	519	5,967	99.0
Global Equity	7,144	94.2	900	(3,853)	509	4,700	90.7
Private Equity	1,971	95.8	171	(878)	246	1,510	95.6
Infrastructure	718	95.3	–	–	16	734	95.3
Property	1,201	93.3	2	(629)	142	716	89.4
Government Bond	–	–	977	(280)	1	698	92.4
Non-Government Bond	–	–	1,004	(377)	25	652	89.3
Cashflow Matching	–	–	652	(83)	2	571	90.3
Hedge Funds	943	90.2	12	(676)	35	314	75.6
Index Linked	589	86.1	7	(467)	25	154	79.5
Commodities	129	79.1	56	(138)	7	54	56.3
Short Bond	168	99.3	3	(139)	4	36	97.0
Cash	–	–	178	(172)	–	6	100.0
Global Bond (Hedged)	1,845	92.2	96	(2,048)	107	–	–
	14,708		9,506	(9,740)	1,638	16,112	
Securities directly held by schemes							
BRASS (AVC) and DC	1,185		188	(219)	62	1,216	
Substitution orders	451		14	–	2	467	
	16,344		9,708	(9,959)	1,702	17,795	
Other cash and cash instruments	17					58	
	16,361					17,853	

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. The underlying movement of assets within the pooled funds can be found in the pooled fund accounts in Appendix K.

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

Further analysis of investments by pooled fund 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)

	2010 £m	2009 £m
Contributions due from employers	21	19
PPF Levies	(6)	(2)
Benefits payable	(5)	(5)
Taxation and social security	(5)	(5)
Administration expenses	(3)	(2)
Investment debtor/(creditor)	(2)	2
	–	7

£292,000 of unpaid contributions at the year-end that are on the schedules of contributions were not paid by their due date. Of these, £234,000 has since been paid and £58,000 remains outstanding. The £58,000 of outstanding contributions relate to contributions due from the Jarvis group of companies which went into administration during March 2010. An application has been made to the Insolvency Service to pay these contributions on the employers' behalf.

7. NET ASSETS AT THE END OF THE YEAR

The net assets of each section of the Scheme at 31 December 2010 are shown in Appendix B.

8. RELATED PARTY TRANSACTIONS

The Trustee Company and its subsidiaries provide services to the Scheme (explained on page 16). The charges payable, and those of external service providers, are detailed in notes 4 and 5.

At 31 December 2010, net current assets included a liability of £3.0m in respect of these charges (2009 – a liability of £2.3m).

At 31 December 2010, 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 2010, 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.

Investments issued by HM Government are excluded from the definition of employer-related investments.

‘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.’

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 2010 set out on pages 6 to 11. 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 15, the Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view. 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.

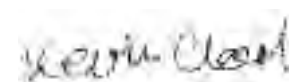
SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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 2010 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
25 May 2011

Trustee Company's

responsibilities in respect of contributions and summary of contributions payable in the year

STATEMENT OF TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS

The Scheme's Trustee is responsible under pensions legislation for ensuring that there are prepared, maintained and, from time to time, revised schedules of contributions showing the rates of contributions payable towards the Scheme, by or on behalf of the employers and the active members of the Scheme, and the dates on or before which such contributions are to be paid. The Scheme has over 100 sections and over 150 participating employers. The impracticality of agreeing one schedule means that the Scheme's Trustee has decided to maintain schedules of contributions and payment schedules, drawn up in accordance with the Pensions Acts 2004 and 1995 respectively, relevant to each of the sections of the Scheme.

The Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Scheme in accordance with the schedules as if the Pensions Act 1995 and 2004 applied to those individual schedules, or, where no schedule of contributions is in place, in accordance with the Scheme rules and recommendation of the Scheme Actuary.

TRUSTEE'S SUMMARY OF CONTRIBUTIONS PAYABLE UNDER THE SCHEDULES IN RESPECT OF THE SCHEME YEAR ENDED 31 DECEMBER 2010

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 2010. The Scheme Auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

CONTRIBUTIONS PAYABLE UNDER THE SCHEDULES IN RESPECT OF THE SCHEME YEAR

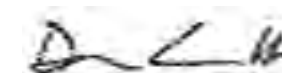
	£m
Employer	
Normal contributions	308
Deficit contributions	43
BRASS matching contributions	18
Member	
Normal contributions	204
Additional voluntary contributions	43
Deficit contributions	8
Contributions payable under the schedules	624

RECONCILIATION OF CONTRIBUTIONS

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

	£m
Contributions payable under the schedules (as left)	624
Contributions payable under the section rules and recommendations of the Actuary:	
Government support	26
Augmentation	5
Total contributions reported in the accounts	655

Signed on behalf of the Trustee on 25 May 2011.



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 2010 which is set out on page 13.

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 13, the Scheme's Trustee is responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained, and from time to time revised, a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the

employer and the active members of the Scheme. In view of the complexity of the arrangements and the number of employers participating in the Scheme, the Scheme's Trustee has decided to maintain schedules of contributions and payment schedules relevant to each of the participating employers and sections of the Scheme. The Trustee has a general responsibility for procuring that contributions are made to the Scheme in accordance with those schedules of contributions and payment schedules as if the Pensions Acts 1995 and 2004 applied to those individual schemes and employer, or, where there is no applicable schedule of contributions, in accordance with the Scheme rules and the recommendations of the Actuary.

It is our responsibility to provide a statement about contributions paid to the Scheme and to report our opinion to you. We read the Trustee's report and 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.

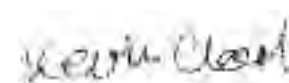
BASIS OF STATEMENT ABOUT CONTRIBUTIONS

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.

MODIFIED STATEMENT ABOUT CONTRIBUTIONS PAYABLE UNDER THE SCHEDULES

During the year, contributions due from one employer of £24.6m were received between 1 and 13 days later than required by the relevant schedule of contributions.

Except for the matter referred to above, in our opinion, contributions for the Scheme year ended 31 December 2010 as reported in the summary of contributions and payable under the schedules have in all material respects been paid at least in accordance with either the schedules of contributions certified by the Actuary, the payment schedules or the Scheme rules and the recommendations of the Actuary.



Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
KPMG
15 Canada Square
Canary Wharf
London
E14 5GL
25 May 2011

Statement

of the 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. It is also responsible for making available each year, commonly in the form of a Trustee's Annual Report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements the report accompanies.

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

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

APPROVAL OF THE ACCOUNTS

The financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995. The directors of the Trustee Company approved this report on 25 May 2011.

'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 it should ensure is consistent with the financial statements the report accompanies.'

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.

As a corporate trustee, trust law, the Pensions Acts and the Companies Acts govern the activities of the 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 31/12/10
Railways Pension Scheme	338,560
British Transport Police Force Superannuation Fund	5,837
British Railways Superannuation Fund	4,323
BR (1974) Fund	3,406
	352,126

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.

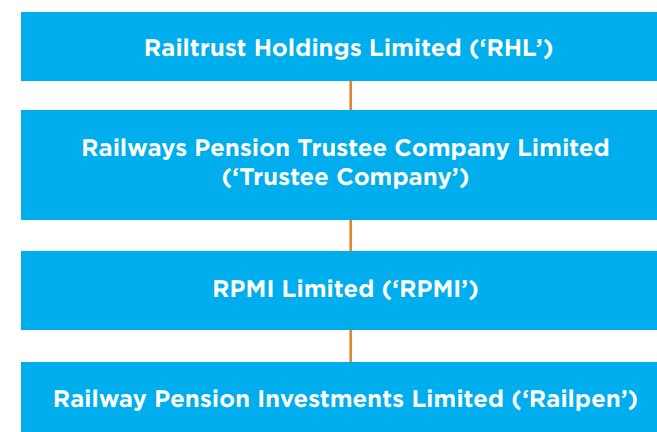
Trustee directors are non-executive and are entitled to emoluments which are disclosed in the financial statements of RHL.

THE OPERATING SUBSIDIARIES

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

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

THE STRUCTURE OF THE TRUSTEE GROUP



EMPLOYER DIRECTOR APPOINTMENT PROCEDURE

A review of the Trustee's employer director appointment procedure was carried out in 2009 and changes implemented from June 2010. The aim of the review was to find a procedure which was more representative of the current structure of the railway industry. The previous arrangement had been in place for over 12 years.

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

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. 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 two-yearly retirement by rotation of Trustee directors occurred in 2010. Both of the current employer directors due for retirement were nominated for re-election and, in one case after a ballot, were re-appointed for a further six years: these were Derek Scott and Richard Goldson. The following chart shows the current employer Trustee directors as at the end of December 2010, 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 and pensioners, as appropriate, in the railway pension schemes. Again, the successful nominees will be those with the most votes.

The two-yearly retirement by rotation of Trustee directors occurred in 2010. All the current employee directors due for retirement were nominated for re-election and were re-appointed for a further six years after a ballot: these were Mick Cash, Gary Towse and David Tyson. The following chart shows the current employee Trustee directors as at the end of December 2010, 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
David Tyson	Associated Society of Locomotive Engineers & Firemen (ASLEF)	2016

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 attend between 13 and 25 board and committee meetings a year. Attendance is reported to the Board and published in this report and accounts.

Directors have a comprehensive training programme on induction and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes. Our objective is that all Trustee directors should have completed 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 their website which provides one easily accessible location for everything they need to assist them in their role. In 2009 and 2010 the Trustee Company received the 'Engaged Investor' award for trustee training and in 2009 received the 'Professional Pensions' trustee development award.

The Trustee Board has a Committee structure to aid its decision-making and make the most of Trustee directors' skills and experience. The Trustee Board retains high-level oversight and concentrates on key Trustee reserved functions. It is supported by five Committees (Audit, Benefits & Funding, Case,

Executive and Investment). Reports on the main activities of each of the Committees are included in the accounts and start on page 22. The Committees have delegated powers which are reflected in their terms of reference and allocation of responsibilities charts.

Trustee directors carry out annual 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 actions taken.

The Trustee Board aims to maintain and, where possible, improve the standards to which it operates. An independent review was carried out during 2009 of Trustee Board and Committee effectiveness. A working party was then set up to consider the findings and a number of changes made to improve ways the Board works. These include formal confirmation of a high level strategy, improved performance monitoring, an updated and extended conflicts of interest policy, additional external expertise on the Investment Committee and the preparation of a Trustee Communications Plan to address relationships between the Trustee and its stakeholders.

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.

PENSION PROTECTION FUND ('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. Due to the way that the UK railways industry is arranged, a number of participating employers in the RPS, supported by the Trustee, are disputing their eligibility for PPF levies with the PPF.

INSOLVENT EMPLOYERS

During November 2010, the 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's directors as at 31 December 2010



Derek Scott

19
20



Mick Cash

14
18



John Chilman

15
15



Tony Cotgreave

19
21



Richard Goldson OBE

17
18



Dave Gott

12
14



John Hamilton

17
20



Chris Hannon

15
20



Charles Harding

14
18



John Mayfield

12
13



Russell Mears

3
3



Stephen Richards

24
27



David Simpson

0
1



Gary Towse

17
17



David Tyson

10
14



John Wilson

19
23

**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 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 pensions committees of the Carillion GTRM and Network Rail Sections. He is also a Trustee of the Network Rail Defined Contribution and CARE Schemes. Mick was appointed as a Trustee Company director in 2004.

3 John Chilman (Chairman of the Investment Committee)

Appointed by: 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 Pension Committee since 1997 representing 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 the 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, having joined the Company in November 2004 from Safeway Supermarkets plc where he was Pensions Manager. He has over 30 years experience working in a company pensions environment and has supported the trustee boards of various company pension schemes. Chris was appointed a director of the Trustee Company in 2005.

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, former honorary treasurer of the British Transport Pensioners' Federation and a director of Railnews Limited. He 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 CFO 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, the Midlands and, more recently, Scotland, where he has been Network Rail's Route Director for the past five years. He was appointed a director of the Trustee Company in December 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 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 over 35 years experience advising companies about their pension arrangements. John has been a member of the Pensions Committees of several sections of the RPS. He was appointed a director of the Trustee Company in 2008.

DIRECTORS WHO RETIRED DURING 2010**James Jerram CBE**

Appointed by: All employers

James joined the industry in 1991. He became a director of the then BR Trustee Company at the same time and has many years of pension experience. He served as Chairman of the Trustee Company from 1996 to 2007. He was also chairman of the pension trustees for three other schemes. James retired as a Director of the Trustee Company in January 2010.

Peter Duff

Appointed by: Network Rail

Peter was Financial Controller (Operations and Group Reporting) at Network Rail having joined the company in 2002. A chartered accountant who worked at Deloitte from leaving university in 1992, he managed one of the London office's four audit and assurance groups. Peter retired as a Director of the Trustee Company in October 2010 as a result of leaving employment at Network Rail.

Membership and activities of board and principal committees as at 31 December 2010

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

Member	Number of meetings attended	Number of meetings eligible to attend
Derek Scott (Chairman)	6	6
Mick Cash	5	6
John Chilman	6	6
Tony Cotgreave	6	6
Peter Duff ¹	4	5
Richard Goldson	5	6
Dave Gott	6	6
John Hamilton	5	6
Chris Hannon	5	6
Charles Harding	4	6
John Mayfield	6	6
Russell Mears ²	2	2
Stephen Richards	5	6
Gary Towse	6	6
David Tyson	4	6
John Wilson	5	6

¹ Peter Duff retired from the Trustee Board on 14 October 2010

² Russell Mears was appointed to the Trustee Board on 16 July 2010

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.

James Jerram retired from the Trustee Board on 21 January 2010 and was replaced by Russell Mears. David Simpson was appointed to the Trustee Board on 1 December 2010 as a replacement for Peter Duff. As both James and David were only Trustee Directors for the first and last months of 2010 respectively, they have not been included in the table of attendance above, or any of the tables included in the following committee reports.

AUDIT COMMITTEE

The main responsibilities of the Audit Committee are to appoint the external auditors, review the work of external audit and RPMI's Business Assurance, and review the pension scheme and company accounts and report on these to the Board of the Trustee Company.

The Audit Committee comprises six directors of the Trustee Board. External auditors and Business Assurance team members 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 2010 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
Peter Duff ¹	1	1
John Hamilton	2	2
Russell Mears ²	1	1
Derek Scott ³	1	1
Gary Towse	2	2
John Wilson ⁴	1	1

¹ Peter Duff retired from the Committee on 14 October 2010

² Russell Mears was appointed to the Committee on 29 September 2010

³ Derek Scott was appointed to the Committee with effect from 14 October 2010

⁴ John Wilson retired from the Committee on 29 September 2010

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 and recommends the Annual Report and Accounts for Trustee Board approval.

During 2010, the Committee met on two occasions. It considered the Annual Report of Business Assurance covering its internal audit and assurance activities during 2009, received reports on the progress of the 2010 internal audit plans, and considered and approved the internal audit plan for 2011. In addition, the Committee received and considered reports from Business Assurance summarising the activities of the Risk Management Committee and its work in facilitating the Trustee's risk management process.



Financial reporting matters considered by the Committee in 2010 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 2009 Report and Accounts and the External Audit Strategy for 2010.

At its meeting in November 2010, the Committee approved the reappointment of DTZ to undertake the valuation of properties in the Property Pooled Fund, following a competitive tender exercise requested by the Audit Committee at its April meeting.

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 six-month period ending December 2009 and the proposed changes to the format of the consolidated pooled fund balance sheet for both the pooled fund accounts and the relevant appendix to the RPS accounts for 2010.

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.

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)	6	8
Mick Cash	5	8
Richard Goldson	8	8
John Hamilton	6	8
Charles Harding	7	8
Stephen Richards	6	8
David Tyson	6	8
John Wilson	7	8

Total of four scheduled meetings and four ad hoc meetings

VALUATION

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

Following the completion of the 2007 valuation, attention turned to the valuation at 31 December 2010. Initial advice had been received from the Scheme Actuary, and the consultation document was sent to employers and Pensions Committees at the beginning of October 2010.

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. 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.

The B&F also considered the annual update, which set out the estimated funding position of each section at 31 December 2009.

EMPLOYER COVENANT

A key factor when considering each valuation is the strength of the sponsoring employer, and the B&F had the challenging task of assessing this for all the sponsoring employers in the RPS. For the 2007 valuation the B&F agreed various mitigation proposals from employers to improve their covenant assessments. This included guarantees with a potential value to the RPS of £168m and the recapitalisation of employers' balance sheets worth £222m. It is expected that similar mitigations will be agreed for the 2010 valuation. 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. To date the B&F has secured mitigation from corporate transactions worth £37m.

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 2010 our relationship with the Pensions Regulator has continued to develop. The Regulator now has a better understanding of the complexity and the atypical shared cost nature of the RPS. This has helped the Regulator's funding team when they become 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)	8	8
Tony Cotgreave	8	8
Peter Duff ¹	4	6
Dave Gott	6	8
Chris Hannon ²	0	1
Derek Scott	7	8
John Wilson	6	8

¹ Peter Duff was appointed to the Committee with effect from 21 January 2010 and retired from the Committee on 14 October 2010

² Chris Hannon was appointed to the Committee with effect from 14 October 2010

In 2010 the Case Committee held six scheduled meetings and two special meetings. The special meetings were held to consider specific cases relating to the change in the earliest age at which members could apply to take their benefits increasing to age 55 from 6 April 2010.

As at January 2011 the Case Committee had responsibility for 87 sections of the Railways Pension Scheme.

During 2010 the Case Committee considered and made decisions on 158 cases which can be categorised as follows:

- 38 applications for incapacity benefits
- 14 reviews of incapacity benefits already in payment
- 22 appeals under stage 2 of the internal disputes resolution procedure
- 15 applications for spouses', children's and dependants' pensions
- 48 applications for payment of lump-sum death benefit
- 14 applications for early payment of preserved benefits

- 4 applications to rejoin the Railways Pension Scheme
- 1 forfeiture of benefits case
- 2 applications to remain in membership after 5 years secondment

The rules regarding the payment of certain discretionary death benefits (for example payment of lump-sum death benefits and spouses' pensions) were changed in 2010 so that, where a member is in more than one section of the Railways Pension Scheme, the Case Committee now has responsibility for making the decision in respect of all of the sections concerned.

During 2010 the Case Committee considered and agreed revised guidance notes to be used when considering the payment of discretionary lump-sum death benefits.

A scheme-wide rule amendment was approved in 2010 which enabled the Case Committee to agree to a request from a preserved pensioner in serious ill health to commute his/her benefit entitlement to a lump sum, providing certain strict criteria are met.

EXECUTIVE COMMITTEE

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

This work includes: approving the appointment and terms and conditions of employment of the directors of RPMI (other than the Chief Executive's 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 2010 by Committee members are shown in the following table:

Member	Number of meetings attended	Number of meetings eligible to attend
Mick Cash (Chairman)	4	4
John Chilman	4	4
John Hamilton	4	4
Charles Harding	3	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 all four meetings in 2010.

David Tyson attended one meeting of the Committee as an alternate for Charles Harding.

One key task for the Executive Committee during the year was establishing the new governance arrangements between the Executive Committee and RPMI. These arrangements have increased the transparency and accountability between RPMI and its parent, the Trustee Company, by creating a structure, involving Trustee Directors and Non-Executive Directors of RPMI, that permits efficient and responsive decision making.

Within this structure, four Trustee Directors are also 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 2010 are Richard Goldson (Non-Executive Chairman of the Board of RPMI), John Chilman, Gary Towse and David Tyson.

Prior to the Non-Executive Directors joining the RPMI Board, the Executive Committee was responsible for approving the remuneration policy for all RPMI Directors and staff. Under the new governance arrangements, the Executive Committee has retained its role as remuneration committee for the RPMI Executive Directors. RPMI Non-Executive Directors' remuneration is decided by the Trustee Board and responsibility for the staff pay award has now passed to the RPMI Board. The main work of the Executive Committee during 2010 has been considering the remuneration and incentives of the Executive Directors of RPMI.

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, the underlying investment managers and the custodian.

The Investment Committee met on five occasions in 2010. 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)	5	5
Tony Cotgreave	3	5
Richard Goldson ¹	4	4
Chris Hannon	4	5
Chris Hitchen *	5	5
John Mayfield	4	5
Stephen Richards	5	5
Derek Scott	5	5
Peter Stanyer **	5	5
Gary Towse	5	5

There were four meetings planned during the year and one ad hoc meeting.

¹ Richard Goldson was appointed to the Committee on 24 March 2010

* Chief Executive of RPTCL

** External appointment

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

Strategy/Beliefs – the Committee concluded the work commenced in 2009 and approved proposals to introduce 'risk-budgeting' as a way to reconsider investment strategy, focusing on risk (volatility) and return expectations relative to liabilities. This initiative was linked to a wide-ranging review of all pooled funds (commented on below) which resulted in changes to some of the pooled funds to help achieve clearer separation between 'liability-matching' and 'return-seeking' assets and a re-examination of, and some changes to, benchmarks for all funds. Consultation on these proposals commenced in April 2010 followed by implementation of new arrangements from the summer.

The Committee periodically reviews the underlying investment beliefs that inform its decision-making. Such a review was conducted in the first half of 2010 resulting in the adoption of an updated set of beliefs in May 2010. An associated piece of work was to review and update the Trustee's Statement of Investment Principles which was approved by the Trustee in the summer on the recommendation of the Committee.

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 which resulted, for example, in a decision to increase investment in the Commodities Pooled Fund. The Committee also approved some changes to section-specific asset strategies and is currently conducting a review of dynamic de-risking strategy proposals which continues into 2011.

Pooled funds – as noted above, a major review of pooled funds was undertaken in 2010 linked to the introduction of risk-budgeting. This review considered the characteristics of each fund including benchmarks, currency hedging policy and permitted assets. A significant development in respect of liability-matching assets was the introduction of a Liability Driven Investments Pooled Fund offering the ability to protect against inflation and interest rate exposure in a section's liabilities. This was made available for investment from the start of 2010.

The most significant changes, however, were the introduction in July 2010 of a new 'Growth Pool' consisting of return-seeking assets and the discontinuation of the Global Bond Fund, splitting it into new Government and Non-Government Bond Funds.

These changes required a re-examination of governance arrangements and the Committee approved the creation of an Asset Allocation Sub-Committee (AASC) to support the management of assets on a more dynamic basis. The AASC membership is drawn from the Investment Committee, and comprises John Chilman (Chairman), John Mayfield, Derek Scott and Peter Stanyer. 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 AASC has a schedule of meetings but is also able to meet at short notice to consider urgent items. It met five times in 2010 with its most significant decisions being to lower the level of ex-ante risk in the Growth Fund through reducing the global equities allocation from 70% at inception to 50% by 31 December 2010, and correspondingly increasing allocations to absolute return products, commodities, non-government bonds and cash holdings.

In late 2010 the Committee carried out a further review of the Infrastructure Pooled Fund following the in-depth review undertaken in 2009 and endorsed the requirement for emphasis to be placed on relative valuations, prospective annual cash flows for investors and the ways in which investment opportunities are structured.

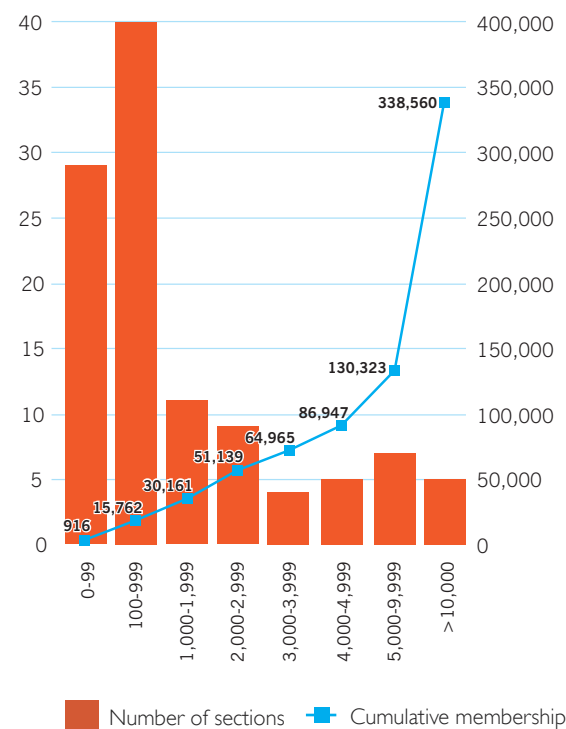
Investment Manager appointments – manager appointments are undertaken by Railpen Investments under an investment management agreement with the Trustee. The Committee, however, agreed that it should continue to comment on significant manager appointments and terminations.

Corporate governance – the Committee retains high-level oversight of the extensive governance activities undertaken by the Scheme globally. The Committee agreed to endorse publicly the UK Stewardship Code for institutional investors published by the Financial Reporting Council in July 2010 and considered the related FSA consultation on the disclosure of commitment to the Code. The Committee also approved the Trustee becoming an asset owner signatory of the United Nations Principles for Responsible Investment ('UNPRI'). In addition, the Committee considered the results of an external survey commissioned by Railpen Investments examining the integration of environmental, social and governance factors into the investment processes of public equity fund managers.

KEY STATISTICS

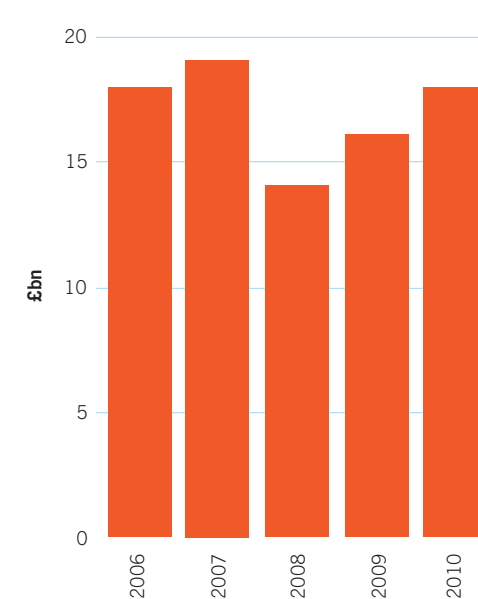
Five year summary of RPS participation

	2010	2009	2008	2007	2006
Sections	109	107	107	99	96
Employers	212	217	225	231	235
Active membership	84,304	86,747	89,735	90,083	91,666
Preserved membership	109,138	108,252	107,302	106,906	104,906
Pensioners	145,118	144,340	143,683	143,787	140,851
Total membership	338,560	339,339	340,720	340,776	337,423

COMPARISON OF MEMBERSHIP OF SECTIONS**FIVE YEAR SUMMARY OF FINANCIAL STATEMENTS OF RPS**

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Scheme benefits					
Pensions	664	648	612	586	562
Lump sums	170	165	131	128	111
Death benefits	19	22	21	19	17
Total benefits	853	835	764	733	690
Contributions income					
Employees	255	248	239	226	204
Employers	374	361	338	318	298
Government	26	28	29	30	31
Total contributions	655	637	606	574	533
Net transfer values	37	10	11	59	11
Admin expenses (including PPF)	(56)	(33)	(40)	(10)	(20)
Change in market values & interest*	1,702	2,313	(4,557)	1,334	1,965
Net increase/(decrease) in the Scheme	1,485	2,092	(4,744)	1,224	1,799
Net assets of Scheme	17,853	16,368	14,276	19,020	17,796

* Change in market values & interest includes £286m of investment income in 2010.

FIVE YEAR SUMMARY OF NET ASSETS OF RPS



Investment

report

INTRODUCTION

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

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

INVESTMENT PROCESS

The assets of the Scheme are invested through a number of different pooled funds. In most cases each pooled fund covers a different class of asset. These funds are run as if they are internal unit trusts and approved by HM Revenue and Customs ('HMRC'). Only railway pension schemes may invest in these pooled funds. Each section holds units in the pooled funds. The use of these pools enables sections to hold a broader range of investments than may be possible through direct ownership.

During 2010 the range of pooled funds and their specifications were subject to a major review. As a result there were some changes to the return, risk and management arrangements of a number of existing pooled funds, as well as the abolition of some pools and the introduction of a number of new pools. The most significant changes were:

- the abolition of the Global Bond (Hedged) Pooled Fund and the introduction of a Government Bond Pooled Fund and a Non-Government Pooled Fund in its place;
- the introduction of a new Growth Pooled Fund to allow a more dynamic asset allocation across a wide range of return-seeking assets to generate a real return over the long-term;

- the introduction of a Cashflow Matching Pooled Fund under a liability driven investment umbrella, allowing investment to match the interest rate and inflation exposures of sections' liabilities more closely, and producing greater matching of near-term cash flows with a view to paying pensions.

Each pooled fund has a performance benchmark and a 'risk budget' which may be used to target additional returns. All pooled funds are managed largely by external fund management companies and are predominantly actively managed, that is, 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 at least 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. Consequently, the active managers are partially remunerated by fees which vary according to their performance against their benchmark.

Exposure to overseas currency risk is limited by currency hedging arrangements. This process removes some of the volatility of Sterling returns inherent in investing in overseas markets. During 2010, the hedging policy was amended so that there is no unhedged foreign exchange in the capital exposure in the Hedge Funds, Government and Non-Government Bond Pooled Funds and a 50% hedge of the overseas exposure of the Global Equity Pooled Fund, excluding emerging markets. All other pooled funds were unhedged.

INVESTMENT STRATEGY

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

Investment strategies have been set either as a fixed asset allocation, based on the expected long-term risk, return and correlation characteristics of the various asset classes that may be selected for investment, or as a risk budget; in both contexts risk is taken to be the expected volatility of returns relative to index-linked gilts. During 2010 more sections have redefined strategy in terms of risk budgets (that is, tolerated variability of risk and return relative to section liabilities) rather than continuing with fixed allocations to specific asset classes. Such a risk budgeting approach may facilitate a more dynamic approach to asset allocation, which means that prevailing market conditions can be taken into account when managing volatility risk and when taking and implementing strategic investment directional changes.

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 an element of dynamic asset allocation into their strategy, investment is made in the newly introduced Growth Pooled Fund.

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 instrument 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

The world economy ended 2009 on a strong note and continued this momentum into 2010. Global industrial production rose by an estimated 3% in the fourth quarter of 2009 and the first quarter of 2010, having bottomed-out during the first quarter of 2009. The impact of the significant fiscal and monetary easing was still working its way through the global economy, supporting economic growth. World trade – another economic variable that declined significantly during the crisis – also rose strongly, with an increase of 5% in the first quarter. This strengthening in world trade and industrial production translated into improved measures of overall growth: Gross domestic product ('GDP') in the Organisation for Economic Co-operation and Development ('OECD') economies increased by 0.8% in the first quarter of 2010, in line with its average of the previous 50 years.

Such improving economic data helped sentiment in financial markets. The Morgan Stanley Capital International All Country ('MSCI AC') World equity index (in local currency terms) had risen by over 6% by mid-April. But concerns over European sovereign debt were intensifying. Indeed, on 2 May 2010, a rescue package was agreed for Greece to help it alleviate its funding problems. One week later, the European authorities agreed a range of available financial funding (up to €750bn, of which €440bn represents the European Financial Stability Facility) in order to help any further distressed European sovereign debt. The uncertainty around sovereign risk in Europe was clearly apparent in the cost of insuring sovereign debt (one index that covers Western Europe rose from around 70 basis points at the beginning of the year to around 160 basis points in May and June). These concerns also weighed on global financial markets and the MSCI AC World index fell below its starting level for the year and spreads of corporate bonds widened.

The economic data over the summer months was mixed. Some of the monthly indicators – which can be volatile – recorded a slowdown in activity, such as world industrial

production. The JP Morgan Global Purchasing Managers' Index, a survey of manufacturing and services activity in many countries around the world, weakened from April for several months. Certain leading indicators of economic growth showed signs of a renewed weakening. There were growing concerns of a double-dip in the US, especially with the labour market remaining subdued. More generally, however, the global recovery slowed rather than stopped: OECD GDP growth was still 0.6% in the third quarter. Emerging market economies also maintained their momentum: China's GDP was almost 10% higher than a year earlier.

By the start of September, equity markets began recovering from their summer weakness. This probably reflected two factors. Firstly, the market judged that although the economic data had slowed slightly, they were still consistent with modest GDP growth. Secondly, there was increasing optimism that the US Federal Reserve ('the Fed') – and possibly other central banks – would resort to increased monetary policy stimulus in order to support the economy. The anticipation that this would occur helped drive equity markets higher but also pushed government bond yields in the US lower. In October, the 10-year US Treasury yield declined below 2.4%, having started 2010 at over 3.8%. Other major economies also saw bond yields decline significantly between April and October, largely on concerns of weakening economic growth and expectations that central banks would keep interest rates low for longer than previously expected.

In early November, the Fed did in fact ease monetary policy by agreeing to purchase \$600bn of government bonds from the private sector by the end of the second quarter of 2011. In deciding to do so, it cited concerns over the high level of US unemployment and the low levels of inflation (excluding food and energy, inflation declined to the lowest on record in the US in October). As a whole, equity markets rallied strongly in the fourth quarter, in part due to the Fed's actions. The bail-out of Ireland due to ongoing debt problems did cause market weakness for a time, but this proved short-lived.

Stronger economic data (for example, the aforementioned JP Morgan Global PMI survey rose back to levels seen earlier in the year) was apparent towards the end of the year. This helped equity markets rally strongly, with the MSCI AC World local index posting a rise of 8% for the quarter, and just under 10% for the year as a whole. But government bond yields rose sharply in the final quarter of the year, with 10-year Treasury yields recording a rise of around 1% to end the year at 3.3%.

The fourth quarter was also notable for a sustained increase in food prices. Having risen by 16% in the previous quarter, the United Nations World Food Price index rose by a further 14%, and surpassed the previous high recorded in mid-2008. This, along with rising non-food commodity prices, has sharply pushed up inflation in emerging market economies. Chinese inflation rose to around 5% in the fourth quarter of 2010, with food price inflation averaging over 10%. In response, the authorities in China tightened monetary policy three times.

Overall, 2010 was a positive year for financial markets as the economic recovery gained some traction. However, it was also a volatile year and the European sovereign debt crisis acted as a reminder of the fragility of parts of the global economy. Policymakers in the US, Euro area and UK took action during the year in order to help underpin the recovery and support financial markets. Globally, the economic recovery appears to be becoming more entrenched, but there are significant risks remaining, such as continuing sovereign debt problems, ongoing deleveraging in the US and emerging markets inflation.

INVESTMENT PERFORMANCE

During 2010, financial markets benefited from the improved economic environment and all the asset classes represented by the Trustee's Pooled Funds saw positive investment returns. In addition to good absolute performance, the majority of the Pooled Funds also achieved positive performance compared to their bespoke benchmarks.

2010 also saw significant changes to the Trustee's range of Pooled Funds as outlined above in the section on Investment Process. This included the launch of several new Pooled Funds and changes to the benchmarks and names of some existing Funds.

The Growth Pooled Fund was launched in July 2010 and invests in a diversified range of assets. The Growth Pooled Fund does not have fixed asset allocations but uses a flexible approach to target a 'real return' (return above UK inflation) of 5% per annum over a market cycle. The Growth Pooled Fund invests in a number of existing Pooled Funds (including Global Equity, Hedge Funds, Property, Commodities and Non-Government Bonds) as well as having some direct mandates with external fund managers. The Growth Pooled Fund produced a total return of over 10% in the period between inception and the end of the year.

The Global Equity Pooled Fund provides highly diversified exposure to global equities and uses a blend of active and passive management. The Global Equity Pooled Fund produced a return of over 13% in 2010 and this return was ahead of benchmark for the second successive year.

At the start of July 2010 the Trustee replaced the Global Bond (Hedged) Pooled Fund with separate Government and Non-Government Pooled Funds. Overall, global bond markets recorded positive returns during 2010 as yields declined, although yields in some European markets (for example Greece, Ireland, Portugal and Spain) were hit by increased concern over sovereign debt. Returns for non-government bonds were enhanced by a narrowing of credit spreads over the year as a whole.

The Short Bond and Index Linked Pooled Funds each experienced modest gains over the year. The management of the Index Linked Pooled Fund was changed to a passive basis from July 2010 and the benchmark was altered to the UK Government Index Linked Over 15 Year Index.

The Private Equity Pooled Fund produced a return in excess of 19% in 2010 and ahead of the benchmark. Because of the unquoted nature of these investments there is always a significant time lag for revised information on underlying investments to flow through to the Fund valuation. Therefore the return for 2010 in part reflects the recovery in asset values that occurred in the latter part of 2009. Returns from Private Equity are also ahead of benchmark when measured over longer time periods.

The Infrastructure Pooled Fund had a modestly positive return for the year but was behind the RPI benchmark. The Property Pooled Fund achieved a positive result in absolute and relative terms, with an overall return of over 15%, as the recovery in the UK commercial property market continued.

The Hedge Funds Pooled Fund (previously known as the Cash Plus Pooled Fund) generated a return of 9% in 2010, as many hedge fund strategies made a positive contribution to the overall result. The strongest return from all the Pooled Funds came from Commodities, which saw a return of over 21% return in 2010. This reflected the widely reported increase in a diverse range of commodity futures prices including energy, metals and agriculture. The Fund also produced a return ahead of benchmark for the year.

SECTION RETURNS

There is a range of investment strategies amongst RPS Sections, reflecting the diversity in terms of membership and liability profiles. In 2010 all Section asset portfolios showed positive returns between 9% and 12.5%. This reflected the positive returns seen in all the major asset classes over the year, including equities, bonds, property, and the various types of alternative assets held by RPS Sections.

While recent performance has been good the investment returns of RPS Sections over three and five year periods are still affected by the negative returns experienced during 2008. Most sections have returns of between minus 3% and plus 4% per annum over three years. Over five years the majority of sections have experienced modestly positive returns of between 2% and 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 a revenue. The custodians also operate indemnification programmes which protect the Scheme against defaulting borrowers. The Scheme retains economic exposure to the lent securities, for example by receiving dividends, but loses voting rights 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 requires investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are limited to avoid the prospect of the employees losing their jobs and part of their pensions at the same time, should the employer's business fail.

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

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

**BRASS (AVC) INVESTMENTS
(EXCLUDES IWDC AND DC ARRANGEMENT)**

Railways Pension Scheme holding = £1,196m
Total value of fund at 31/12/10 = £1,203m

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.

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 change the range of funds made available to the members from time to time.

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	Composite benchmark comprising weighted average of benchmarks for RPTCL Pooled Funds held
Cautious Fund	Composite benchmark comprising weighted average of benchmarks for RPTCL Pooled Funds held
Pension Managed Fund	WM All Funds Index (excluding property)
Pension 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	FTSE Over Five-Year Index-Linked Gilt Index

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

Actuary's

report

THE 31 DECEMBER 2007 VALUATION

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

The 31 December 2007 valuation formal documentation which is required for each section includes a valuation report, a Statement of Funding Principles (which sets out the Statutory Funding Objective for the section), a Recovery Plan (for those sections with an overall valuation shortfall at 31 December 2007) and a Schedule of Contributions. During 2010 the necessary formal documentation in respect of the 31 December 2007 valuation was issued in respect of the small number of shared cost sections for which this remained outstanding at the beginning of the year.

THE 2008 AND 2009 ANNUAL UPDATES

In order to satisfy the requirements of the Pensions Act 2004, as well as carrying out a full actuarial valuation of the RPS at least every three years, an interim funding update needs to be completed for each section in intervening years. The legislative requirements in connection with the annual update do not require the assumptions used to be formally agreed between the Trustee and Designated Employer for each section; the assumptions used are set using a consistent approach with that

used at the most recent full valuation and the Statement of Funding Principles. For each section a short report is issued which sets out how the funding position may have changed since the last assessment.

The annual updates as at 31 December 2008 and 31 December 2009 have now been completed for all sections. These generally showed funding levels that were typically 15% - 20% lower than at 31 December 2007, as a result of the falls in the value of many asset classes over the period. However, no formal action is required to be taken by the Trustee or Designated Employers following these annual updates. In particular, the Schedule of Contributions agreed for each section following the 31 December 2007 valuation remains in force and is not required to be reviewed again until the next full actuarial valuation of the RPS as at 31 December 2010.

THE 31 DECEMBER 2010 VALUATION

Work for the formal actuarial valuation as at 31 December 2010 is now underway and the process of consulting with relevant parties is well progressed. While the final position will not be known for all sections until relevant discussions are concluded, some preliminary observations are possible.

Most notably, since the last interim update as at 31 December 2009, the Government has announced a change to the inflation measure expected to be used for revaluation and indexation of pensions in future. Various other changes to the assumptions are also expected as detailed during the consultation process.

Overall the expected impact of these changes, combined with generally positive investment returns over 2010, is that average funding levels are likely to be materially higher than at the last interim update. However, on balance, it is expected that most

sections will remain less than fully funded (that is, with assets less than liabilities). Recovery Plans will therefore have to be agreed which set out additional contributions to meet these shortfalls.

James C Wintle

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Towers Watson Limited
Watson House
London Road
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Surrey
RH2 9PQ
21 January 2011



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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, Stooperdale Offices, Brinkburn Road, Darlington, DL3 6EH
Actuaries	James Wintle, Towers Watson Limited Trevor Llanwarne, Government Actuary (joint actuary for the 1994 Pensioners Section, BR Section and British Transport Police Section)
External auditors	KPMG LLP
Solicitors	CMS Cameron McKenna, Dickinson Dees, DWF, Freshfields Bruckhaus Deringer, Herbert Smith (from March 2010), Maclay Murray & Spens
Bankers	The Royal Bank of Scotland Group plc

Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
*1994 Pensioners	The Secretary of State for Transport	138,004	4,082
Abellio	Abellio Transport Holdings Ltd	10	1
Alpha Trains	Alpha Trains (UK) Limited	27	6
Alstom Railways Ltd	Alstom Ltd	2,122	137
Amey Rail	Amey Rail Ltd	2,540	144
Angel Trains	Angel Trains Ltd	235	36
Anglia Railways	London Eastern Railway Ltd	817	64
Arriva Trains Wales	Arriva Trains Wales/Trenau Arriva Cymru Ltd	3,164	175
Atkins Ltd	Atkins Rail Ltd Atkins Ltd Network Train Engineering Services Ltd Opal Engineering Ltd WS Atkins CEDAC Ltd WS Atkins Powertrack Ltd	887	166
ATOC Ltd	ATOC Ltd	303	32
Atos Origin	ATOS Origin IT Services UK Ltd	1,279	201
Babcock Rail Limited	Babcock Rail Ltd First Engineering Holdings Ltd First Projects Ltd	2,415	189
Balfour Beatty	Balfour Beatty Rail Ltd Balfour Beatty Group Ltd	3,248	260
BAM Nuttall	BAM Nuttall Ltd	22	2
Bombardier Transportation (Signal) UK	Bombardier Transportation UK Ltd	376	35

* Denotes sections with a Crown Guarantee

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

*** Denotes employers that are in administration

****Denotes employers that are no longer trading

Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
Bombardier Transportation c2c	Bombardier Transportation UK Ltd	157	4
Bombardier Transportation UK	Bombardier Transportation (Rolling Stock) UK Ltd Bombardier Transportation UK Ltd	1,238	94
*BR	BRB (Residuary) Ltd London Underground Ltd Scottish Ministers The Secretary of State for Transport	534	67
British Transport Police	British Transport Police Authority	2,418	58
BT	British Telecommunications plc	332	11
BUPA Occupational Health	Occupational Health Care Ltd	100	9
c2c Rail	c2c Rail Ltd	1,410	65
Carillion Rail (Centrac)	Carillion Construction Ltd	378	31
Carillion Rail (GTRM)	Carillion Construction Ltd	4,055	221
Carlisle Cleaning Services Ltd	Carlisle Cleaning Services Ltd	75	2
Chiltern Railway Co. Ltd (Maintenance)	The Chiltern Railway Company Ltd	206	11
Clientlogic	Clientlogic (UK) Ltd	69	3
Colas Rail	Colas Rail Ltd	2,245	140
COMATEC	COMATEC UK Ltd	34	1
Corus	Tata Steel UK Rail Consultancy Ltd Tara Steel UK Ltd	554	35
CSC Computer Sciences	CSC Computer Sciences Ltd	10	0.5
DeltaRail Group (Link)	DeltaRail Group Ltd	213	30

* Denotes sections with a Crown Guarantee

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Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
DeltaRail Group (Rail)	DeltaRail Group Ltd	277	62
DeltaRail Group (TCI)	DeltaRail Group Ltd	127	24
East Coast Main Line	East Coast Main Line Company Ltd	6,871	302
East Midlands	East Midlands Trains Ltd	3,892	216
Environmental Scientifics Group	Environmental Scientifics Group Ltd ESG Asbestos Ltd	299	23
Eurostar	Eurostar International Ltd Channel Tunnel Rail Link Ltd HS1 Limited London & Continental Railways Ltd	4,121	237
Eversholt Rail (UK) Limited	Eversholt Rail (UK) Ltd	114	31
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	10,238	897
** Fastline	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,481	127
First Capital Connect	First Capital Connect Ltd	4,824	222
First Great Western	First Greater Western Ltd	10,121	497
First ScotRail	First ScotRail Ltd	7,071	395
Freightliner	Freightliner Ltd Freightliner Heavy Haul Ltd Freightliner Maintenance Ltd Management Consortium Bid Ltd	2,853	236

* Denotes sections with a Crown Guarantee

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a PPF assessment period

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**** Denotes employers that are no longer trading

Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
GB Railways	GB Railfreight Ltd Hull Trains Company Ltd	263	25
Global Crossing	Global Crossing (UK) Telecommunications Ltd	236	36
Great Eastern Railway	London Eastern Railway Ltd	2,258	149
Halcrow Rail	Halcrow Group Ltd	244	40
HS1	HS1 Limited	26	0.2
Intelenet (UK) Services Ltd	Intelenet (UK) Services Ltd	6	0.01
Interfleet Technology	Interfleet Technology Ltd	343	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	217	6
** Jarvis Facilities Ltd	Fastline Ltd Jarvis plc Jarvis Rail Ltd	1,836	163
Lionverge	Lionverge Civils Ltd	111	4
London & South Eastern Railway	London & South Eastern Railway Ltd	8,226	421
London Eastern Railway (West Anglia)	London Eastern Railway Ltd	1,143	73
London Midland	London & Birmingham Railway Ltd	5,214	271
London Overground	London Overground Rail Operations Ltd	1,044	47
London Underground	London Underground Ltd	42	1
Merseyrail	Merseyrail Electrics 2002 Ltd	2,107	106

* Denotes sections with a Crown Guarantee

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

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Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
MITIE Facilities Services	MITIE Facilities Services Ltd	45	1
Mouchel Parkman Rail Ltd	Mouchel Rail Ltd	7	1
National Express Services Ltd	National Express Services Ltd	145	2
Network Rail	Network Rail Infrastructure Ltd	39,735	3,771
New Cross Country	XC Trains Ltd	3,522	203
Northern (ex North East)	Northern Rail Ltd	4,680	272
Northern (ex North West)	Northern Rail Ltd	4,302	223
Omnibus	Aggregate Industries UK Ltd Amec Group Ltd Bailey Maintenance 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 Hitachi Rail Europe Ltd Interserve (Facilities Management) Ltd *** KeenKleen UK Ltd Keolis (UK) Ltd Lorne Stewart plc Manpower UK Ltd MITIE Technical Facilities Management Ltd Mouchel Rail Ltd	1,236	90

* Denotes sections with a Crown Guarantee

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

*** Denotes employers that are in administration

**** Denotes employers that are no longer trading

Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
Omnibus (continued)	Orient Express Services Ltd		
	Phoenix IT Services Ltd		
	*** Puccino's Ltd		
	Rail Management Services Ltd		
	Railway Vehicle Engineering Ltd		
	Rentokil Initial Facilities Services (UK) Ltd		
	Risksol Consulting Ltd		
	Selection Services Ltd		
	Signet Solutions Ltd		
	Sodexo Ltd		
	Stagecoach Supertram Maintenance Ltd		
	Staveley Industries plc		
	Telent Technology Services Ltd		
	TeleTech UK Ltd		
	TLC Tonbridge Ltd		
	VAE UK Ltd		
	Vital Rail Ltd		
	VolkerRail 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	331	51
Porterbrook	Porterbrook Leasing Company Ltd	162	28
Qjump	Qjump Ltd	128	2
Rail Europe	Rail Europe Ltd	40	7
Rail Gourmet UK Ltd	Rail Gourmet UK Ltd Rail Gourmet Waterloo International Ltd	459	26
Railcare Limited (2007)	Railcare Ltd	342	35

* Denotes sections with a Crown Guarantee

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*** Denotes employers that are in administration

**** Denotes employers that are no longer trading

Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
** Relayfast Group	Fastline Ltd Jarvis plc Jarvis Rail Ltd	628	54
RPMI	RPMI Ltd	553	43
RSSB	Rail Safety and Standards Board Ltd	365	50
Scott Wilson	Scott Wilson Ltd	214	40
SERCO	SERCO Ltd	620	54
Siemens	Siemens plc	81	3
Siemens Enterprise Communications Ltd	Siemens Enterprise Communications Ltd	5	1
Signalling Solutions Ltd	Signalling Solutions Ltd	29	4
South West Trains	Stagecoach South Western Trains Ltd	10,139	484
Southern	Southern Railway Ltd	9,372	348
Specialist Computer Centres	Specialist Computer Centres	33	2
Speedy Engineering Services Limited	Speedy Engineering Services Ltd	6	0.4
Swirl Service Group	ISS Facility Services Ltd ISS Support Services Ltd ISS Transport Services Ltd	9	0.09
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	2,020	238
The Chiltern Railway Company	The Chiltern Railway Company Ltd	1,088	67
The QSS Group Ltd	RIQC Ltd The QSS Group Ltd	75	8

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*** Denotes employers that are in administration

****Denotes employers that are no longer trading

Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
Torrent Trackside Ltd	Torrent Trackside Ltd	2	0.003
TransPennine Express (Former Arriva Trains Northern)	First/Keolis Transpennine Ltd	754	50
TransPennine Express (Former North Western Trains)	First/Keolis Transpennine Ltd	560	31
Unipart Rail - NRS	Unipart Rail Ltd	619	47
Unipart Rail - Railpart	Unipart Rail Ltd	354	39
Unisys	Unisys Ltd	30	2
UPS	UPS Limited	363	29
Wabtec Rail Ltd	Wabtec Rail Ltd	10	1
West Coast Traincare	Alstom Ltd	1,028	80
West Coast Trains Ltd	West Coast Trains Ltd	6,622	359
Westinghouse Rail Systems	Westinghouse Brake & Signal Holdings Ltd	926	115
Wrexham, Shropshire & Marylebone Railway Company	**** Wrexham, Shropshire & Marylebone Railway Company Ltd	42	1
		336,865	17,832
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	58	0.1

* Denotes sections with a Crown Guarantee

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Appendix B

Sections and employers as at 31 December 2010

Section	Employer	Total membership as at 31/12/10	Net assets at 31/12/10 £m
INDUSTRY-WIDE DEFINED CONTRIBUTION SECTION	Corus UK Ltd	1,616	21
	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		
		338,560	17,853

* 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 166 participating employers. Each one may operate from several distinct locations, each with its own payroll department and combination of weekly, fortnightly, four-weekly and calendar-monthly paid employees. As a result the Trustee Company deals with employers based at approximately 140 different addresses and 240 distinct payroll combinations.

DUE DATES FOR PAYMENT OF CONTRIBUTIONS

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

SECTIONS IN THE SHARED COST ARRANGEMENT

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

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

SECTIONS IN THE DEFINED CONTRIBUTION (MONEY PURCHASE) ARRANGEMENT AND THE INDUSTRY-WIDE DEFINED CONTRIBUTION SECTION

As at 31 December 2010 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 Actuary, but must be prepared by the Trustee Company and revised from time to time as circumstances require. Once put in place, the employer must pay contributions by the date shown in the schedule.

LATE PAYMENT OF CONTRIBUTIONS

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

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

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

During 2010, there were 256 instances of late payment of contributions with a total value of £29.2m, which represents 4.6% of contributions payable under the schedules of contributions. The largest individual amount was £8,282,000 which was paid one day after the due date. This employer has now agreed to pay contribution invoices by direct debit to help avoid further instances of late payment.

Appendix D

Custody arrangements

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

The custodians are responsible for the 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 segregated from those of the custodians.

Other arrangements which seek to ensure asset safety and to protect evidence of title are in place for certain asset classes such as hedge funds and property. In the case of property, freehold and leasehold property is normally registered at HM Land Registry, where appropriate, and copies of all title documents are held by the Trustee Company's property lawyers or the Network Rail property deeds depository.

In the case of investments managed by US fund of hedge fund managers, the Trustee Company has appointed PNC Global Investment Servicing Inc (formerly PFPC) as the independent fund administrator to ensure that underlying hedge fund entitlements are properly monitored and accounted for, through effective and rigorous reporting and controls. In February, The Bank of New York Mellon announced its intention to buy this unit of PNC as consolidation in the alternative asset servicing arena continued. The deal completed in 2010.

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, SAS70 or similar document in other jurisdictions. This is a report on the custodian's internal controls which is made available to third parties and is reviewed by the custodian's 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 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's global approach to responsible investment is founded on a fundamental belief that companies with robust corporate governance structures, and interested and involved shareholders, may be 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.

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. In this regard, we support the Financial Reporting Council's UK Stewardship Code published in July 2010, which sets out expectations on 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 and we encourage our fund managers to adopt it.

We expect our external fund managers, where relevant, to comply with the Code and its principles, which have also been incorporated in our own Statement of Investment Principles. We monitor their compliance with it, through requiring them to report regularly on its application, and to provide post hoc quarterly reports on voting and other significant matters. This also extends to SEE matters that the fund managers consider are likely to have a material impact on the portfolio.

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

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 RPMI/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

In 2010, Railpen Investments pooled its corporate governance expertise and resources with the Universities Superannuation Scheme (USS), another major UK pension fund, to establish a voting and engagement alliance in the UK, including the publication of a joint UK corporate governance policy and voting guidelines. The policy was approved in February 2010 and will continue to be regularly refreshed in light of major governance developments. It can 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. The policy draws heavily on the UK Corporate Governance Code issued by the FRC in May 2010 and which will apply to companies for financial years beginning on or after 29 June 2010. We expect companies to comply with the Corporate Governance Code, or to explain and justify any reasons for non-compliance, and to outline their plans for compliance in future. 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.

The Trustee is also supportive of industry guidelines issued by the National Association of Pension Funds ('NAPF') and the Association of British Insurers ('ABI'), such as their joint statement on 'Best practice on executive contracts and severance' and the ABI's 'Guidelines on responsible investment disclosure'.

UK VOTING DISCLOSURE

Voting is a key step in engagement, and the Trustee Company votes on all resolutions at all annual and extraordinary general meetings of UK companies in which it has holdings, and has done so since 1992. 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 dialogue with companies.

OVERSEAS MARKETS

In addition to our activities in the UK, active voting and engagement has been extended selectively to overseas markets. In 2006, voting was extended to the US, Continental Europe and Japan, to Singapore and Australia in 2007 and Hong Kong in 2008. To support this increased voting activity overseas, a self-standing US corporate governance policy to deal with specific US governance issues was issued in March 2006. Similar self-standing policies were issued for Japan in May 2006, Singapore in May 2007, Australia in August 2007 and Hong Kong in May 2008. These, again, can be found on our website www.rpmi.co.uk

The Trustee Company's investment managers and custodians are expected to implement these policies and to provide detailed voting reports which are closely monitored by RPMI/Railpen Investments on behalf of the Trustee Company. The Trustee will continue to maintain its own corporate governance policies for these markets and to refresh them at regular intervals.

Appendix E

Responsible investment

The Trustee Company intends to extend voting to other overseas markets and reaffirms that the core principles in its UK policy are applicable to other markets, where appropriate. It endorses the International Corporate Governance Network's ('ICGN') Statement on Global Corporate Governance Principles, updated in 2009. These serve as the starting point for future policies, taking into account local 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.

In addition, we work informally with other investors and pension funds around the world, as we consider it important to learn from the local market expertise that they bring to our own thinking on ESG matters.

GENERAL PRINCIPLES

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

- maintaining communications with companies in which substantial interests are held, other investors in those companies, and those shaping the debate on corporate governance policy;
- widening the scope of the corporate governance debate to company strategy and shareholder value;
- contributing to the debate at a market level by responding to relevant consultations and other policy development activities;
- promoting compliance with the UK Corporate Governance Code, and other statements of recognised best practice in the other markets in which we invest;

- encouraging the application of the principles of the UK Stewardship Code in other markets where appropriate;
- 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. In the UK, if not satisfied by the company's explanations, it will generally vote against:

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

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

EXECUTIVE REMUNERATION

Executive remuneration is often perceived as a major issue in corporate governance. Under the Directors' Remuneration Report Regulations 2002, listed companies in the UK have been required, by law, to submit their remuneration reports to an advisory vote of shareholders (informally known as 'Say on Pay') for all financial years ending on or after 31 December 2002. Similar provisions now apply to companies listed in Australia, the Netherlands, Sweden, France and Germany and will be introduced in Switzerland and in the US in 2011.

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

- a simple and transparent structure which provides for a basic salary at market levels;
- a deferred element of the remuneration package to encourage loyalty; and
- the use of rigorous performance targets for annual bonuses and longer-term incentives appropriate to the company and its sector, which do not encourage excessive risk taking.

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

Appendix E

Responsible investment

SHAREHOLDER LITIGATION

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

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.

The publication of a Corporate Social Responsibility Report, whether incorporated in the annual accounts or as a stand-alone document, is strongly encouraged as part of the commitment to better disclosure. We support the concept of integrated reporting and commend the International Integrated Reporting Committee initiative of the Prince's Accounting for Sustainability Trust to oversee the development of an international connected and integrated approach to corporate reporting.

ANTI-CORRUPTION INITIATIVES

Bribery and corruption has a detrimental effect on citizens in developing and developed countries but it is also harmful to companies and investors too in terms of increasing costs and preventing fair competition. There are obvious benefits for companies and their investors in mitigating political, financial and reputational risks by adopting rigorous anti-bribery and anti-corruption measures.

Support for anti-corruption measures has been an important part of our responsible investment stance and we are, for example, a long-standing investor supporter for around 10 years of the Extractive Industries Transparency Initiative which seeks to set a global standard for transparency in the oil & gas and mining sectors in terms of payment streams to governments.

The EITI is a coalition of governments, companies, investors and civil society groups. Most, if not all, respectable extractives companies have signed up and it is also an engagement issue for investors like us. Further information is available on www.eiti.org

It is also becoming a public policy imperative for governments in the developed world as the recent enactment of the Bribery Act 2010 in the UK demonstrates. We co-signed a joint investor letter in November 2010 to the Ministry of Justice ('MoJ') to demonstrate our general support for the intentions of the Bribery Act in deterring corruption at home and abroad and to respond to the MoJ's consultation on guidance for commercial organisations on bribery prevention.

In addition, RPMI has robust internal policies on the prevention of bribery and corruption underpinned by zero tolerance of corrupt practices in relation to the activities of its own staff.

Appendix F

Risk statement

RISK POLICY

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

The objective of the Trustee Company's risk policy is to limit the exposure of the Scheme and the assets that it is responsible for safeguarding to business, financial, operational, compliance and other risks. Implementation of the risk policy is delegated to the boards of the operating companies, RPMI/Railpen Investments. 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 expects its investment managers to publish internal control assurance reports, (AAF 01/06, SAS70 or equivalent style reports), on the effectiveness of their internal controls, although investment managers are under no regulatory obligation to do so. The internal audit plan includes a rolling programme to review the internal control environment of the investment managers retained by the Trustee Company.

RISK IDENTIFICATION AND MANAGEMENT

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

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

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

In respect of the pensions administration service provided by RPMI, an internal control assurance report has been prepared for the year ended 31 December 2010. 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 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 and 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 and mitigate 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 2010.

Appendix G

Trustee liability insurance

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

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

Trustee liability insurance protects the scheme as well as the trustee. The protection of individual trustees is important and can be a factor in encouraging the best candidates to serve as

trustees. However, the scheme assets are still vulnerable even though the trustees themselves have been exonerated. Insurance adds the external resources of the underwriter while exoneration and indemnification provisions merely shift the liabilities among the trustees, the beneficiaries and the employers.

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

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

'The protection of individual trustees is important and can be a factor in encouraging the best candidates to serve as trustees.'

Appendix H

Summary of the main provisions of the Scheme

INTRODUCTION

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

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

RULES SPECIFIC TO SECTIONS

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

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 would have received from the scheme that has been taken over.

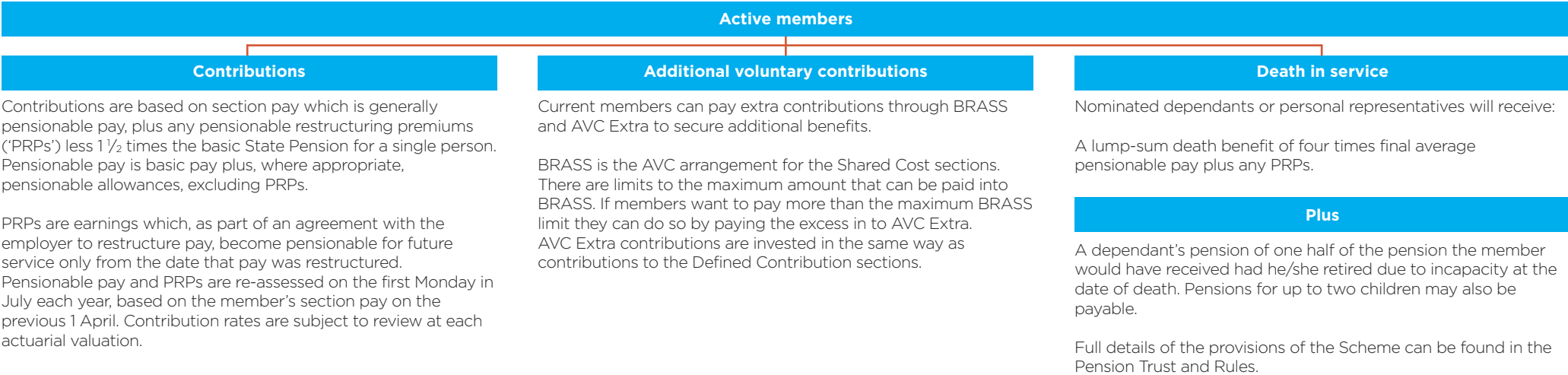
DEFINED CONTRIBUTION SECTIONS

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

Due to the negative rate of inflation as measured by the Retail Prices Index ('RPI') to September 2009, pensions were maintained at current levels and did not increase in April 2010. Pensions in payment and preserved pensions were increased by 3.1% from April 2011 based on the rate of inflation as measured by the Consumer Prices Index ('CPI') to September 2010. The move to increasing pensions by CPI rather than RPI is because pension increases in the RPS are granted in line with Orders increasing to pensions under the Pensions (Increase) Act 1971, which has recently been changed by the UK Government to reflect CPI instead of RPI increases.



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>

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

If the application does not contain all the above details it may result in delay in the complaint being considered. Within two months of receiving the application the 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@rpm.co.uk
Website address: www.rpm.co.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@rpm.co.uk
Website address: www.railwaypensions.co.uk

The Pensions Advisory Service ('TPAS')

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

TPAS Headquarters
11 Belgrave Road
London
SW1V 1RB

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

Pensions Ombudsman

If TPAS cannot resolve a complaint or dispute then the Pensions Ombudsman could be contacted at the 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 3636
Email: customersupport@thepensionsregulator.gov.uk
Website address: www.thepensionsregulator.gov.uk

Pensions Tracing Service

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

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

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

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



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 2010.

The total valuation of the pooled assets as at 31 December 2010 was £17,275.94m (2009 - £15,767.79m). There are in addition £1,704.21m assets held directly by the railways pension schemes not included in the pooled fund arrangements (2009 - £1,646.33m), bringing total assets to £18,980.15m (2009 - £17,414.12m).

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 railway pension schemes with a means to invest in UK and foreign equity and bond markets, funds of hedge funds, private equity, property, commodities and infrastructure.

During 2010 the pooled funds were reorganised. The Global Bond (Hedged) Pooled Fund was divided into separate pooled funds for government and non-government bonds. At the same time a Growth Pooled Fund was established, which aims to provide a return of 5% above RPI in the long term. The Growth Fund does not run a fixed asset allocation strategy like the other pooled funds. Instead, a dynamic asset allocation process is employed to control investment across the various asset classes, within a risk budget framework.

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

The table on page 60 summarises the investments of each of these pooled funds as at 31 December 2010. The notes on pages 65 to 87 analyse the total pooled assets of £17,275.94m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years and their unit prices, are set out on page 67.

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 fair value based on advice from the respective 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.

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 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 in section 1.4 and the notes in Section 2 form part of these accounts.

Appendix K

Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2010

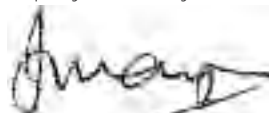
MOVEMENT IN UNIT HOLDERS' FUNDS

	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested income	Change in cross holdings	Total unit holders' funds
Pooled fund	£m	£m	£m	£m	£m	£m	£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

Approved on behalf of the Trustee Company on 25 May 2011



Derek Scott
Chairman



John Mayfield
Director

The accounting policies in section 1.4 and the notes in Section 2 form part of these accounts.

Appendix K

Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2009

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	3,804.31	739.84	–	–	2,635.56	144.24	(96.90)	1,315.52	80.14	(169.94)	–	8,452.77
Private Equity	14.57	2.73	–	–	1,177.52	–	(0.08)	10.26	0.22	(2.08)	856.83	2,059.97
Global Bond (Hedged)	0.63	1,532.79	2.01	–	124.78	27.02	(32.75)	321.56	30.88	(3.32)	–	2,003.60
Property	–	–	–	1,046.38	5.14	–	–	202.38	63.98	(31.70)	–	1,286.18
Hedge Funds	44.30	–	–	–	904.62	5.61	(15.28)	181.89	1.89	(77.27)	–	1,045.76
Infrastructure	182.83	–	–	–	554.66	2.32	(0.28)	13.20	1.45	(0.37)	–	753.81
Index Linked	–	107.58	490.62	–	–	14.48	(0.31)	72.63	3.37	(3.45)	–	684.92
Short Bond	–	158.91	–	–	–	–	–	8.62	1.39	(0.11)	–	168.81
Commodities	–	117.16	–	–	–	10.84	(3.34)	39.00	–	(0.16)	–	163.50
BRASS	–	–	–	–	–	–	–	5.25	0.17	(0.12)	15.93	21.23
Cross Holdings	–	–	–	–	–	–	–	–	–	–	(872.76)	(872.76)
Total	4,046.64	2,659.01	492.63	1,046.38	5,402.28	204.51	(148.94)	2,170.31	183.49	(288.52)	–	15,767.79
%	25.67	16.87	3.12	6.64	34.26	1.29	(0.94)	13.76	1.16	(1.83)	–	100.00

The accounting policies in section 1.4 and the notes in Section 2 form part of these accounts.



Appendix K

Pooled fund accounts

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2009

MOVEMENT IN UNIT HOLDERS' FUNDS

	In issue at start of year	Issued during year	Redeemed during year	Change in market value of investments	Reinvested income	Change in cross holdings	Total unit holders' funds
Pooled Fund	£m	£m	£m	£m	£m	£m	£m
Global Equity	6,853.37	279.76	(637.13)	1,877.74	79.03	–	8,452.77
Private Equity	1,847.01	3.34	(19.90)	228.54	0.98	–	2,059.97
Global Bond (Hedged)	1,818.52	96.73	(121.03)	135.09	74.29	–	2,003.60
Property	1,213.61	18.39	(12.93)	3.23	63.88	–	1,286.18
Hedge Funds	944.48	39.33	(63.76)	133.69	(7.98)	–	1,045.76
Infrastructure	846.61	–	–	(98.86)	6.06	–	753.81
Index Linked	726.96	0.89	(107.81)	53.56	11.32	–	684.92
Short Bond	162.18	2.26	(3.13)	2.05	5.45	–	168.81
Commodities	–	142.55	–	21.03	(0.08)	–	163.50
BRASS	–	20.81	–	0.42	–	–	21.23
Cross Holdings	(797.89)	–	–	–	–	(74.87)	(872.76)
Total	13,614.85	604.06	(965.69)	2,356.49	232.95	(74.87)	15,767.79

Appendix K

Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT

1.1 FUND STATEMENT AS AT 31 DECEMBER 2010

	Note	2010 £m	2009 £m
Assets			
Equities			
UK Quoted		797.01	675.13
UK Unquoted			9.88
Overseas Quoted		3,841.36	3,303.37
Overseas Unquoted		83.85	58.26
		4,722.22	4,046.64
Fixed interest securities			
UK quoted - public sector		549.36	118.47
UK quoted - non public sector		138.33	147.60
UK unquoted - non public sector		3.06	2.73
Overseas quoted - public sector		1,195.03	1,284.94
Overseas quoted - non public sector		1,136.71	302.06
Overseas unquoted - non public sector		–	803.21
		3,022.49	2,659.01
Indexed linked securities			
UK quoted - public sector		194.23	447.41
UK quoted - non public sector		0.31	43.21
Overseas quoted - public sector		5.23	2.01
		199.77	492.63

	Note	2010 £m	2009 £m
UK Property		1,216.77	1,046.38
Pooled investment vehicles			
UK unquoted - property partnerships		15.41	5.14
UK unquoted - unitised insurance policies		2,368.62	2,118.19
UK unquoted - partnerships		507.50	575.77
UK quoted - other managed funds		76.64	–
Overseas quoted - hedge funds		0.53	0.63
Overseas quoted - other managed funds		141.26	15.51
Overseas unquoted - partnerships		2,076.37	1,589.78
Overseas unquoted - hedge funds		1,155.72	968.36
Overseas unquoted - other managed funds		23.64	128.90
		6,365.69	5,402.28
Derivative contracts			
Forwards - OTC	1.5	–	0.32
Futures - exchange traded	1.5	44.37	53.50
TBA contracts - OTC	1.5	0.43	1.54
Swaps - OTC	1.5	16.82	12.37
Options - OTC	1.5	0.25	1.00
Options - exchange traded	1.5	2.89	–
FX contracts - OTC	1.5	33.80	135.78
		98.56	204.51

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.1 FUND STATEMENT AS AT 31 DECEMBER 2010 (CONTINUED)

	Note	2010 £m	2009 £m
Cash deposits and cash instruments	1.6	1,991.83	2,170.31
Other assets			
Other investment assets	1.7	94.68	104.07
Current assets	1.9	8.98	7.72
		103.66	111.79
Cross holdings			
Global Equity Pooled Fund		2,966.34	868.09
Hedge Fund Pooled Fund		726.91	0.08
Property Pooled Fund		652.21	–
Non-Government Bond Pooled Fund		336.89	–
Cash Pooled Fund		303.05	–
Commodities Pooled Fund		287.65	–
Government Bond Pooled Fund		3.92	–
Index Linked Pooled Fund		1.76	0.83
Global Bond Pooled Fund (Hedged)		–	3.76
		5,278.73	872.76
Total assets		22,999.72	17,006.31

	Note	2010 £m	2009 £m
Liabilities			
Derivative contracts			
Forwards – OTC	1.5	–	(1.04)
Futures – exchange traded	1.5	(7.68)	(11.11)
TBA contracts – OTC	1.5	(0.21)	(0.85)
Swaps – OTC	1.5	(13.88)	(3.23)
Options – OTC	1.5	(1.94)	(0.83)
Options – exchange traded	1.5	(1.64)	–
FX contracts – OTC	1.5	(128.07)	(131.88)
		(153.42)	(148.94)
Other liabilities			
Other investment liabilities	1.8	(236.42)	(151.73)
Current liabilities	1.10	(55.21)	(65.09)
		(291.63)	(216.82)
Total liabilities		(445.05)	(365.76)
Cross holdings		(5,278.73)	(872.76)
Net assets attributable to unit holders		17,275.94	15,767.79

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.2 POOLED FUND UNIT PRICES AS AT 31 DECEMBER 2010

	Note	2010 £m	2009 £m
Global Equity Pooled Fund		51.11	45.40
Growth Pooled Fund		11.03	–
Property Pooled Fund		53.10	46.41
Hedge funds Pooled Fund		12.85	11.90
Non-Government Bond Pooled Fund		10.39	–
Infrastructure Pooled Fund		7.28	7.12
Government Bond Pooled Fund		9.98	–
Private Equity Pooled Fund 2007		10.48	8.87
Cashflow Matching 2011 Pooled Fund		10.03	–
Commodities Pooled Fund		16.20	13.46
Private Equity Pooled Fund 2001		21.37	17.08
Cash Pooled Fund		10.02	–
Private Equity Pooled Fund 2005		16.16	13.23
Index Linked Pooled Fund		42.77	37.84
Private Equity Pooled Fund 2004		20.09	17.42
Cashflow Matching 2012 Pooled Fund		10.08	–
Cashflow Matching 2010 Pooled Fund		9.99	–
Direct Investment Pooled Fund 2000		16.68	14.49
Cashflow Matching 2013 Pooled Fund		10.14	–
Short Bond Pooled Fund		23.39	22.55
Private Equity Pooled Fund 2009		12.79	9.68
BRASS Pooled Fund (Growth)		11.80	10.59
BRASS Pooled Fund (Cautious)		11.24	10.36
Direct Investment Pooled Fund 1998		10.36	7.97
Direct Investment Pooled Fund 1999		12.32	7.72
Direct Investment Pooled Fund 1995		2,310.23	993.23
Direct Investment Pooled Fund 1997		22.95	24.71
Global Bond Pooled Fund (Hedged)		–	16.88

1.3 VALUE OF THE POOLED FUNDS

	Note	2010 £m	2009 £m
Global Equity Pooled Fund		8,148.49	8,452.77
Growth Pooled Fund		6,029.23	–
Property Pooled Fund		1,452.82	1,286.18
Hedge Funds Pooled Fund		1,142.54	1,045.76
Non-Government Bond Pooled Fund		1,066.83	–
Infrastructure Pooled Fund		770.63	753.81
Government Bond Pooled Fund		759.74	–
Private Equity Pooled Fund 2007		719.95	1,153.62
Cashflow Matching 2011 Pooled Fund		391.13	–
Commodities Pooled Fund		383.10	163.50
Private Equity Pooled Fund 2001		355.68	386.88
Cash Pooled Fund		308.77	–
Private Equity Pooled Fund 2005		270.74	304.04
Index Linked Pooled Fund		195.50	684.92
Private Equity Pooled Fund 2004		118.36	123.80
Cashflow Matching 2012 Pooled Fund		100.87	–
Cashflow Matching 2010 Pooled Fund		93.89	–
Direct Investment Pooled Fund 2000		69.41	75.15
Cashflow Matching 2013 Pooled Fund		46.80	–
Short Bond Pooled Fund		37.26	168.81
BRASS Pooled Fund (Growth)		29.82	12.60
Private Equity Pooled Fund 2009		29.66	2.27
BRASS Pooled Fund (Cautious)		17.90	8.63
Direct Investment Pooled Fund 1998		8.73	6.72
Direct Investment Pooled Fund 1999		5.73	3.59
Direct Investment Pooled Fund 1995		0.77	0.33
Direct Investment Pooled Fund 1997		0.32	3.57
Global Bond Pooled Fund (Hedged)		–	2,003.60
		22,554.67	16,640.55
Cross holdings		(5,278.73)	(872.76)
		17,275.94	15,767.79

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.4 INVESTMENT INCOME

	2010 £m	2009 £m
Dividends from equities	108.08	91.00
Income from fixed interest securities	99.30	105.36
Income from index linked securities	5.53	9.76
Income from UK property	73.46	72.71
Interest from cash deposits	12.34	13.94
Income from preferred securities	0.02	0.07
Other income	8.81	5.29
	307.54	298.13
Irrecoverable withholding tax	(7.06)	(4.56)
Total income	300.48	293.57
Administration, custody and other expenses	(17.11)	(16.73)
Investment management fees – base	(34.03)	(27.07)
Investment management fees – performance	(6.41)	(8.46)
RPMI fees	(9.84)	(8.16)
Tax	(0.01)	(0.14)
Interest paid	–	(0.06)
Reinvested income (accrued in unit price)	233.08	232.95

1.5 DERIVATIVE CONTRACTS

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

Type of future	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
S&P 500 index	587.26	18.49	–
Commodities	243.45	21.32	(0.15)
FTSE 100 index	180.09	2.09	–
Eurostoxx 50 index	167.59	–	(3.28)
Euribor	43.22	0.03	–
Other equity index	36.44	0.35	(1.81)
UK interest rate	15.06	0.02	–
Australian government bonds	7.23	0.07	–
UK government bonds	3.71	0.12	(0.10)
Canadian government bonds	(1.11)	0.01	(0.02)
Japanese government bonds	(4.40)	0.01	–
German government bonds	(42.50)	0.23	(0.39)
US government bonds	(45.26)	1.63	(1.93)
	1,190.78	44.37	(7.68)

Included within net assets is £111.8m cash, £265.54m US Treasury bills, £3.51m US Treasury bonds, £0.14m US inflation linked securities and £5.83m 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 £0.32m of US Treasury inflation indexed bonds. Collateral received in this way is not reported within the pooled fund's net assets.

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT

1.5 DERIVATIVE CONTRACTS (CONTINUED)

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

Type of TBA	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
FNMA mortgage backed	(110.68)	0.28	(0.17)
GNMA mortgage backed	(37.45)	0.13	–
FHLMC mortgage backed	(6.47)	0.02	(0.04)
		0.43	(0.21)

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

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

Type of swap	Duration (years)	Nominal amount £m	Asset value at year end £m	Liability value at year end £m
Credit default swaps	1 to 5	56.08	0.22	(0.71)
Credit default swaps	5 to 10	80.50	1.64	(0.30)
Credit default swaps	10 to 15	23.03	0.12	–
Credit default swaps	15 to 20	2.36	0.05	–
Total return swaps	1 to 5	44.16	1.76	–
Currency swaps	1 to 5	25.49	12.90	(12.61)
Interest rate swaps	1 to 5	25.05	–	(0.26)
Interest rate swaps	5 to 10	2.02	0.13	–
			16.82	(13.88)

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 £2.86m of US Treasury bills, £0.25m US Treasury notes and £8.48m of cash collateral at the year end. These amounts are included in the net assets of the pooled fund at the year end.

Collateral deposited by counterparties with the Trustee Company in respect of swap contracts at the year end date amounted to £6.34m of cash. Collateral received in this way is not reported within the pooled fund's net assets.

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT

1.5 DERIVATIVE CONTRACTS (CONTINUED)

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

Type of option	Bought or sold	Notional value £m	Asset value at year end £m	Liability value at year end £m
OTC option				
Interest rate swaps	Sold	246.67	–	(1.90)
Interest rate swaps	Bought	12.33	0.08	–
Market index	Bought	4.65	0.09	–
Market index	Sold	10.09	–	(0.03)
Foreign currency	Bought	0.01	0.02	–
International bond future	Bought	4.41	0.02	–
Volatility index	Bought	0.08	0.04	–
Credit default swaps	Sold	13.67	–	(0.01)
Exchange traded option				
Interest rate futures	Sold	67.70	–	(0.03)
US treasury bond	Bought	87.82	2.89	–
US treasury bond	Sold	117.27	–	(1.61)
			3.14	(3.58)

The above options expire within two years and two months 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			
Yen / US dollar	1,456.18	17.47	0.32
US dollar / Euro	694.16	506.80	9.14
US dollar / Sterling	348.09	217.97	4.40
Sterling / Swedish krone	338.14	30.90	1.21
Euro / Sterling	133.57	113.06	1.41
Norwegian krone / Sterling	102.73	10.75	0.52
Sterling / Swiss franc	70.53	45.22	3.14
Sterling / Euro	64.95	75.26	0.44
AU dollar / Sterling	47.50	28.92	2.03
Canadian dollars / Sterling	18.05	11.19	0.41
Sterling / US dollar	5.85	9.02	0.09
Singapore dollar / Sterling	1.52	0.74	0.02
Other			10.67
			33.80

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.5 DERIVATIVE CONTRACTS (CONTINUED)

Type of contract	Currency bought £m	Currency sold £m	Value at year end £m
Liabilities			
Sterling / US dollar	4,639.56	7,372.00	(70.80)
US dollar / Yen	662.97	55,021.19	(10.07)
US dollar / Euro	630.35	476.01	(5.18)
US dollar / AU dollar	300.91	309.58	(9.54)
US dollar / Swiss franc	214.76	210.29	(7.00)
Sterling / Euro	196.02	231.45	(2.36)
US dollar / Canadian dollar	124.22	126.11	(1.66)
Euro / Sterling	85.17	74.49	(1.50)
Sterling / Yen	69.29	9,051.20	(2.02)
Sterling / AU dollar	32.58	52.96	(1.81)
Sterling / Norwegian krone	14.43	136.59	(0.55)
Sterling / Swiss franc	3.62	5.65	(0.26)
US dollar / Sterling	3.56	2.31	(0.04)
Other			(15.28)
			(128.07)

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

1.6 CASH DEPOSITS AND CASH INSTRUMENTS

Included within cash balances is £455.01m in respect of repo transactions. (2009 - £78m)

1.7 OTHER INVESTMENT ASSETS

	2010 £m	2009 £m
Asset in respect of investment transactions	35.27	56.64
Investment income accrued	47.41	36.55
Recoverable tax	2.15	2.67
Rent receivable	9.85	8.21
	94.68	104.07

1.8 OTHER INVESTMENT LIABILITIES

	2010 £m	2009 £m
Liability in respect of investment transactions	(236.00)	(151.40)
Tax payable	(0.41)	(0.33)
Other	(0.01)	–
	(236.42)	(151.73)

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.9 CURRENT ASSETS

	2010 £m	2009 £m
Asset in respect of unit trades	3.45	2.77
Trade debtors	3.49	4.44
Tax	0.69	–
Other	1.35	0.51
	8.98	7.72

1.10 CURRENT LIABILITIES

	2010 £m	2009 £m
Accrued management fees and expenses	(23.82)	(28.49)
Property income received in advance	(16.19)	(16.01)
Trade creditors	(7.01)	(9.22)
Liability in respect of unit trades	(1.24)	(4.38)
Other	(4.18)	(1.49)
Tax	(2.77)	(5.50)
	(55.21)	(65.09)

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 2010, the market valuation of stock that had been lent in the market was £314.56m (2009 - £180.96m).

Collateral held in respect of the stock on loan at 31 December 2010 had a total value of £325.78m (2009 - £185.99m).

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Pooled fund accounts

1.12 RECONCILIATION OF INVESTMENTS HELD AT BEGINNING AND END OF YEAR

	Value at 31 December 2009 £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 2010 £m
Directly held assets							
Equities	4,046.64	–	–	3,376.86	(3,341.53)	640.25	4,722.22
Fixed interest securities	2,659.01	–	–	6,918.53	(6,639.16)	84.11	3,022.49
Index linked securities	492.63	–	–	685.90	(995.17)	16.41	199.77
Pooled investment vehicles	5,402.28	–	–	3,820.22	(3,650.21)	793.40	6,365.69
UK property	1,046.38	–	–	85.78	(30.04)	114.65	1,216.77
	13,646.94	–	–	14,887.29	(14,656.11)	1,648.82	15,526.94
Derivatives							
Forwards	(0.72)	–	–	7.45	(6.66)	(0.07)	–
Futures	42.39	–	–	185.42	(313.68)	122.56	36.69
TBA's	0.69	–	–	30.34	(25.35)	(5.46)	0.22
Swaps	9.14	–	–	22.79	(30.82)	1.83	2.94
Options	0.17	–	–	8.65	(17.02)	7.76	(0.44)
FX contracts	3.90	–	–	121,692.49	(121,501.03)	(289.63)	(94.27)
	55.57	–	–	121,947.14	(121,894.56)	(163.01)	(54.86)
Cross holdings	872.76	–	–	6,274.30	(2,346.09)	477.76	5,278.73
Other							
Cash and current assets	2,065.28	3,678.35	233.08	(143,108.73)	138,896.76	39.12	1,803.86
	16,640.55	3,678.35	233.08	–	–	2,002.69	22,554.67
Cross holdings	(872.76)						(5,278.73)
Net assets	15,767.79						17,275.94

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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:

	2010 £m	2009 £m
BlackRock Advisors (UK) Limited	2,973.22	2,989.75
Orchard Street Investment Management	1,416.83	1,236.56
Wellington Management International	1,067.05	803.69
Pacific Investment Management Company ("PIMCO")	889.34	801.96
Legal and General Investment Management ("L&G")	824.95	731.21
Western Asset Management	745.48	745.43
Lazard Asset Management	607.15	699.54
Blackstone Alternative Asset Management	498.34	456.55
Edinburgh Partners	443.59	406.73
William Blair & Company	366.24	285.34
Southeastern Asset Management	340.73	279.17
TT International	327.87	299.64
Grosvenor Capital Management	315.46	333.93
Brandes Investment Partners	292.25	259.81
Longview Partners LLP	285.18	244.51
Cinven	262.07	221.07
JP Morgan Asset Management	248.62	206.66
Goldman Sachs	246.18	219.48
Fidelity Pensions Management	243.74	201.97
Neuberger Berman Europe Limited	243.65	160.31
NewSmith Asset Management	240.61	208.20

	2010 £m	2009 £m
Alinda Capital Partners	231.12	170.20
Marathon Asset Management LLP (from August 2010)	229.25	–
Railpen Investments/RPMI	222.01	156.83
The Rock Creek Group	220.64	209.27
Morgan Stanley Investment Management	215.69	183.28
Aberforth Partners LLP	207.48	137.80
Bridgewater Associates	206.31	151.31
HarbourVest Partners	204.89	158.31
Prudential M&G Investment Management	194.84	669.95
Standard Life	179.01	82.95
Taiyo Pacific Partners	177.40	146.72
Relational Investors	171.97	137.02
Horsley Bridge Partners	165.44	114.35
Pantheon Ventures	162.69	140.85
Apax Partners	148.34	128.79
New Finance Capital LLP (from June 2010)	138.46	–
Martin Currie	135.45	105.37
Unigestion Asset Management (from December 2010)	127.96	–
Sub-total	16,217.50	14,484.51

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.13 INVESTMENT MANAGERS DURING THE YEAR (CONTINUED)

	2010 £m	2009 £m
Sub-total	16,217.50	14,484.51
Adams Street Partners	109.63	89.96
CP2	90.19	61.64
Oaktree Capital Management	88.00	66.77
Blakeney Management	86.14	71.26
Arcus Infrastructure Partners	85.88	101.08
Legg Mason International	79.55	320.32
River and Mercantile	74.48	69.37
Goodhart Partners LLP	66.52	64.38
Newton Investment Management (from November 2010)	50.78	–
Indicus Advisors	42.68	30.82
Warburg Pincus	39.76	21.34
Archer Capital	35.04	17.35
Sankaty Advisors	29.79	29.03
HSBC Private Equity Management	25.94	23.19
Innisfree	25.60	19.00
Bain Capital	25.16	14.26
Governance for Owners Group ('GO')	17.39	139.46

	2010 £m	2009 £m
Great Hill Partners	11.85	2.25
EQT Funds Management	11.55	12.07
Scale Ventures	7.98	2.47
Capital Dynamics	7.27	8.28
Columbia Capital	6.84	2.82
Balderton	6.73	2.63
Khosla Ventures (from January 2010)	6.22	–
Hony Capital	6.08	1.31
Anacap Financial Partners	3.54	3.36
Charlesbank Capital Partners	3.03	0.65
Domain Partners	2.97	0.35
Innova	2.80	0.03
KPS Capital Partners	2.32	1.39
Highland Capital Partners (from September 2010)	2.05	–
Sequoia Capital (from April 2010)	1.44	–
Navis Capital Partners Ltd (from February 2010)	1.32	–
Institutional Venture Partners (from July 2010)	1.28	–
Bridges Community Ventures	0.40	0.45
Southern Cross Group (from July 2010)	0.24	–
Bluecrest Capital Management (until December 2010)	–	105.99
Total	17,275.94	15,767.79

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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:

	2010 %	2009 %
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	30.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	3.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	12.6
FTSE All World Developed Japan Index	–	9.4
	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 Global Bond Pooled Fund (Hedged) is the Barclays Capital Global Aggregate Index – ex Japan (hedged).

Until 1 July 2010 the benchmark for the manager and for the pooled fund as a whole was the FTSE UK Gilts Index Linked All Stocks Index. The benchmark changed to the FTSE UK Gilts – Index Linked > 15 Years Index with effect from 1 July 2010.

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

The Cash Plus Pooled Fund benchmark is three month Sterling LIBOR, fixed at the British Bankers' Association fixing on the last UK business day of the preceding calendar quarter. LIBOR is the London Inter Bank Offer Rate, being the rate at which banks in the City of London are willing to lend money from one another in the wholesale money markets. The fund of fund managers' benchmark is 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 (UK) Limited provides a passive hedge back into Sterling for 100% of the pooled fund, and is also mandated to run a liquidity portfolio benchmarked to three month Sterling LIBOR.

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

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

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

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

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

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

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%.

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Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

1.15 PERFORMANCE

Pooled fund	Actual 2010 (%)	Bench 2010 (%)	Actual last 5 years (%)	Bench last 5 years (%)
Global Equity Pooled Fund	13.3	12.3	3.0	4.0
Global Bond Pooled Fund (Hedged)**	6.2	4.5	4.3	5.5
Index Linked Pooled Fund**	4.2	4.0	6.1	6.1
Short Bond Pooled Fund	3.7	3.6	4.9	5.1
Hedge Funds Pooled Fund	9.1	0.5	4.1	3.7
Property Pooled Fund	15.6	14.5	3.6	0.2
Commodities Pooled Fund	21.2	16.7	n/a	n/a
Infrastructure Pooled Fund	1.8	4.8	n/a	n/a
Private Equity Pooled Fund	19.6	12.5	7.1	4.0
BRASS Pooled Fund (Growth)	11.3	10.8	n/a	n/a
BRASS Pooled Fund (Cautious)	8.3	8.0	n/a	n/a
Cashflow Matching 2010 Pooled Fund*	0.3	0.4	n/a	n/a
Cashflow Matching 2011 Pooled Fund*	0.3	0.3	n/a	n/a
Cashflow Matching 2012 Pooled Fund*	0.7	0.7	n/a	n/a
Cashflow Matching 2013 Pooled Fund*	1.0	1.0	n/a	n/a
Government Bond Pooled Fund*	-0.5	-0.3	n/a	n/a
Non-Government Bond Pooled Fund*	3.2	1.6	n/a	n/a
Cash Pooled Fund*	0.3	0.2	n/a	n/a
Growth Pooled Fund*	10.3	4.4	n/a	n/a

The return of the Index Linked Pooled Fund as measured by WM Performance Services and RPMI was a gain of 6.7% (benchmark: gain of 6.7%) during the period 1 July 2010 to 31 December 2010.

* Returns since inception of the pooled fund

** Returns for the period to 30 June 2010

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

Appendix K

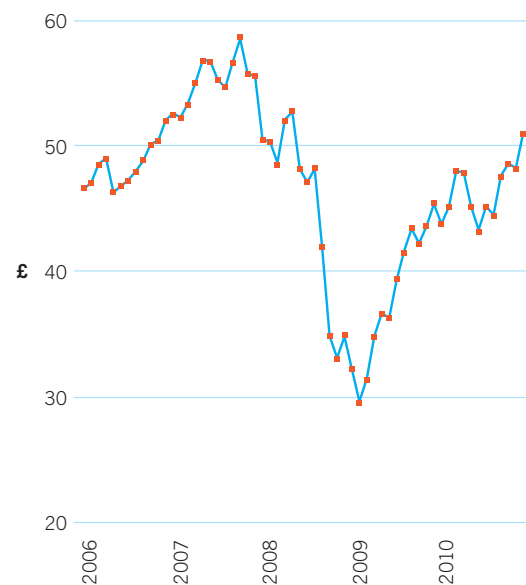
Pooled fund accounts

CONSOLIDATED NOTES TO THE FUND STATEMENT (CONTINUED)

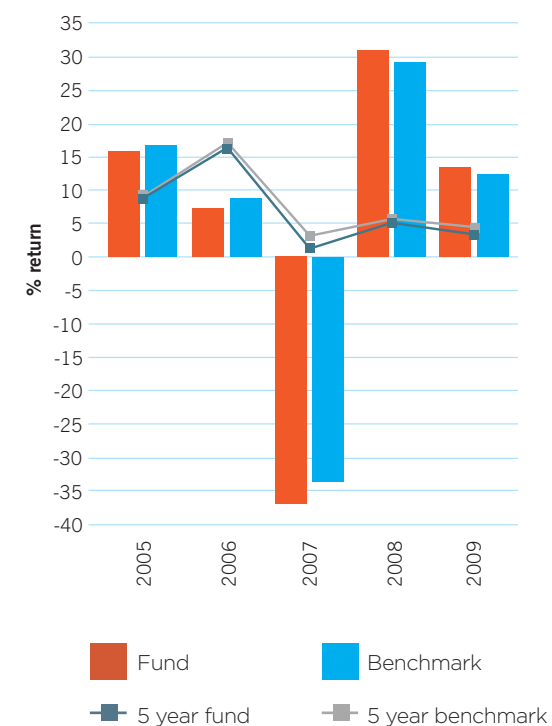
1.15 PERFORMANCE (CONTINUED)

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.

GLOBAL EQUITY POOLED FUND UNIT PRICE



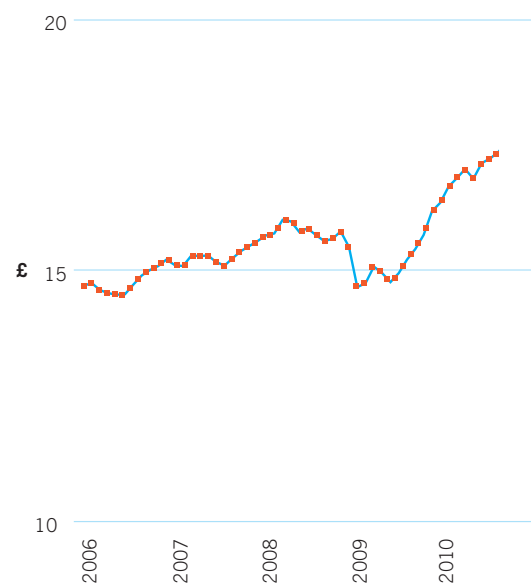
GLOBAL EQUITY POOLED FUND PERFORMANCE



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Pooled fund accounts

GLOBAL BOND POOLED FUND (HEDGED) UNIT PRICE



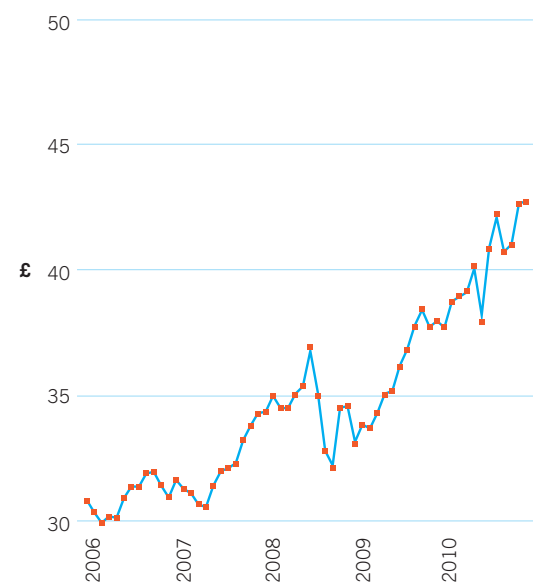
GLOBAL BOND POOLED FUND (HEDGED) PERFORMANCE



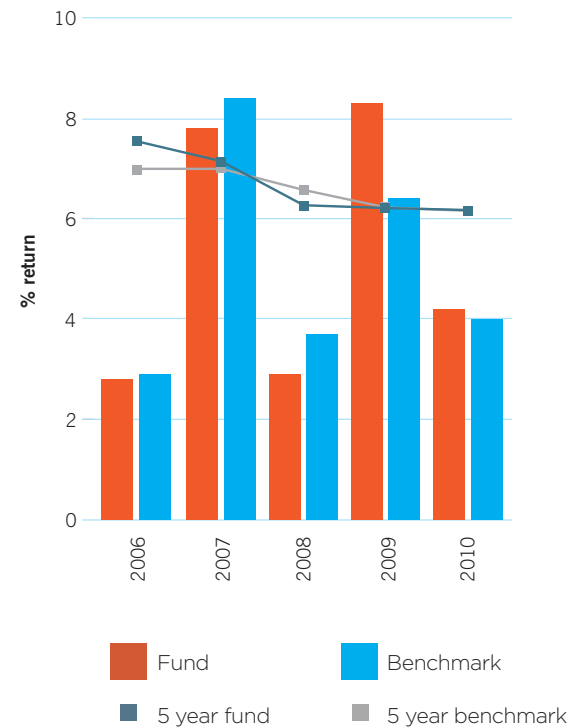
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Pooled fund accounts

INDEX LINKED POOLED FUND UNIT PRICE



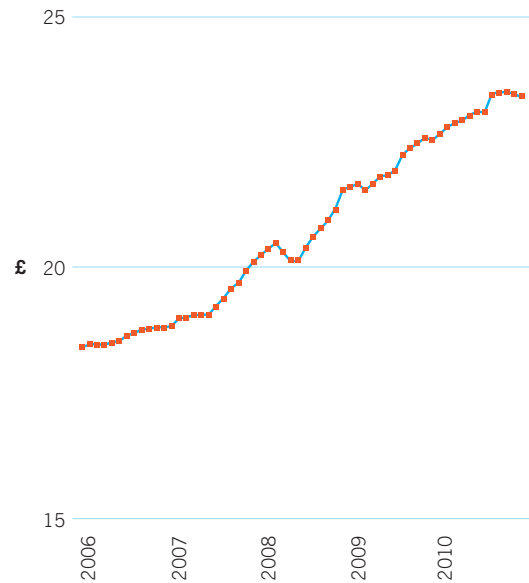
INDEX LINKED POOLED FUND PERFORMANCE



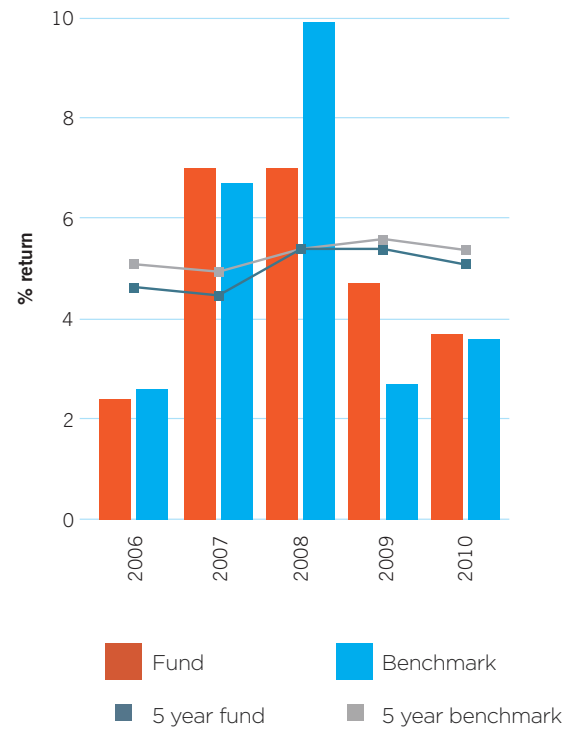
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Pooled fund accounts

SHORT BOND POOLED FUND UNIT PRICE



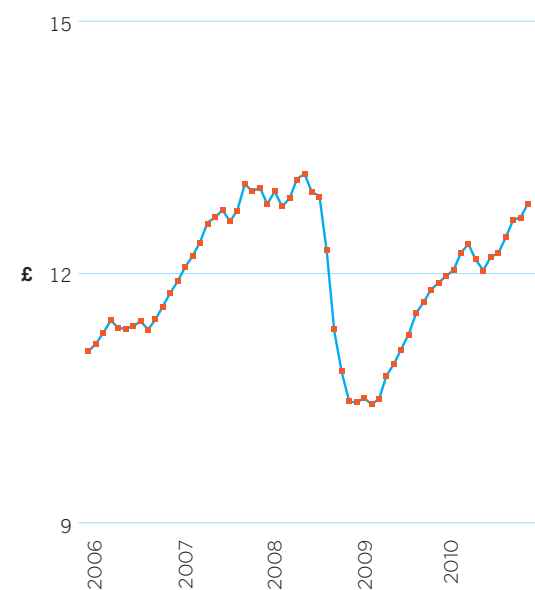
SHORT BOND POOLED FUND PERFORMANCE



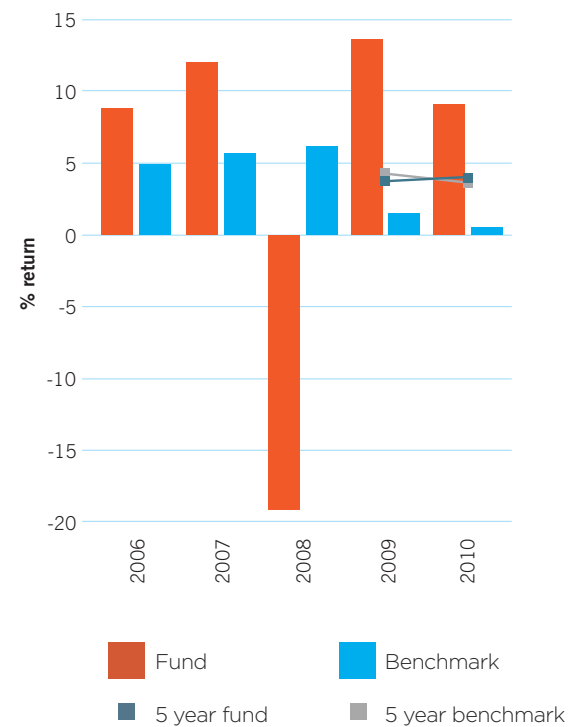
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Pooled fund accounts

HEDGE FUNDS POOLED FUND UNIT PRICE



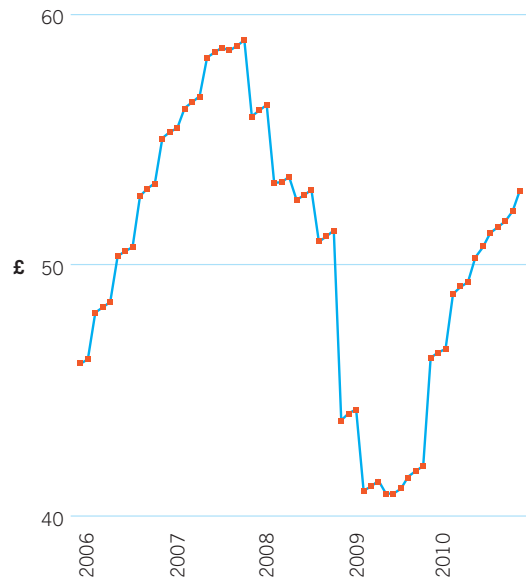
HEDGE FUNDS POOLED FUND PERFORMANCE



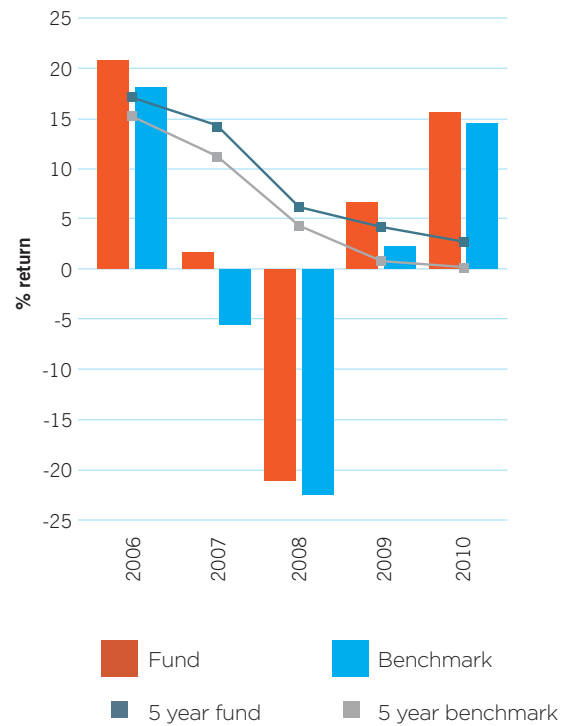
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Pooled fund accounts

PROPERTY POOLED FUND UNIT PRICE



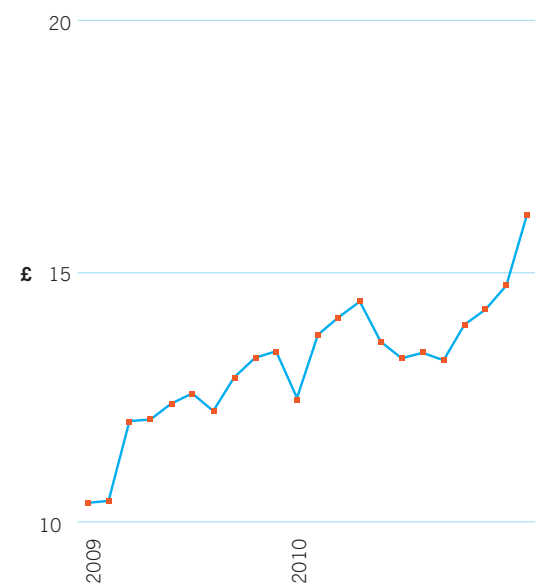
PROPERTY POOLED FUND PERFORMANCE



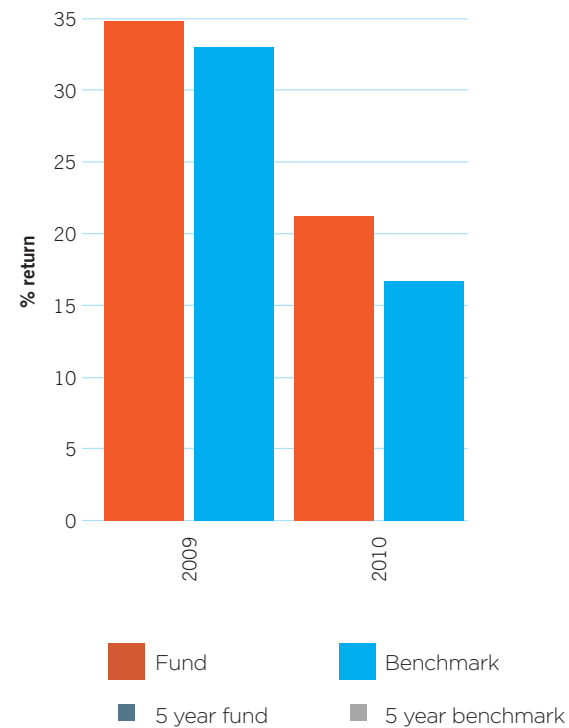
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Pooled fund accounts

COMMODITIES POOLED FUND UNIT PRICE



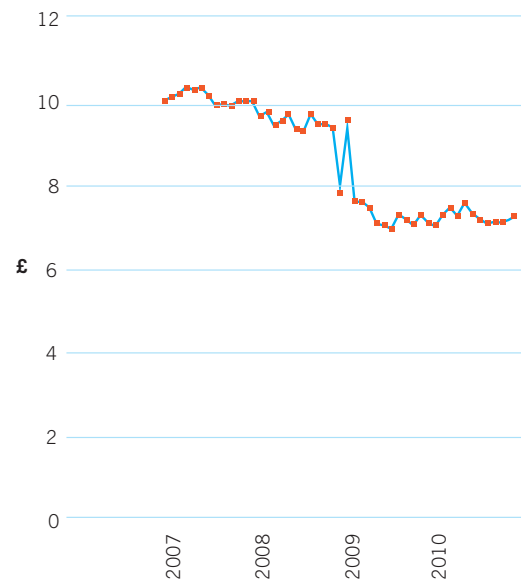
COMMODITIES POOLED FUND PERFORMANCE



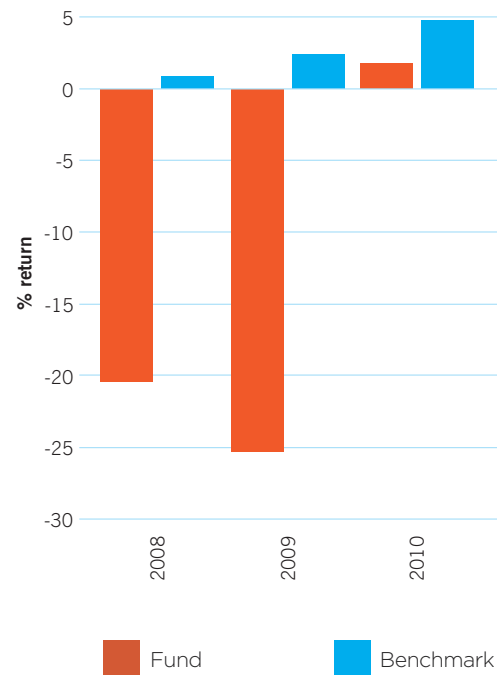
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Pooled fund accounts

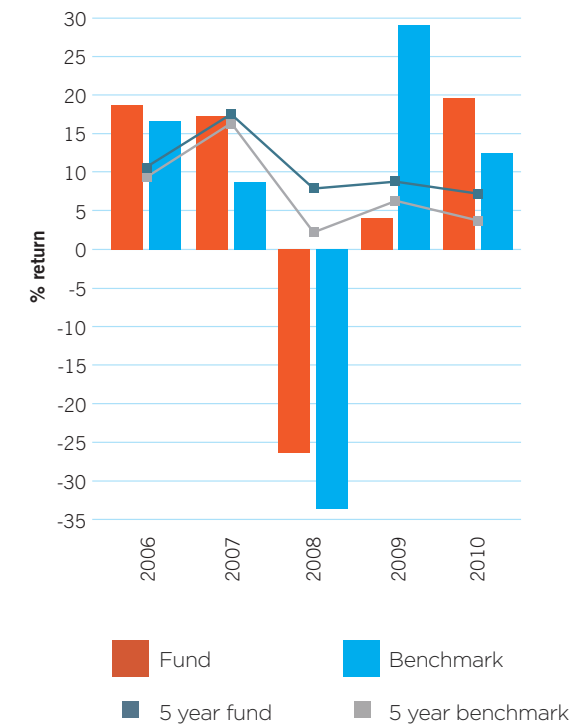
INFRASTRUCTURE POOLED FUND UNIT PRICE



INFRASTRUCTURE POOLED FUND PERFORMANCE



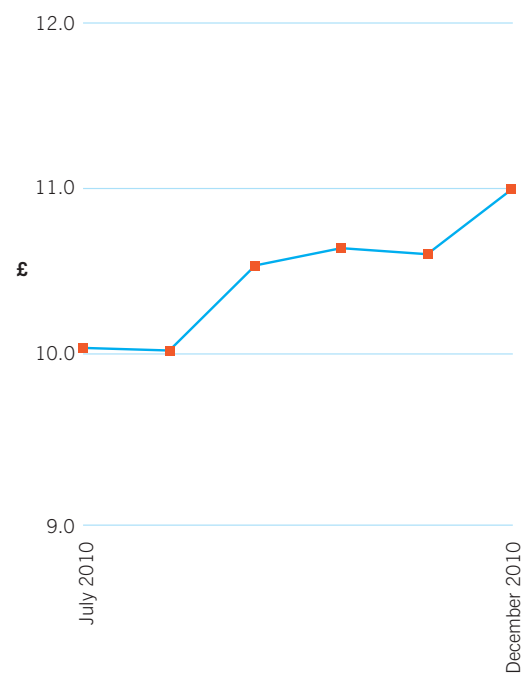
PRIVATE EQUITY POOLED FUND PERFORMANCE



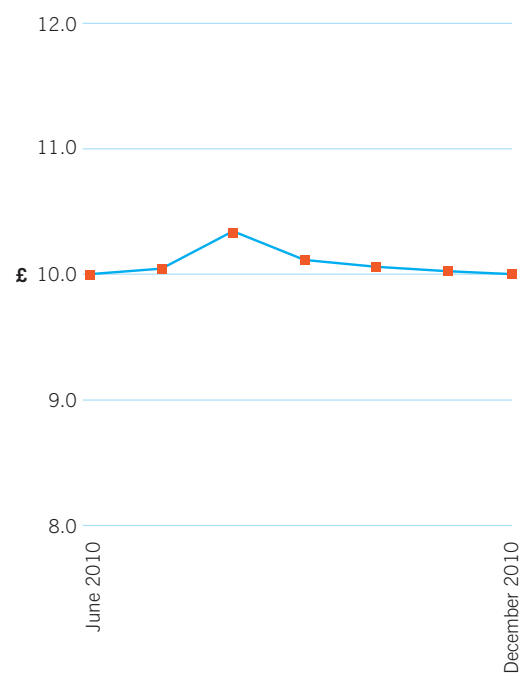
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Pooled fund accounts

GROWTH POOLED FUND UNIT PRICE

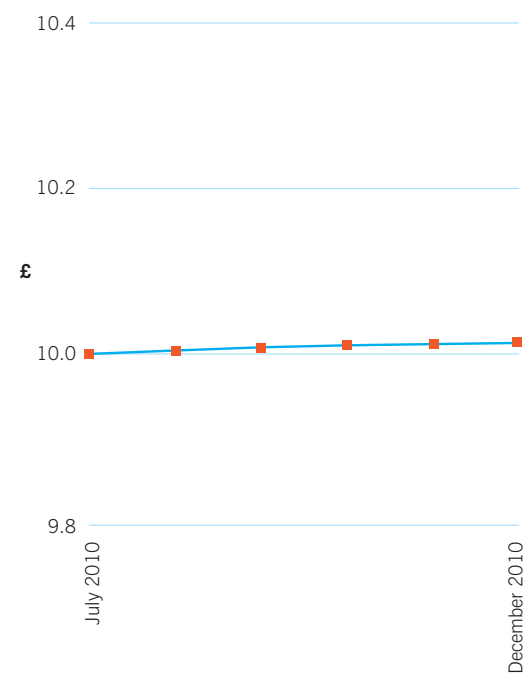


GOVERNMENT BOND POOLED FUND UNIT PRICE



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Pooled fund accounts

CASH POOLED FUND UNIT PRICE**NON-GOVERNMENT BOND POOLED FUND UNIT PRICE**