BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND

Pensions registration number: 100541628

ANNUAL REPORT & AUDITED FINANCIAL STATEMENTS 2012

REPORT AND AUDITED FINANCIAL STATEMENTS 2012

Contents:

CHAIRMAN'S INTRODUCTION

It's again a privilege to present on behalf of your Trustee Board the Annual Report and Audited Financial Statements of the BTPSF ('the Fund') for the year ended 31 December 2012.

During 2012 return-seeking investments performed significantly better than in recent years, with most asset classes generating positive returns and equities performing particularly well. Concerns remain, however, over weak growth and labour market fundamentals in many of the world's major economies, coupled with unresolved issues such as levels of European sovereign debt, levels of personal debt, and fiscal deficits, most notably in the US but elsewhere too.

The Growth Pooled Fund, which is now by far the largest asset pool, had a strong year. This pool targets a long-term real return of 5% per annum above UK inflation, and in 2012 achieved a return of 8.4%, which was marginally ahead of the long-term target. Although global equities still remain the largest single asset class in this pool, the allocation to equities was further reduced during 2012 in response to an uncertain and less attractive market environment.

The Government and Non-Government debt pooled funds also achieved bond returns that were positive and ahead of benchmarks. During the year, securitised bonds such as mortgage-backed securities were completely removed from the benchmark of the Non-Government Bond Pooled Fund, which now has a benchmark of 100% in investment grade corporate bonds.

Commodities, where BTPSF does not invest, were the only return-seeking asset whose value fell during the year, but the performance was still ahead of market benchmark over the period and also since the inception of the pooled fund.

Of the defensive assets, only the small Index Linked Bond Pooled Fund displayed a negative return, which was perhaps to be expected following steep valuation increases in recent years driven to some extent by distortions in supply (for example, quantitative easing) and demand (for example, regulatory pressures) in the index-linked markets.

In July, a Defensive Pooled Fund was established. This pool is designed to allow sections to reduce some risks without immediately implementing a full liability-driven-investment programme or purchasing index-linked bonds at times of record low yields. The pool holds a flexible mix of assets, including holdings in the other pooled funds, but with a lower expected volatility than the Growth Pooled Fund, and targets a long-term real return of 0.5% per annum above UK inflation. At the inception of the Fund, all sections that previously held a mix of defensive assets, but that had now agreed to follow Railpen Investments' asset allocation guidelines based on so-called "risk budgeting", had their assets transferred into the new pool in exchange for Defensive Pooled units.

In the Hedge Fund Pooled Fund, the Trustee Company agreed to begin a process of moving away from a wholly funds of funds structure towards a model which also includes direct hedge fund exposure. This is being done with the intention of reducing the management costs of running the pooled fund without adversely affecting returns.

CHAIRMAN'S INTRODUCTION (CONTINUED)

The Trustee Company also monitors and evaluates the actuarial funding position of the Fund. An important part of this is a continuous assessment of the financial position of the sponsoring employer, as a strong sponsoring employer helps ensure that the Scheme also remains strong. In many cases within the railways industry the Trustee Company has secured further contribution payments from employers or additional security such as guarantees for the benefit of many sections of the RPS. While only the 1994 Pensioners and BR sections of the RPS and the BRSF already benefit from a government guarantee of pensions payable, members of all railway industry schemes should be reassured that the Trustee Company places such a high priority on monitoring the strength of the employers' covenants and on working with employers to maintain and, if possible, to improve the Scheme's longer-term funding position. During 2013 the Trustee Company will continue its work in monitoring employers' covenants along with starting its preparations for the next formal valuation of the Fund, which is due as at the end of 2012, with draft results expected to be published later in 2013.

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

I'm able to report that the RPS has again won a number of awards during the year, including 'Best Scheme Governance (Private Sector)' from Engaged Investor and the 'Trustee Development Award' from Professional Pensions. I am also especially pleased to report that Stephen Richards, your longest-serving Trustee Director, was awarded 'Trustee of the Year' by Engaged Investor. As your administrator, RPMI, won the award for 'Best Pensions Administration' at the Financial News Awards for Excellence in Institutional Pensions UK, so it is appropriate to close this year's introduction by thanking the staff of RPMI for the unstinting service and support they continue to provide to your Fund

Derek Scott
Chairman of the Trustee Company

AUDITED FINANCIAL STATEMENTS

FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Contributions and benefits			
Contributions receivable	**3**	**38,870**	35,845
Individual transfer values received		**4,563**	2,472
		43,433	38,317
Pensions		**(32,732)**	(30,186)
Lump-sum retirement benefits		**(7,559)**	(10,996)
Individual transfer values paid		**(2,373)**	(2,558)
Payments to and on account of leavers		**(26)**	(31)
Death benefits		**(71)**	(92)
Fund benefits payable		**(42,761)**	(43,863)
Administrative expenses	**4**	**(1,101)**	(1,293)
PPF levies		**(652)**	(201)
Total withdrawals		**(44,514)**	(45,357)
Net withdrawals from dealings with members		**(1,081)**	(7,040)
Returns on investments			
Change in market values	**5**	**63,535**	(1,115)
Interest on loans and deposits		**7**	3
Net returns on investments		**63,542**	(1,112)
Net increase/(decrease) in the Fund during the year		**62,461**	(8,152)
Net assets at the start of the year		**817,236**	825,388
Net assets at the end of the year		**879,697**	817,236

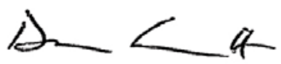
The accompanying notes numbered 1 to 8 form an integral part of these audited financial statements. The audited financial statements show the consolidated position of the three sections of the BTPFSF. The extraction accounts of the individual sections are shown in Appendix J.

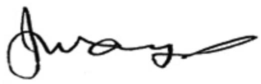
AUDITED FINANCIAL STATEMENTS

NET ASSETS STATEMENT AS AT 31 DECEMBER 2012

	Notes	2012 £000	2011 £000
Investments	**5**	**877,586**	816,006
Net current assets	**6**	**2,111**	1,230
Net assets at the end of the year		**879,697**	817,236

Approved by the directors of the Trustee Company on 8 May 2013.





Derek Scott
Chairman, Trustee Board

John Mayfield
Director and Chairman, Audit Committee

The audited financial statements summarise the transactions and net assets of all the sections of the Fund. 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 actuarial review of the Fund, which is summarised on pages 28 to 30 and should be read in conjunction with these financial statements.

The accompanying notes numbered 1 to 8 form an integral part of these audited financial statements.
The audited financial statements show the consolidated position of the three sections of the BTPFSF. The extraction accounts of the individual sections are shown in Appendix J.

AUDITED FINANCIAL STATEMENTS
NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. Basis of preparation

The audited 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 principal accounting policies of the Fund are as follows:

Investments

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

(a) The majority of the assets of the Fund 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 Fund in each pooled fund at the year end. Unit prices reflect the 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 pooled fund accounts in Appendix N.

(b) Additional voluntary contribution ('AVC') investments (BRASS) are stated at market values at the year-end date as advised by the manager. The Pension Assured Fund ('PAF') is valued as a whole by reference to the market values of assets within the fund as advised by the provider, Aviva. Members holding units in the PAF aged 55 or more are, however, guaranteed by Aviva to receive at least £1 per unit upon retirement or on earlier death. Members leaving before age 55 may receive a discounted value depending on their age.

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

Change in market values

Change in market values mainly comprises gains and/or losses on investments arising in the year and reinvested investment income.

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.

Change in market values (continued)

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.

Benefits 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

All 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 Fund 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.

Benefit support

Amounts receivable as benefit support under the Transport Act 1980 to extinguish future liabilities are accounted for when the future liability is discharged.

3. Contributions receivable

	2012 £000	2011 £000
Members' contributions :		
Normal	**12,028**	12,193
Additional voluntary	**647**	746
Employer's contributions		
Normal	**19,386**	19,435
Deficit funding *	**5,083**	1,667
Benefit support:		
Government support	**1,719**	1,796
Transport for London	**7**	8
	38,870	35,845

* Deficit funding contributions are being paid into the Fund until 31 March 2019 in accordance with the recovery plan, which was agreed in order to improve the Fund's funding position following the last actuarial valuation as at 31 December 2009.

4. Administrative expenses

	2012 £000	2011 £000
Non-recoverable VAT	**480**	464
Pensions administration	**376**	376
Legal fees	**121**	149
Trustee governance	**56**	76
Actuarial fees	**30**	178
Communications	**21**	21
Audit fees	**7**	10
Other professional fees	**6**	7
Other overheads	**4**	12
	1,101	1,293

Pensions administration expenses cover the processing of member and pensioner transactions and preparation of financial statements. These activities are carried out by RPMI Limited ('RPMI') and are allocated according to the membership of each section.

Administration and trustee governance expenses do not include investment management fees and costs, which are deducted from the unit prices of pooled funds and disclosed separately in the pooled fund accounts in Appendix N.

5. Net returns on investments

(a) Value of investments

	Market values at 31.12.11	Purchases at cost	Sales proceeds	Change in market values	**Market values at 31.12.12**
	£000	£000	£000	£000	**£000**
Pooled funds					
Growth	649,656	4,430	(1,201)	54,656	**707,541**
Private Equity	77,109	4,550	(8,332)	3,379	**76,706**
Government Bond	43,036	613	(1,155)	2,634	**45,128**
Infrastructure	23,803	-	-	2,618	**26,421**
Index-Linked	11,845	-	(725)	(183)	**10,937**
Cash Fund	1,488	4,307	(4,491)	9	**1,313**
	806,937	13,900	(15,904)	63,113	**868,046**
BRASS and AVCs	6,795	1,051	(1,215)	422	**7,053**
	813,732	14,951	(17,119)	63,535	**875,099**
Other cash and cash instruments	2,274				**2,487**
	816,006				**877,586**

BRASS investments include 2,030,553 units in the PAF. Further information on PAF can be found on page 36.

(b) Analysis of the Fund's pooled fund investments

Income from pooled fund investments is capitalised within the price of the pooled fund units and, therefore, reflected within the market values of investments in note 5(a). Although income is not distributed, the pooled fund regulations allow the Fund 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.

5. Net returns on investments (continued)

(b) Analysis of the Fund's pooled fund investments (continued)

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

Further analysis of investments, charges and fees for each pooled fund is provided in an extract in the pooled fund accounts in Appendix N. The percentages of the pooled funds' assets that relate to BTPFSF investments are shown in the table below.

	% of pooled fund owned 31.12.12	% of pooled fund owned 31.12.11
Pooled Funds		
Growth	**7.5**	9.2
Index-Linked	**6.8**	6.5
Government Bond*	**6.8**	4.8
Private Equity	**4.1**	4.1
Infrastructure	**3.1**	3.1
Cash Fund*	**1.1**	1.7

* The total value of the pooled funds used in the percentage calculations only include scheme investments in the pooled funds and so exclude cross-held investments owned by the growth, defensive and BRASS pooled funds.

6. Net current assets

	2012	2011
	£000	£000
Contributions due from employer	**2,349**	2,360
PPF levies paid in advance	**195**	67
Benefit support due	**105**	152
Investment debtor/(creditor)	**-**	54
Benefits payable	**(64)**	(864)
Other charges payable	**(98)**	(238)
Taxation and social security	**(376)**	(301)
	2,111	1,230

Contributions due from the employer were paid in accordance with the due date in the schedule of contributions in force at the year-end.

7. Related party transactions

The Trustee Company and its subsidiaries provide services to the Fund. The charges, including those payable to external service providers, are detailed in note 4. At 31 December 2012 net current assets included a liability of £98,000 in respect of these charges (2011 – a liability of £238,000).

One director of the Trustee Company is a member of the Fund and is also a non-executive director of RPMI. No other directors of RPMI are members of the Fund. Certain directors of the Trustee Company and its subsidiaries receive remuneration, which is disclosed in the financial statements of those companies. The Fund bears its share of this remuneration. Contributions are paid in accordance with the schedule of contributions.

8. Employer-related investments

There was no self investment at any time during the year, or during the previous year.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ('the Fund')

We have audited the financial statements of the Fund for the year ended 31 December 2012 set out on pages 5 to 12. 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 Fund 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 Fund Trustee those matters we are required to state to it 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 Fund 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 18, the Fund Trustee is responsible for the preparation of financial statements which give a true and fair view in accordance with UK Generally Accepted Accounting Practice. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund during the fund year ended 31 December 2012 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 fund 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

Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf, London, E14 5GL
8 May 2013

TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS AND SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR

Statement of Trustee's responsibilities in respect of contributions

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid.

Trustee's Summary of Contributions payable under the schedules in respect of the Fund year ended 31 December 2012

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Fund under the schedule of contributions certified by the Actuary in respect of the Fund year ended 31 December 2012. The Fund Auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

Contributions payable under the schedule in respect of the Fund year	£'000
Employer:	
Normal contributions	19,386
Deficit contributions	5,083
Member:	
Normal contributions	12,028
Contributions payable under the schedule	36,497

TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS AND SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR (CONTINUED)

Reconciliation of contributions

Reconciliation of contributions payable under the schedule of contributions reported in the financial statements in respect of the Fund year:

	£'000
Contributions payable under the Schedule (as above)	36,497
Other contributions payable under Fund rules:	
Government support	1,719
Members' additional voluntary contributions	647
Transport for London	7
Total contributions reported in the financial statements	38,870

Signed on behalf of the Trustee on 8 May 2013.

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 BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ('the Fund')

We have examined the summary of contributions payable under the schedule of contributions to the Fund in respect of the Fund year ended 31 December 2012 which is set out on pages 14 and 15.

This statement is made solely to the Fund'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 Fund'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 Fund'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 14, the Fund'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 Fund by or on behalf of the employer and the active members of the Fund. The Trustee has a general responsibility for procuring that contributions are made to the Fund in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid to the Fund 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.

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

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 Fund 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.

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 BRITISH TRANSPORT POLICE FORCE SUPERANNUATION FUND ('the Fund') (CONTINUED)

Statement about contributions payable under the schedule

In our opinion contributions for the Fund year ended 31 December 2012 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the Actuary at Appendix H.

Kevin Clark
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG
15 Canada Square
Canary Wharf
London E14 5GL
8 May 2013

STATEMENT OF TRUSTEE RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The audited financial statements, which are 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 Fund members, beneficiaries and certain other parties, audited financial statements for each Fund year which:

- show a true and fair view in accordance with UK GAAP of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and

- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Fund prescribed by pensions legislation, which they should ensure is consistent with the financial statements it 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 safeguard the assets of the Fund 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 8 May 2013.

THE TRUSTEE COMPANY

Railways Pension Trustee Company Limited

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

Trust law, the Pensions Acts and the Companies Acts govern the activities of the Trustee as a corporate trustee. The Trustee has overall fiduciary responsibility for the effective operation of the BTPFSF 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 31.12.12
Railways Pension Scheme	**338,208**
British Transport Police Force Superannuation Fund	**5,870**
British Railways Superannuation Fund	**3,800**
BR (1974) Fund	**2,808**
	350,686

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 (including deferred pensioners). Roughly a third of the directors retire by rotation every two years. The term of office is six years.

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

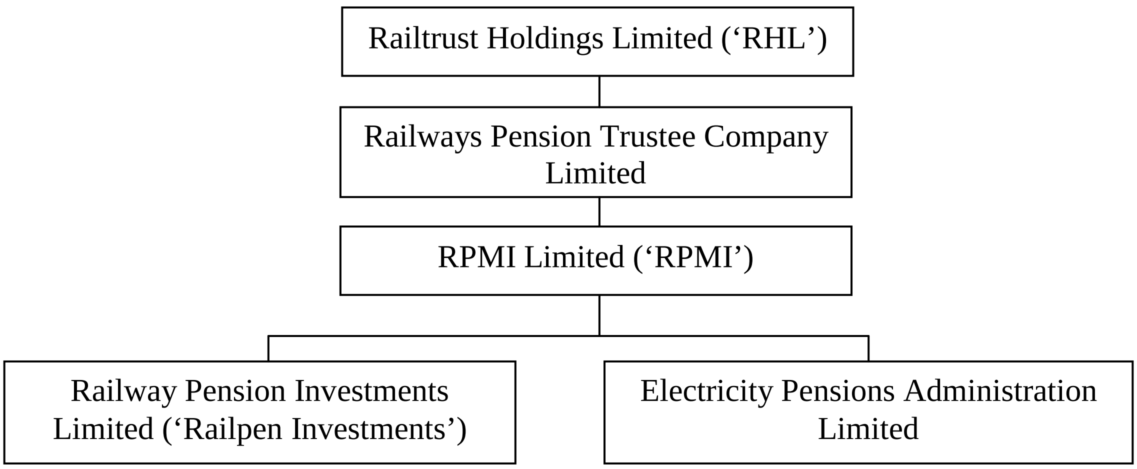
THE TRUSTEE COMPANY (CONTINUED)

The operating subsidiaries

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

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

The structure of the Trustee group



Employer director appointment procedure

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

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

THE TRUSTEE COMPANY (CONTINUED)

Employer director appointment procedure (continued)

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, deferred pensioners and pensioners associated with the employer. There is one vote for each active member and half a vote for each pensioner and deferred pensioner. The ‘All Employers’ group continues to be one employer, one vote.

The following chart shows the current employer Trustee directors as at the end of December 2012, their date of retirement by rotation and deemed nominating constituency.

Name	Nominating Constituency	Date of Retirement by Rotation
Derek Scott (Chairman)	All employers	2016
John Chilman	Passenger train operating companies	2018
Richard Goldson	Passenger train operating companies	2016
John Hamilton	Passenger train operating companies	2014
Chris Hannon	Network Rail	2018
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 and Management Committees.

Nominations for the two directors representing the pensioner members (including deferred pensioners) are sought from the British Transport Pensioners’ Federation, the Retired Railway Officers’ Society, the railway trade unions and the British Transport Police Federation.

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

The following chart shows the current employee Trustee directors as at the end of December 2012, their date of retirement by rotation and deemed nominating constituency.

THE TRUSTEE COMPANY (CONTINUED)

Employee director appointment procedure (continued)

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') and the Management Committee of the British Railways Superannuation Fund	2018
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')	2018
Gary Towse	British Railways Superannuation Fund Management Committee ('BRSF')	2016
Dave 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 attended between 5 and 24 Board and Committee meetings in 2012. Attendance is reported to the Board.

Directors have a comprehensive training programme on appointment and throughout their tenure. They complete Training Skills Analyses and have individual, tailor-made training programmes. Our objective is that all Trustee directors complete a minimum standard which meets the Pensions Regulator's and the Trustee Company's requirements within six months of appointment. A wide range of training is offered by external providers and RPMI, including Trustee Knowledge and Understanding ('TKU') Training. Equally as important is training on the unique characteristics and complexity of the railways pension schemes. To further support Trustee directors, there is a dedicated area of the RPMI website which provides one easily accessible location for information relevant to their role. For three successive years between 2009 and 2011, the Trustee Company received the 'Engaged Investor' award for trustee training and in 2011 and 2012 also received their award for best scheme governance. In 2012, the Trustee Company received the Trustee Development Award at the Professional Pensions Scheme of the Year Awards and, most notably, Stephen Richards was awarded Engaged Investor Trustee of the Year, honouring his commitment and dedication to the railways pension schemes over many years.

TRUSTEE COMPANY REPORT

Creation of the British Transport Police Authority

The principal employer of the Fund is the British Transport Police Authority, which was established by statute to supersede the Strategic Rail Authority ('SRA') with effect from 1 July 2004. The SRA was the principal employer for the period 1 February 2001 to 30 June 2004, superseding the British Railways Board ('BRB').

Membership

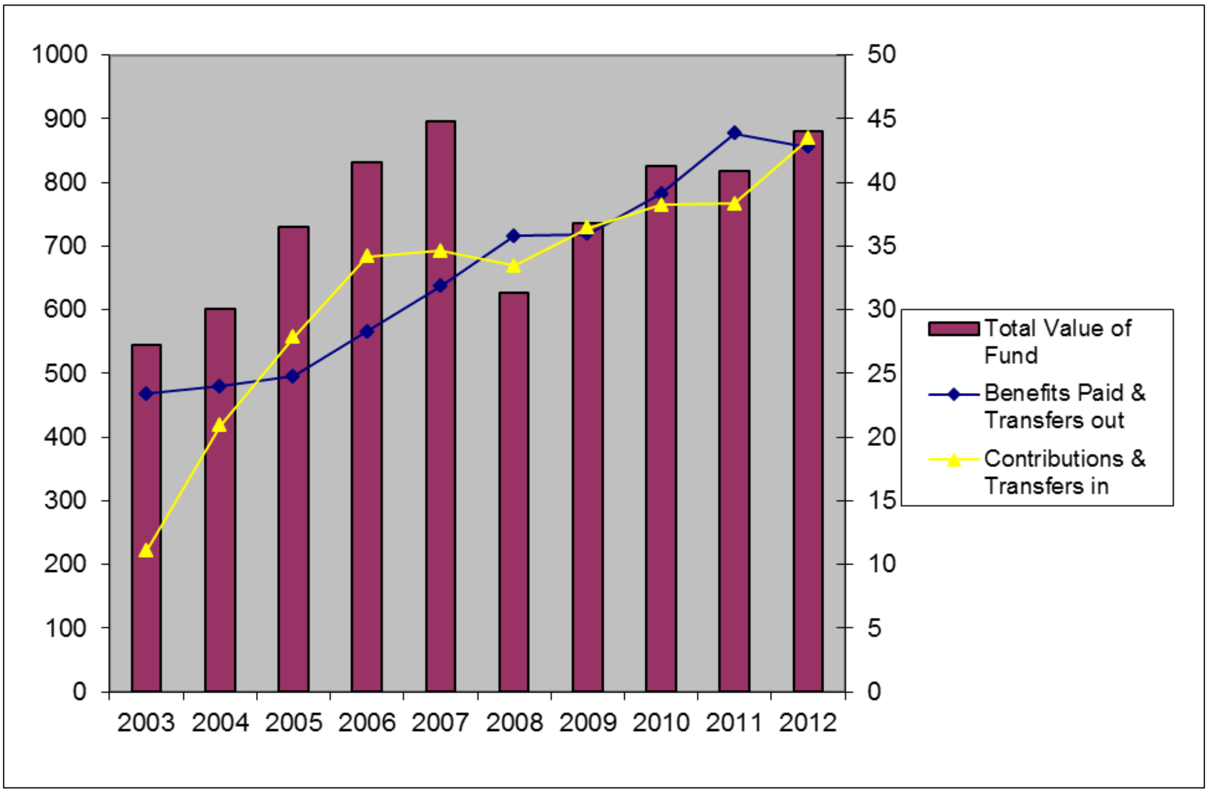
Total membership remained broadly the same during the year (2011 – increase of 0.6%).

Financial information

During the year the net return on investments of the Fund as a whole was a gain of £63.5m (2011 – loss of £1.1m).

The Fund paid benefits of £40.4m in 2012 (2011 – £41.3m) and received contributions of £38.9m (2011 – £35.8m). Allowing for transfer values and expenses, there was a net withdrawal from dealings with members of £1.1m (2011 – net withdrawal of £7.0m).

The movement over the last ten years is shown in the following graph :



Actuarial valuation

The most recent valuation of the Fund was carried out at 31 December 2009 by the Fund Actuary at the time, Arthur Zegleman of Towers Watson Limited. Information about the results of the valuation can be found in the Actuary's Report on pages 28 – 30 and the summary funding statement in Appendix I.

During November 2012 it was agreed that Arthur Zegleman would be replaced as Fund Actuary by Elizabeth Battams of Punter Southall. Arthur confirmed that he was not aware of any professional reasons why Elizabeth should not accept the invitation to provide advice to the Trustee of the Fund. Elizabeth was subsequently appointed as the new Fund Actuary with effect from 4 March 2013.

Safe custody of assets

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

Operational risk

The Trustee Company was one of the first UK corporate trustees to introduce a risk management process over ten years ago. The risk management process, which has been reviewed during the year, identifies risks, assesses their potential impact and likelihood and determines the appropriate action to reduce their likelihood and consequences. The risk management process is explained in more detail in Appendix E.

MANAGEMENT COMMITTEE REPORT

Responsibilities

The Trustee Company has delegated powers to the Management Committee to make day-to-day management decisions. The Committee has in turn agreed to sub-delegate to RPMI many activities to ensure the smooth running of the Fund. The Committee has agreed a Service Level Agreement with RPMI which sets out the scope of the service and the performance targets the Committee and members can expect. The Committee is pleased to report that the majority of service targets were achieved throughout the year.

Meetings

There were four meetings of the full Management Committee in 2012. These took place on 28 February, 14 June, 13 September and 15 November. In addition, there was one meeting of the Sub-Committee, which met to discuss a case which could not be decided upon by written resolution. This meeting took place on 19 July. During 2012 Committee members also participated in training as part of a commitment to meet the Pensions Regulator's Trustee Knowledge and Understanding requirements.

Changes to Committee

There are 12 Committee members. Six members of the Committee are appointed by the principal employer, the British Transport Police Authority. Three members of the Committee are appointed by the British Transport Police Federation, two members are elected by the pensioners and one is appointed by the Chief Constable after consultation with representatives of the ranks not represented by the British Transport Police Federation.

Elizabeth Pike and Roger Randall were elected Chairman and Deputy Chairman respectively for 2012.

During the year there were three changes to the Committee. Francesca Okosi resigned from the Committee and a replacement is currently being sought. Patrick Tansey also resigned from the Committee and the British Transport Police Federation appointed Graham Poyser to take his place. John Bryant's term in office came to an end in March 2012 and as a result of a nomination exercise he was re-appointed to the Management Committee for a further 5 year term in office until March 2017.

A list of Committee members at 31 December 2012 is shown in the following table, together with details of the number of meetings which each attended during the year.

MANAGEMENT COMMITTEE REPORT (CONTINUED)

Committee members at 31 December 2012

Name	Appointing body	Appointment date	No. of meetings eligible to attend during 2012	No. of meetings attended
Mr L Adams	British Transport Police Authority	July 2005	4	3
Mr S Field	British Transport Police Authority	Jan 2008	4	3
Mr A Pacey	British Transport Police Authority	September 2010	4	4
Ms E Pike (Chairman)	British Transport Police Authority	Sept 2004	4	4
Mr W Tucker	Employer	February 2010	4	4
Mr P Holden	Member representative appointed by Chief Constable after consultation with the ranks not represented by the BTP Federation	March 2009	4	4
Mr G Lewis	BTP Federation	May 2011	4	4
Mr R Randall (Deputy Chairman)	BTP Federation	May 2002	4	3
Mr J Bryant	Pensioner elected	April 2007 to March 2017	4	4
Mr E R Lightfoot	Pensioner elected	August 2005 to July 2015	4	3
Mr G Poyser	BTP Federation	July 2012	2	2

(The above statistics do not include attendance at the Sub-Committee.)

Chris Welburn replaced Jenifer Goodchild as Secretary to the Committee with effect from the meeting held on 13 September 2012.

Pension Increases

Pensions increased by 5.2% with effect from 1 April 2012. This is based on the Consumer Price Index (CPI) inflation figure as at September 2011. Pensions in payment and deferment in the Fund are increased in line with Orders laid by the Government under the Pensions (Increase) Act 1971. The increase at April 2013 was 2.2%, based on CPI at September 2012.

MANAGEMENT COMMITTEE REPORT (CONTINUED)

Communications

The Committee is keen to ensure that members are kept up to date with news and developments and to achieve this aim it regularly reviews the communications plan. Annual Pension Estimates are sent to contributing members each year, usually in September, and these members also receive a ‘Focus’ newsletter three times a year. Pensioners receive the ‘Penfriend’ newsletter twice a year, in spring and winter. Members who no longer contribute but who have deferred benefits in the Fund receive a yearly edition of ‘Extra’.

To supplement these publications, for those who have internet access, a variety of useful information continues to be available at www.btppensions.co.uk and members may always contact the Fund Secretary, Chris Welburn, at:

RPMI
PO Box 300
Darlington
DL3 6YJ

Or by phoning the Customer Services helpline on 0800 2 34 34 34
Or by email to: csu@rpmi.co.uk

Budget

The Committee was consulted on the budget for the services of the Trustee Company and its subsidiary, RPMI, to ensure that established standards of service were maintained at cost competitive rates.

Membership statistics at 31 December 2012

	2012	2011
Active members	**2,727**	2,764
Pensioners	**2,453**	2,385
Preserved pensioners	**690**	722
Total membership	**5,870**	5,871

ACTUARY'S REPORT

I, Elizabeth Battams, was appointed as Scheme Actuary to the British Transport Police Force Superannuation Fund with effect from 4 March 2013. The valuations referred to in this document were carried out by the previous Scheme Actuary. The formal valuation of the Fund as at 31 December 2012 is currently underway and we will report on the results in next year's accounts.

The purpose of the Fund

The assets of the British Transport Police Force Superannuation Fund, plus future contributions and future investment returns, will be needed to pay the benefits as they emerge in the years ahead. The main purpose of the Fund is therefore to provide security for the benefits promised in the future to all members and their dependants.

Actuarial valuations

Actuarial valuations of the Fund, involving projections of future income and outgoings, are made periodically to assess the sufficiency of the assets and contribution rates. The projections involve many assumptions, the most important of which are concerned with the extent to which the average future rate of investment return will exceed average future rates of pay and pension increases. Assumptions also have to be made about the ages at which the members will qualify for the various benefits on termination of service and the periods for which pensioners and their dependants will survive to draw their pensions.

The estimated future payments are summarised as "present values"; these may be thought of as the sums which, if invested at the valuation date at the rate of return assumed to be earned on investments, would exactly provide the projected benefit payments as they fall due. The valuation result then discloses a funding shortfall or surplus, according to whether the present value of the future payments exceeds, or is less than, the market value of the assets of the Fund. The rates of contribution required to finance new accruals of benefit are calculated by a similar method.

The Fund's rules require a separate actuarial valuation to be made of the 1968 Section and the 1970 Section. Within each section separate valuations are required in respect of benefits for periods of membership up to 14 September 1970 and after that date (known as 'preserved or historic benefits' and 'contributory benefits' respectively).

To satisfy the requirements of the Pensions Act 2004, as well as carrying out full valuations every three years, an annual interim update is made for each Section.

The 31 December 2009 valuation

The latest formal valuation of the Fund was made as at 31 December 2009. The main financial assumptions for the contributory benefits part of the 1970 Section were that on average, the investment return earned on assets would exceed pay increases by 2.3% per annum and pension increases by 4.0% per annum. For the preserved benefits part of the 1970 Section and for the 1968 Section an investment return, in excess of pension increases, of 2.3% per annum was assumed. The pension increase assumption is now based on Consumer

The 31 December 2009 valuation (continued)

Price Inflation instead of Retail Price Inflation due to a recent change in legislation. In all sections the existing assets were brought into account at their market value.

Allowance was made in the valuation of the preserved benefits part of the 1970 Section for future payments of Government support on the assumption that they would continue to be made on the present basis.

Results of the 2009 valuation

The 2009 valuation of the 1968 Section revealed a funding surplus which was sufficient to cover the relevant proportion of future pension increases, as required under Section 56 of the Transport Act 1980.

The valuation of the 1970 Preserved Section also revealed a funding surplus. This was carried forward as a contingency reserve.

The valuation of the 1970 Contributory Section revealed a funding deficit of £36 million. It also indicated that the joint rate of contribution required from the members and the employers to fund new benefits building up in this section was 39.1% of scheme salary for members who joined before 1 April 2007 and 25.4% of pensionable salary for members who joined after 31 March 2007.

The Trustees and Authority agreed that the deficit would be met partly by maintaining the ongoing contribution rates at 40% of scheme salary (16% from members and 24% from the employer) for entrants before 1 April 2007; and 30% of pensionable salary (10% from members and 20% from the employer) for later entrants. The balance of the deficit will be funded by additional employer only payments of £5 million per annum commencing from 1 October 2011 and increasing each April, broadly in line with inflation.

Funding update as at 31 December 2011

The 2011 funding update indicated a weakening in the funding position of the 1970 Contributory Section. This was principally due to lower than expected asset returns over 2011 and lower expected investment returns in the future (which increase the target level of assets needed to provide benefits). The funding positions of the 1968 and 1970 Preserved Sections also fell since the 2009 valuation, although both Preserved Sections remained in surplus.

The Fund's financial position and its contribution requirements will be reviewed at the next formal actuarial valuation, due to be made as at 31 December 2012.

ACTUARY'S REPORT (CONTINUED)

Actuarial statements

A formal statement regarding the valuation, confirming that the calculation of the Fund's Technical Provisions was made in accordance with the Pensions Act 2004 has been prepared and appears in Appendix G. A further certificate reproduced in Appendix H confirms that the contributions shown in the Schedule of Contributions are such that the Statutory Funding Objective can be expected to be met over the period the Schedule is in force (until 31 March 2019).

Elizabeth Battams FIA
Scheme Actuary to the Fund

Punter Southall
11 Strand
London
WC2N 5HR

19 March 2013

INVESTMENT REPORT

Introduction

The Trustee is responsible for ensuring that investment strategies are agreed for the BTPFSF. It does this with advice from its executive arm, RPMI, and using its Investment Committee (or a Pensions Committee where established) and the Benefits and Funding Committee. The policies that control how the assets of the Fund are invested are set out in its Statement of Investment Principles; copies are available on request.

The Trustee's Investment Committee also has delegated authority for most of the Trustee's investment responsibilities; it decides on appropriate investment policies and management arrangements. It has appointed Railpen Investments as its provider of investment management services. In this capacity, Railpen is regulated by the Financial Services Authority as an Occupational Pension Scheme firm. It acts mainly as a manager of managers, but also takes some significant investment decisions directly.

Investment Management Arrangements

The assets of the Fund are invested through a number of pooled investment funds, each with a different risk and return profile. These funds are managed as if they are internal unit trusts and each pooled fund is approved by HM Revenue and Customs. Only railway pension schemes may invest in these pooled funds. The use of these pools enables the Fund to hold a broader range of investments more efficiently than may have been possible through direct ownership.

In most cases each pooled fund covers a unique class of asset. However there are also a number of multi-asset pooled funds where the mix of asset classes is variable depending on market conditions and opportunities, which these funds seek to exploit in order to capture returns more efficiently and effectively than the single asset pools They enable the Fund to hold a managed portfolio of assets rather than a fixed allocation which should have more stable return profile.

Each pooled fund has a performance benchmark and risk parameters within which additional returns may be targeted. Pooled funds are managed largely by external fund management companies selected by Railpen Investments and are actively managed where the opportunities for additional returns are deemed to outweigh the additional costs, that is, the fund management companies try to add value in addition to the benchmark returns through their skilled management of the underlying investments. Passive management, that is index-tracking, is also used to some extent in asset classes where the Investment Committee considers this could be the most cost effective approach. In order to align more closely the interests of the managers with those of the Fund, active managers are partially remunerated by fees which vary according to their performance against their benchmark.

During 2012, the specifications of a number of the pooled funds were refined and their management arrangements revised, to ensure they remain fit for purpose in meeting the Fund's needs. The most significant activities were:

Investment Management Arrangements (continued)

- a review of the Growth Pool performance since inception and the introduction of a Balanced Scorecard approach to monitoring performance;
- the implementation of additional Growth Pool manager mandates and direct positions;
- a further reduction in the level of risk in the Growth Pooled Fund during uncertain market conditions, primarily through a further cut in the quoted equity holdings and an increase in the level of cash held;
- the introduction of permissible risk ranges for all pooled funds; and
- a number of changes in the roster of managers.

Exposure to overseas currency risk is controlled by the use of currency hedging. This process removes some of the volatility of sterling returns inherent in investing in overseas markets. There is full hedging of foreign exchange exposure in the Government Bond Pooled. The Growth Pool may actively vary the extent of its currency hedging over time. All other pooled funds are unhedged.

Investment strategy

The Trustee's Investment Committee sets investment strategy. In setting strategies, the profile of the liabilities, along with the covenant strength and views of the sponsoring employer, are taken into account.

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

Economic commentary provided by RPMI

Financial markets began 2012 in a similar fashion to the beginning of the preceding year: they were supported by ongoing central bank intervention. The Federal Reserve, the European Central Bank (ECB) and the Bank of England had indicated continued willingness to take measures intended to support economic growth and help restore confidence to financial markets. Equity markets benefited strongly in the first quarter of the new year, with the MSCI All Country World Index rising by around 11% in local currency terms. Credit spreads and commodities also benefitted from the increase in investors' risk appetite.

Economic commentary provided by RPMI (continued)

However, the rally was also supported by improving economic conditions with the JP Morgan Global Purchasing Managers Index (PMI) – a survey of businesses across the world – reaching its highest level for over a year in February. But the US unemployment rate remained elevated, and at a level inconsistent with the Federal Reserve's mandate. In addition, the euro area economy had slipped back into negative growth the previous quarter, a portent of difficult times to come in the period ahead.

If the first quarter of 2012 had raised investors' expectations, a steady stream of disappointing economic data in the second quarter diminished hopes of a strong recovery and seemed to confirm a broad based global slowdown. The aforementioned JP Morgan PMI declined for three successive months and reached its lowest level since 2009. Reports from China showed slowing growth in both the manufacturing and services sector in May and June. In addition, labour market data from the US surprised on the downside, a weakening situation reinforced by continued subdued economic news from the euro area.

There was further evidence of the growing difficulties in the Eurozone from a rise in peripheral government bond yields, including two of the more significant markets in Spain and Italy. Rising market concerns over continued euro area difficulties caused equity markets to falter during the quarter while government bonds perceived as safe haven appreciated once more. Nonetheless, equity markets regained some of their momentum into the close of the quarter on renewed optimism that central banks would take further action if necessary.

Indeed, the third quarter witnessed two further important acts of central bank intervention, including arguably the most significant and decisive example from the ECB thus far. In order to end growing speculation that the Eurozone might be forced to breakup amid soaring yields in Spain and Italy, the ECB promised to do 'whatever it takes' to preserve the single currency. It subsequently announced its Outright Monetary Transactions (OMT) programme, under which the ECB promised to buy in unlimited quantities the bonds of any country with a distressed debt market that had first applied for help from the Eurozone's rescue fund. Subsequently, in September, the Federal Reserve announced a third round of quantitative easing - an open ended commitment to purchase $40 billion of mortgage backed securities per month until the labour market improved 'substantially'.

The economic data generally remained disappointing during this period, however. Chinese GDP growth, although still impressive in absolute terms, had slowed to its lowest rate since the crisis in 2009. Moreover, the euro area continued to be in recession. Indeed, global industrial production growth had broadly slowed to a standstill during the course of the second and third quarters.

However, in the final months of the year, there was a turn up in some of the economic data, particularly in the US where the labour market and the housing market begun to show some encouraging signs. Moreover, the global composite PMI rose to a 9 month high in December despite weakness in the manufacturing sector. These small improvements, added to central bank activism and the prospect of more if needed, managed to push return-seeking assets

Economic commentary provided by RPMI (continued)

higher in spite of the uncertainty engendered by the ‘fiscal cliff’ negotiations in the US. Meanwhile, the ECB’s readiness to act as backstop to the Eurozone calmed investors: peripheral bond yields fell over the fourth quarter and have continued declining into 2013.

At the end of December, Shinzo Abe was returned to office as the Prime Minister of Japan, after campaigning on a pro-growth monetary and fiscal stimulus platform. His very public preference for a weaker yen and a higher inflation target triggered a significant rally in Japanese equities and a sharp weakening of the yen.

With the final quarter of the year ending on a positive note, it contributed to an increase of around 13% in the MSCI All Country World index during the year as a whole. Other return-seeking assets also generally performed well across the period: the spread over government bonds of the Barclays Global Corporate (investment grade) index declined by over 1%, while that of the High Yield index fell by more than 2%. However, government bond yields in safe haven economies remained low; for example, the 10-year US Treasury yield actually ended the year slightly below its starting level. In addition, long-dated index-linked bond yields in the UK stayed close to zero.

Overall, 2012 was a good year for risk assets as decisive intervention from central banks dominated weak fundamentals, despite growing optimism around the close of the year that a corner may have been turned in the world’s major economies. Looking ahead, for markets to continue moving higher, a more robust improvement in the underlying data is necessary. Political wrangling in the US over the fiscal deficit and the situation in Europe arguably however still count as risks to near-term economic stability.

Investment performance

During 2012, central bank intervention and some signs of improvement in major economies led to positive returns from most return-seeking asset classes, especially equities. Returns remained volatile, as many issues remained such as the Euro sovereign debt levels. However the support of the ECB means these concerns abated to an extent towards the year end. Most defensive/matching assets also generated positive returns, with the exception of Index Linked Gilts.

The Growth Pooled Fund invests in a wide range of return-seeking assets with flexible allocations based on a risk budget range and a target level of long-term return. Global equities remain the largest asset class holding in the Fund, but the equity allocation was reduced during the year from 42% to around 34% as a lower risk allocation was maintained in the uncertain market environment. Other significant asset segments in the Fund include non-government bonds, property, commodities, fund-of-hedge-funds, absolute return, emerging market debt, and reinsurance.

The Growth Pooled Fund targets a long-term real return of 5% above UK inflation over a market cycle. The return in 2012 was 8.4%, which was slightly ahead of the target return.

Investment performance (continued)

The Private Equity Pooled Fund provides exposure to a highly diversified range of private equity investments. It is made up of a series of sub-funds, each representing a different vintage of private equity investment.

The Private Equity Pooled Fund produced a return of 5.7% in 2012, which was behind the benchmark return. Because of the unquoted nature of these investments, there is often a significant time lag for revised information on underlying investments to flow through to the Fund valuation. Therefore the return for 2012 includes some of the impact of the falls in value that risk assets suffered in the second half of 2011.

The Infrastructure Pooled Fund had a positive return of 6.1% for the year, which was ahead of the RPI benchmark. The Property Pooled Fund also achieved a positive result in absolute and relative terms, with an overall return of 5.0%.

The return of 6.4% for the Government Bond Pooled Fund reflected the decline in yields of government bonds in the economies perceived as being higher risk and the continuing low yields of government bonds issued by countries considered a safe-haven. The fund return was ahead of its benchmark. The weakest return within the more defensive assets in 2012 came from the Index Linked Pooled Fund at negative 1.1%. This Fund is managed on a passive basis so the return was broadly in line with the benchmark index.

Section returns

There was a clear divergence in returns from the sections of the Fund in 2012, reflecting the different liability profiles and asset strategies. The 1970 Contributory Section, with its liabilities predominantly in respect of serving members, has a large allocation to return-seeking assets, and a smaller allocation to bonds. The investment return for the year was 7.8% net of fees and costs. Over a 3 year period the investment return was 6.5% per annum, while over a 10 year time horizon the return was 7.3% per annum.

The other two sections are much more mature (i.e. their liabilities are in respect of pensioners and deferred pensioners). As a result they have a much higher allocation to bonds and a lower allocation to return-seeking assets. The return for the 1970 Preserved Section was 3.7% for 2012 net of fees and costs, with the strong returns from the Growth Pooled Fund offset by a slightly negative return from Index Linked Gilts. Over a 3 year period the investment return was 8.1% per annum, while over a 10 year time horizon the return was 7.3% per annum. The 1968 Section achieved similar performance with returns of 3.6% in 2012, 8.1% per annum over 3 years and 7.3% per annum over 10 years.

Securities lending

Securities lending forms part of the arrangements sanctioned by the regulatory authorities to maintain an orderly and more liquid securities market. With the approval of the Investment Committee, 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

Securities lending (continued)

managers' investment activities. In place of the lent securities, the Fund receives collateral, in the form of cash or other securities, that meet standards set on behalf of the Trustee Company. As a result of operating these securities lending arrangements, the Fund receives revenues. The custodians also operate indemnification programmes which protect the Fund against defaulting borrowers. The Fund 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.

Self-investment

The Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 require investments to be diversified so that the failure of one does not affect the security of members' benefits as a whole. Investments in employers' businesses are also restricted to avoid the prospect of the employees losing their job and part of their pension at the same time, should the employer's business fail.

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)

British Transport Police Force Superannuation Fund holding at 31.12.12 = £6.6m
Total value of fund at 31.12.12 = £1,313m

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 depending on their age.

The fund has been closed to contributions since 2007. Aviva is responsible for provision of the guarantee and the overall management of the PAF, including the issue of bonus units, asset allocation, pricing and administration of dealing in the units, subject to monitoring by RPMI. Approximately 80% of the underlying assets are invested in a long-term bond fund and a cash portfolio, with the majority of the balance in an actively managed global equity fund. These assets are managed by Aviva Investors.

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

INVESTMENT REPORT (CONTINUED)

BRASS (AVC) (continued)

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	The FTSE All Stocks Gilt Index
Growth Fund	n/a
Cautious Fund	n/a
Pension Managed Fund	The WM All Funds Index (excluding property)
Global Equity Tracker Fund	50% FTSE All-Share Index 50% Weighted FTSE World Series Regional Indices
Pension UK Equity Fund	The FTSE All-Share Index
Pension Overseas Equity Fund	Composite index comprising regional indices from the FTSE World Index Series
Pension UK Property Fund	IPD Total Return Index
Pension Fixed Interest Fund	Composite index comprising the FTSE Government All Stocks and iBoxx Non-Government Bond Indices
Pension Index Linked Gilt Fund	The FTSE Over Five-Year Index-Linked Gilt Index

APPENDICES

APPENDIX A
PRINCIPAL ADVISERS TO THE TRUSTEE COMPANY AND MANAGEMENT COMMITTEE

Manager of investment of managers
Railpen Investments, 2nd Floor, Camomile Court, 23 Camomile Street, London, EC3A 7LL

Fund and investment administrator
RPMI, Stooperdale Offices, Brinkburn Road, Darlington, DL3 6EH

Actuary
Arthur F Zegleman, Towers Watson Limited (until March 2013)
Elizabeth Battams, Punter Southall Limited (from March 2013)

External Auditors
KPMG LLP

Solicitors
Herbert Smith Freehills, Linklaters, DWF, Eversheds, Maclay Murray & Spens, Simmons & Simmons.

Principal Custodian
The Bank of New York Mellon

Clearing Bankers
The Royal Bank of Scotland plc

APPENDIX B
PAYMENT OF CONTRIBUTIONS

Due dates for payment of contributions

The Trustee Company collects contributions from every employer participating in the Fund. Under the provisions of the Pensions Act 1995 it is the responsibility of each employer to pay contributions on time. Following the first valuation performed under the new scheme specific funding regime, the Trustee Company is required to prepare, maintain and monitor a schedule of contributions 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.

The schedule sets out as a percentage of pay the rate of contributions payable to the Fund by the employers and members, and also shows the dates on which the contributions are due.

The schedule of contributions that the Trustee Company has prepared for the Fund require payment to be made by the due date set out in the rules, which is seven working days after the relevant members are paid (compared to the 19^{th} day of the following month under legislation).

The Fund Actuary conducts an actuarial valuation of the Fund every three years. The valuation must be signed off within 15 months of the valuation date. The schedule of contributions must be prepared within 12 weeks of the sign off and must be signed by both the Principal Employer and the Trustee Company.

Late payment of contributions

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

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

The employer participates in the Trustee Company’s direct debit arrangements for normal contributions and AVCs paid by the employer, which greatly reduces the risk of the employer failing to pay contributions on time.

During 2012 there were £nil of late payment of contributions (2011: £nil).

APPENDIX C
CUSTODY ARRANGEMENTS

The law of trust imposes a fiduciary duty on trustees to safeguard assets and this has been reinforced by the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee Company has appointed custodians to hold the assets, including cash, that make up the various quoted securities portfolios managed by the investment fund managers. This is in accordance with the Pensions Act 1995 which requires trustees, rather than the employer or the fund manager or some other party, to make the appointment.

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

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

In the case of investments managed by US fund of hedge fund managers, the Trustee Company has appointed The Bank of New York Mellon as the independent fund administrator to ensure that underlying hedge fund entitlements are properly monitored and accounted for, through effective and rigorous reporting and controls.

Core administrative functions performed by the custodians include the following:

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

As part of the services 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.

APPENDIX C
CUSTODY ARRANGEMENTS (CONTINUED)

In addition, all custodians appointed by the Trustee Company are required to publish an AAF 01/06, ISAE 3402 or similar document in other jurisdictions. This is a report on the custodian's internal controls which is made available to third parties and is reviewed by the custodian's reporting accountant in accordance with guidance issued by the Audit and Assurance facility of the Institute of Chartered Accountants in England and Wales in its technical release AAF 01/06 'Assurance reports on internal controls of service organisations made available to third parties', or ISAE 3402 (formerly SAS70 as amended following the introduction of the Sarbanes-Oxley Act of 2002, the US equivalent issued by the Auditing Standards Board of the American Institute of Certified Public Accountants ('AICPA') as a Statement on Auditing Standards).

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

APPENDIX D
RESPONSIBLE INVESTMENT

Responsible investment encompasses corporate governance, shareholder engagement and social, environmental and ethical (‘SEE’) considerations, now more generically described as environmental, social and governance (‘ESG’) issues. Trustees of UK occupational pension schemes are required by law to address in their schemes’ Statements of Investment Principles (‘SIP’) the extent (if at all) to which SEE considerations are taken into account in the selection, retention and realisation of investments and their policy (if any) directing the exercise of rights (including voting rights) attached to investments. The Trustee Company believes that companies with robust corporate governance structures and interested and involved shareholders are more likely to achieve superior long-term financial performance than those without. We recognise that investors have responsibilities as well as rights and this includes taking ESG issues into consideration in investment decision making.

General principles

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

- maintaining communications with investee companies, other investors in those companies, and those shaping the debate on corporate governance policy;
- widening the scope of the corporate governance debate to company strategy and shareholder value and contributing at a market level by responding to relevant consultations and other policy development activities;
- promoting compliance with the UK Corporate Governance Code and the UK Stewardship Code, and other statements of recognised best practice in other markets;
- supporting improvements in the quality and clarity of company reporting;
- encouraging best practice in stewardship as a responsible investor; and
- working with other institutional investors to achieve these ends.

Wherever possible, the Trustee Company endeavours, through its external fund managers or directly, to resolve areas of disagreement with the companies in which it invests prior to annual general meetings and strongly supports the principle of comply or explain.

UK Stewardship Code

The Trustee Company considers that its fund managers and other intermediaries have a major role to play in ensuring that companies are run in a manner consistent with clients' best interests. We support, and encourage our fund managers to adopt, the Financial Reporting Council's UK Stewardship Code, updated in September 2012, which sets out seven principles 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.

We expect our external fund managers, where relevant, to comply with the Code and its principles, which have also been incorporated in our own SIPs, and to publish a compliance statement. Our full statement on how we apply the Code and its seven principles, together with our approach to responsible investment, can be found on our website at www.rpmi.co.uk

APPENDIX D
RESPONSIBLE INVESTMENT (CONTINUED)

We encourage our external fund managers to make an AAF 01/06 report on Stewardship Code compliance and to obtain an independent audit opinion which can be disclosed to clients as recommended in the guidance to Principle 7 of the Stewardship Code. The Trustee Company wishes to lead by example on this and has obtained an independent audit opinion on aspects of its own Stewardship Code compliance as at 30 September 2011 which is available to members on request.

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

Since 2010, RPMI Railpen Investments has worked with the Universities Superannuation Scheme, another major UK pension fund with a strong commitment to responsible investment, to establish a voting and engagement alliance through a joint UK corporate governance and voting policy which was last updated in December 2012 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. It draws heavily on the UK Corporate Governance Code and we expect companies to comply with the Code or explain any departures. Our policy document aims to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards. This should help investment managers and company directors to understand our views on these issues.

UK voting disclosure

We publicly disclose on our website www.rpmi.co.uk our voting record in respect of all UK company meetings held after 1 January 2010, subject to a waiting period of three months from the end of the month in which the meeting is held, so that we can balance transparency without undermining our ongoing dialogue with companies.

Executive remuneration

Executive remuneration continues to be a major focus of our voting and engagement work. We expect to see significant alignment between the interests of directors and shareholders and urge companies to adopt:

APPENDIX D
RESPONSIBLE INVESTMENT (CONTINUED)

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

The regulatory authorities in the UK and elsewhere are imposing their own requirements for the deferral of annual bonuses as part of their perceived need for more prudent regulation. The UK Government consulted extensively on executive pay reform and will be introducing a binding shareholder vote on forward looking future remuneration policy ("future policy report") from October 2013 in addition to the existing advisory vote on the retrospective implementation of the policy ("implementation report").

Overseas markets

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

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

These include, but are not limited to, the NAPF, the International Corporate Governance Network, the UK Corporate Governance Forum, the UK Social Investment Forum, the Global Investors Governance Network, the Working Group of the International Integrated Reporting Council and various other investor corporate governance bodies, including the Council of Institutional Investors in the USA, Eumedion in the Netherlands, the Australian Council of Super Investors and the Asian Corporate Governance Association in the Far East. We are also members of Institutional Investors Group on Climate Change.

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

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

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

APPENDIX D
RESPONSIBLE INVESTMENT (CONTINUED)

Pooled fund equity holdings

The largest ten equity holdings within the pooled fund investments as at 31 December 2012 were as follows:

	£m
Sanofi	30.86
Nestle	29.93
British American Tobacco	29.62
Samsung Electronics	28.11
Microsoft Corporation	26.45
SAP	25.73
Unilever	25.41
China Mobile	24.93
Bank of New York Mellon	22.21
Sumitomo Mitsui	22.19

APPENDIX E
RISK STATEMENT

The following risk management process operated throughout the year-ended 31 December 2012.

Risk policy

The Trustee Company has overall responsibility for internal control and risk management. It is committed to identifying, evaluating and managing risk and uncertainty, and to implementing and maintaining control procedures to reduce significant risks to an acceptable level. The policy takes note of the guidance and principles of the UK Corporate Governance code issued by the Financial Reporting Council in May 2010 and the guidance within the Pensions Regulator's Code of Practice on Internal Controls issued in November 2006.

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

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

The Trustee Company strongly encourages its investment managers to publish internal control assurance reports, (AAF 01/06, ISAE 3402 or equivalent style reports), on the effectiveness of internal controls, although investment managers are under no regulatory obligation to do so. The internal audit plan includes a rolling programme to review the internal control environment of all 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 the Trustee and 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.

APPENDIX E
RISK STATEMENT (CONTINUED)

In respect of the pensions administration service provided by RPMI, an internal controls assurance report has been prepared for the year ended 31 December 2011. The report sets out a description of the relevant control objectives and procedures which operated during the period. These have been independently evaluated under the guidelines of the International Standard on Assurance Engagements 3402 (ISAE 3402) and the Institute of Chartered Accountants in England & Wales Technical Release, 'Assurance reports on internal controls of service organisations made available to third parties (AAF 01/06)'.

Following the acquisition by RPMI of Electricity Pensions Administration Limited (EPAL) in December 2011, an internal controls assurance report (AAF 01/06, ISAE 3402), has also been prepared in respect of the pensions administration service provided by RPMI EPAL, for the six months from 1 July 2012 to 31 December 2012.

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 Finance Director and includes representatives of executive management and is open to Trustee Directors. It meets regularly with the Business Assurance team with the external auditors in attendance, to consider the significant risks and assess how they have been identified, evaluated and managed, as well as the effectiveness of the internal controls associated with these significant risks.

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

APPENDIX F
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 fund rather than by individuals serving as trustees. If the fund is unable to bear the cost, the sponsoring employers of the scheme may have to meet it. This is known as indemnification.

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

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

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

APPENDIX G
ACTUARY'S STATEMENT

Actuarial statement made for the purposes of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of fund

British Transport Police Force Superannuation Fund

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Fund's Technical Provisions as at 31 December 2009 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Fund and set out in the Statement of Funding Principles dated 17 February 2011.

Arthur F Zegleman
Fellow of the Faculty of Actuaries
Watson Wyatt Limited

Princes Exchange
1 Earl Grey Street
Edinburgh
EH3 9AY

21 March 2011

APPENDIX H
ACTUARY'S CERTIFICATE

Actuary's certificate of Schedule of Contributions

Name of fund:

British Transport Police Force Superannuation Fund

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of the contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected at 31 December 2009 to be met by the end of the period specified in the recovery plan dated 17 February 2011.

2. I certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had the responsibility for preparing or revising the Schedule and the Statement of Funding Principles.

Adherence to statement of funding principles

3. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 17 February 2011.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

Arthur F Zegleman
Fellow of the Faculty of Actuaries
Partner
Watson Wyatt Limited
Princes Exchange
1 Earl Grey Street
Edinburgh
EH3 9AY

21 March 2011

APPENDIX I
SUMMARY FUNDING STATEMENT

The Fund Trustee is required to produce and provide to members a regular 'Summary Funding Statement' intended to include important financial information concerning the Fund. This latest statement was issued in December 2012.

Planning for the future

A pension scheme is a long-term arrangement, designed to pay pensions over many years. For a shared cost arrangement, such as the British Transport Police Force Superannuation Fund, it is a partnership between the employer and pension scheme members. The Trustee Company looks after the assets of the Fund, which are built up by contributions and investment returns and are used to pay benefits in the future.

Many members will not take their benefits until some time in the future and pensions will continue to be paid over many years. This means that to work out the appropriate amount of assets that the Fund should hold now we need to make a number of assumptions about the future – such as the life expectancy of the members and the investment returns that may be achieved on the Fund's investments.

However, what actually happens in the future may be very different from the assumptions made now; and because pensions are paid over such a long time, the Trustee Company, the employer and the members can make changes over time so that pensions can be paid when they fall due.

The Fund has a formal financial assessment (an actuarial valuation) at least once every three years. The latest valuation was as at 31 December 2009 and its results have recently been published. This statement summarises the results and conclusions and a copy of the full Report on the valuation is available on request from RPMI at the address at the end of the statement.

The Fund includes two sections – the 1968 Section (which is a small historical section) and the 1970 Section. The 1970 Section is itself divided into the preserved benefits part (a closed part comprising pensions in payment) and the contributory benefits part (the open part of the Fund).

The main purpose of an actuarial valuation is to work out the rate of future contributions which must be paid to the Fund. The 2009 actuarial valuation (the results of which are summarised below) concluded that no contributions were required for the 1968 Section and the Preserved part of the 1970 Section but that contributions to the Contributory part of the 1970 Section needed to increase.

APPENDIX I
SUMMARY FUNDING STATEMENT (CONTINUED)

Funding positions assuming that the Fund will continue

1968 Section

The latest actuarial valuation of the 1968 Section of the Fund showed that on 31 December 2009:

The value of the 1968 Section's liabilities was:	£2.4 million
The 1968 Section's assets were valued at:	£2.8 million
This means that there was a funding surplus of:	£0.4 million

The latest funding update as at 31 December 2011 indicated that the estimated funding position has worsened since the previous actuarial assessment at the end of 2010. This is principally due to the lower than expected asset returns over the year, and lower expected investment returns in the future (which increase the target level of assets needed to provide benefits).

1970 Preserved Section

The latest valuation of the Preserved part of the 1970 Section of the Fund showed that as at 31 December 2009:

The value of the 1970 Preserved Benefits Section's liabilities was:	£39.1 million
The 1970 Preserved Benefits Section's assets (including Government support) were valued at:	£41.3 million
This means that there was a funding surplus of:	£2.2 million

The result meant that the assets were enough to cover 110% of the benefits that would need to be paid in the future. No contributions are required for this part of the 1970 Section.

The latest funding update as at 31 December 2011 indicated that the estimated funding position has worsened since the previous actuarial assessment at the end of 2010. This is principally due to the lower than expected asset returns over the year, and lower expected investment returns in the future (which increase the target level of assets needed to provide benefits).

1970 Contributory Section

The latest valuation of the Contributory part of the 1970 Section of the Fund showed that as at 31 December 2009:

The value of the 1970 Contributory Benefits Section's liabilities was:	£738 million
The 1970 Contributory Benefits Section's assets (excluding BRASS) were valued at:	£702 million
This means that there was a funding shortfall of:	£36 million

APPENDIX I
SUMMARY FUNDING STATEMENT (CONTINUED)

The above result meant that the assets were enough to cover 95% of the benefits that would need to be paid in the future.

The joint normal rates of contribution needed to fund the accrual of benefits over the period to the next valuation date are:

- 39.1% of Scheme Salary for members who joined prior to 1 April 2007
- 25.4% of Pensionable Salary for members who joined after 31 March 2007

To address the shortfall a Recovery Plan has been agreed between the Trustee and BTPA. Under this plan, in addition to continuing joint contributions at the current rates of 40% of Scheme Salaries for members who joined the Fund prior to 1 April 2007 and 30% of Pensionable Salaries for subsequent entrants, BTPA will fund all of the additional cost of funding the deficit by a series of monthly lump sum contributions commencing on 1 October 2011. These contributions will start at the rate of £416,666 per month and will increase each April, broadly in line with inflation, until 31 March 2019.

Contributions at these levels are expected to bring the funding position back into balance by that date but will in any event be reassessed at the next formal valuation due at 31 December 2012.

As the Authority is funding all of the additional lump sum contributions it has been agreed that it will have a first call on any future surplus that might arise. In those circumstances the funding surplus, up to the amount of the additional lump sum contributions paid, would be used to reduce the Authority's future payments to the Fund.

The latest update showed that the estimated funding position had worsened and the assets were sufficient to cover 87% of the liabilities at 31 December 2011. This is principally due to the lower than expected asset returns over the year and lower expected investment returns in the future.

Solvency position if the Fund were to be wound up

The latest actuarial valuation of the Fund at 31 December 2009 also estimated the amount an insurer might charge if the Fund were to cease at that date and benefits secured with them. On this basis the assets were estimated to cover around 62% of the benefits that would need to be paid in the future. This is lower than the ongoing funding level described earlier as insurers are obliged to take a very cautious view of the future and wish to make a profit. By contrast, the ongoing funding valuation assumes that your employer will carry on in business and continue to support its funding of the Fund. This buy out figure is an estimate only and does not represent the actual amount that would need to be paid to any specific insurer to secure the benefits.

The Trustee is required by law to provide you with this information on the Fund's solvency position. It does not imply that there is any intention, on the part of either the Authority or the Trustee Company, to wind up the Fund.

APPENDIX I
SUMMARY FUNDING STATEMENT (CONTINUED)

Investment of the Fund's assets

The assets for the British Transport Police Force Superannuation Fund are invested in funds in which only railways pension schemes may invest. The Fund has its own investment strategy which determines how assets are invested in each of the pooled investment funds. This investment strategy is kept under regular review by the Trustee Company.

Payments to the employer

We are legally required to inform you of any payments that have been made to your Employer from the Fund in the last 12 months. There have been no such payments.

Pension Protection Fund

The Government established the Pension Protection Fund (PPF) to pay compensation to members of defined benefit pension schemes (like the British Transport Police Force Superannuation Fund) if employers become insolvent and if there are not enough assets in the pension schemes. In these situations, the PPF will take over the pension schemes' assets and provide benefits to the schemes' members. However, the benefits 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.

Further information and guidance is available on the PPF's website at:
www.pensionprotectionfund.org.uk

Or you can write to the PPF at:

Knollys House
7 Addiscombe Road
Croydon
Surrey, CR0 6SR

If you would like more information

If you have a question about the Fund or the information in this statement, please contact RPMI by:

Phone: 0800 2 343434
Email: csu@rpmi.co.uk
Post: Customer Services, RPMI, PO Box 300, Darlington, DL3 6YJ
Website: www.railwaypensions.co.uk

Please remember to let RPMI know if you change your address.

APPENDIX J
FUND SECTION EXTRACTION ACCOUNTS

British Transport Police 1968 Section (unaudited)

Fund account for the year ended 31 December 2012

	2012	2011
	£000	£000
Benefits payable	**225**	232
Administrative expenses	**3**	4
	228	236
Net withdrawals from dealings with members	**(228)**	(236)
Net returns on investments	**99**	278
Net movement in the Fund during the year	**(129)**	42
Net assets at the start of the year	**2,944**	2,902
Net assets at the end of the year	**2,815**	2,944

Net assets statement as at 31 December 2012

	2011	2011
	£000	£000
Investments	**2,819**	2,946
Current liabilities	**(4)**	(2)
Net assets at the end of the year	**2,815**	2,944

APPENDIX J
FUND SECTION EXTRACTION ACCOUNTS (CONTINUED)

British Transport Police 1970 Section Current (unaudited)

Fund account for the year ended 31 December 2012

	2012	2011
	£000	£000
Contributions and benefits		
Contributions receivable	**37,144**	34,041
Transfer values	**4,563**	2,472
	41,707	36,513
Benefits payable	**36,347**	37,192
Transfer values	**2,373**	2,558
Administrative expenses	**1,610**	1,294
	40,330	41,044
Net additions/(withdrawals) from dealings with members	**1,377**	(4,531)
Net returns on investments	**60,468**	(3,785)
Net movement in the Fund during the year	**61,845**	(8,316)
Net assets at the start of the year	**788,785**	797,101
Net assets at the end of the year	**850,630**	788,785

Net assets statement as at 31 December 2012

	2012	2011
	£000	£000
Investments	**848,536**	787,598
Current assets	**2,094**	1,187
Net assets at the end of the year	**850,630**	788,785

APPENDIX J
FUND SECTION EXTRACTION ACCOUNTS (CONTINUED)

British Transport Police 1970 Section Historic (unaudited)

Fund account for the year ended 31 December 2012

	2012	2011
	£000	£000
Contributions and benefits		
Benefit support	**1,726**	1,804
	1,726	1,804
Benefits payable	**3,816**	3,881
Administrative expenses	**140**	196
	3,956	4,077
Net withdrawals from dealings with members	**(2,230)**	(2,273)
Net returns on investments	**2,975**	2,395
Net movement in the Fund during the year	**745**	122
Net assets at the start of the year	**25,507**	25,385
Net assets at the end of the year	**26,252**	25,507

Net assets statement as at 31 December 2012

	2012	2011
	£000	£000
Investments	**26,231**	25,462
Current assets	**21**	45
Net assets at the end of the year	**26,252**	25,507

APPENDIX K
SUMMARY OF THE MAIN PROVISIONS OF THE FUND

Tax status

The Fund is a registered fund under the Finance Act 2004.

Contracting-out

The members of the Fund are contracted-out from the State Second Pension.

Eligibility

All police officers who are not within two years of their maximum pension age (60 or 65 depending on rank) when they join the service are eligible to join the Fund if allowed by their contract of employment.

Transport Act 1980

The Transport Act 1980 provides financial support for the employer's historical obligations. These obligations are met by the payment to the Fund of a fixed proportion, determined by the Secretary of State, of the relevant obligations as they fall due. This proportion is 65.99% of supportable Fund expenditure as it occurs.

Historic obligations relate to preserved membership which is membership prior to 14 September 1970 credited to members on joining the Fund at that time.

Pension increases

Pensions in payment and preserved pensions were increased by 5.2% from April 2012 based on the rate of inflation as measured by the Consumer Prices Index ('CPI') in September 2011. The increase from April 2013 was 2.2% based on CPI at September 2012.

Benefit structure from April 2007

From 1 April 2007 a revised benefit structure was introduced for new members and is shown in the following table. Details of the old benefit structure are available on request from RPMI.

APPENDIX K
SUMMARY OF THE MAIN PROVISIONS OF THE FUND (CONTINUED)

New members post 1 April 2007

Active member

Contributions

Contributions are based on pensionable salary, which is basic salary plus, where appropriate, pensionable allowances such as London Weighting.

Pensionable salary is re-assessed on the first Monday in January each year, based on the member's salary on the previous 1 November. Contributions cease when the first of the following occurs:

a) on leaving the Fund; or

b) at maximum pension age of 60 or 65 depending on rank.

Additional voluntary contributions ('AVC')

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

Death in service

Nominated dependants or personal representatives will receive:

A lump-sum death benefit of four times pensionable salary averaged over 12 months.

Plus

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

Full details of the provisions of the Fund can be found in the Trust Deed and Rules.

APPENDIX K
SUMMARY OF THE MAIN PROVISIONS OF THE FUND
(CONTINUED)

Leaving the Fund

When a member retires at or after age 55
He/she will receive
A pension of 1/70th of average pensionable salary for each year of membership, up to 35 years.

Plus

A tax-free lump sum of 4/70th of average pensionable salary during the last 12 months for each year of membership, up to 35 years. Lump sums can be converted into pension on a cost neutral basis.

And on death

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

When a member retires because of incapacity
He/she will receive
Incapacity retirement benefits, with no reduction for early payment, can be granted at the Management Committee's discretion to members retiring on the grounds of incapacity who have completed at least five years' membership. The length of membership used to calculate the pension may also be enhanced in certain circumstances.

And on death

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

When an immediate pension is not payable
He/she will receive either
If the member has 2 or more years service:
A preserved pension and lump sum payable from age 65, or from age 55 at a reduced amount.
Or
A transfer value payment payable to another approved pension arrangement.

If the member has less than 2 years service:
A refund of contributions less tax and other deductions.
Transfer values

All transfer values out of the Fund are paid in full and 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.

Full details of the provisions of the Fund can be found in the Trust Deed and Rules.

APPENDIX L
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:

(1) members of the Fund;

(2) preserved pensioners with the Fund;

(3) pensioners or other beneficiaries from the Fund;

(4) widows, widowers or surviving dependants of deceased members; or

(5) prospective members, that is, those who may join the Fund in the future.

How does the procedure work?

The complaint must be in writing and sent to:
Head of Rail Administration
RPMI
Stooperdale Offices
Birnkburn Road
Darlington
DL3 6EH

All applications under the procedure must include:

(1) full name, address, date of birth and National Insurance number of the member;

(2) 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 Fund member;

(3) the full name and address of any representative acting for the applicant and whether or not replies should be addressed to the representative;

(4) the facts of the case in sufficient detail to show why the applicant has a disagreement; and

(5) 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

How does the procedure work? (continued)

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 Fund 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:

(1) a statement that TPAS is available to assist members and beneficiaries in connection with any difficulties with the Fund which have not been resolved with the Committee and the address where TPAS can be contacted; and

(2) a statement that the Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to the Fund and the address where the Pensions Ombudsman may be contacted.

APPENDIX M
WHERE TO GO FOR HELP

Trustee Company and Railpen Investments

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

Tel: 020 7220 5000
Email: enquiries@rpmi.co.uk
Website address: www.rpmi.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)
E-mail: csu@rpmi.co.uk
Website address: www.railwayspensions.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: 08456 012 923
Email: enquiries@pensionsadvisoryservice.org.uk
Website address: www.pensionsadvisoryservice.org.uk

APPENDIX M
WHERE TO GO FOR HELP (CONTINUED)

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 600 0707
E-mail: customersupport@thepensionsregulator.gov.uk
Website address: www.thepensionsregulator.gov.uk

Pension 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: 08456 002 537
Website address: www.gov.uk

Fund Registration number: 100541628

APPENDIX N
POOLED FUND ACCOUNTS

INTRODUCTION TO THE POOLED FUND ACCOUNTS

This appendix represents a consolidated summary of the Annual Report and non-statutory audited Accounts of the pooled funds of the railways pension schemes for the year ended 31 December 2012.

The total valuation of the pooled assets as at 31 December 2012 was £18,078.58m (2011 - £16,966.04m). There are in addition £1,957.93m (2011 - £1,832.40m) of assets held directly by the railways pension schemes not included in the pooled fund arrangements, bringing total assets to £20,036.51m (2011 - £18,798.44m).

The pooled funds operate as internal unit trusts. They comprise a key element of the arrangements that the Trustee Company has put in place for the investment of schemes' and sections' assets and provide the railways pension schemes with a means to invest in a wide range of asset classes.

In July 2012 the Defensive Pooled Fund was introduced. This is a multi-asset pool with a dynamic asset allocation, depending on the perceived opportunities. It is intended to be relatively low volatility risk and targets a modest real return. The range of eligible assets includes primarily a variety of fixed income instruments and cash.

Also during the year the first investments were made in the Passive Equity Pooled Fund. So far, this has only been used by one section but is available for consideration by any section when investment strategies are reviewed.

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

The table on page 71 summarises the investments of each of these pooled funds as at 31 December 2012. The notes on pages 75 to 94 analyse the total pooled assets of £18,078.58m into the categories required by the SORP. The net asset value of each pooled fund at the end of the current and prior years is set out on pages 78-79, and the unit prices on pages 76-77.

The economic exposure of pooled fund assets

The use of derivatives and pooled investment vehicles by pension schemes can make it difficult for a reader of pension scheme accounts to gain an insight into the economic exposures of schemes' investment portfolios and the related risks and rewards. Based on guidance prepared by the Pensions Research Accountants Group, the table on page 68 presents an alternative classification of the pooled fund assets, which is intended to complement the analysis given in the accounts, and give an understanding of the underlying economic exposure of the pooled funds.

The investments in the Liability Driven Investments ("LDI") Pooled Fund are in a series of sub-funds designed to match part of the pension liabilities of the sections investing in the pooled fund. The underlying investments are in cash and a series of swaps providing cashflows which provide the approximate liability matching return. These swaps operate on a partially funded or "geared" basis. The level of this gearing varies by sub-fund, but the broad overall result is a

The economic exposure of pooled fund assets (continued)

gearing ratio of approximately three times for the fund as a whole. This means that each pound invested in the LDI Pooled Fund might be expected to achieve a gain or loss of roughly three times that of a pound invested directly in liability matching gilts. From the point of view of risk and return, the net asset value of £111.48m reported in the below table as at 31 December 2012 is therefore roughly equivalent to a direct investment of £334.44m in a comparable gilt or index linked gilt portfolio.

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

Credit default swaps (“CDSs”) are contracts whereby, in exchange for a stream of income, one party agrees to make payments to another in the event of the insolvency (or other suitably defined credit event) of the issuer of the 'reference security' that is the subject of the contract. In this respect CDSs are somewhat similar to insurance arrangements, since they allow the buyer to reduce credit risk in exchange for an annual fee. The market value of a CDS is the fair value of the contract, which reflects the market’s best estimate of the likelihood of the relevant future credit event occurring on the reference security. As part of the efficient management of bond portfolios, fund managers are allowed to enter into CDSs in order to reduce costs or generate additional return, and in view of this the Trustee considers that the accounting fair value of £0.21m is the best measure of the economic exposure of CDSs, as disclosed in the table below.

INTRODUCTION TO THE POOLED FUND ACCOUNTS (Continued)

THE ECONOMIC EXPOSURE OF POOLED FUND ASSETS AS AT 31 DECEMBER 2012

	Segregated investments	Futures	Swaps	Options	Forwards	TBAs	CDS	Pooled investment vehicles	FX	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK equities	390.13	-	-	-	-	-	-	628.11	-	1,018.24
Overseas equities	2,768.27	236.06	-	0.18	-	-	-	1,634.22	22.37	4,661.10
Property	1,552.68	-	-	-	-	-	-	27.37	-	1,580.05
Private equity	-	-	-	-	-	-	-	1,803.05	-	1,803.05
Commodities	-	330.93	-	-	-	-	-	-	-	330.93
Hedge funds	-	-	-	-	-	-	-	1,971.12	18.56	1,989.68
Infrastructure	-	-	-	-	-	-	-	806.84	-	806.84
UK index linked securities	1.04	-	-	-	-	-	-	165.62	-	166.66
Overseas index linked securities	27.73	-	-	-	-	-	-	-	-	27.73
Liability driven investments	-	-	-	-	-	-	-	111.48	-	111.48
UK public sector bonds	369.77	0.56	-	-	-	-	-	-	-	370.33
UK non-public sector bonds	25.87	-	-	-	-	-	-	-	-	25.87
Overseas public sector bonds	1,348.65	60.99	-	0.01	6.77	107.17	-	-	-	1,523.59
Overseas non-public sector bonds	1,496.24	-	-	0.04	-	-	0.21	90.41	-	1,586.90
Cash	2,715.16	(626.74)	1.01	-	(6.71)	-	-	-	47.25	2,129.97
Other assets and liabilities	52.16	-	-	-	-	(106.00)	-	-	-	(53.84)
Total	**10,747.70**	**1.80**	**1.01**	**0.23**	**0.06**	**1.17**	**0.21**	**7,238.22**	**88.18**	**18,078.58**

INTRODUCTION TO THE POOLED FUND ACCOUNTS (Continued)

ACCOUNTING POLICIES

Investments

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

(i) Listed investments are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.

(ii) Fixed interest securities are stated at their ‘clean’ prices, with accrued income accounted for within investment income.

(iii) Unquoted securities, including most investments in private equity and infrastructure (both direct and via managed funds), are included at the Trustee Company’s estimate of accounting fair value based on advice from the investment managers.

(iv) Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price, where there are no bid/offer spreads, as provided by the investment managers.

(v) Properties are included at open market value as at the year end date determined in accordance with the Royal Institution of Chartered Surveyors’ Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by independent external valuers, DTZ. DTZ are Chartered Surveyors and members of the Royal Institution of Chartered Surveyors.

(vi) Exchange traded derivatives are stated at market values determined using market quoted prices. Over the counter (“OTC”) derivatives are stated at the Trustee Company’s estimate of accounting fair value based on advice from Markit, external valuers retained by the Trustee Company through BNY Mellon, who provide a valuation service independent of the fund managers, using pricing models and relevant market data at the year end date.

(vii) Forward foreign exchange contracts are valued at the forward rate at the year end date.

(viii) All gains and losses arising on derivative contracts are reported within change in market value of investments during the year.

(ix) Foreign investments, debtors, creditors, cash and cash equivalents have been translated into sterling at the exchange rates ruling at the fund statement date.

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.

INTRODUCTION TO THE POOLED FUND ACCOUNTS (Continued)

ACCOUNTING POLICIES (continued)

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 unit price and reported within the 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.

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2012

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other asssets	Other liabilities	Cross holdings	Net assets attributable to unit holders
Pooled Fund	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Growth	661.11	558.64	28.77	-	1,185.21	29.00	(2.60)	763.45	86.56	(52.35)	6,162.52	**9,420.31**
Global Equity	2,470.07	10.28	-	-	1,893.81	33.90	(10.70)	324.20	11.04	(15.94)	-	**4,716.66**
Private Equity	7.49	-	-	-	1,803.05	0.02	(0.01)	72.18	0.08	(0.66)	-	**1,882.15**
Property	-	-	-	1,552.68	18.47	-	-	64.35	18.58	(55.41)	-	**1,598.67**
Non Government Bond	-	1,393.04	-	-	-	25.31	(7.60)	163.51	18.44	(1.93)	-	**1,590.77**
Hedge Funds	-	-	-	-	1,067.82	18.88	(0.32)	111.18	39.08	(4.91)	-	**1,231.73**
Cash	-	-	-	-	-	-	-	984.18	0.51	(0.07)	-	**984.62**
Infrastructure	19.73	-	-	-	806.84	0.50	(0.28)	22.98	0.20	(0.13)	-	**849.84**
Government Bond	-	795.59	-	-	-	13.51	(6.71)	18.87	8.25	(1.42)	-	**828.09**
Defensive	-	-	-	-	-	-	-	20.16	0.06	(0.01)	659.88	**680.09**
Commodities	-	283.83	-	-	123.84	5.43	(5.67)	47.38	0.72	(0.45)	-	**455.08**
Cashflow Matching	-	199.15	-	-	-	-	-	101.52	2.56	(0.42)	-	**302.81**
Index Linked	-	-	-	-	165.62	-	-	0.13	-	(0.03)	-	**165.72**
LDI	-	-	-	-	111.48	-	-	0.45	-	(0.06)	-	**111.87**
BRASS	-	-	-	-	-	-	-	20.61	0.02	(0.14)	72.37	**92.86**
Passive Equity	-	-	-	-	62.08	-	-	0.01	-	(0.01)	-	**62.08**
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(6,894.77)	**(6,894.77)**
Total	**3,158.40**	**3,240.53**	**28.77**	**1,552.68**	**7,238.22**	**126.55**	**(33.89)**	**2,715.16**	**186.10**	**(133.94)**	-	**18,078.58**
%	17.47	17.92	0.16	8.59	40.04	0.70	(0.19)	15.02	1.03	(0.74)	-	100.00

Analysis of cross holdings

	Global equity	Hedge funds	Property	Non government bond	Cash	Commodities	Government bond	Index linked	Total Cross Holdings
Pooled Fund	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Growth	2,226.16	1,085.01	1,128.44	600.70	711.44	410.77	-	-	**6,162.52**
Defensive	-	-	-	345.14	162.61	-	152.13	-	**659.88**
BRASS	24.80	9.19	10.54	12.26	-	2.90	8.45	4.23	**72.37**
Total	**2,250.96**	**1,094.20**	**1,138.98**	**958.10**	**874.05**	**413.67**	**160.58**	**4.23**	**6,894.77**

The accounting policies on pages 69-70 and the notes on pages 75-94 form part of these accounts.

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2012

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**
Growth	7,035.15	2,086.09	(358.59)	619.41	38.25	-	**9,420.31**
Global Equity	6,456.55	639.42	(3,061.06)	621.88	59.87	-	**4,716.66**
Private Equity	1,840.08	125.12	(178.03)	99.65	(4.67)	-	**1,882.15**
Property	1,555.21	0.09	(20.57)	(11.19)	75.13	-	**1,598.67**
Non Government Bond	1,071.55	407.24	(11.34)	77.71	45.61	-	**1,590.77**
Hedge Funds	1,129.40	135.76	(116.56)	91.91	(8.78)	-	**1,231.73**
Cash	189.09	1,047.57	(255.18)	-	3.14	-	**984.62**
Infrastructure	765.63	-	-	84.08	0.13	-	**849.84**
Government Bond	907.02	59.93	(192.01)	28.84	24.31	-	**828.09**
Defensive	-	691.99	(24.20)	12.30	-	-	**680.09**
Commodities	394.16	81.85	(1.51)	(18.25)	(1.17)	-	**455.08**
Cashflow Matching	510.26	177.00	(386.15)	(12.82)	14.52	-	**302.81**
Index Linked	187.99	1.17	(20.44)	(2.79)	(0.21)	-	**165.72**
LDI	149.64	-	(44.52)	(37.67)	44.42	-	**111.87**
BRASS	67.61	29.37	(9.73)	5.58	0.03	-	**92.86**
Passive Equity	-	60.75	-	1.34	(0.01)	-	**62.08**
Cross Holdings	(5,293.30)	-	-	-	-	(1,601.47)	**(6,894.77)**
Total	**16,966.04**	**5,543.35**	**(4,679.89)**	**1,559.98**	**290.57**	**(1,601.47)**	**18,078.58**

Approved on behalf of the Trustee Company on 8 May 2013

Derek Scott
Chairman

John Mayfield
Director and Chairman,
Audit Committee

The accounting policies on pages 69-70 and the notes on pages 75-94 form part of these accounts.

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2011

	Equities	Fixed interest securities	Index linked securities	UK property	Pooled investment vehicles	Derivative assets	Derivative liabilities	Cash deposits and cash instruments	Other assets	Other liabilities	Cross holdings	Net assets attributable to unit holders
Pooled Fund	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Growth	376.24	402.45	5.45	-	605.33	7.44	(17.60)	436.71	9.53	(22.53)	5,232.13	**7,035.15**
Global Equity	3,682.08	186.55	0.03	-	2,136.33	52.59	(44.10)	491.49	15.26	(63.68)	-	**6,456.55**
Private Equity	7.27	-	-	-	1,718.68	0.01	-	114.51	-	(0.39)	-	**1,840.08**
Property	-	-	-	1,367.79	19.95	-	-	185.39	15.47	(33.39)	-	**1,555.21**
Hedge Funds	-	-	-	-	998.81	0.01	(10.69)	104.22	39.24	(2.19)	-	**1,129.40**
Non Government Bond	-	927.11	-	-	17.94	18.14	(15.34)	111.06	13.28	(0.64)	-	**1,071.55**
Government Bond	-	855.80	6.58	-	-	14.95	(4.61)	25.78	10.21	(1.69)	-	**907.02**
Infrastructure	38.52	-	-	-	713.44	0.38	(0.18)	13.96	0.24	(0.73)	-	**765.63**
Cashflow Matching	-	399.80	-	-	-	-	-	107.63	3.18	(0.35)	-	**510.26**
Commodities	-	166.19	-	-	128.24	4.14	(9.37)	117.90	0.48	(13.42)	-	**394.16**
Cash	-	-	-	-	-	-	-	186.28	2.84	(0.03)	-	**189.09**
Index Linked	-	-	-	-	187.63	-	-	0.39	-	(0.03)	-	**187.99**
LDI	-	-	-	-	149.14	-	-	0.58	-	(0.08)	-	**149.64**
BRASS	-	-	-	-	-	-	-	6.30	0.15	(0.01)	61.17	**67.61**
Cross Holdings	-	-	-	-	-	-	-	-	-	-	(5,293.30)	**(5,293.30)**
Total	**4,104.11**	**2,937.90**	**12.06**	**1,367.79**	**6,675.49**	**97.66**	**(101.89)**	**1,902.20**	**109.88**	**(139.16)**	**-**	**16,966.04**
%	24.19	17.32	0.07	8.06	39.34	0.58	(0.60)	11.21	0.65	(0.82)	-	100.00

Analysis of cross holdings

	Global equity	Hedge funds	Property	Non government bond	Cash	Commodities	Government bond	Index linked	Total cross holdings
Pooled Fund	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Growth	2,605.18	884.00	858.75	440.90	102.96	340.34	-	-	**5,232.13**
BRASS	26.51	7.38	6.41	7.96	-	2.64	5.97	4.30	**61.17**
Total	**2,631.69**	**891.38**	**865.16**	**448.86**	**102.96**	**342.98**	**5.97**	**4.30**	**5,293.30**

The accounting policies on pages 69-70 and the notes on pages 75-94 form part of these accounts.

SECTION 1.3: FUND STATEMENT AS AT 31 DECEMBER 2011

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**
Growth	6,029.23	1,389.68	(178.20)	(226.38)	20.82	-	**7,035.15**
Global Equity	8,148.49	732.60	(1,754.09)	(747.76)	77.31	-	**6,456.55**
Private Equity	1,579.35	233.10	(197.30)	225.20	(0.27)	-	**1,840.08**
Property	1,452.82	0.30	(14.11)	48.61	67.59	-	**1,555.21**
Hedge Funds	1,142.54	11.30	(9.58)	(5.92)	(8.94)	-	**1,129.40**
Non Government Bond	1,066.83	43.46	(86.53)	7.39	40.40	-	**1,071.55**
Government Bond	759.74	99.14	(18.32)	40.65	25.81	-	**907.02**
Infrastructure	770.63	-	-	(6.77)	1.77	-	**765.63**
Cashflow Matching	632.69	262.30	(388.73)	(19.22)	23.22	-	**510.26**
Commodities	383.10	31.42	-	(18.45)	(1.91)	-	**394.16**
Cash	308.77	688.99	(811.28)	-	2.61	-	**189.09**
Index Linked	195.50	5.26	(57.64)	44.88	(0.01)	-	**187.99**
LDI	-	128.74	(48.15)	39.92	29.13	-	**149.64**
BRASS	47.72	27.01	(6.74)	(0.39)	0.01	-	**67.61**
Short Bonds	37.26	-	(37.87)	0.23	0.38	-	**-**
Cross Holdings	(5,278.73)	-	-	-	-	(14.57)	**(5,293.30)**
Total	**17,275.94**	**3653.30**	**(3608.54)**	**(618.01)**	**277.92**	**(14.57)**	**16,966.04**

The accounting policies on pages 69-70 and the notes on pages 75-94 form part of these accounts.

CONSOLIDATED NOTES TO THE FUND STATEMENT

1.1	Fund statement as at 31 December 2012	Note	2012 £m	2011 £m
	Assets			
	Equities			
	UK quoted		390.13	574.01
	Overseas quoted		2,757.36	3,518.92
	Overseas unquoted		10.91	11.18
			3,158.40	**4,104.11**
	Fixed interest securities			
	UK quoted – public sector		273.51	460.32
	UK quoted – non public sector		122.13	90.49
	Overseas quoted – public sector		1,348.65	1,358.27
	Overseas quoted – non public sector		1,496.24	1,028.82
			3,240.53	**2,937.90**
	Indexed linked securities			
	UK quoted – public sector		-	6.58
	UK quoted – non public sector		1.04	0.86
	Overseas quoted – public sector		27.73	4.62
			28.77	**12.06**
	UK Property		**1,552.68**	**1,367.79**
	Pooled investment vehicles			
	UK unquoted – property partnerships		18.47	19.95
	UK unquoted – unitised insurance policies		2,110.35	2,046.44
	UK unquoted – other partnerships		592.78	501.32
	UK quoted – other managed funds		85.85	79.28
	Overseas quoted – hedge funds		0.21	0.26
	Overseas quoted – other managed funds		186.45	214.27
	Overseas unquoted – partnerships		2,340.70	2,316.81
	Overseas unquoted – unit trusts		-	0.09
	Overseas unquoted – hedge funds		1,321.08	1,191.87
	Overseas unquoted – other managed funds		582.33	305.20
			7,238.22	**6,675.49**
	Derivative contracts			
	Forwards – OTC	1.5	0.27	0.89
	Futures – exchange traded	1.5	9.19	20.96
	TBA contracts – OTC	1.5	1.33	1.33
	Swaps – OTC	1.5	2.43	5.26
	Swaps – exchange traded	1.5	0.77	1.67
	Options – OTC	1.5	0.28	0.10
	Options – exchange traded	1.5	0.01	-
	FX contracts – OTC	1.5	112.27	67.45
			126.55	**97.66**
	Cash deposits and cash instruments	1.6	**2,715.16**	**1,902.20**
	Other assets			
	Other investment assets	1.7	156.42	100.30
	Current assets	1.9	8.93	9.58
			165.35	**109.88**
	Total assets		**18,225.66**	**17,207.09**

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.1 Fund statement as at 31 December 2012 (continued)

	Note	2012 £m	2011 £m
Liabilities			
Derivative contracts			
Forwards – OTC	1.5	(0.21)	(0.88)
Futures – exchange traded	1.5	(7.39)	(16.69)
TBA contracts – OTC	1.5	(0.16)	-
Swaps – OTC	1.5	(1.98)	(12.21)
Options – OTC	1.5	(0.06)	(0.01)
FX contracts – OTC	1.5	(24.09)	(72.10)
		(33.89)	**(101.89)**
Other liabilities			
Other investment liabilities	1.8	(61.54)	(80.54)
Current liabilities	1.10	(51.65)	(58.62)
		(113.19)	**(139.16)**
Total liabilities		**(147.08)**	**(241.05)**
Net assets attributable to unit holders		**18,078.58**	**16,966.04**

1.2 Pooled fund unit prices as at 31 December

	2012 £/unit	2011 £/unit
BRASS Pooled Fund (Cautious)	12.37	11.68
BRASS Pooled Fund (Growth)	12.37	11.39
Cash Pooled Fund	10.13	10.08
Commodities Pooled Fund	14.76	15.40
Global Equity Pooled Fund	52.90	46.50
Government Bond Pooled Fund	11.43	10.77
Growth Pooled Fund	11.62	10.72
Hedge Funds Pooled Fund	13.63	12.69
Index Linked Pooled Fund	53.19	54.07
Infrastructure Pooled Fund	8.02	7.23
Non Government Bond Pooled Fund	12.00	10.86
Property Pooled Fund	59.76	57.37
Defensive Pooled Fund (from July 2012)	10.21	-
Passive Equity Pooled Fund (from October 2012)	10.14	-

	2012 £/unit	2011 £/unit
Cashflow Matching Pooled Fund		
Cashflow Matching 2011 Pooled Fund (until March 2012)	-	10.08
Cashflow Matching 2012 Pooled Fund	10.21	10.17
Cashflow Matching 2013 Pooled Fund	10.40	10.34

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.2 Pooled fund unit prices as at 31 December (continued)

	2012 £/unit	2011 £/unit
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	292.42	339.51
Direct Investment Pooled Fund 1997	156.01	156.54
Direct Investment Pooled Fund 1998	12.97	7.75
Direct Investment Pooled Fund 1999	11.73	10.85
Direct Investment Pooled Fund 2000	16.20	17.61
Private Equity Pooled Fund 2001	22.99	24.38
Private Equity Pooled Fund 2004	23.53	22.38
Private Equity Pooled Fund 2005	20.74	18.66
Private Equity Pooled Fund 2007	12.65	11.87
Private Equity Pooled Fund 2009	13.73	13.15
Private Equity Pooled Fund 2011	9.62	9.84

	2012 £/unit	2011 £/unit
Liability Driven Investment Pooled Fund		
LDI Nominal 2025 Pooled Fund	21.04	16.50
LDI Nominal 2030 Pooled Fund	20.98	18.08
LDI Nominal 2035 Pooled Fund	20.43	18.76
LDI Nominal 2040 Pooled Fund	20.00	18.93
LDI Nominal 2045 Pooled Fund	18.89	18.34
LDI Nominal 2050 Pooled Fund	17.98	17.68
LDI Nominal 2055 Pooled Fund	17.33	17.11
LDI Nominal 2060 Pooled Fund	17.21	16.63
LDI RPI 2015 Pooled Fund	11.19	10.17
LDI RPI 2020 Pooled Fund	15.74	13.55
LDI RPI 2025 Pooled Fund	19.02	16.27
LDI RPI 2030 Pooled Fund	18.99	17.73
LDI RPI 2035 Pooled Fund	18.45	18.22
LDI RPI 2040 Pooled Fund	17.46	18.24
LDI RPI 2045 Pooled Fund	16.64	18.07
LDI RPI 2050 Pooled Fund	16.14	17.37
LDI RPI 2055 Pooled Fund	15.74	16.92
LDI RPI 2060 Pooled Fund	15.46	16.55

1.3 Value of the Pooled Funds

	2012 £m	2011 £m
Growth Pooled Fund	9,420.31	7,035.15
Global Equity Pooled Fund	4,716.66	6,456.55
Private Equity Pooled Fund*	1,882.15	1,840.08
Property Pooled Fund	1,598.67	1,555.21
Non Government Bond Pooled Fund	1,590.77	1,071.55
Hedge Funds Pooled Fund	1,231.73	1,129.40
Cash Pooled Fund	984.62	189.09
Infrastructure Pooled Fund	849.84	765.63
Government Bond Pooled Fund	828.09	907.02
Defensive Pooled Fund	680.09	-
Commodities Pooled Fund	455.08	394.16
Cashflow Matching Pooled Fund*	302.81	510.26
Index Linked Pooled Fund	165.72	187.99
Liability Driven Investment Pooled Fund*	111.87	149.64
Passive Equity Pooled Fund	62.08	-
BRASS Pooled Fund (Growth)	53.71	39.92
BRASS Pooled Fund (Cautious)	39.15	27.69
	24,973.35	**22,259.34**
Cross holdings		
Global Equity Pooled Fund	(2,250.96)	(2,631.69)
Hedge Funds Pooled Fund	(1,094.20)	(891.38)
Property Pooled Fund	(1,138.98)	(865.16)
Non Government Bond Pooled Fund	(958.10)	(448.86)
Cash Pooled Fund	(874.05)	(102.96)
Commodities Pooled Fund	(413.67)	(342.98)
Government Bond Pooled Fund	(160.58)	(5.97)
Index Linked Pooled Fund	(4.23)	(4.30)
Net assets attributable to unit holders	**18,078.58**	**16,966.04**

* See breakdown into pooled fund segments below.

	2012 £m	2011 £m
Cashflow Matching Pooled Fund		
Cashflow Matching 2011 Pooled Fund	-	97.45
Cashflow Matching 2012 Pooled Fund	98.99	365.06
Cashflow Matching 2013 Pooled Fund	203.82	47.75
	302.81	**510.26**

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.3 Value of the pooled funds (continued)	2012 £m	2011 £m
Private Equity Pooled Fund		
Direct Investment Pooled Fund 1995	0.01	0.01
Direct Investment Pooled Fund 1997	0.18	0.83
Direct Investment Pooled Fund 1998	8.13	6.07
Direct Investment Pooled Fund 1999	0.64	2.90
Direct Investment Pooled Fund 2000	36.78	52.74
Private Equity Pooled Fund 2001	218.09	294.80
Private Equity Pooled Fund 2004	101.55	112.92
Private Equity Pooled Fund 2005	335.05	301.06
Private Equity Pooled Fund 2007	987.13	962.86
Private Equity Pooled Fund 2009	132.55	94.20
Private Equity Pooled Fund 2011	62.04	11.69
	1,882.15	**1,840.08**
Liability Driven Investment Pooled Fund		
LDI Nominal 2025 Pooled Fund	0.79	1.02
LDI Nominal 2030 Pooled Fund	4.68	6.55
LDI Nominal 2035 Pooled Fund	7.01	10.06
LDI Nominal 2040 Pooled Fund	14.31	20.10
LDI Nominal 2045 Pooled Fund	11.31	15.18
LDI Nominal 2050 Pooled Fund	10.63	13.81
LDI Nominal 2055 Pooled Fund	8.10	10.37
LDI Nominal 2060 Pooled Fund	13.91	16.94
LDI RPI 2015 Pooled Fund	1.83	2.19
LDI RPI 2020 Pooled Fund	6.41	7.35
LDI RPI 2025 Pooled Fund	9.69	13.19
LDI RPI 2030 Pooled Fund	9.44	13.67
LDI RPI 2035 Pooled Fund	7.60	10.68
LDI RPI 2040 Pooled Fund	1.86	2.66
LDI RPI 2045 Pooled Fund	1.17	1.66
LDI RPI 2050 Pooled Fund	0.97	1.30
LDI RPI 2055 Pooled Fund	0.78	1.06
LDI RPI 2060 Pooled Fund	1.38	1.85
	111.87	**149.64**

1.4 Investment income

	2012 £m	2011 £m
Dividends from equities	104.86	122.32
Income from fixed interest securities	116.62	117.96
Income from index linked securities	0.67	0.38
Income from UK property	87.14	77.59
Interest from cash deposits	11.27	8.99
Income from pooled investment vehicles	45.22	29.69
Other income	3.14	4.37
	368.92	**361.30**
Irrecoverable withholding tax	(2.90)	(5.39)
Total income	**366.02**	**355.91**
Administration, custody and other expenses	(17.07)	(19.54)
Investment management fees – base	(35.51)	(37.51)
Investment management fees – performance	(11.65)	(8.88)
RPMI fees	(13.49)	(11.29)
Tax	(0.01)	(0.02)
	(77.73)	**(77.24)**
Minority interest	2.28	(0.75)
Reinvested income (accrued in unit price)	**290.57**	**277.92**

1.5 Derivative contracts

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

Type of TBA	**Economic exposure at year end £m**	**Asset value at year end £m**	**Liability value at year end £m**
FNMA mortgage backed	47.56	1.31	(0.04)
GNMA mortgage backed	25.46	0.01	(0.08)
FHLMC mortgage backed	34.15	0.01	(0.04)
		1.33	**(0.16)**

1.5 Derivative contracts (continued)

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
US S&P 500 index	87.44	0.42	-
Commodities	330.93	5.43	(5.67)
Korean Kospi index	7.88	0.22	-
Eurostoxx 50 index	78.39	0.09	-
Swiss market index ("SMI")	26.59	-	(0.23)
Other equity indices	36.50	0.17	(0.03)
Japanese Topix	2.26	0.19	-
Eurodollar	69.71	0.55	-
Australian government bonds	0.68	-	(0.01)
UK government bonds	0.56	0.04	-
Canadian government bonds	49.14	-	(0.07)
Japanese government bonds	35.62	0.31	-
German government bonds	14.52	0.45	(0.34)
US government bonds	(108.68)	1.32	(1.04)
	631.54	**9.19**	**(7.39)**

Included within net assets is £99.19m cash, £166.41m US Treasury bills and £117.76m US Treasury notes 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 is respect of futures contracts at the year end date amounted to £31.73m cash. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Swaps: Swap contracts are 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
Exchange traded				
Credit default swaps	0 to 5	7.78	0.02	-
Interest rate swaps	0 to 5	25.82	0.65	-
Interest rate swaps	5 to 10	4.39	0.10	-
			0.77	**-**

1.5 Derivative contracts (continued)

Swaps (continued)

Type of Swap	Duration (years)	Nominal amount £m	Asset value at year end £m	Liability value at year end £m
OTC				
Credit default swaps	0 to 5	58.48	0.83	(0.77)
Credit default swaps	5 to 10	3.71	0.45	(0.10)
Credit default swaps	35 to 40	(5.86)	-	(0.22)
Interest rate swaps	0 to 5	(75.82)	-	(0.01)
Interest rate swaps	5 to 10	(13.39)	1.14	(0.88)
Interest rate swaps	10 to 15	1.65	0.01	-
			2.43	**(1.98)**

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 £0.91m of US Treasury bills and £0.58m of cash collateral at the year end. These amounts are included in the net assets of the pooled funds at the year end.

Collateral deposited by counterparties with the Trustee Company is respect of swap contracts at the year end date amounted to £5.13m cash, £0.20m US Treasury bonds and £1.48m US Treasury notes. Contingent collateral received in this way is not reported within the pooled funds' net assets.

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

Type of forward	Economic exposure at year end £m	Asset value at year end £m	Liability value at year end £m
Spanish government bonds	4.17	0.18	(0.13)
Italian government bonds	2.60	0.09	(0.08)
	6.77	**0.27**	**(0.21)**

Under the terms of forward contracts, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above forward contracts the Trustee Company had neither deposited nor received collateral at the year end.

1.5 Derivative contracts (continued)

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

Type of option	Bought or Sold	Notional value £m	Asset value at year end £m	Liability value at year end £m
Exchange Traded				
US Treasury note	Bought	3.88	0.01	-
			0.01	**-**
OTC options				
S&P 500	Bought	27.31	0.08	-
S&P 500	Sold	36.23	0.14	(0.04)
Credit default swaps	Bought	36.68	0.06	-
Credit default swaps	Sold	(36.68)	-	(0.02)
			0.28	**(0.06)**

The above options expire between three months and one year of the year end date.

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

Type of contract	Currency bought million	Currency sold million	Value at year end £m
Assets			
Sterling / Yen	468.39	60,949.82	34.52
Sterling / Australian dollar	130.73	202.63	1.74
Sterling / Canadian dollar	107.35	170.82	1.89
Sterling / Hong Kong dollar	66.39	821.27	1.19
Sterling / US dollar	5,131.04	8,228.17	68.68
Other			4.25
			112.27

1.5 Derivative contracts (continued)

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

Type of contract	Currency bought million	Currency sold million	Value at year end £m
Liabilities			
US dollar / South Korean won	153.24	168,320.00	(2.55)
Yen / Sterling	2,400.32	18.66	(1.58)
US dollar / Euro	873.26	672.77	(8.51)
Yen / US dollar	948.22	11.54	(0.35)
Sterling / Swiss franc	94.77	142.06	(0.79)
Sterling / Euro	716.16	887.11	(3.68)
USD / Swedish krone	17.48	117.35	(0.34)
Other			(6.29)
			(24.09)

Under the terms of FX contracts, each party may be required to place collateral with the other according to whether the outstanding position is a profit or a loss. Under the terms of the above FX contracts the Trustee Company had received £1.48m cash collateral at the year end. Contingent collateral received in this way is not reported within the pooled fund's net assets.

Included within net assets is £0.25m cash, £0.68m UK Treasury bonds and £0.59m German Government bonds in respect of collateral arising on open FX contracts at the year end.

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

1.6 Cash deposits and cash instruments

Included within cash balances is £103.72m in respect of repo transactions (2011 - £102.96m). A repo is a contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price.

1.7 Other investment assets

	2012 £m	2011 £m
Asset in respect of investment transactions	102.38	46.51
Investment income accrued	41.46	42.82
Recoverable tax	2.20	1.53
Rent receivable	10.38	9.44
	156.42	**100.30**

1.8 Other investment liabilities

	2012 £m	2011 £m
Liability in respect of investment transactions	(61.33)	(80.11)
Tax payable	(0.21)	(0.43)
	(61.54)	**(80.54)**

1.9 Current assets

	2012 £m	2011 £m
Asset in respect of unit trades	0.27	2.90
Trade debtors	5.70	5.95
Tax	2.47	-
Other	0.49	0.73
	8.93	**9.58**

1.10 Current liabilities

	2012 £m	2011 £m
Accrued management fees and expenses	(16.30)	(22.37)
Property income received in advance	(20.72)	(18.46)
Trade creditors	(8.13)	(7.92)
Liability in respect of unit trades	(0.22)	(0.04)
Tax	(4.30)	(5.15)
Other	(1.98)	(4.68)
	(51.65)	**(58.62)**

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 2012, the market valuation of stock that had been lent in the market was £450.38m (2011 - £494.64m).

Collateral held in respect of the stock on loan at 31 December 2012 had a total value of £462.55m (2011 – £506.67m).

1.12 Reconciliation of investments held at beginning and end of year

	Value at 31 December 2011	Units issued/ (redeemed)	Income	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2012
	£m	£m	£m	£m	£m	£m	£m
Directly held assets							
Equities	4,104.11	-	-	2,778.44	(4,054.07)	329.92	3,158.40
Fixed interest securities	2,937.90	-	-	4,727.11	(4,456.23)	31.75	3,240.53
Index linked securities	12.06	-	-	44.52	(34.16)	6.35	28.77
Pooled investment vehicles	6,675.49	-	-	3,185.46	(3,072.56)	449.83	7,238.22
UK property	1,367.79	-	-	244.81	(47.39)	(12.53)	1,552.68
	15,097.35	**-**	**-**	**10,980.34**	**(11,664.41)**	**805.32**	**15,218.60**
Derivatives							
Forwards	0.01	-	-	9.28	(7.62)	(1.61)	0.06
Futures	4.27	-	-	146.45	(233.83)	84.91	1.80
TBAs	1.33	-	-	14.92	(10.93)	(4.15)	1.17
Swaps	(5.28)	-	-	238.92	(230.79)	(1.63)	1.22
Options	0.09	-	-	4.33	(4.25)	0.06	0.23
FX contracts	(4.65)	-	-	17,974.18	(18,134.98)	253.63	88.18
	(4.23)	**-**	**-**	**18,388.08**	**(18,622.40)**	**331.21**	**92.66**
Cross holdings	5,293.30	-	-	2,643.95	(1,481.64)	439.16	6,894.77
Other							
Cash and current assets	1,872.92	863.46	290.57	(32,012.37)	31,768.45	(15.71)	2,767.32
	22,259.34	**863.46**	**290.57**	**-**	**-**	**1,559.98**	**24,973.35**
Cross holdings	(5,293.30)						(6,894.77)
Net Assets	**16,966.04**						**18,078.58**

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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:

	2012 £m	2011 £m
BlackRock Advisors (UK)	3,573.28	2,442.41
Orchard Street Investment Management	1,577.47	1,517.07
Wellington Management International	1,433.75	1,275.80
Legal and General Investment Management ("L&G")	997.48	966.68
Railpen Investments	827.60	612.91
Lazard Asset Management	644.67	673.48
Blackstone Alternative Asset Management	617.76	507.25
JP Morgan Asset Management	507.98	240.42
Grosvenor Capital Management	451.31	310.70
Pacific Investment Management Company ("PIMCO")	436.77	549.01
Rogge Global Partners	337.55	191.02
Neuberger Berman Europe	331.09	265.40
Credit Suisse (from January 2012)	320.48	-
Longview Partners	312.18	308.35
Edinburgh Partners	292.46	412.35
William Blair & Company	273.38	250.54
Unigestion	272.83	213.86
Morgan Stanley Investment Management	267.47	240.06
Alinda Capital Partners	225.18	228.20
Horsley Bridge Partners	256.57	228.06
Cinven	250.85	234.75
Harbour Vest Partners	243.15	252.77
Bridgewater Associates	222.81	216.38
Southeastern Asset Management	217.50	291.40
Goldman Sachs Asset Management ("GSAM")	216.98	249.51
The Rock Creek Group	197.40	205.47
Aberforth Partners	194.40	184.08
Standard Life Investments	193.17	190.26
River and Mercantile asset Management	183.66	164.21
Taiyo Pacific Partners	166.62	163.93
Apax Partners	140.24	144.86
Pantheon Ventures	130.47	155.81
Arcus Infrastructure	127.52	105.47
New Finance Capital	123.84	128.24
Insight Investment	120.38	153.16
Blakeney Management	110.29	97.64
Adams Street Partners	107.31	114.05
Marathon Asset Management	96.25	256.99
Newton Investment Management	75.10	71.81
Graham Capital	69.14	67.10
Innisfree	61.85	32.49
Carried forward	**17,206.19**	**14,913.95**

1.13 Investment managers during the year (continued)

	2012 £m	2011 £m
Brought forward	**17,206.19**	**14,913.95**
Warburg Pincus	59.83	55.98
Ardevora Asset Management (from March 2012)	55.16	-
Invesco Perpetual (from May 2012)	52.66	-
Indicus Advisors	50.74	43.29
Bain Capital	49.48	40.67
EQT Funds Management	48.46	32.72
CP2	48.33	96.87
Oaktree Capital Management	41.50	48.44
Aspect (from May 2012)	39.27	-
Archer Capital	38.63	40.05
Henderson	38.60	-
Headland Capital Partners	33.55	30.50
Edgbaston Investment Partners (from November 2012)	30.73	-
Sankaty Advisors	23.27	29.74
Scale Ventures	20.90	17.55
Balderton Capital	17.70	13.43
Columbia Capital	17.70	11.08
Hony Capital	17.21	15.33
Relational Investors	16.54	171.82
Khosla Ventures	15.33	10.62
Great Hill Partners	12.57	17.51
Sequoia Capital	12.18	7.49
Anacap Financial Partners	11.77	8.51
KPS Capital Partners	10.99	5.78
Westbridge Crossover	9.87	4.63
Institutional Venture Partners	9.27	6.82
Highland Capital Partners	9.18	5.87
Domain Partners	8.71	5.54
Ares Management (from June 2012)	8.63	-
Accel Partners	8.48	3.47
Navis Capital Partners	7.60	3.59
Innova	7.19	4.00
Charlesbank Capital Partners	6.51	5.25
CI Capital Investors	5.98	5.11
Morningside Ventures	5.45	1.50
Capital Dynamics	4.77	6.03
Southern Cross Group	4.50	1.73
Bessemer Venture Partners	2.38	0.98
Abry Partners	2.13	0.64
Clearsight	2.03	0.84
Index Ventures (from March 2012)	1.86	-
Berkshire Partners	1.79	0.69
Carried forward	**18,075.62**	**15,668.02**

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.13 Investment managers during the year (continued)

	2012 £m	2011 £m
Brought forward	**18,075.62**	**15,668.02**
Andreessen Horowitz (from February 2012)	1.42	-
Governance for Owners Group ("GO")	1.05	5.40
Bridges Ventures	0.37	0.50
Peak Rock Capital (from December 2012)	0.12	-
Western Asset Management (until March 2012)	-	506.95
Brandes Investment Partners (until May 2012)	-	280.32
NewSmith Asset Management (until January 2012)	-	223.21
Fidelity Pensions Management (until August 2012)	-	212.89
Goodhart Partners (until May 2012)	-	65.08
Martin Currie (until October 2012)	-	3.61
TT International (until January 2012)	-	0.06
	18,078.58	**16,966.04**

1.14 Benchmarks and targets

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

	2012 %	2011 %
FTSE All World North America Index	25.0	25.0
FTSE All Share Index	20.0	20.0
FTSE All World Developed Europe (ex UK) Index	20.0	20.0
FTSE All World Developed Asia Pacific (ex Japan) Index	20.0	20.0
MSCI Emerging Markets Free (net dividends reinvested) Index	15.0	15.0
	100.0	**100.0**

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

The target for the Global Equity Pooled Fund is to beat this benchmark by 0.5% over the long term.

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 performance of the LDI Pooled Fund is measured against the liability profile of the sections investing in the pooled fund.

CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.14 Benchmarks and targets (continued)

The benchmarks and targets of all other pooled funds are shown in the table below:

Pooled fund	Benchmark	Long term target
Growth	Retail Price Index	Benchmark + 5% pa
Private Equity	MSCI All countries world index	Benchmark + 1% pa
Property	Investment Property Databank All Properties Index	Benchmark + 1% pa
Non Government Bond	Barclays Capital Global Aggregate Index – ex Treasury ex Government (hedged)	Benchmark + 0.75% pa
Hedge Funds	SONIA 3 month swap rate. The 3 month SONIA swap rate represents a sterling overnight index average rate for brokered unsecured overnight trades between banks.	Benchmark + 3.5% pa
Cash	7 Day Sterling London Inter-Bank Intra Day Interest Rate	Benchmark
Infrastructure	Retail Price Index	Benchmark + 4% pa
Government Bond	Citigroup World Government Bond Index – ex Japan (hedged)	Benchmark + 0.5% pa
Defensive	Retail Price index	Benchmark + 4.0% pa
Commodities	Composite benchmark comprising: 75% DJ AIG Commodities Index 25% S&P GSCI Petroleum index	Benchmark
Index Linked	FTSE UK gilts – Index Linked > 15 years Index	Benchmark
Passive Equity	FTSE All world Index developed Markets (hedged)	Benchmark

1.15 Performance

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

Pooled Fund	Actual 2012 (%)	Target 2012 (%)	Bench 2012 (%)	Actual last 5 years[1] (%)	Target last 5 years[1] (%)	Bench last 5 years[1] (%)
Growth	8.4	8.1	3.1	6.2	9.0	4.0
Global Equity	14.1	14.8	14.3	(0.5)	0.4	(0.1)
Private Equity	5.1	12.7	11.7	5.2	1.5	0.5
Property	5.0	3.4	2.4	2.1	1.0	0.0
Non Government Bond	10.6	9.8	9.0	7.4	7.2	6.4
Hedge Funds	8.1	3.9	0.4	1.6	5.3	1.8
Cash	0.6	0.5	0.5	0.6	0.5	0.5
Infrastructure	11.2	7.1	3.1	(4.2)	7.2	3.2
Government Bond	6.4	6.4	5.9	5.6	5.7	5.1
Defensive[2]	2.1	2.4	2.1	2.1	2.4	2.1
Commodities	(3.6)	(5.0)	(5.0)	11.3	8.4	8.4
Cashflow Matching 2012	0.7	0.6	0.6	1.0	0.9	0.9
Cashflow Matching 2013	0.8	0.9	0.9	1.6	1.6	1.6
Index Linked	(1.2)	(1.3)	(1.3)	12.3	11.9	11.9
LDI	(9.2)	n/a	n/a	n/a	n/a	n/a
BRASS (Growth)	8.5	n/a	n/a	n/a	n/a	n/a
BRASS (Cautious)	5.9	n/a	n/a	n/a	n/a	n/a
Passive Equity[3]	1.8	1.8	1.8	1.8	1.8	1.8

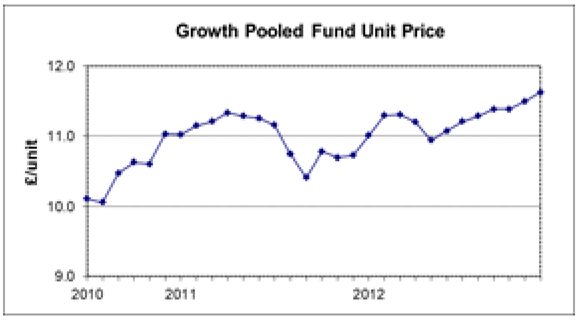
[1] For pooled funds that have been existence for less than five years, the figures given in the table are since the inception of the pooled fund.

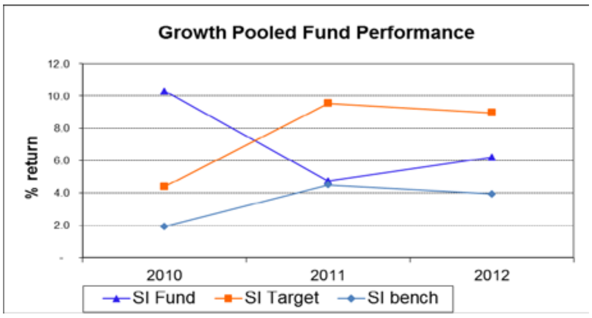
[2] The Defensive Pooled Fund return is calculated from its inception in July 2012.

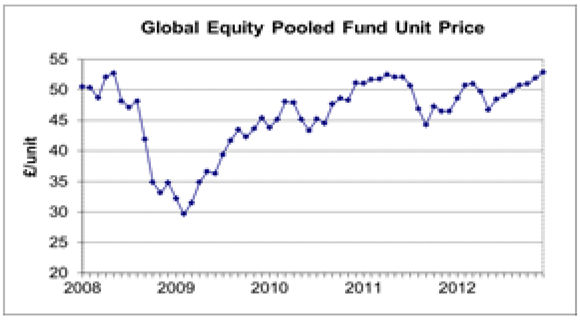
[3] The Passive Equity Pooled Fund return is calculated from its inception in October 2012.

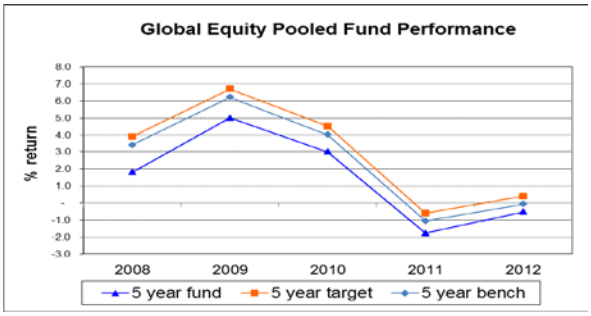
1.15 Performance (continued)

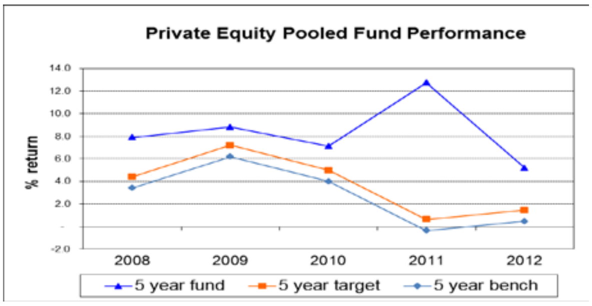
The graphs below illustrate the movement in the unit price and annualised performance of each pooled fund over the last five years, or since inception where the fund has been in existence for less than 5 years.

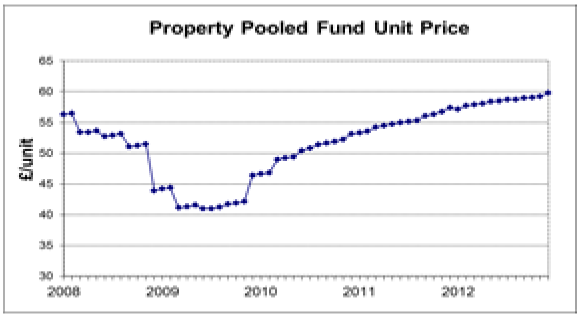


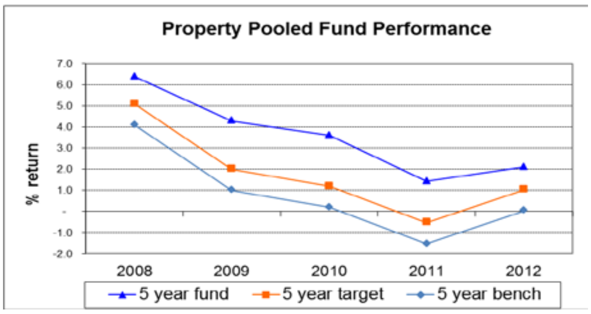






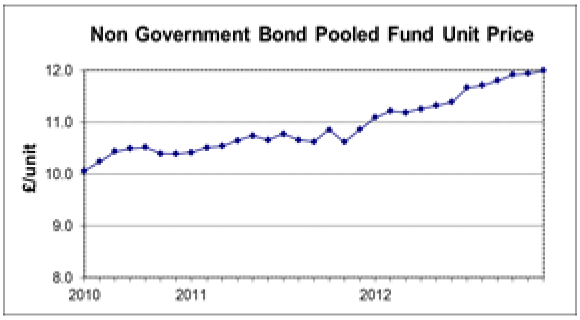


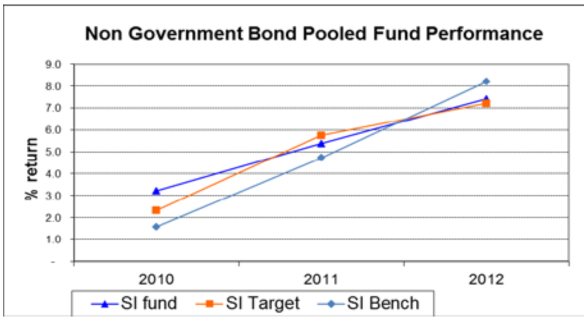


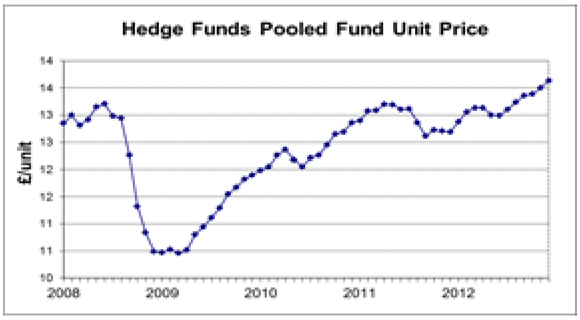


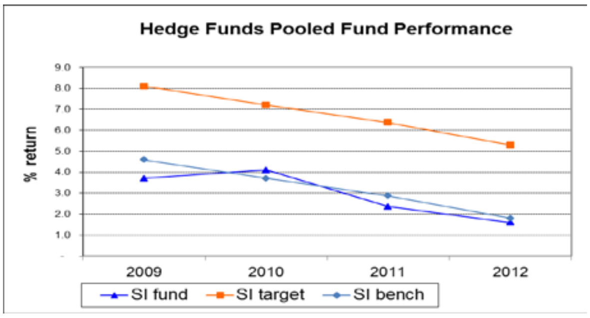
CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

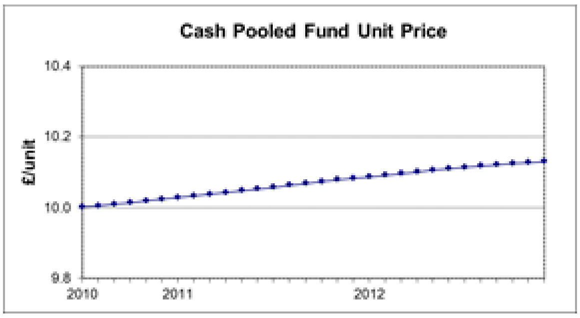
1.15 Performance (continued)

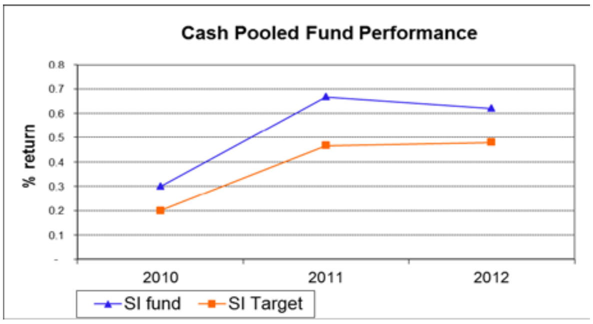


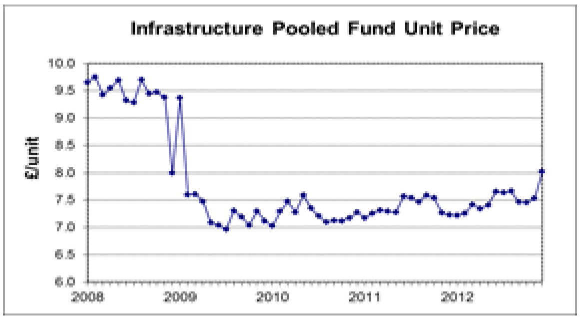


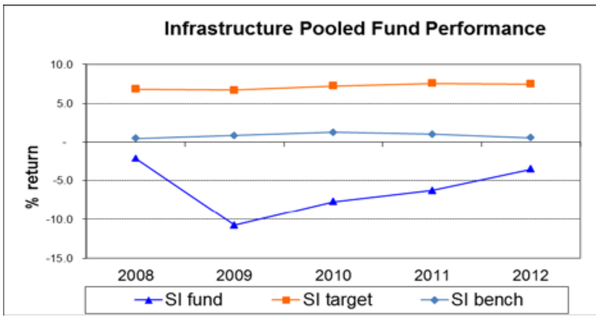


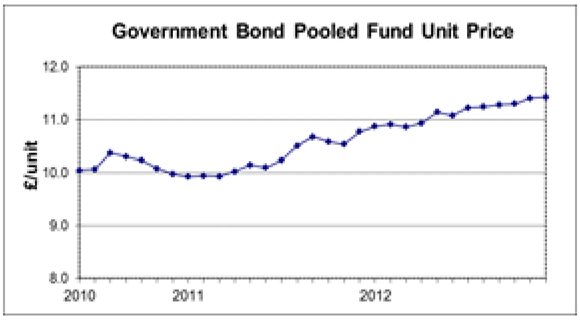


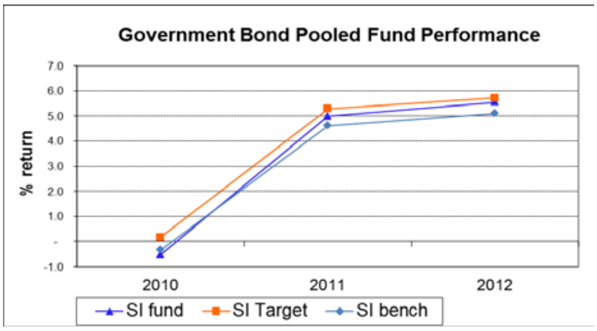












CONSOLIDATED NOTES TO THE FUND STATEMENT (Continued)

1.15 Performance (continued)