NRRIT

National Railroad Retirement Investment Trust

Annual Management Report
for Fiscal Year 2004

NRRIT

National Railroad Retirement Investment Trust

Annual Management Report for Fiscal Year 2004 Required by Public Law 107-90, The Railroad Retirement and Survivors' Improvement Act of 2001

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ANNUAL MANAGEMENT REPORT OF THE NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

APPENDICES

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1) Introductory Statement

Fiscal year 2004 was a year of continued growth for the National Railroad Retirement Investment Trust ("NRRIT" or "Trust"), as the Trust moved to diversify its portfolio consistent with its Investment Plan and made periodic transfers to the Railroad Retirement Account in the US Treasury ("Treasury") to pay benefits to railroad retirees. During the fiscal year, the Treasury transferred $586 million to the Trust for investment, completing the transfer of investment monies to the Trust from the Treasury accounts that had commenced in September 2002. Transfers of investment assets from the Trust to the Treasury for the payment of railroad retirement (Tier II) benefits, which began in September 2003, continued in fiscal year 2004. These transfers totaled $1.6 billion in fiscal year 2004.

As of September 30, 2004, the market value of NRRIT-managed assets had increased to $25.0 billion from $23.0 billion on October 1, 2003, reflecting a 13.3% rate of return for the fiscal year. The Trust's composite benchmark index for NRRIT-managed assets returned 12.7% for the year.

At the beginning of this fiscal year, total railroad retirement assets (NRRIT-managed assets and reserves maintained in the two railroad retirement system accounts at the Treasury) equaled $24.2 billion. As of September 30, 2004, total railroad retirement system assets equaled $26.4 billion.

During the fiscal year, the Trust focused on the implementation of its investment plan to deploy the Trust's assets beyond indexation in a diversified manner consistent with its Investment Guidelines. The first steps of this diversification process included retention of enhanced indexing managers to invest a portion of the US equity portfolio, enhanced bond index managers to invest a portion of the fixed income portfolio, and large cap value managers to invest a portion of the US equity portfolio. In addition, the Trust made its first commitments in private equity.

During the year, the Trust undertook its first asset rebalancing to keep its overall asset allocation within the ranges specified in the Trust's Investment Guidelines. In addition, the Trust began a process of assessing its current asset allocation strategy in light of economic conditions and changing long-term asset class return assumptions. This included a detailed review of the Trust's original 2002 asset allocation study, an examination of future economic and investment return expectations, and a preliminary assessment of potential additional asset classes. This is an ongoing process that will continue into the next fiscal year.

To support these developments, the Trust continued its recruitment of highly qualified investment professionals. The investment staff was expanded during 2004 to add a Director of Fixed Income and two Senior Investment Advisors.

The Board of Trustees met monthly during the course of the year to consider the various investment, management and professional staffing issues that are discussed in this third Annual Management Report. In addition, the Board's Audit and Administrative Committees met periodically to consider matters within their areas of responsibilities. This Report and its various appendices provide information on the operations and financial status of the Trust for the fiscal year, including the report of the audit of the financial statements as required by the Trust's enabling statute.

2) Operations of the Trust: Administrative Matters

a) Trustee Update

In February 2004, NRRIT announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2004. Railroad management appointed Bernie Gutschewski, Vice President, Taxes, Union Pacific Corporation, to a three-year term that expires on January 31, 2007. Railway labor unions appointed Walter A. Barrows, International Secretary-Treasurer, Brotherhood of Railway Signalmen, to a three-year term that expires on January 31, 2007. In addition, the Trustees selected Joel Parker, International Vice President, Transportation Communications International Union, as the Chair of the Board of Trustees for the period February 1, 2004-January 31, 2005.

Mr. Gutschewski and Mr. Barrows joined the following five members of the Board: *For terms expiring January 31, 2006*: Paul R. Goodwin, former Vice Chairman and Chief Financial Officer of CSX Corporation, and George J. Francisco, Jr., President, National Conference of Firemen & Oilers, SEIU. *For terms expiring January 31, 2005*: Joel Parker, International Vice President, Transportation Communications International Union; Thomas N. Hund, Executive Vice President and Chief Financial Officer, Burlington Northern Santa Fe Corporation; and John W. MacMurray, the Independent Trustee.

b) Coordination with Federal Government Agencies

Throughout the fiscal year, the Trust maintained regular communications with the Railroad Retirement Board ("RRB") and the Treasury on all matters relating to the transfer of monies between the various RRB accounts at the Treasury and the Trust. In addition, the Trust transmitted all monthly data required pursuant to the Memorandum of Understanding ("MOU") entered into during 2002 with these entities and the Office of Management and Budget. The MOU outlines the budgetary, transfer, accounting, and financial reporting responsibilities for assets held by the Trust and assets held within the Treasury for the Trust. The MOU requires the Trust to report on a monthly basis: receipt and disbursement of funds, purchases and sales of assets, earnings and losses on investments, value of investments held, and administrative expenses incurred. A copy of the MOU is included in Appendix C.

During the fiscal year, the Trustees, the Chief Investment Officer and Trust counsel held periodic meetings and telephone conferences with the Members of the RRB and its General Counsel to review the investment and administrative activities of the Trust. These meetings included monthly meetings between the senior staff of the two organizations and Trust legal counsel after each meeting of the NRRIT Board and semi-annual meetings between the Trustees and the Members of the RRB.

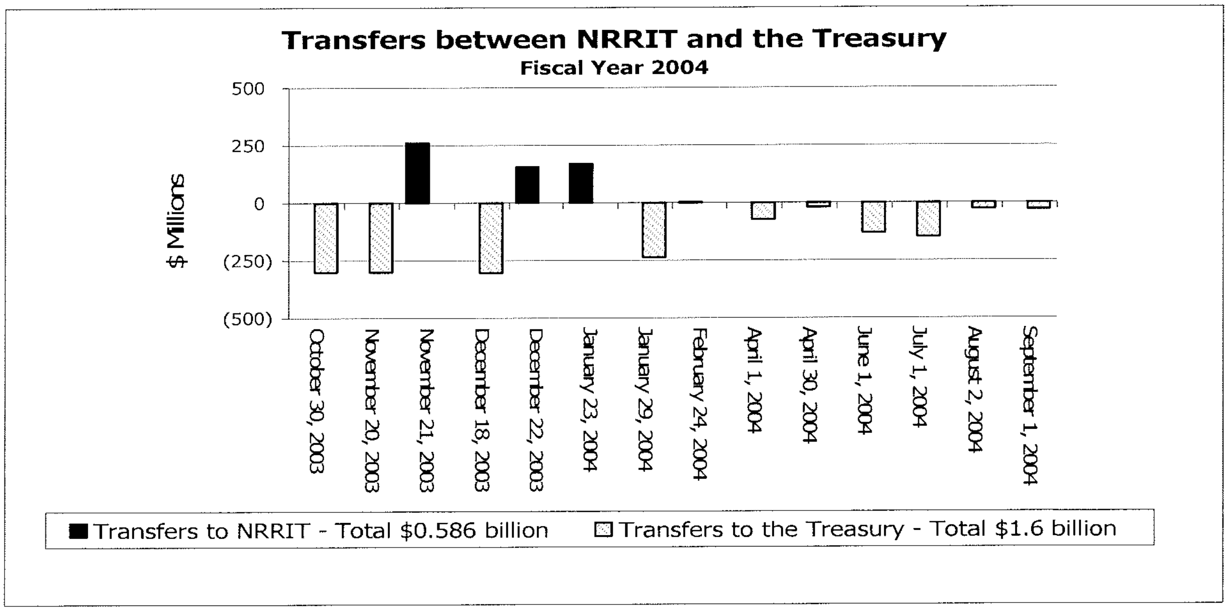
During the fiscal year, the Trust prepared brief Quarterly Updates that were transmitted to the Congressional committees of jurisdiction. The Quarterly Updates were also posted on the RRB website so that they would be available to all other interested parties. The Trust also responded to various informational inquiries from the Congressional committees of jurisdiction, and worked with these Committees to draft various technical changes to the Trust's enabling statute that were enacted as part of Public Law 108-203, the Social Security Protection Act of 2004.

c) Transfers to and from the Railroad Retirement Board

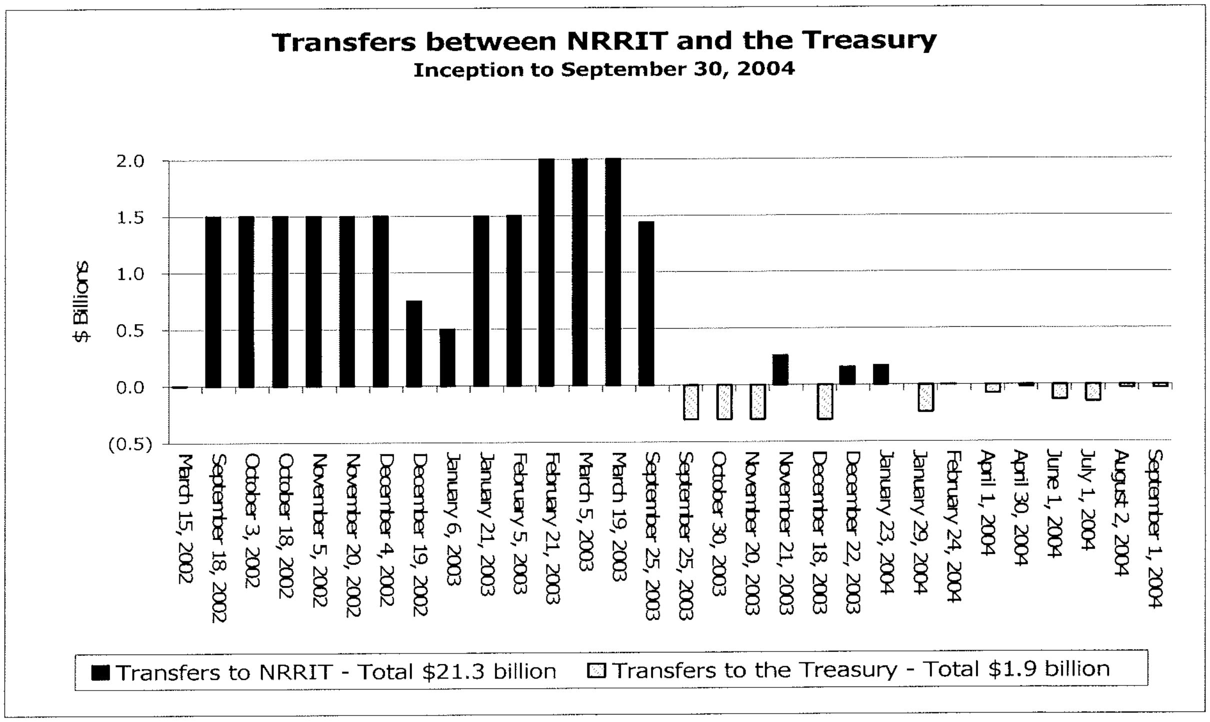
The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to NRRIT for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2003, the Trust received $20.7 billion of railroad retirement system funds. This amount consisted of assets transferred largely from the Railroad Retirement Account ("RRA"), and a smaller amount from the Social Security Equivalent Benefit (SSEB) Account. The RRA assets were invested in a diversified portfolio in accordance with the Trust's investment guidelines while the funds received from the SSEB Account were invested in federal securities as required in the Act. The majority of the railroad retirement system funds were transferred to the Trust by the end of fiscal year 2003.

Going forward, the Act provides for the transfer to NRRIT of the balance of funds in the RRA and SSEB Account not needed to pay current benefits and administrative expenses ("excess balances"). In fiscal year 2004, the Trust received transfers of excess balances from the RRA in the amount of $586 million.

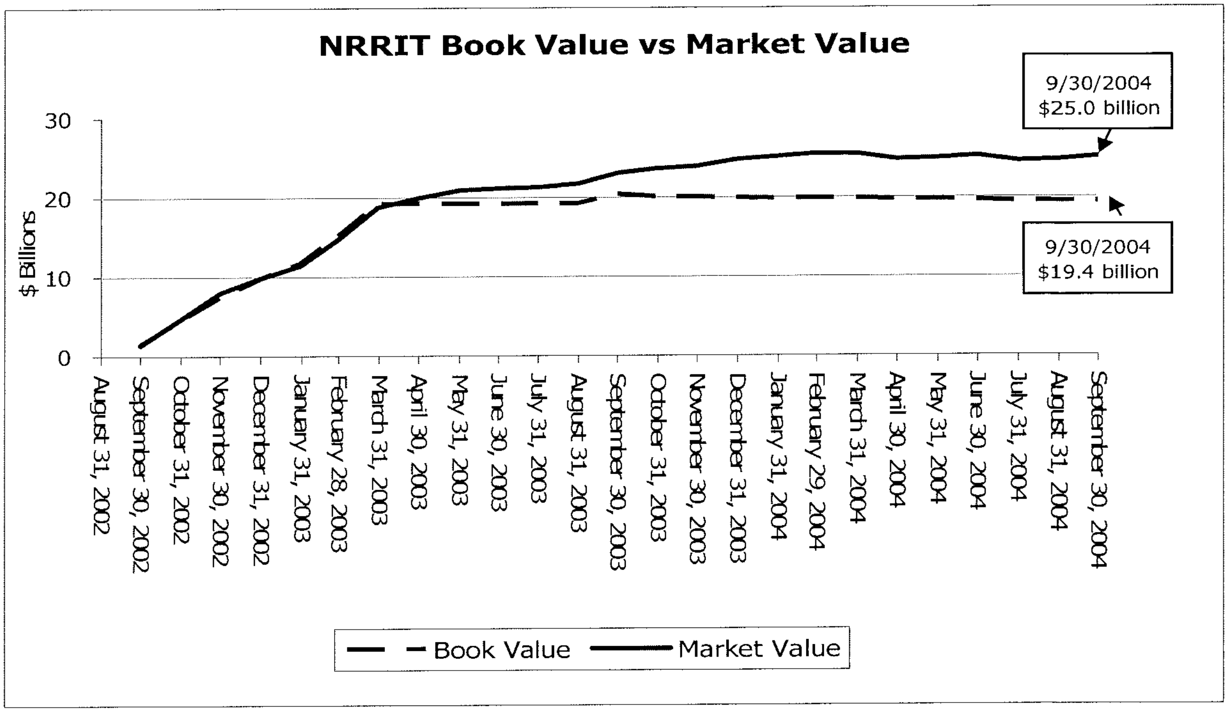
The Act also provides for the transfer from NRRIT back to the Treasury of amounts necessary to pay RRA benefits under the Act. Over the course of fiscal year 2004, NRRIT transferred a total of $1.6 billion to the Treasury for payment of RRA benefit obligations. Included in this total was $1.1 billion representing the balance of the NRRIT SSEB assets invested in federal securities. The following chart displays the individual transfers between NRRIT and the Treasury in fiscal year 2004.



Summary of transfers: From its inception in February 2002 to September 30, 2004, NRRIT has received $21.3 billion from the Treasury and has transferred $1.9 billion back to the Treasury. The net amount of funds received from the Treasury since inception, therefore, is $19.4 billion. The following graph displays the individual cash transfers between NRRIT and the Treasury since inception.



The assets received by NRRIT were invested in a diversified multi-asset class portfolio in accordance with the Trust's investment policy. This diversification of assets has allowed the Trust's assets to grow beyond their original book value. As of September 30, 2004, the market value of the NRRIT-managed assets totaled $25.0 billion representing an increase of $5.6 billion above the net amount of assets transferred to NRRIT for investment. The following chart reflects the market value growth of the Trust's assets, comparing the net book value of assets received by the Trust to the market value of those assets at the end of each month since September 30, 2002.



d) Account Benefits Ratio

The funds available to pay railroad retirement benefits and administrative costs include assets held in the RRA and the SSEB Account and assets held by the Trust for investment. Section 204 of the Act requires that amounts in the RRA and assets held by the Trust be included in the annual calculation of the account benefits ratio ("ABR"). The ABR is the ratio of the fair market value of the assets in the RRA and the Trust as of the close of the fiscal year to the total benefits and expenses paid in that fiscal year. The average account benefits ratio ("AABR"), the 10-year average of the ABR, is used to determine the tier II tax rates for railroad employers and employees for calendar years beginning 2004.

As provided in the Act, the RRB computed the account benefits ratio for fiscal year 2004 and certified the ratio to the Secretary of the Treasury on October 26, 2004. The Secretary determined the AABR for fiscal year 2004 and on December 7, 2004 published a notice in the Federal Register of the tier II employer and employee tax rates for calendar year 2005. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The ABR increased from 6.58 for fiscal year 2003 to 6.98 for fiscal year 2004. The AABR increased from 5.9 for fiscal year 2003 to 6.1 for fiscal year 2004.

e) Staff Update

NRRIT's internal staff continued to grow in fiscal year 2004 with three additional investment professionals joining the five staff members already on board at the start of the year. In December 2003, Kevin J. Dachille joined the Trust as Director of Fixed Income. He is responsible for the implementation and management of the Trust's investment in this asset class. Later in the year, Caixia Yun and Michael A. Reeves joined the Trust as Senior Investment Advisors in July and September 2004 respectively. As Senior Investment Advisors, Ms. Yun and Mr. Reeves will be working with the Directors of US Equity and Private Equity respectively in the implementation and management of investments in these asset classes. Biographical information on NRRIT staff members can be found in Appendix J.

3) Operations of the Trust: Investment Matters

As the Trust received funds from the Railroad Retirement Board during fiscal year 2002 and fiscal year 2003, those funds were invested in commingled fund accounts separated by asset class and managed by Barclays Global Investors ("BGI"), one of the largest index fund managers in the US. The Trust chose indexation as the best method to diversify its investment exposure quickly and cost-effectively as it received railroad retirement system funds. (See NRRIT's Annual Management Reports for Fiscal Years 2002 and 2003.) During fiscal year 2004, the Trust began the process of moving part of its portfolio away from indexation and into active management. Section 3(a) will discuss progress during fiscal year 2004 towards implementation of the Investment Plan adopted by the Trustees, and report on implementation of the Trust's proxy voting policy; Section 3(b) describes the asset allocation review undertaken by the Trust during fiscal year 2004; Section 3(c) discusses an asset class rebalancing which took place during the year; and Section 3(d) describes the Trust's investment performance, by asset class, during the fiscal year.

a) Implementation of Investment Plan

The Investment Plan initially adopted by Trustees during fiscal year 2003 addressed each of the asset classes in NRRIT's portfolio. Each portion of the Plan -- US equity, non-US equity, private equity and fixed income (including high-yield bonds) -- was approved by Trustees. The Plan outlines the process through which the Trust can fully diversify its assets over a reasonable time in a prudent and cost-effective manner. The Plan identifies the investment thesis, portfolio structure, performance benchmark, and return and risk expectations for the Trust's entire portfolio, providing a similar analysis for each asset class. It sets a target for the level of the Trust's diversification within each asset class between indexed and actively-managed assets (excepting private equity, where indexation is not possible), based on an assessment of the potential for active management to add value to expected returns at reasonable levels of risk. The

Investment Plan is an internal working document subject to ongoing review by the Trust to ensure that its assumptions reflect the ever-changing investment environment.

i) US equity

In US equity, the Trust's largest asset class at 40% of the total portfolio, the Trust's goals are a portfolio which combines indexation and active management in order to achieve performance in excess of the market at reasonable levels of risk. Implementation during fiscal year 2004 focused primarily on large-capitalization strategies with relatively low tracking error (i.e., strategies whose performance tracks relatively closely with that of their benchmark index). This section will review US equity strategies moving from indexation to progressively more active strategies.

Indexation: The Trust conducted a routine review of US equity index providers during fiscal year 2004 and determined that the Trust could be best served as it moves forward by subdividing the Trust's US equity index exposure into two parts, a large-capitalization S&P 500 portfolio and a smaller-capitalization Wilshire 4500 portfolio, managed separately. This transition took place at the end of the fiscal year.

Enhanced indexation – large-cap and all-cap: During the first half of fiscal year 2004, Trustees approved the hiring of five enhanced index managers in large-capitalization and all-capitalization strategies. Enhanced index managers take only small, carefully-calculated deviations from benchmark portfolios, aiming to add modest performance over the index without incurring significant risk or tracking error. Quantitative techniques are often used both in stock selection and in portfolio construction and risk control.

Active management – large-cap value: During the second half of fiscal year 2004, Trustees approved the hiring of three large-cap value managers. These are the more traditional active managers who use fundamental analysis and/or quantitative techniques in a risk-controlled context; while portfolios are constructed with attention to the benchmark, active managers take positions different from the benchmark, seeking better performance. Risk in the form of volatility and tracking error is higher than with enhanced indexation but still carefully controlled; expected return over the index is also higher than with enhanced indexation.

ii) Non-US equity

Non-US equity is targeted at 20% of the overall Trust portfolio. During fiscal year 2004, the Trust's non-US equity exposure was effected through investment indexed to the MSCI World ex-US benchmark. The Trust plans to develop and implement a full Investment Plan for non-US equity during fiscal year 2005.

iii) Fixed income

Fixed income is the Trust's second-largest asset class at 30% of the total portfolio. The Trust's goal for this asset class is a portfolio that will provide liquidity, generate a stable income stream, diversify investments of the Trust, reduce overall Trust portfolio risk, and serve as a hedge against the negative consequences of deflation. Implementation during fiscal year 2004 focused on enhanced index strategies.

Enhanced indexation: During fiscal year 2004, Trustees approved the hiring of three enhanced bond index managers. As in equity, enhanced bond index managers take small and carefully calculated deviations from the index portfolios, aiming to add modest performance over the index without incurring significant risk or tracking error. Quantitative techniques are frequently used in portfolio construction and risk control; security selection tends to focus on individual issuers, rather than being organized on the basis of an over-arching economic forecast or other "top-down" portfolio construction approach.

iv) Private equity

In private equity, targeted at 5% of the total Trust portfolio, the Trust's goal is to build a portfolio that will outperform public equity indices in exchange for the illiquidity of private investments. The portfolio will be diversified across sectors (from venture capital to corporate finance/buyouts to distressed investing), by vintage year, by industry and by geographic region. Private equity differs from the Trust's other major asset classes in two critical ways: First, private equity investment cannot be indexed, and second, it is primarily an opportunistic asset class, because private equity funds have limited lives and only accept investments during specified periods, after which they close to new investors.

During fiscal year 2004, Trustees approved investment in five private equity limited partnerships. These partnerships represented both the 2003 and the 2004 vintage years. They covered the spectrum from venture capital to corporate finance, and will provide the Trust with exposure to a range of industries including technology, life sciences, media, communications, manufacturing and distribution.

v) Proxy voting policy

In April of 2003 the Trust adopted a general proxy voting policy which delegates the voting of Trust proxies to its investment managers as fiduciaries of the Trust. It also details specific responsibilities of those managers in the voting of proxies, makes clear the responsibility of investment managers to coordinate proxy-voting with the Trust's custodian, and allocates to the Trust itself responsibility for monitoring, reviewing and reporting on the implementation of the proxy voting policy. A copy of the proxy voting policy is in Appendix F.

As required by the proxy voting policy, during fiscal year 2004 those managers who had proxy-voting responsibilities were asked to certify that they had voted all proxies in accordance with the policy and solely in the interest of the participants and beneficiaries of the Trust. After the end of the fiscal year, staff reviewed and reported to the Board of Trustees regarding each manager's proxy voting record with respect to Trust securities.

b) Asset Allocation Policy Review

The goal of NRRIT's asset allocation policy is to achieve the maximum total return possible within prudent levels of risk and liquidity, while maintaining sufficient diversification to protect against large losses. It is designed to perform well in a variety of economic scenarios and to use internal and external resources efficiently so as to minimize the costs of implementation. During fiscal year 2004, the Trust performed a multi-phase asset allocation study. The study's goal was to re-examine assumptions about return and risk in different asset classes in order to determine whether the Trust's asset allocation policy should be revised to improve potential returns and portfolio diversification. Broad research on asset classes generated return hypotheses which were analyzed and tested using the Wilshire Compass optimization software provided by Wilshire Associates, an independent investment consulting advisory firm.

Prudent investment practice is to review asset allocation policies regularly, typically about every three years. The Trust's first asset allocation review was performed by Watson Wyatt in 2002. It was intended to provide a basis for the Trust's initial investments, with the assumption that the asset allocation framework would be refined and updated in the future as the Trust's investment implementation proceeded.

The policy review process included intensive examinations of asset classes which might be considered by the Trust in terms of investment, liability issues, the impact of various economic scenarios, and the potential for investment returns in each individual asset class over both the near term and the longer term. The review process will be completed in fiscal year 2005 and any revisions to the Trust's asset allocation policy implemented thereafter.

c) Asset Class Rebalancing

Rebalancing is a prudent discipline for investment fiduciaries, allowing portfolios to realize gains and preserve asset values, rather than letting gains erode as values revert to historical mean levels. The Trust's investment policy guidelines define ranges above and below the allocation targets for each asset class. Market values may fluctuate within these ranges without requiring any rebalancing response from the Trust. When the policy limits are exceeded, the Trust's investment guidelines require a rebalancing to bring the portfolio back within policy limits.

In February 2004, the Trust's US equity and non-US equity asset classes approached their policy limits. Although these asset values had not yet exceeded their respective policy limits, the Trustees determined that it would be appropriate to carry out a rebalancing to reallocate assets from US equity and non-US equity to fixed income, returning these asset classes to the mid-point of their policy target ranges. The rebalancing took place over a period of several weeks during March and April 2004.

d) Investment Performance

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 5% of the total, or $1.4 billion out of $26.4 billion as of September 30, 2004, is held in the form of reserves that are invested by the RRB in federal government securities called Par Value Specials. These reserves are replenished as needed through transfers from NRRIT to the RRA. Although it does not manage RRA assets, in determining its policy allocation, the Trust takes into account these reserves, and sets its investment benchmarks accordingly. The following discussion focuses on the investment performance of NRRIT-managed assets only, beginning with the total portfolio and then addressing major asset classes.

Overall performance: For the twelve months of fiscal year 2004, the investment return on NRRIT-managed assets was 13.3%. This compared favorably with the Trust's composite benchmark, which returned 12.7%. The principal reasons for the Trust's higher performance were results achieved by the Trust's managers in US equity and in fixed income, and temporary differences in the Trust's allocations to asset classes compared with the benchmark.

US equity: The Trust's US equity portfolio returned 15.1% during fiscal year 2004, compared with a return of 14.8% on the Trust's US equity benchmark, the Dow Jones Wilshire 5000. Although the enhanced index and active managers were hired during the fiscal year, and therefore were not in place for the full twelve months of the year, they contributed positively and were largely responsible for the favorable performance of this asset class against its benchmark.

Non-US equity: The Trust's non-US equity portfolio returned 22.7% during fiscal year 2004, compared with a return of 22.3% on the Trust's non-US equity benchmark, the MSCI World Ex-US index. (In non-US equities, index managers may be able to add value over the benchmark via securities lending and other such techniques.)

Private equity: The Trust's private equity portfolio is in the early stages of commitment. Invested funds totaled $11 million at September 30, 2004.

Fixed income: The Trust's fixed income portfolio returned 3.7% during fiscal year 2004, compared with a return of 3.7% on the Trust's fixed income benchmark, the Lehman Brothers Aggregate bond index. Although the enhanced bond index managers were in place only for the last quarter of the fiscal year, they contributed positively to a small increment in performance over the benchmark (3.74% vs. 3.68%).

Allocation exposure: During fiscal year 2004, in periods when the US and non-US equity markets were up, they represented a higher percentage of the actual portfolio's market value than the target figure in the benchmark, and they therefore contributed positively to the Trust's overall portfolio performance compared with the benchmark.

Summary: The railroad retirement assets under the Trust's oversight outperformed their benchmarks during fiscal year 2004 by approximately 60 basis points, with an investment return of 13.3% compared with a benchmark return of 12.7%. At fiscal year-end, assets overseen by NRRIT totaled $25.0 billion, and the total value of railroad retirement system assets, including those held in the RRB accounts at the Treasury, was $26.4 billion.

4) Audit Committee

The Audit Committee met quarterly during fiscal year 2004, with representatives of NRRIT's independent auditor Deloitte & Touche participating in each of the Committee's meetings. The Audit Committee reviewed key aspects of NRRIT's auditing, financial reporting, internal accounting and internal controls processes as the Trust continued to evolve into a more mature investment management institution. The Audit Committee supervised the audit procedures conducted by NRRIT's independent auditor for fiscal year 2003 and the completion of the 2003 Annual Management Report by NRRIT's professional staff and legal counsel. The Audit Committee also worked closely with the independent auditor in its development of the Fiscal Year 2003 Audit Report, and considered the Deloitte & Touche Audit Management Letter for that fiscal year.

In addition to supervising these auditing processes, the Audit Committee worked alongside NRRIT's staff and independent auditor in matters related to financial reporting. Specifically, the Audit Committee analyzed and commented upon the appropriate format and content of NRRIT's financial statements, and worked with the staff and the auditor to complete the financial statements for fiscal year 2003.

As part of its ongoing review of new statutory and regulatory developments in the areas of internal accounting and controls contained in the Sarbanes-Oxley Act of 2002 and pronouncements by various regulatory agencies, the Audit Committee implemented two best practices recommendations appropriate for application to the Trust: a Whistleblower Hotline and a more comprehensive statement of Audit Committee responsibilities.

Finally, during the 2004 fiscal year, the Audit Committee arranged to have internal audit staff from Burlington Northern Santa Fe Corporation and Norfolk Southern Corporation complete a detailed review of the Trust's financial procedures and internal controls to provide an independent evaluation for the Audit Committee of the Trust's systems to monitor and manage its increasingly diversified investment portfolio.

5) Internal Accounting and Administrative Controls

During fiscal year 2004, the Trust's staff continued to improve the system of internal accounting and administrative controls designed to ensure the safekeeping and proper accounting of investments, and the efficient operation of the Trust activities.

Safekeeping: In fiscal year 2004, the Trust began consolidating assets with its primary custodian. Assets represented by index funds are held with the custodian of each respective index fund. As the Trust moves from indexation to separately managed accounts, the custody of those assets will be transferred from the sub-custodian to the Trust's primary custodian.

Accounting: The Trust's primary custodian provides the Trust with a full accounting and performance record of all transactions involving Trust assets. Reconciliations of the primary custodian records to the investment manager's records are performed monthly. The Trust's staff has established a process to review the monthly reconciliations to ensure that all transactions are recorded properly on the respective books. Financial data from the custodian bank form the basis for the Trust's various reporting requirements.

Operations: During fiscal year 2004, the Trust established weekly Economic, Market and Investment ("EMI") meetings which are attended by the staff of the Trust. The purpose of these meetings is to review current economic trends, market events and investment activities. These meetings will enhance the ability of the Trust to make sound investment decisions in an ever changing global environment.

Oversight of the Trust's internal accounting and administrative controls is exercised through the Trust's Audit Committee. A review of the Trust's financial procedures and internal controls was carried out as part of an internal audit during the fiscal year.

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Financial Statements
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National Railroad Retirement Investment Trust

Financial Statements for the Fiscal Year Ended September 30, 2004, and Independent Auditors' Report

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
National Railroad Retirement Investment Trust

We have audited the accompanying statement of assets and liabilities of the National Railroad Retirement Investment Trust (the "Trust"), including the schedule of investments, as of September 30, 2004, and the related statement of operations, changes in net assets, cash flows, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 2004, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the National Railroad Retirement Investment Trust as of September 30, 2004, the results of its operations, the changes in its net assets, its cash flows, and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 17, 2004

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF ASSETS AND LIABILITIES
AS OF SEPTEMER 30, 2004
($ In thousands)

ASSETS		
INVESTMENTS -- At fair value (cost, $22,785,177)	$	25,073,387
CASH AND CASH EQUIVALENTS		144,033
RECEIVABLE FOR INVESTMENTS SOLD		465,486
ACCRUED INCOME		
Dividends		2,941
Interest		14,852
OTHER ASSETS		281
Total assets		25,700,980
LIABILITIES		
PAYABLE FOR INVESTMENTS PURCHASED		664,723
DUE TO BROKER - VARIATION MARGIN		41
OPTIONS WRITTEN -- At fair value (premiums received, $65)		53
ACCRUED EXPENSES		3,095
OTHER LIABILITIES		199
Total liabilities		668,111
NET ASSETS	$	25,032,869

NET ASSETS		
NET ASSETS CONTRIBUTED TO THE TRUST		19,411,954
ACCUMULATED NET REALIZED GAIN ON INVESTMENTS		3,305,917
ACCUMULATED NET UNREALIZED GAIN ON INVESTMENTS		2,288,221
ACCUMULATED NET INVESTMENT INCOME		26,777
TOTAL NET ASSETS	$	25,032,869

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMER 30, 2004
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)	Fair Value
Index Funds		
BGI Equity Index Fund	21,118	$ 6,323,875
BGI MSCI World ex-US Index Fund	596,548	5,302,511
BGI Extended Equity Market Fund	19,587	2,716,069
Other	-	9,634
Total Index Funds (Cost, $12,419,935) 57.2%		14,352,089
Common Stocks		
Financial Services		
Citigroup, Inc	1,759	77,617
Bank America Corporation	1,256	54,411
Allstate Corporation	511	24,523
MetLife, Inc	621	23,994
St Paul Travelers Corporation	594	19,653
American International Group, Inc	272	18,526
JPMorgan Chase & Co	463	18,402
Other	-	424,934
Total Financial Services (Cost, $654,749) 2.6%		662,060
Consumer Discretionary		
Time Warner, Inc	1,529	24,675
Home Depot, Inc	539	21,120
Other	-	347,267
Total Consumer Discretionary (Cost, $383,915) 1.6%		393,062
Information Technology		
Microsoft Corporation	1,220	33,727
IBM Corporation	313	26,819
CISCO Systems, Inc	1,347	24,383
Motorola, Inc	1,220	22,002
Intel Corporation	1,028	20,627
Other	-	228,995
Total Information Technology (Cost, $367,980) 1.4%		356,553

Note: The Schedule of Investments presents the assets of the National Railroad Retirement Investment Trust by sector within each asset class while identifying the largest 50 holdings in the portfolio.

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS (continued)
AS OF SEPTEMER 30, 2004
($ In thousands)

Equity (continued)	**Number of Units, Shares or Par Value (000)**	**Fair Value**
Common Stock (continued)		
Health Care		
Pfizer, Inc	1,482	$ 45,340
Johnson & Johnson	410	23,103
Other	-	225,580
Total Health Care (Cost, $302,390) 1.2%		294,023
Industrials		
General Electric Company	1,422	47,756
Cendant Corp	1,032	22,290
Other	-	178,027
Total Industrials (Cost, $236,834) 1.0%		248,073
Energy		
Exxon Mobil Corporation	924	44,639
Chevron Texaco Corporation	693	37,152
ConocoPhillips	281	23,279
Other	-	116,906
Total Energy (Cost, $193,853) 0.9%		221,976
Consumer Staples		
Altria Group	621	29,217
Other	-	177,411
Total Consumer Staples (Cost, $216,648) 0.8%		206,628
Utilities (Cost, $87,802) 0.4%	-	92,512
Materials (Cost, $84,954) 0.4%	-	91,966
Telecommunications		
Verizon Communications	648	25,521
Other	-	48,335
Total Telecommunications (Cost, $71,133) 0.3%		73,856
Other (Cost, $11,183) 0.0%	-	9,518
Total Equity (Cost, $15,031,376) 67.8%		**$ 17,002,316**

Note: The Schedule of Investments presents the assets of the National Railroad Retirement Investment Trust by sector within each asset class while identifying the largest 50 holdings in the portfolio.

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS - (Continued)
AS OF SEPTEMER 30, 2004
($ In thousands)

Fixed Income	Number of Units, Shares or Par Value (000)	Fair Value
Index Fund		
BGI US Debt Index Fund	146,086	$ 5,936,196
Total Index Fund (Cost, $5,642,167) 23.7%		5,936,196
Government Mortgage Backed Securities		
FNMA Pool #711153, 5.5%, Due 7-01-2033	47,406	48,137
FNMA 30 Year Pass-Throughs, 6.5%, TBA	35,965	37,718
FNMA Pool #725232, 5.0%, Due 3-01-2034	36,448	36,157
FNMA 30 Year Pass-Throughs, 6.0%, TBA	32,350	33,452
FHLMC Pool #E9-6460, 5.0%, Due 5-01-2018	29,782	30,312
FNMA Preassign 00575, 4.5%, Due 11-25-2009	22,115	22,328
FNMA 30 Years Single Family Mortgage, 6.0%, TBA	19,975	20,512
FNMA Pool #545832, 6.0%, Due 8-01-2017	18,889	19,819
FNMA Pool #751020, 4.5%, Due 12-01-2018	19,352	19,341
GNMA Pool #574567, 5.5%, Due 4-15-2034	18,474	18,824
FHLMC Pool #B1-4026, 4.5%, Due 5-01-2019	18,622	18,573
Other	-	425,290
Total Government Mortgage Backed Securities (Cost, $721,470) 2.9%		730,463
Government Bonds		
US Treasury Notes, 4.25%, Due 8-15-2014	76,277	77,076
US Treasury Notes, 2.75%, Due 6-30-2006	54,460	54,686
US Treasury Notes, 2.375%, Due 8-31-2006	54,416	54,214
US Treasury Bonds, 5.375%, Due 2-15-2031	37,725	40,413
US Treasury Notes, 2.75%, Due 7-31-2006	37,090	37,229
US Treasury Bonds, 6.125%, Due 11-15-2027	28,376	32,943
US Treasury Bonds, 8.125%, Due 8-15-2019	20,000	27,380
US Treasury Notes, 1.875%, Due 1-31-2006	22,995	22,858
US Treasury Notes, 3.125%, Due 5-15-2007	20,645	20,819
US Treasury Notes, 2.5%, Due 5-31-2006	20,458	20,467
Other	-	174,146
Total Government Bonds (Cost, $557,606) 2.2%		562,231

Note: The Schedule of Investments presents the assets of the National Railroad Retirement Investment Trust by sector within each asset class while identifying the largest 50 holdings in the portfolio.

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS - (Continued)
AS OF SEPTEMER 30, 2004
($ In thousands)

Fixed Income (continued)	Number of Units, Shares or Par Value (000)	Fair Value
Corporate Bonds		
Financial Services (Cost, $221,725)	-	$ 224,355
Telecommunications (Cost, $44,242)	-	45,287
Industrials (Cost, $37,699)	-	38,260
Consumer Discretionary (Cost, $31,605)	-	32,299
Energy (Cost, $24,036)	-	24,899
Utilities (Cost, $15,149)	-	15,390
Health Care (Cost, $7,265)	-	7,496
Consumer Staples (Cost, $6,653)	-	6,805
Materials (Cost, $3,332)	-	3,377
Information Technology (Cost, $762)	-	770
Other (Cost, $2,806)	-	2,869
Total Corporate Bonds (Cost, $395,274) 1.6%		401,807
Government Agencies		
FNMA, 6.625%, Due 10-15-2007	27,950	30,682
FHLMC, 6.625%, Due 9-15-2009	19,591	22,099
Other	-	126,374
Total Government Agencies (Cost, $177,335) 0.7%		179,155
Asset Backed Securities (Cost, $136,290) 0.6%	-	136,632
Commercial Mortgage Backed Securities (Cost, $67,173) 0.3%	-	67,909
Other Fixed Income Securities (Cost, $56,486) 0.2%	-	56,678
Total Fixed Income (Cost, $7,753,801) 32.2%		**8,071,071**
Total Investments (Cost, $22,785,177) 100.0%		**$ 25,073,387**

Note: The Schedule of Investments presents the assets of the National Railroad Retirement Investment Trust by sector within each asset class while identifying the largest 50 holdings in the portfolio.

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
($ In thousands)

INCOME:	
Dividends	$ 18,004
Interest	25,439
Total Income	43,443
EXPENSES:	
Investment management fees	5,936
Professional fees	1,321
Trustee fees and expenses	149
Custodial fees	50
Other expenses	2,526
Total Expenses	9,982
NET INVESTMENT INCOME	33,461
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS:	
Net realized gain	3,509,693
Net change in unrealized appreciation	(548,167)
Net realized and unrealized gain on investments	2,961,526
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 2,994,987

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
($ In thousands)

INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income	$	33,461
Net realized gain on investments		3,509,693
Net change in unrealized appreciation		(548,167)
Net increase in net assets resulting from operations		2,994,987
Contributions to the Trust		586,000
Withdrawals from the Trust		(1,564,044)
Net assets withdrawn from the Trust		(978,044)
NET ASSETS:		
Beginning of Year		23,015,926
End of Year	$	25,032,869

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMER 30, 2004
($ In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets resulting from operations	$	2,994,987
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchase of investment securities		(25,721,540)
Proceeds from disposition of investments		26,595,055
Proceeds from principal paydown of mortgage securities		30,423
Assets contributed to the Trust		586,000
Assets withdrawn from the Trust		(1,564,044)
Increase in due to broker - variation margin		41
Increase in options written		65
Increase in accrued income		(17,793)
Decrease in other assets		75
Increase in accrued expenses and other liabilities		2,365
Increase in receivable for investments sold		(465,486)
Increase in payable for investments purchased		664,723
Unrealized appreciation of investments		548,167
Net realized gains on investments		(3,509,693)
Net cash used in operating activities		(2,851,642)
INCREASE IN CASH AND CASH EQUIVALENTS	$	143,345
CASH AND CASH EQUIVALENTS, Beginning of Year		688
CASH AND CASH EQUIVALENTS, End of Year	$	144,033

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

1. ORGANIZATION

Formation—The Trust was created as a result of Federal legislation. The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") established the National Railroad Retirement Investment Trust (the "Trust"), the sole purpose of which is to manage and invest industry-funded Railroad Retirement assets as set forth in the Act. Domiciled in, and subject to the laws of the District of Columbia (to the extent not inconsistent with the Act), the Trust is a tax-exempt entity that is neither an agency nor instrumentality of the Federal Government. The Trust became effective on February 1, 2002.

The Railroad Retirement system was created as a Federal pension program during the 1930s to fund retirement benefits of railroad workers and their dependents. For more than 65 years, the Railroad Retirement Account ("RRA"), a Federal trust fund, has collected payroll taxes from railroad employers and employees and paid out benefits to beneficiaries. Railroad Retirement is funded as a pay-as-you-go system that is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA") funding rules.

The Act authorizes the Trust to manage and invest the assets of the Railroad Retirement system in the same array of investment options available to private sector pension plans, and to pay administrative expenses of the Trust from the assets in the Trust. Prior to the Act, Railroad Retirement assets were limited to investment in US Government securities directly with the United States Treasury (the "Treasury"). Responsibility for administering the Railroad Retirement system, including eligibility determinations and the calculation of beneficiary payments, remains with the Railroad Retirement Board (the "Board"), a Federal agency.

Investment Management— The Trust's principal investment objective is to achieve a long term rate-of-return on assets sufficient to enhance the financial strength of the railroad retirement system and to provide timely funding to the Board for payment of benefit obligations and administrative expenses.

The Trust has established performance benchmarks for each asset class. As the Trust diversifies its investment portfolio by adding active investment management strategies to its portfolio of index funds, its portfolio performance is expected to begin to deviate from the performance benchmarks. The performance benchmark for the Trust's US equity strategies is the DJ Wilshire 5000 Index, for its non US equity strategies is the MSCI World ex-US Index, and for its fixed income strategies is the Lehman Brothers Aggregate Bond Index.

All assets of the Trust are held by custodians as appointed by the Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The financial statements of the Trust are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States.

Security Valuation—As of September 30, 2004, 81% of the Trust's assets were invested in four index funds managed by Barclays Global Investors ("BGI"). Each of the index funds targets a different market index.

The BGI Equity Index Fund targets the S&P 500 Index, the BGI Extended Equity Market Fund targets the Wilshire 4500 Index Fund, the BGI US Debt Index Fund targets the Lehman Brothers Aggregate Index, and the BGI MSCI World ex US Index Fund targets the MSCI World ex-US Index. These funds are valued daily by BGI and recorded at that value by the Trust.

Publicly traded securities listed on a securities exchange, and for which quotations are readily available, are valued at the last quoted sale price on the principal exchange or market (foreign or domestic) on which they are traded on valuation date, or, if there is no such reported sale on the valuation date, at the most recent quoted bid price. Securities that are quoted on the NASDAQ national market system are valued at the official closing price. Debt obligations for which market quotations are readily available are valued at the most recent quoted bid price. Securities for which quotations are not readily available are valued at fair value as determined in good faith in accordance with procedures approved by the Trustees.

The Trust may invest in private equity investments in the venture capital, special situation, and leveraged buyout sectors ("Private Equity Investments"). Although Private Equity Investments offer the opportunity for significant capital gains, such investments involve a high degree of business and financial risk that can result in substantial losses. Among these are the risks associated with investments in companies in an early stage of development or with little or no operating history, companies operating at a loss or with substantial variation in operating results from period to period, companies with the need for substantial additional capital to support expansion or to maintain a competitive position, or companies with significant financial leverage. Such companies may also face intense competition from others including those with greater financial resources, more extensive development, manufacturing, distribution or other attributes, over which the Trust will have no control.

The Trust's investment policy prescribes the use of limited liability structures, typically limited partnerships, to minimize and control some of the risks associated with Private Equity Investments. As such, the Trust will participate as a limited partner in commingled pools of private equity assets managed by a professional investment team (the General Partner of the investment partnership).

The Trust's Private Equity Investments are comprised of multiple limited partnership interests which in turn represent a claim on the assets of each individual partnership. The assets of each partnership are valued by the General Partner of the partnership in accordance with the terms of each partnership's governing agreement. In general, the partnership agreements call for assets to be valued under a fair value concept, which is normally described as at cost unless and until events indicate a material change in value, either positive or negative, has occurred. Changes in value for non-marketable securities will generally be determined in good faith by the General Partner with oversight by a limited partner advisory board. The Trust's private equity investments are recorded at the value determined by the General Partner of the investment partnership based on the Trust's proportional share of the pool of invested funds.

Futures Contracts — The Trust may invest in financial futures contracts for the purpose of hedging its existing portfolio securities against fluctuations in market value, to gain exposure to securities that the Trust intends to purchase, and to manage overall portfolio market risk as part of a broad risk management program. The Trust does not invest in financial futures contracts in order to add leverage to its portfolio. Upon entering into a financial futures contract, the Trust is required to pledge an amount of cash, US government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Subsequent payments, known as "variation margin", are made or received by the Trust each day, depending on the daily fluctuations in the fair value of the underlying security. The Trust recognizes a gain or loss equal to the daily variation margin. The use of futures transactions entails the risk of imperfect correlation in movements in the price of futures contracts, and the underlying hedged assets. Should market conditions change unexpectedly, and the Trust takes no action to respond to such changes, the Trust may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. Counterparty risk associated with futures contracts is limited to a receivable due to the variation margin. The Trust could also be exposed to risk if the counterparties to the contracts were unable to meet the terms of the contracts.

As of September 30, 2004, the Trust sold 485 financial futures contracts on five year US Treasury notes for delivery in December 2004, 93 financial futures contracts on ten year US Treasury notes for delivery in December 2004 and purchased 138 financial futures contracts on thirty year US Treasury bonds for delivery in December 2004. The Trust has recorded a realized gain of $183,289 on financial futures as of September 30, 2004.

Options Contracts—The Trust may purchase or sell exchange traded options contracts to hedge fluctuation risks in the prices of certain securities. When a call or put option is purchased, the premium paid for the purchase is recorded as an investment and is subsequently "marked-to-market" to reflect the current market value of the option contract purchased. When a call or put option is sold, an amount equal to the premium received is reflected as a liability. The liability is subsequently "marked-to-market" to reflect the current market value of the option contract sold. The Trust could be exposed to risk if the counterparties to the contracts were unable to meet the terms of the contracts.

Transactions in options written during the fiscal year ended September 30, 2004 were as follows:

	Put Options		Call Options	
	Contracts	Premium Received	Contracts	Premium Received
Contracts Sold	49	$35,957	49	$28,957
Options Outstanding 9/30/04	49	$35,957	49	$28,957

Corporate securities are pledged as collateral for the futures and options contracts entered into by the Trust. The securities pledged as of September 30, 2004 are AT&T Broadband Corporation Notes, 8.375% due 3-15-2013, Bank of America Subordinated Notes, 7.4% due 1-15-2011, and Bristol-Myers Squibb Company Notes, 5.75% due 10-1-2011. The securities pledged as collateral had a market value of $2.3 million as of September 30, 2004. These securities are restricted and cannot be traded while pledged as collateral.

Mortgage TBAs—The Trust's portfolio includes investments in mortgage-backed "to be announced" ("TBA") securities. TBAs can be either purchased or sold for forward settlement. As of September 30, 2004, the Trust had a net investment in TBAs of $33.0 million, consisting of purchase agreements of $161 million and sale agreements of $128 million.

Use of estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Other—The Trust records purchases and sales of investment securities on a trade-date basis. Investment securities are recorded at stated fair market value. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Gains or losses realized on sales of investment securities are based on average cost.

Income Taxes—The Trust is exempt from taxes under Section 501(c)(28) of the Internal Revenue Code of 1986.

Cash and Cash Equivalents—For purposes of reporting cash flows, cash and cash equivalents include interest earning deposits held at banks and cash balances held in a short-term investment fund which can be withdrawn upon same day notice.

Investment Management Fees—Management fees on investment accounts are generally paid on a quarterly basis and are calculated as a percentage of the weighted average market value of assets managed. The investment management fees for a portion of the assets are on a flat fee. For the fiscal year, total investment management fees were 0.024 % of the average asset balance.

3. RELATED PARTY TRANSACTIONS

Railroad Retirement Board—Under the provisions of the Act, the Board directs the Treasury to contribute RRA and Social Security Equivalent Benefit Account ("SSEBA") assets to the Trust, as defined in the Act. Since the Trust's inception, the Board has contributed $21.276 billion to the Trust. During fiscal year 2004, $586 million of RRA assets were contributed to the Trust. The Board also periodically withdraws funds from the Trust to help fund benefit payments and administrative expenses of the RRA. Since the Trust's inception $1.864 billion has been withdrawn from the Trust by the Board. During fiscal year 2004, the Board withdrew $1.564 billion from the Trust. As defined in the Act, the Trust reports to the Board and is required to perform its duties solely in the interest of the Board and through it, the participants and beneficiaries of the programs funded by the Act.

Legal Counsel—The Trust incurred $1.3 million in legal fees in fiscal year 2004. Legal counsel was provided by firms that may also provide services to the major railroads and railway labor unions whose representatives are members of the Board of Trustees.

4. EMPLOYEE BENEFIT PLANS

The Trust provides a defined contribution plan ("Plan") covering all employees. Employees participate in the Plan by making discretionary contributions from their eligible compensation, but not more than the maximum annual amount allowed by law. The Trust makes matching contributions equal to 100% on the first 3% of compensation deferred and 50% on the next 2% of compensation deferred. The Trust may also, at its discretion, make an additional profit sharing contribution to the Plan. During the fiscal year 2004, the Trust made contributions of $54 thousand to the Plan on behalf of the employees.

5. COMMITMENTS

Office Space Lease – In July 2003, the Trust entered into a ten-year operating lease agreement with respect to its principal office space in Washington, DC. Payment obligations relating to the lease for each of the next five years and thereafter are as follows:

Year Ending September 30	**Amount**
2005	$ 263,610
2006	269,560
2007	275,650
2008	283,090
2009	295,830
Thereafter	1,196,430
Total	$2,584,170

Private Equity Investments– During the fiscal year ended September 30, 2004, the Trust entered into Private Equity Investments in the venture capital and leveraged buyout sectors totaling $11 million. As of September 30, 2004, the Trust had commitments to invest an additional $154 million, which will be drawn down over the next ten years.

6. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2004.

	October 1, 2003- September 30, 2004
Financial Ratios (1):	
Expense to net assets	0.04%
Net investment income to net assets	0.13%
Total Return (2):	
Total Return	13.3%

(1) The ratios of expense to net assets and net investment income to net assets represent the expenses and net investment income for the period, as reported on the statement of operations, to the Trust's net assets at the end of that period

(2) The total return reflected above includes net investment income and net realized and unrealized gains on investments. The return is time weighted and measures the performance of a unit of assets held continuously for the time period covered.

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