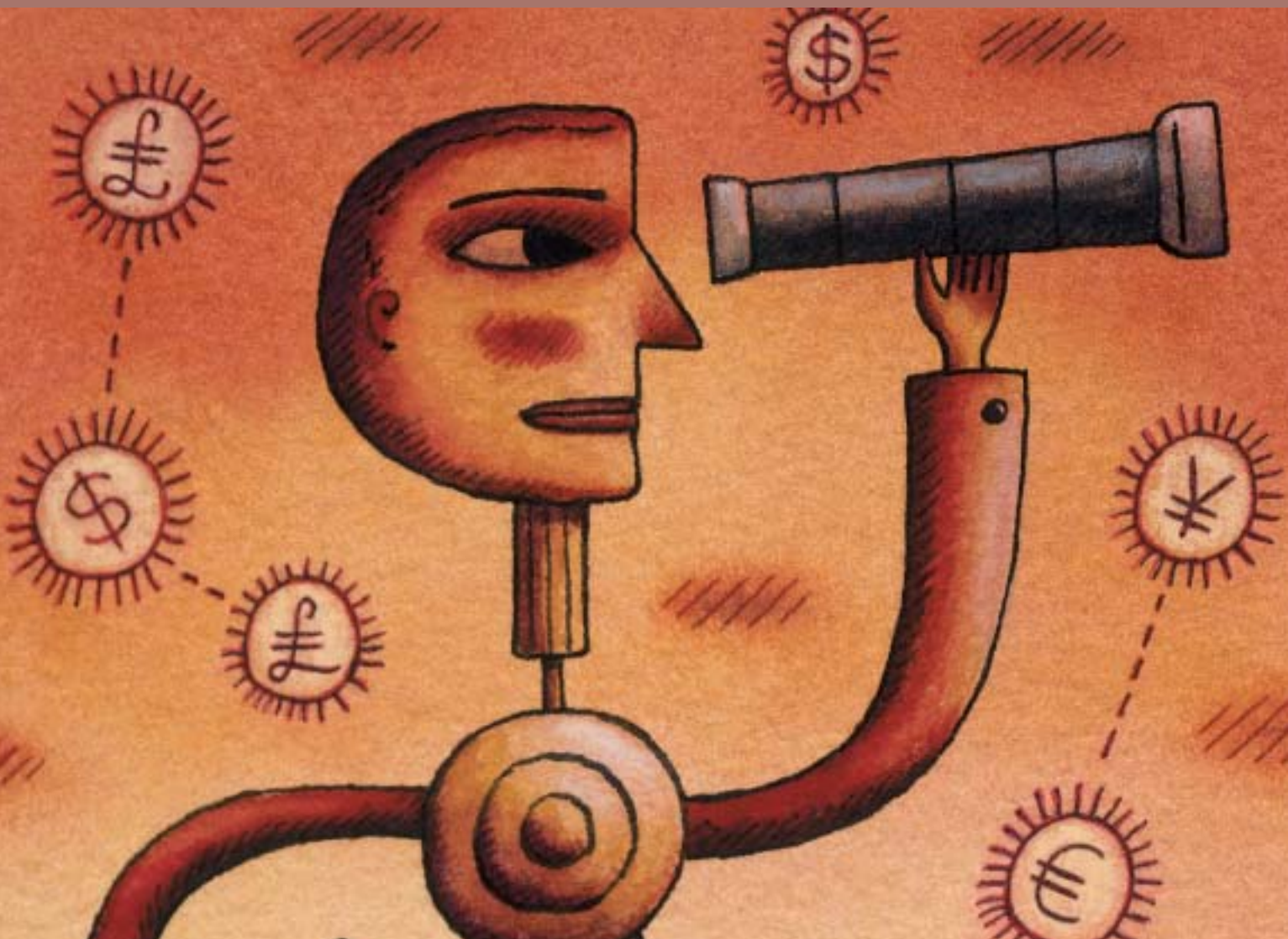


Lane
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Accounting For Pensions
UK and Europe
Annual Survey 2004



This is the 11th edition of Lane Clark & Peacock's annual "Accounting for Pensions" survey. It is widely recognised as an authoritative survey of the accounting standards that regulate accounting and disclosure of pensions information in UK company accounts and now, for the first time, it includes companies in the Europe Dow Jones STOXX 50SM.

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For further information, please contact Chris Tavener, Alex Waite or Bob Scott at our London office or the partner who normally advises you. For further copies of the report, please download a copy from our website www.lcp.uk.com or contact Charlie Brown on **020 7432 6603** or email enquiries@lcp.uk.com.

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Accounting for Pensions

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1. Main findings

- Lane Clark & Peacock (LCP) estimates that the total deficit, or shortfall in assets, under FRS17 for UK defined benefit pension schemes of FTSE 100 companies has decreased, from £55 billion in July 2003, to £42 billion in July 2004¹. A fall of £13 billion.
- As of July 2004, LCP estimates that the UK pension schemes of the FTSE 100 companies hold assets of only £84 for every £100 of FRS17 liability (compared with £80 in July 2003).
- FTSE 100 companies paid contributions of £10 billion into their defined benefit pension schemes during accounting periods ending in 2003. This is 50% more than the FRS17 value of pension benefits earned by their employees over the same period, and double that paid during the previous year.
- These extra contributions helped to reduce FRS17 deficits, as did favourable stock market returns over the year.
- The reduction in reported FRS17 deficits would have been greater were it not for the significant fall in real bond yields over 2003 (ie yields in excess of inflation).
- People are living longer, which is good news for them but bad news for companies sponsoring pension schemes. Reflecting the findings of the latest longevity research could add a further £20 billion deficit to FTSE 100 companies' balance sheets.
- Euro entry could have a significant impact on FRS17 liabilities. Although it may be only one of many effects of the UK joining the Eurozone, having to use the yields on Eurobonds, which are currently lower than their Sterling equivalents, could increase FRS17 liabilities by about £20 billion.
- Ten FTSE 100 companies in our survey reported FRS17 deficits in excess of 25% of their market capitalisation at their 2003 year-ends. Such significant deficits could deter corporate predators.
- We estimate that, following recent legislation, the potential cost to FTSE 100 companies of walking away from their UK defined benefit schemes could be over £125 billion, far in excess of the FRS17 deficits disclosed in their accounts.
- Recognising pension scheme deficits on the balance sheet potentially exposes companies to the volatile movement of the equity markets. Last year, we identified the companies that were most exposed – interestingly many of their share prices performed very well over the year as equity markets rose. This year's survey identifies the companies that are now the most exposed.

¹Under the FRS17 accounting standard for pension schemes, a liability appears on a UK company's balance sheet if there is a shortfall in the assets of a pension scheme compared to the value placed on its liability to pay benefits (conversely, surplus assets appear as an asset).

- Our analysis of the accounts of the largest 50 European blue-chip companies reveals that German companies had the highest reported deficit (ie difference between total pension scheme liability and pre-funded assets), on average, followed by Spain. Perhaps surprisingly, given the long history of funded pension provision in this country, UK companies disclosed the third highest average pension deficits.

2. Introduction and summary

2.1 Introduction

This survey provides an insight into the disclosure of pension scheme costs in companies' accounts, comparing the different practices adopted by the UK's largest quoted companies.

FTSE 100 companies examined

In this survey, we analyse the FRS17 pension cost disclosures for companies comprising the FTSE 100 index on 1st January 2004, looking at accounting periods ending in 2003. The companies making up the FTSE 100 change over time. Five companies were new this year. Comparisons must therefore be handled with care, but general trends are still evident.

Of the companies reporting in 2003, 89 offer UK defined benefit pension schemes and have either adopted FRS17 in their primary statements or have disclosed FRS17 information under the transitional requirements.

European companies scrutinised

For the first time in the survey, we also examine the pension cost disclosures of the European companies comprising the Dow Jones STOXX 50SM blue-chip index on 1st January 2004. This includes some of the largest companies in Europe.

The information and conclusions of this survey are based on what an informed reader could draw from each company's annual report and accounts. We do not approach companies or advisers for additional information or explanation.

The next section provides an update on the current shortfall in assets compared to the value placed on liabilities for the FTSE 100 companies. The following two sections consider the factors affecting the assets, and then the variability of the FRS17 liabilities. Finally we consider the pension disclosures of European companies.

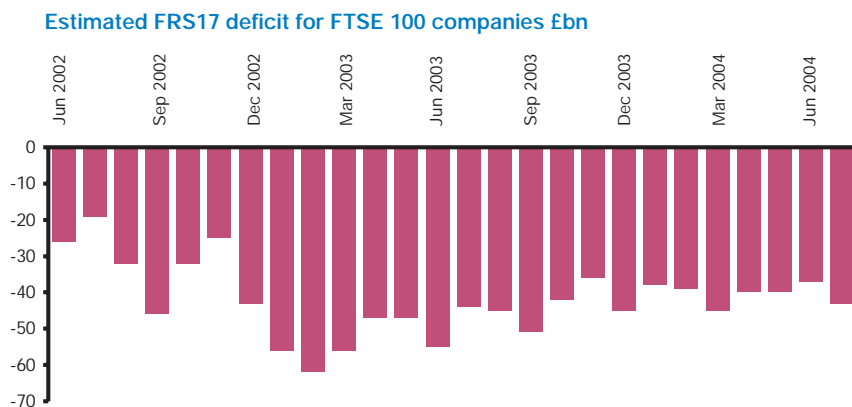
2.2 FRS17 deficits

Under FRS17, a measure of the surplus or deficit in the pension scheme appears directly on the company's balance sheet once fully adopted.

As at mid-July 2004, we estimate the aggregate deficit under FRS17 of UK pension schemes sponsored by companies in the FTSE 100 to be £42 billion (before any adjustment for companies' deferred tax). This compares to £55 billion at the same time last year.

We have estimated these figures from the FRS17 liabilities and pension scheme assets reported in the companies' accounts, adjusted for changes in market conditions from the companies' year-ends to mid-July 2004. The estimated deficit excludes overseas pension schemes and healthcare schemes where possible.

In the chart below we show how the estimated aggregate deficit has changed over the past two years.



Across the FTSE 100 companies, the estimated deficit of £42 billion equates to:

- nine months of 2003 pre-tax profits;

or alternatively:

- 4% of the total market capitalisation.

As of mid-July 2004, for every £100 of FRS17 liability, we estimate that the UK pension schemes of the FTSE 100 companies held assets of £84. This compares to £80 at the same time last year.

With UK equity markets having risen by over 11% during the same period, it might have been expected that the FRS17 funding levels of these pension schemes would have recovered more significantly.

FRS17 deficit – a moving target

However, sponsoring a defined benefit scheme in deficit is similar in many ways to paying off a mortgage that is in arrears.

First you have to pay the interest on the debt; then the monthly capital repayments; and only then can you start to pay off the arrears.

The sting in the tail is that, unlike arrears for a mortgage, an FRS17 deficit is a moving target, which is constantly being re-assessed as it is linked to the level of the bond markets.

After interest charges, the cost of additional benefits earned and the higher cost of existing benefits, little was left over from contributions and investment returns to reduce the deficits. The net effect is that the FRS17 deficits have fallen only slightly over the last 12 months.

In Section 5.1 we provide detailed explanation of the movement of reported results.

Reported deficits for some schemes are quite small compared to the market capitalisation of the company. However, some are large. *BAE Systems*, *British Airways*, *BT*, *Cable & Wireless*, *GKN*, *ICI*, *Rolls-Royce Group*, *Royal & SunAlliance*, *J Sainsbury* and *Whitbread* all reported deficits in excess of 25% of their market capitalisation at their 2003 year-ends.

Immunity to acquisition?

A significant pension scheme deficit, and in particular its volatility on the balance sheet, can have an impact on share price, credit ratings and employee perceptions of their pension scheme.

The recent experience of *WH Smith* demonstrates how pension issues can influence corporate activity. Are companies with significant deficits in their pension schemes becoming immune to acquisition? This is in marked contrast to the 1980s when some companies became targets purely for the surpluses within their pension schemes.

Where businesses are being sold, there is a risk that employees' defined benefit pensions are not being fully protected because the selling company is not prepared to fund the deficit.

2.3 Accumulation of assets

Defined benefit pensions have become more expensive than they used to be. Significant increases in contributions are often required, not only to fund the deficits, but also to meet the increasing costs of benefits being earned by current employees.

Some companies have reduced future benefits, or required increased contributions from employees to reflect this, or both.

Company contributions rising

FTSE 100 companies contributed about £10 billion to their defined benefit pension schemes over the 12 months to their 2003 accounting year-ends. For those we have been able to analyse, this is broadly double the amount they paid in the previous year.

BAE Systems

British Airways

BT

Cable & Wireless

GKN

ICI

Rolls-Royce Group

Royal & SunAlliance

J Sainsbury

Whitbread

On average, for each £100 of benefits earned by employees under FRS17, the FTSE 100 companies paid more than £150 into their pension schemes. However, there is a wide variation between companies' contributions.

Each company will have its own objectives and opinion as to whether it is worthwhile to put additional cash into the pension fund now rather than, say, keeping hold of it for use by the company.

At one extreme, *Rentokil Initial* made no pension contributions over 2003 but disclosed FRS17 deficits of over 20% at 31st December 2002 and 2003 (it has commenced payment of contributions in 2004).

In contrast, others have significantly increased the contributions they paid. For example, *BP* increased its contributions from US\$0.3 billion to US\$2.8 billion, and *Alliance & Leicester* from £15 million to £135 million. Both paid contributions in excess of four times the FRS17 cost of the benefits earned by their employees over the 2003 accounting period.

A market upturn

In the absence of additional contributions, FRS17 pension deficits could be eliminated by a rise in the equity markets.

We estimate that a rise of over 35% in the equity markets would eliminate the aggregate deficit of £42 billion by this time next year. To achieve this, the FTSE 100 index would have to increase to over 5,900.

Companies' balance sheets at risk

However, investment in equities is risky and can lead to a volatile FRS17 position, which can severely impact on balance sheets. This is particularly the case when the pension scheme is large in relation to the size of the sponsoring company's balance sheet.

Last year we highlighted seven companies that were markedly exposed to movements in the equity markets. Over the past 12 months equity markets have risen but, while the FTSE 100 index has returned around 10%, the share prices of the seven companies highlighted last year have risen by more than 20% on average. Perhaps it is no surprise that, in a rising equity market, companies might have benefited from an exposure to pension scheme investment in equities.

This year, six companies identified as highly exposed to equity movements are *BAE Systems*, *British Airways*, *BT*, *ICI*, *Rolls-Royce Group* and *Royal & SunAlliance*.

We discuss these risks in more detail in Section 5.3.

Rentokil Initial

Alliance & Leicester

BP

BAE Systems

British Airways

BT

ICI

Rolls-Royce Group

Royal & SunAlliance

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2.4 Variability in FRS17 liabilities

The calculation of FRS17 liabilities is linked to the level of corporate bond markets which can – and do – fluctuate markedly from time to time, reflecting changes in bond yields, inflation expectations and other factors.

Increased outlook for inflation

For example, companies have generally revised upwards their long-term assumption for future price inflation over the twelve months to December 2003, from an average of 2.3% pa to 2.8% pa. All other things being equal, this will have increased FRS17 liabilities by 5% to 10% on average.

Salary growth expectations

Whereas the assumed rate of future inflation is chosen with regard to market expectations, the estimate for the rate of salary growth is set by reference to the company's own expectations.

Of the 89 companies in the survey, 21 have reduced their assumed rate of salary growth in excess of inflation since last year, and hence reduced the value placed on the FRS17 liabilities. In contrast, six companies have increased this assumption.

Our detailed analysis of the FRS17 assumptions adopted by the FTSE 100 companies is in Section 5.

Bond yield impact

Just as a sustained rise in the equity market could eliminate the estimated £42 billion deficit, a fall in the corporate bond market, to which the value of the liabilities is linked, could equally eliminate the deficit.

For this to happen, we estimate the level of the bond markets would need to fall by 25%. This is broadly equivalent to bond yields rising by over 1.5% pa and inflation remaining unchanged.

Longevity: life goes on

Life expectancy is another factor affecting FRS17 liabilities. Predicting life expectancy is not an exact science. Nevertheless, recent evidence suggests that life expectancy is continuing to increase.

Each successive investigation of mortality rates seems to imply pension scheme members are going to live longer than previously expected. This is good news for the health of pensioners, bad news for the financial health of their former employers. We comment on this in more detail in Section 3.

Euro entry

If the UK were to adopt the Euro then FRS17 would require the value of pension liabilities to be measured against high-grade corporate bonds denominated in Euros.

The redemption yield on typical long-term high-grade corporate bonds denominated in Euros is currently up to 1% pa lower than on Sterling corporate bonds. We estimate that valuing the liabilities using a yield 0.5% pa lower would increase the measured value of the liabilities, and hence the deficit, by more than £20 billion.

Of course, other factors may affect the deficit (eg inflation expectations) and the respective Sterling and Euro corporate bond yields may reverse. Either way, entry into the Euro could have a significant impact on the deficits (or surpluses) on the balance sheets of UK companies, and represents potentially more uncertainty for finance directors and investors.

Exit costs

Companies wishing to cease future financial support for their UK pension schemes will now be required to top up their schemes to enable the schemes to meet the full cost of securing the benefits with an insurance company.

The top-up which a company will need to fund is not disclosed in the company's accounts and will generally be significantly higher than the FRS17 deficits disclosed. We comment on this further in Section 3.

2.5 Europe

European harmonisation

As a result of EU regulations, UK listed companies will not now be required to adopt FRS17.

Instead, from 2005, listed companies throughout the EU will be required to disclose pension costs under the international accounting standard IAS19. In many respects, the derivation of the deficit or surplus is similar under IAS19 and FRS17. However, there are considerable differences in the options regarding how the surplus or deficit is recognised in a company's financial statements. More details on the accounting rules are provided in Section 4.

European companies scrutinised

Section 6 of our survey provides an insight into the disclosed pension scheme costs for the largest 50 European blue-chip companies. The list includes 14 UK listed companies.

The top 50 European blue-chip companies sponsor total pension liabilities worth approximately €500 billion at 31st December 2003. Of this, only €380 billion was pre-funded with pension scheme assets.

The 50 blue-chip companies currently prepare their primary financial statements using 12 different pension scheme accounting standards. Comparisons between European companies are often impossible.

In our view, some of the disclosures are informative, therefore providing the reader with a reasonable understanding of the company's pension obligation. Other disclosures, even though prepared in accordance with local standards, leave the reader with little understanding of the cost or potential underlying risks of the defined benefit pension schemes.

In general we found disclosures under international accounting standards to be the most informative, with some others being opaque. A move to reporting pension costs under international accounting standards is therefore welcomed.

Employee share options

New UK and international accounting standards, FRS20 and IFRS2 respectively, will require listed companies throughout Europe to recognise the fair value of the employee share options they award.

Adoption of the new UK standard will see the earnings of many companies decrease from 2005, particularly those in labour intensive industries. This is discussed in Section 7.

3. Developments in UK pension provision

Defined benefit schemes have become intrinsically more risky for companies and are certainly more expensive than they used to be.

Many of the risks are beyond the direct control of company directors. Two such risks, longevity and government legislation, are highlighted below.

Longevity rising

The preliminary findings of recent research indicate that current employees are going to live even longer than was predicted just a few years ago.

In round terms, the latest research suggests that current projections for mortality underestimate the life expectancy of a typical 60 year-old by approximately two years.

We could potentially see over £20 billion of additional FRS17 liabilities appear on the FTSE 100 companies' balance sheets over the next few years if the findings of the latest longevity research are reflected.

Unlike the principal financial assumptions, it is not yet a requirement of FRS17 for a company to disclose the allowance made for longevity. As shown above, this is a key assumption that can be material to the value placed on the liabilities.

Improving member protection

Employers who choose to withdraw financial support from their UK schemes may now be required by the trustees to meet the full cost of securing the benefits with an insurance company.

This cost is, in most cases, significantly higher than the value of the liabilities measured and disclosed under FRS17.

We estimate that, as at mid-July 2004, the FTSE 100 companies could be asked in aggregate for over £125 billion if they were to terminate their UK schemes. This is approximately 12% of the market capitalisation of these companies and is three times higher than the estimated aggregate FRS17 deficit of £42 billion.

Anti-avoidance

The new Pensions Bill aims to stop companies avoiding this top-up liability by deliberately restructuring.

Top-up contributions can be required, not only from the sponsoring employer, but also from those associated with the employer, such as members of the

same group, directors and controlling shareholders. This could include overseas parents.

If the anti-avoidance clauses survive their passage through Parliament, they may have a far-reaching impact on actions being considered now and in future by employers.

More regulations

The levy to the proposed Pension Protection Fund is also an extra cost that will increase the cost to companies of providing defined benefit pensions. Companies may choose to pass this cost directly on to their employees.

The introduction of scheme-specific funding standards to replace the current Minimum Funding Requirement may increase company contributions but would not directly affect accounting costs.

4. Accounting standards for pension schemes

FRS17 – coming in and going out

There are currently two main UK standards for reporting pension costs in companies' accounts, known as SSAP24 and FRS17.

The existing accounting rules, set out in SSAP24, continue to form the basis of the pension costs included in the primary financial statements of the majority of FTSE 100 companies.

Its replacement, FRS17, remains in its transitional phase and requires additional items of information to be disclosed in the notes to the accounts.

However, more and more companies are voluntarily choosing to move away from the largely historic SSAP24 and adopt FRS17 early for their primary financial statements.

The substantive move from SSAP24 to FRS17 was due to become effective from 2005. However, FRS17 will never be used by many of the UK's largest companies for their primary financial statements following the introduction of new regulations from the EU.

European harmonisation welcome

EU regulations require all listed companies within the EU to prepare accounts in accordance with international accounting standards for accounting periods starting on or after 1st January 2005. We discuss the effect that a move to accounting for pensions under the international accounting standard IAS19 might have in more detail below.

We welcome a harmonised set of accounting rules governing Europe and much of the rest of the world.

Importance of assumptions

Under FRS17, and potentially IAS19, the cost for pensions charged to the profit and loss account is directly determined by the assumptions companies make.

If experience turns out to be more favourable than assumed, for example through high investment returns, then this creates a gain. Conversely, poor experience creates a loss.

Under FRS17, the gains or losses over each year appear immediately on the company's year-end balance sheet. However, the company's headline profits are not affected. Instead, the gains or losses are fed through the Statement of Total Recognised Gains and Losses.

In contrast, IAS19 permits companies to delay the immediate recognition of experience gains or losses. Companies are able to spread the recognition in the profit and loss account over a number of years.

A company's headline profit figure under IAS19 may therefore be more volatile than under FRS17, where gains or losses have no direct impact.

However, a company's balance sheet is likely to be less volatile under IAS19 since the balance sheet item does not necessarily bear any relation to the deficit in the pension scheme at any given point in time, whereas under FRS17 the full deficit is placed on the balance sheet.

Double standard

On 29th April 2004, the International Accounting Standards Board (IASB) published an exposure draft of proposed amendments to IAS19. They propose that these amendments become mandatory from 1st January 2006.

The most important proposal in the exposure draft is the introduction of an option for the immediate recognition of pension deficits (or available surpluses) in full on the balance sheet, but without headline profits being affected by potentially volatile gain or loss charges. Under this new option, the accounting would essentially follow the principles of the UK standard FRS17.

Companies may still choose to continue to account in line with the current IAS19 "spreading approach". However, under the proposed immediate recognition option, the company can choose to have the impact of pension scheme experience completely excluded from the profit calculation, and this may be attractive.

The newly proposed option will enable companies already accounting under FRS17, and those who were anticipating its adoption from 2005, to continue to use an FRS17 approach when preparing accounts in line with international accounting standards.

Accounting uncertainty

The IASB has noted that, if the exposure draft is adopted, a wider review of IAS19 will still remain under consideration.

It is contemplating the approach of recognising actuarial gains and losses immediately, not just on the balance sheet, but directly in a substantially revised revenue statement.

The IASB has also indicated that it would like to remove the subjective element of the standard relating to the setting of expected returns on assets, particularly equities.

In these uncertain times, companies will need to keep a constant eye on how their pension schemes are impacting on their accounts.

Variations in assumptions

FRS17 and IAS19 require that each individual assumption for projecting the benefits should be a “best estimate”. As last year, we have found that best estimates still vary considerably from company to company.

Furthermore, the assumptions an individual company has adopted can vary year-on-year, particularly for what is arguably the most subjective assumption - the estimate of the future return from equities. This is discussed in Section 5.2.

Year-on-year changes to the assumptions, often not within the direct control of the directors, can have a significant financial impact. For example, *Liberty International* disclosed an increase of £5.8 million (or 21%) in its FRS17 liabilities due to changes in the underlying assumptions, such as mortality and inflation.

Liberty International

5. LCP's analysis of FRS17 disclosures

89 FTSE 100 companies reporting in 2003 offer UK defined benefit pension schemes and have either adopted FRS17 or disclosed FRS17 information under the transitional requirements.

For each company we have examined not only the balance sheet position, but also the information provided under FRS17 for the profit and loss accounts.

Many companies offer post-retirement healthcare provision, which we have excluded from our analysis where possible. Overseas pension arrangements have been included in the analysis below.

Early adoption of FRS17

There is a transitional period lasting up to 2005 for full adoption of the provisions of FRS17. Companies could adopt earlier, if they wished. However, only 14 companies have chosen to do so for their 2003 accounts, of which seven were doing so for the first time. Others have declared their intention to adopt FRS17 for 2004.

For those companies that have not adopted FRS17 early, our analysis is based on the FRS17 results disclosed in the notes to their financial statements.

Increased disclosures

Following the introduction of FRS17, the volume of disclosure on pension schemes in the notes to companies' accounts has dramatically increased. For example, *The BOC Group* dedicated over six pages of its accounts to pensions, almost twice the average 3.5 pages, and substantially more than the typical company disclosure of a single page before FRS17 was introduced in 2001.

The disclosures under FRS17 have, in our opinion, been of a generally high standard. Let us not forget though, that increased disclosure almost certainly means increased cost of disclosure.

We note that some companies have chosen to go beyond the minimum disclosure requirements of FRS17. For example, *Hays* and *Tesco* have highlighted the effects on their FRS17 results of falling yields on corporate bonds and low equity markets.

National Grid Transco has illustrated how sensitive the value of the liabilities, and hence the deficit, are to the choice of the discount rate. They disclosed that an increase in the discount rate of 0.1% pa would decrease the present value of the liabilities by around £235 million. This compares to the disclosed deficit of £2,771 million (excluding healthcare liabilities).

The BOC Group

Hays

Tesco

National Grid Transco

Reckitt Benckiser has illustrated how sensitive its results are to the subjective, but often important, assumptions regarding the expected rates of return on assets. They have disclosed that a 1% pa movement in the assumption used for the long-term expected rate of return on assets would change the 2003 expected return on assets of £46 million by £6 million.

The effect of some of these assumptions is discussed in Section 5.2.

5.1 Analysis of results

Reported FRS17 results

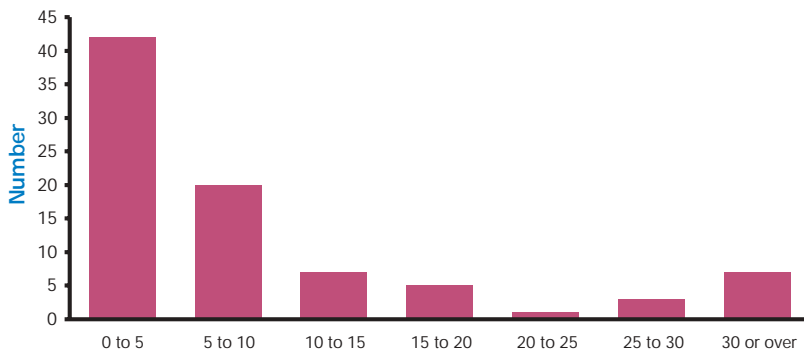
FRS17 takes a snapshot of the surplus or deficit at the company's year-end and, if adopted, this appears directly on the balance sheet.

A full list of the disclosed FRS17 surpluses and deficits at companies' year-ends is set out in Appendix 1.

The chart below highlights the range of ratios of FRS17 deficits to market capitalisation of the 89 FTSE 100 companies in our survey at the 2003 year-end.

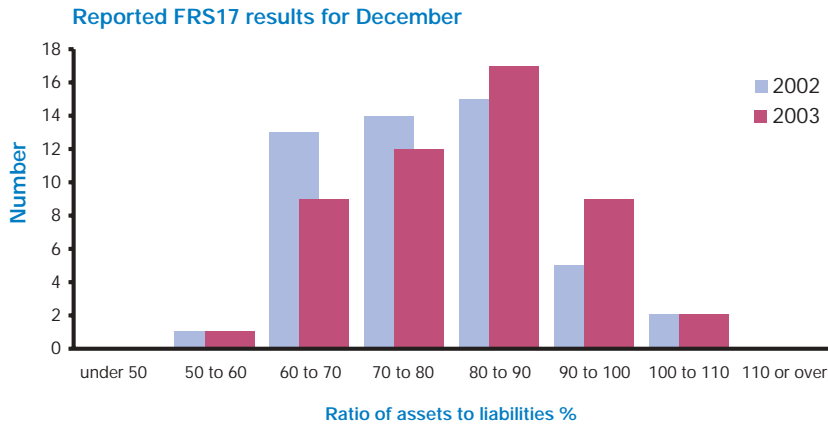
The chart shows that the reported deficits for some schemes are generally small compared to the size of the company. However, some are significantly larger.

FRS17 deficit as a proportion of market capitalisation %



For the 50 FTSE 100 companies with year-ends in December 2003, the chart overleaf shows a moderate improvement in FRS17 funding ratios over 2003.

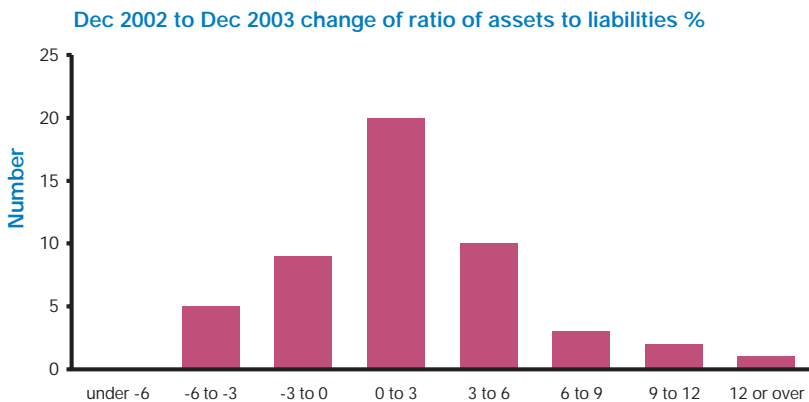
Reckitt Benckiser



The lowest FRS17 funding ratio (calculated as the ratio of assets to FRS17 liabilities) reported in 2003 was 50% by *Vodafone Group* as at 31st March 2003, although the scheme is extremely small in relation to the company. The highest was *Boots Group* with 106%, also at 31st March 2003.

Associated British Foods, *Boots Group*, *Exel* and *Old Mutual* were the only four companies who reported an FRS17 surplus in their 2003 disclosures.

The graph below shows the change in the FRS17 funding ratios reported over 2003 for the 50 companies with December year-ends.



Of these 50 companies, the average reported FRS17 funding ratio rose by only 2% over 2003 from 79% to 81% at 31st December 2003. At first glance, this is surprisingly low in light of returns from UK equity markets of over 20% during the 12 months to 31st December 2003.

However, the additional funds from the 50 companies' contributions (£7.7 billion) and equity returns (£21.3 billion) have been swallowed up by interest charges on the liabilities (£9.6 billion), additional benefits earned by employees (£4.4 billion) and higher values of projected benefits (£14.5 billion) due to revised assumptions and experience – leaving little left over to reduce the pension deficit. The net effect, illustrated on the next page, is that the deficits hardly moved over 2003.

Associated British Foods

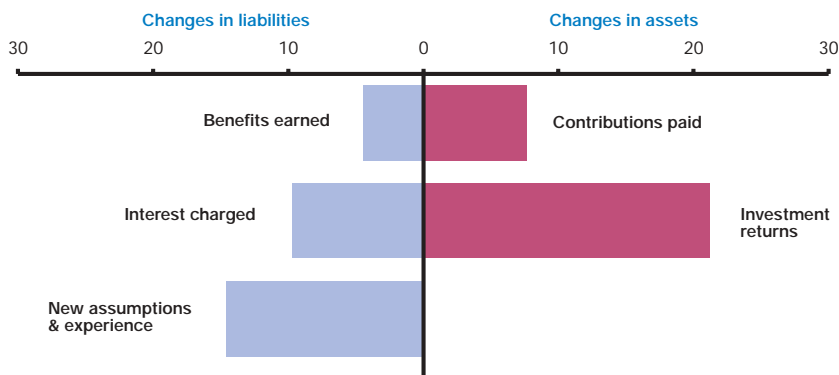
Boots Group

Exel

Old Mutual

Vodafone Group

FRS17 sources of assets and liabilities for companies with December year-ends only £bn



Results since December 2003

Of the companies in our survey, 26 reported results during the first quarter of 2003. This was a particularly unfavourable time due to low equity markets, and *Boots Group* was the only company out of the 26 to report an FRS17 surplus at that time.

We have examined the 2004 reported FRS17 results of these 26 companies. These results reflect the recovery in the equity markets over their accounting year ending in 2004.

The ratio of assets to FRS17 liabilities has increased for all 26 companies, with the exception of *Boots Group* (whose pension scheme was not invested in the rising equity market) and *Wm Morrison Supermarkets* whose ratio fell (primarily due to changes in assumptions).

Company contributions increased

Each company will have its own objectives and opinion as to whether it is worthwhile to put additional cash into the pension fund now, say, rather than keeping hold of it for use by the company.

Some companies have made sizeable injections of cash into their pension schemes over their accounting years ending in 2003.

For example, *BP* paid contributions of US\$2.8 billion into its pension schemes over the accounting year ending in 2003. This was US\$2.2 billion in excess of the FRS17 value of benefits earned by its employees, and contributed towards its FRS17 deficit falling from US\$5.9 billion to US\$4.0 billion.

Alliance & Leicester paid contributions of £135 million, over seven times the value of benefits earned by its employees of £18 million. This contributed towards the deficit decreasing from £297 million to £185 million, and the ratio of assets to FRS17 liabilities increasing from 68% to 82% over 2003.

Boots Group

Wm Morrison Supermarkets

Alliance & Leicester

BP

Lane
Clark &
Peacock

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Standard Chartered paid contributions of US\$173 million into its pension schemes. This was over four times the FRS17 value of benefits earned by its employees of US\$43 million. This contributed towards their FRS17 deficit falling from US\$191 million to US\$148 million.

Marks & Spencer took the highly publicised step in March 2004 of paying a £400 million cash sum, raised through a bond issue, into its UK defined benefit pension scheme to reduce the pension scheme deficit.

In contrast, *Whitbread* has entered into an agreement with the Whitbread Pension Trustees Limited to fund the pension scheme over a period of up to 15 years and has given the Trustees undertakings similar to some of the covenants provided in respect of its banking agreements.

Several companies did not pay any contributions into their pension schemes during 2003. One example is *Rentokil Initial*, whose employees earned benefits worth £13.8 million during the year. The company disclosed an FRS17 deficit of £156 million at the beginning of the year (it has commenced paying contributions in 2004).

5.2 FRS17 key assumptions

We consider below the various assumptions used to put an accounting cost on retirement benefits. Where a company operates pension schemes in more than one country, we have considered the assumptions used for the UK if separately given. Where a company has disclosed a range of assumptions, we have taken the mid-point.

Our analysis is of the assumptions disclosed for use as at the accounting year-end.

Discount rate fluctuations

The discount rate under FRS17 is the annual rate at which the projected future benefit payments are discounted back to the balance sheet date. If available, FRS17 requires the use of a discount rate equal to the yield on an AA-rated bond of equivalent term and currency to the liabilities. However, due to the very long-term nature of pension liabilities, it is frequently the case that a suitable yield cannot be derived directly from the market. This means that an appropriate “proxy” for the AA-rated bond yield must be derived.

Details of the discount rates used by each company are set out in Appendix 1.

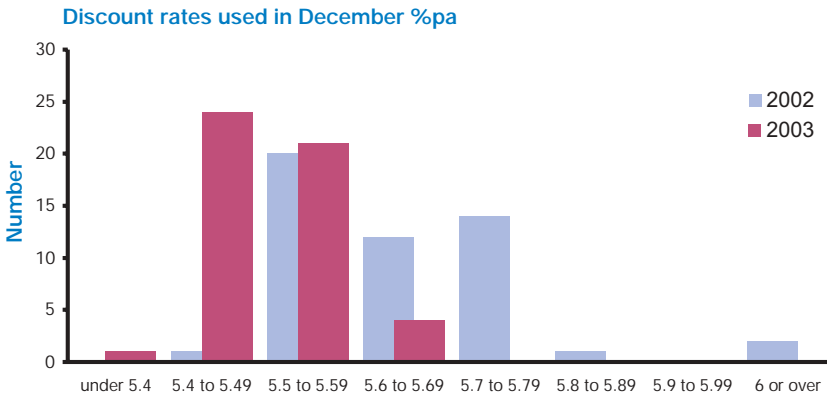
The yields on AA-rated corporate bonds, and hence the discount rates, will fluctuate from month to month with market conditions. It is therefore sensible to compare the discount rates used by companies with the same year-ends. The chart over the page shows the discount rates as at 31st December 2002 and 2003 used by companies with accounting years ending in December.

Marks & Spencer

Rentokil Initial

Standard Chartered

Whitbread



Whilst 5.4% pa is the most common assumption, we have found considerable variation in the discount rates adopted, some of which could be explained if the different maturities of schemes were disclosed.

Of those companies with years ending in December, the highest discount rate of 5.6% pa was used by *Aviva*, *HBOS*, *Rentokil Initial* and *The Royal Bank of Scotland Group*. The lowest disclosed was 4.6% pa used by *Xstrata* (albeit this was a weighted average of the discount rates used for its UK and Australian schemes – a separate rate was not disclosed for its UK schemes). The significance of the discount rate is frequently not appreciated. A fall in the discount rate reflects a rise in the price of AA-rated corporate bonds, and hence a rise in the measured value of the liabilities of pension schemes under FRS17.

The average discount rate in December 2003 was 5.45% pa. This is 0.15% pa lower than at the same time last year and could easily have increased the value placed on the liabilities under FRS17 by as much as 2%. This is equivalent to increasing deficits by approximately £5 billion for the FTSE 100 companies and has broadly the same impact on FRS17 deficits as a 4% fall in equity markets.

FRS17 deficits have not decreased by as much as might have been expected over 2003, partly as a result of the rise in the value placed on the liabilities. This is due to a combination of the fall in the discount rate discussed above and the rise in the assumption for future inflation discussed below. Crucially it is the interaction (and specifically the narrowing of the gap) between these two key assumptions that has a significant impact on the value placed on liabilities.

The chart overleaf shows the difference between the discount rate and the assumption for inflation as at 31st December 2002 and 2003 used by companies with accounting years ending in December. A shift downwards can easily be seen.

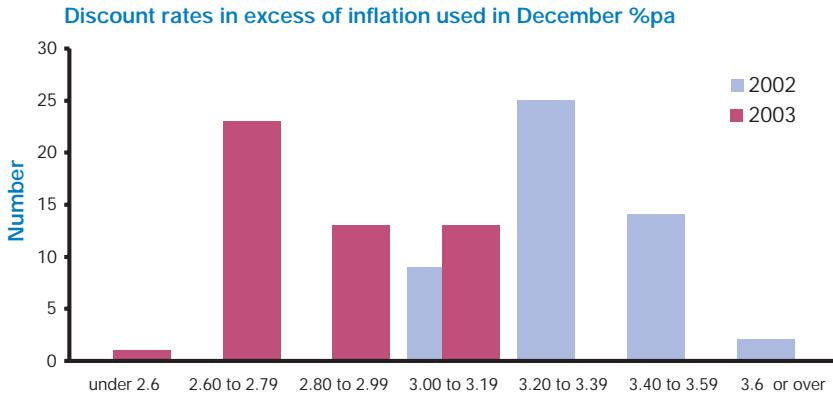
Aviva

HBOS

Rentokil Initial

Royal Bank of Scotland Group

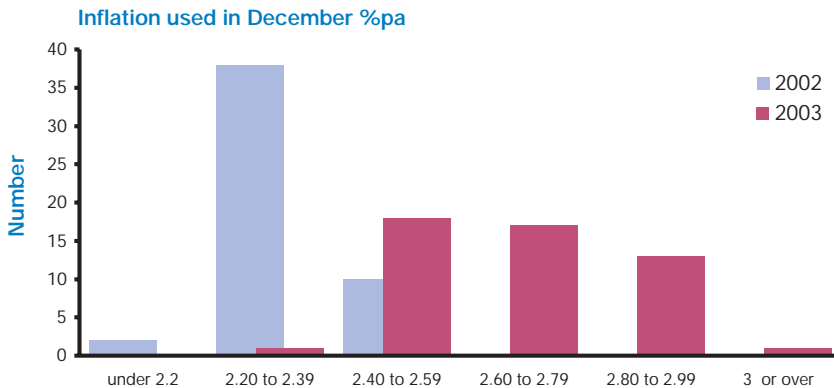
Xstrata



Inflation assumptions rising

Details of the inflation assumptions used by each company are set out in Appendix 1.

The graph below shows the marked increase in the assumptions for long-term retail price inflation used by companies with year-ends in December 2003. As commented earlier, this will lead directly to a higher level of projected benefit payments, and hence a larger value being placed on those benefits.



It is interesting to note that the spread of assumptions is greater in 2003 than 2002. Perhaps the wider range is due to the financial ramifications of increasing the inflation assumption.

Lower salary growth assumptions

The assumed rate of salary growth can also have a significant effect on the disclosed pension cost. A lower assumption for salary growth produces a lower projected pension and hence a lower FRS17 liability.

Details of the salary assumptions used by each company are set out in Appendix 1. *Hays*, *Man Group* and *Standard Chartered* assumed the highest salary increases of 2.5% pa in excess of inflation.

We have examined the year-on-year movement for each company in the assumption for salary growth for the UK schemes.

Hays

Man Group

Standard Chartered

3i Group, *Friends Provident*, *J Sainsbury* and *Legal & General* all reduced their assumptions for salary growth in excess of inflation by 1% pa or over, leading to a lower projected pension and hence a lower FRS17 liability. After the reduction, *3i Group* assumed salary increases of 1.5% pa in excess of inflation, *Friends Provident* and *Legal & General*, 0.5% pa, and *J Sainsbury*, 0% pa.

Expected return on equities

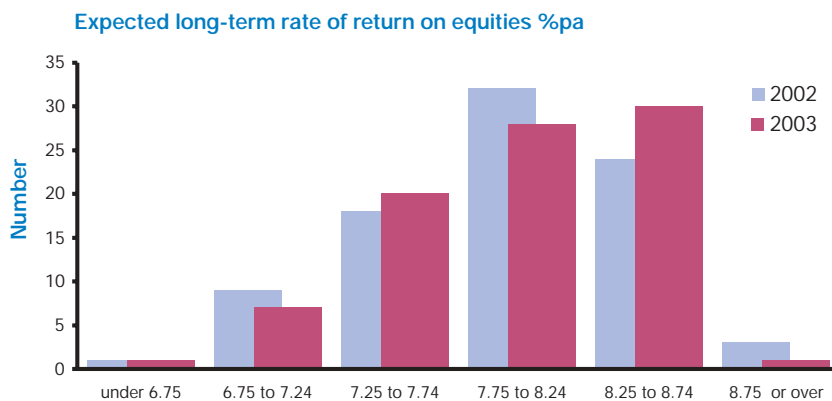
Under FRS17, the expected long-term investment return on the pension scheme assets is an entry in the financing line of the profit and loss account. A company's profits are higher under FRS17 if its directors are more optimistic and assume a higher return.

The accounts are required to show the directors' best estimate of the long-term return on each main asset class held, the most subjective of which is the expected return on equities.

Companies have made a wide range of assumptions for the expected return on equities, although the general consensus seems to be around 8% pa, unchanged from last year.

Details of the expected return on equities used by each company are set out in Appendix 1.

The highest assumption was made by *Marks & Spencer*, quoting 8.7% pa for UK equities and 9.0% pa for overseas equities (included as 8.85% pa in the chart below). The lowest assumption of 6.5% pa was made by *Compass Group*.



The average expected rate of return on equities is some 3.25% pa higher than the long-term yields available on gilts as at the balance sheet dates. This difference represents views of the so called "equity risk premium". The average equity risk premium is the same as last year.

3i Group

Friends Provident

Legal & General

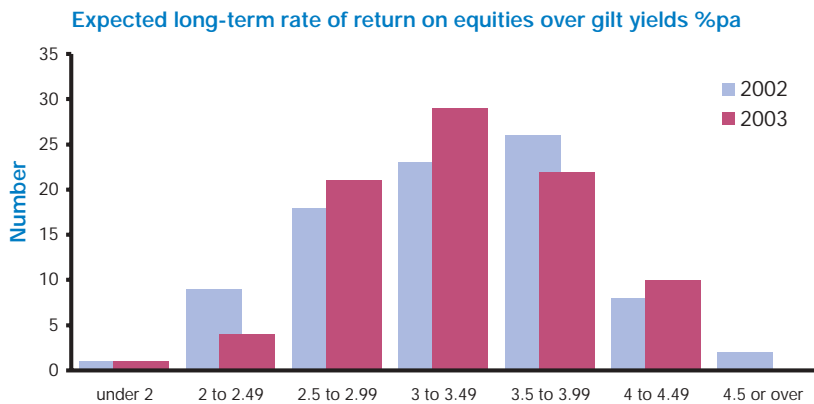
J Sainsbury

Compass Group

Marks & Spencer

Lane
Clark &
Peacock

Actuaries & Consultants



However, this expected return on equities is not guaranteed. The credit for the expected return relies on the risk of the scheme investing in equities. Such risks are not trivial to the company, as investors have experienced over the last four years – these risks are highlighted in Section 5.3.

Subjective profits

The choice of the expected return on equities is subjective. There is no “correct” answer; assumptions within a wide range can be justified. The wide choice of expected returns made by companies is evidence of this.

Profits calculated under FRS17 can be very sensitive to this assumption. For example, *Royal & SunAlliance* assumed a lower than average long-term expected return on equities of 7% pa to calculate the 2003 charge to its profit and loss account for retirement benefits had it adopted FRS17.

If *Royal & SunAlliance* had assumed the average expected return of 8% pa, then its disclosed FRS17 pension charge of £133 million would have been reduced by £17 million. To put this in context, *Royal & SunAlliance* reported pre-tax losses of £146 million in 2003.

New expectations

FRS17 states that the rate of assumed future investment return will vary according to market conditions, but it is expected that the amount of return will be reasonably stable.

We have examined how companies have changed their assumptions for the expected rate of return on equities (the assumption for the UK schemes where possible) over 2003.

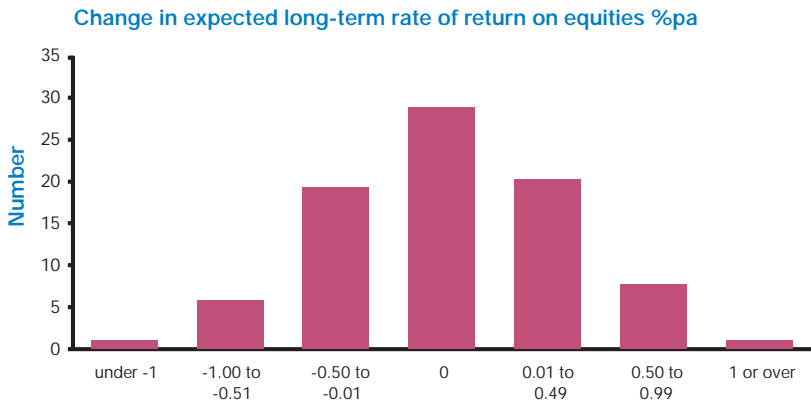
Where disclosed, 30 companies have increased their expected rate of return on equities and 27 have reduced their expectation. The range is given in the chart on the next page.

Some of the largest changes were by *Tesco*, which increased its expected rate of return on equities over the 2003 accounting year from 7.7% pa to 8.6% pa and *Reed Elsevier* which reduced it from 9.0% to 7.8% pa.

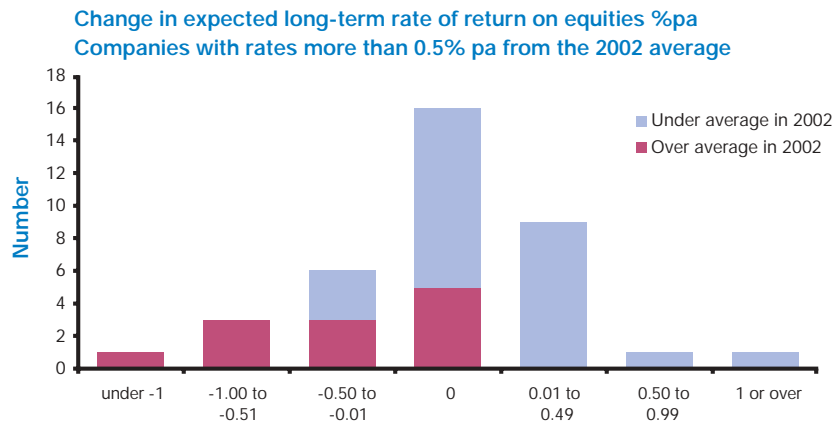
Royal & SunAlliance

Reed Elsevier

Tesco



Although the average expected return on equities has been stable, as has the spread of expected returns, we have noted that those companies that had an expected return more than 0.5% pa above the average in 2002 have generally reduced their assumption for 2003, and those below average in 2002 have generally increased their assumption. The changes are shown in the following graph.



We can only speculate on the reasons for directors changing the assumptions for expected returns on equities. Are directors truly more optimistic or pessimistic about the rate of return on equities than a year ago, or perhaps they are simply trying to follow the herd?

Two examples are *3i Group* and *National Grid Transco*.

National Grid Transco was 0.5% pa below the average in 2002, assuming an expected return on equities of 7.5% pa. It has increased the assumption by 1% pa.

In contrast, *3i Group* assumed 8.5% pa in 2002, 0.5% above the average. It has reduced its assumption by 1% pa to 7.5% pa.

3i Group

National Grid Transco



Actuaries & Consultants

5.3 FRS17 and balance sheet risk

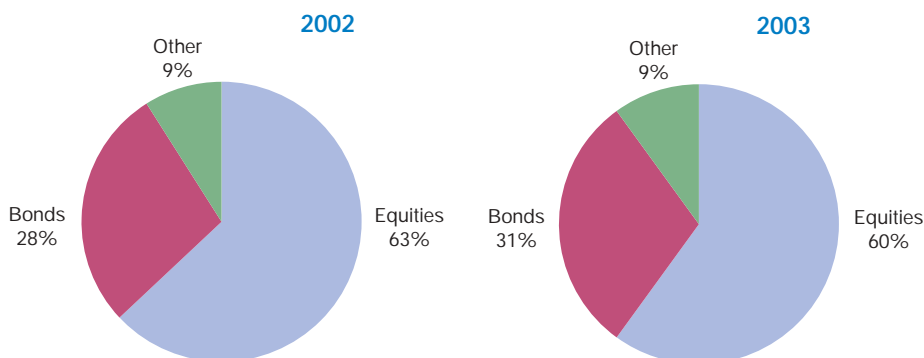
What is risk?

In our 2003 survey we highlighted that some companies' balance sheets were more exposed than others to the volatility resulting from FRS17. Exposure to volatility can mean the balance sheet can improve or deteriorate.

Currently, there are two main ways of reducing the volatility effect of FRS17 on the balance sheet:

- by investing a significant proportion of the pension scheme assets in high grade corporate debt, which would “match” the FRS17 liability so that the assets and FRS17 liabilities would move broadly in line with each other; or
- by reducing the company's exposure to defined benefit pension provision.

The chart below compares the proportion of UK pension schemes' assets (or worldwide if the UK is not separately given) invested in equities for those companies in our survey.



The proportion of assets invested in equities has decreased slightly despite the rise in equity markets over the period. It is not possible to know from reading companies' accounts whether this is due to a general shift in investment strategy, but it is evident that companies' exposure to equities remains significant.

The exposure to equities disclosed for some companies has changed significantly.

Abbey National has reduced the proportion of assets invested in equities from 79% to 52%. In contrast, the proportion of assets in equities for *Intercontinental Hotels Group* increased over its accounting year from 51% to 66%.

Abbey National

Intercontinental Hotels Group

Boots Group had the largest proportion of assets in bonds at its 2003 year-end. However, it has since been announced that its strategy is changing and that up to 15% of the scheme's assets will move into non-bond assets, such as equities and property. This will potentially increase the volatility of *Boots*' balance sheet.

Measuring the risk

Significant balance sheet risks from equity volatility occur where:

- the pension scheme is large relative to the size of the business (or in particular, the reported balance sheet); and
- the pension scheme is heavily invested in equities.

In Appendix 2 we list the size of each company's pension schemes relative to the company's net asset value. The higher this ratio, the greater the effect of a volatile FRS17 position on the company's balance sheet.

There are alternative ways of measuring the size of a company. As a guide, we have also shown the size of the pension schemes relative to the company's market capitalisation.

Exposed balance sheets

As per last year, we have identified companies in Appendix 2 with balance sheets that under FRS17 are notably exposed to volatile movements in the equity markets. Each has pension schemes as at their 2003 accounting year-end:

- with investments in equities of more than 50% of the company's market capitalisation; and
- which are large relative to the size of the company (ie the scheme is greater in size than both the company's market capitalisation and net asset value).

The six companies are *BAE Systems*, *British Airways*, *BT*, *ICI*, *Rolls-Royce Group* and *Royal & SunAlliance*.

Reward: higher profits

The reward to a company of having a pension scheme with a high equity exposure and thus the risk of a volatile balance sheet is higher profits. For two companies with identical pension schemes, the one with the higher exposure to equities (rather than bonds) will benefit from a lower pension expense under FRS17, and hence higher profits.

Boots Group

BAE Systems

British Airways

BT

ICI

Rolls-Royce Group

Royal & SunAlliance

Lane
Clark &
Peacock

Actuaries & Consultants

This is because companies generally expect long-term returns on equities to exceed those on bonds and, under FRS17, a company books a credit in its profit and loss account for this expected return on its pension schemes' assets.

For example, *Scottish & Southern Energy* adopted FRS17 for its primary accounts.

During the 2003 accounting year, the employees of *Scottish & Southern Energy* earned final salary benefits worth £19.3 million, with further one-off costs of £1 million. However, the company booked a credit (rather than a cost) of £12.4 million in its profit and loss account.

This is because the company, as permitted under FRS17, took credit in its profit and loss account for the (positive) expected return on assets of £124.8 million, rather than the actual investment loss of £339.9 million.

This expected return is £32.7 million in excess of the interest charge on its FRS17 liabilities and outweighs the value of the new benefits earned by the employees of £20.3 million, generating a contribution to profit before tax of £12.4 million.

In aggregate, the 89 companies in our survey would have booked a credit under FRS17 in their 2003 profit and loss accounts of £16.0 billion, compared to the actual investment gain of £10.7 billion.

Profits vs cash

It should always be borne in mind that the underlying cash cost of a pension scheme is not determined by the particular accounting standard used, nor the assumptions set by the directors on the advice of the actuary. The cash cost to the company is equal to the contributions it pays to meet the benefits for members (and the expenses of administration) over the lifetime of the scheme.

Scottish & Southern Energy

6. Accounting for pensions in Europe

For the first time, LCP has conducted a survey of the pension and other post-retirement commitments of Europe's largest companies. We have analysed the accounts of the 50 blue-chip companies in the European Dow Jones STOXX 50SM blue-chip index, to see what we could learn about their post-retirement benefit liabilities. Our conclusions were:

- the standard and volume of information varied considerably between companies;
- a total of 12 different sets of accounting rules were being followed by various companies;
- comparisons between companies were often impossible; and
- the aggregate deficit of Europe's largest blue-chip companies was over €116 billion at 31st December 2003.

The 50 largest blue-chip companies in Europe sponsor total pension liabilities for their employees worth approximately €500 billion at 31st December 2003.

Huge liabilities

There can be little doubt that Europe's largest companies are bearing a huge post-retirement risk on behalf of their employees. Defined benefit pension schemes are common throughout Europe and, of course, in North America where many blue-chip European companies also have operations.

Variable disclosure

Appropriate to the significant size of these liabilities, many companies (including *Bayer*, *BT*, *UBS* and *Unilever*, for example) provide a detailed disclosure in the notes to their accounts.

In the case of other companies (for example *BBVA*, *ING* and *Nokia*) the level of disclosure was far less detailed. In certain instances we were not even able to identify what liability had been recognised in the accounts and the extent of any liability that was not recognised in the accounts!

Nothing to hide

An extensive disclosure was also provided in a number of cases where pension liabilities were sufficiently large, and assets available to cover that liability were sufficiently low, to require a special adjustment to the balance sheet known as an "Additional Minimum Liability".

Examples include *Siemens*, with a 17-page disclosure note, and *DaimlerChrysler*, with extensive commentary.

*Bayer**BT**UBS**Unilever**BBVA**ING**Nokia**DaimlerChrysler**Siemens*

Lane
Clark &
Peacock

Actuaries & Consultants

Apples and bananas!

Frequently it was impossible to compare one company against another. In order to choose which companies to invest in across Europe, analysts need to be able to make side-by-side comparisons. Ideally, this would be achieved by all companies adopting an identical set of principles for their accounts – or at least providing sufficient information for comparable figures to be produced. The plethora of different accounting standards in use across Europe means that comparisons are difficult at best, and frequently impossible.

Whilst it may be possible to compare “apples” prepared under one set of accounting rules, with “pears” under another, the figures disclosed under some rules are more akin to “bananas”!

Mind the GAAP

A total of 12 different sets of accounting regulations were being followed to measure and disclose pension liabilities amongst the 50 companies. Whilst many share some common ground, we eagerly await the time when these different “Generally Accepted Accounting Practices” are rolled in to one GAAP.

Major progress towards harmonisation has been achieved, for listed companies within the European Union at least, by a requirement to follow the IASB’s International Financial Reporting Standards from 1st January 2005. In the words of Sir David Tweedie, the chairman of the IASB:

“Pension costs are one of the most complex and obscure areas of accounting, and the IASB recognises the need for improvements in existing practices.”

Harmonisation without uniformity

Unfortunately, whilst a single harmonised set of accounting rules is a step towards clarity, the proposed rules will not produce uniform pension accounting numbers. Why? Because the current IASB proposals will allow a very wide range of possible accounting treatments, including:

- recognising all pension costs immediately as a charge against company profits;
- recognising some parts of the pension cost against profits immediately and “spreading” other elements of the pension cost over ten years, or more; and
- recognising some parts of the pension cost against profit and allowing others to be excluded from the profit calculation altogether.

Such a huge variety of possible approaches for pension accounting means that headline profit figures become meaningless as a comparison between companies, without a detailed review of the methodology adopted.

Deficits revealed

The level of deficits in the pension schemes of European companies is coming to light as disclosures improve. A list of the disclosed results is set out in Appendix 3.

In the UK, the balance sheet entries calculated under the existing standard (SSAP24) are all too often opaque. However, for a number of years much more detailed information has been supplied in UK accounts under FRS17. The proposed amendments to IAS19 will enable an “FRS17” approach to be adopted going forwards throughout Europe.

For each country represented, the average deficits of companies in the Dow Jones STOXX 50SM blue-chip index on 1st January 2004 were:

| Country | Deficit €m |
|-------------|------------|
| Germany | 4,287 |
| Spain | 3,988 |
| UK | 2,813 |
| France | 1,739 |
| Netherlands | 1,589 |
| Italy | 845 |
| Switzerland | 521 |
| Finland | 122 |

The average deficits shown above have been taken as the market value of asset less the value of the liabilities for each company grouped by country, as shown in Appendix 3, divided by the number of companies for each country.

Despite German companies having the largest average deficit, this is not necessarily a cause for concern. Historically German pension arrangements have been unfunded but are protected by a nationwide arrangement in the case of company insolvency, similar to the proposed Pension Protection Fund in the UK. As such, all figures need to be considered in the context of local rules and practice.

Of course, some large deficits are backed by large companies and so are not as material as large deficits backed by a smaller company. For example *Shell* and *ING* both have deficits of €2 billion. However, *Shell*'s market capitalisation is €145 billion compared to *ING*'s market capitalisation of €33 billion and so *ING* may be more concerned about the deficit than *Shell*.

Data for companies in the Dow Jones STOXX 50SM blue-chip index was gathered from primary accounts where available. However, if greater transparency was available from other sources (notably from a US listing filing, called a “20-F”) then this information was used. There was only one company, *Assicurazioni Generali*, where we were unable to obtain any suitable data.

ING

Shell

Lane
Clark &
Peacock

Actuaries & Consultants

7. Accounting for employee share options

From 2005, employee share options (and other share awards) will create a charge in company accounts under the new UK and International Accounting Standards FRS20 and IFRS2. Like FRS17, this charge will be based on fair value, of the options granted.

Under current UK accounting standards, companies can account for share options based on the “intrinsic value” (the share price in excess of the exercise price of the option) at date of grant. In most cases this is zero, and so the new standard will see the earnings of many companies reduce, particularly those in labour intensive industries.

To date, UK companies have taken a variety of approaches to accounting for share options:

- The majority have put through no charge in their accounts. A few of these have disclosed unaudited estimates under the draft standard – for example *HBOS* notes an estimated charge of £100 million for 2003.
- A few companies have already applied fair value accounting to their option plans, for example *Abbey National* quotes a charge of £8 million in their 2003 profit and loss account.
- Many companies disclose in the notes to their accounts the charges in accordance with US accounting standards.

For example, *GlaxoSmithKline* shows a charge of £379 million. When compared to its pre-tax profits of £6,329 million, this is clearly a significant element of its costs.

Similarly, *InterContinental Hotels Group* showed a charge of £6 million, which would be a large part of its pre-tax profits of £36 million.

There are a number of differences between International and US accounting standards which mean that the charges calculated under each standard may differ, but these do give an indication of the scale of charges that are likely to come through in future years.

Modelling

As we have highlighted in this survey for many years, disclosure of methodology and assumptions is crucial to enable users of accounts to understand the figures.

For employee share options, almost all disclosures so far indicate that the fair value has been calculated using the Black-Schöles formula, a well-known formula for valuing simple traded options. However, international accounting requires more sophisticated option valuation methods that take account of employee behaviour and other conditions attaching to options – it states

Abbey National

GlaxoSmithKline

HBOS

InterContinental Hotels Group

clearly that in the majority of cases the Black-Schöles formula will not be appropriate.

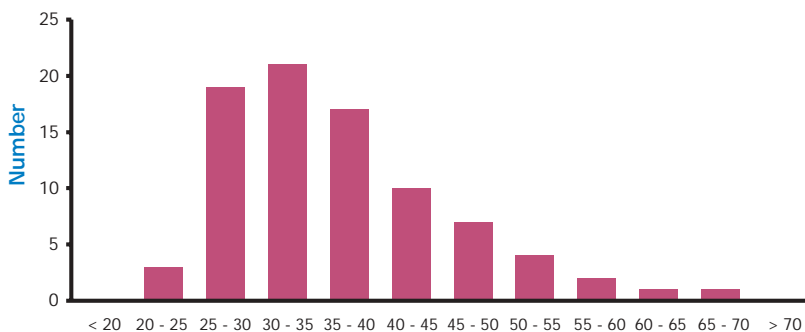
Depending on the assumptions used, a more sophisticated model may give higher or lower charges. More importantly, without using a more sophisticated method, users of accounts will not know whether the Black-Schöles values reported are true and fair. We support the use of the Actuarial Binomial Model which is a robust solution to the rigorous demands of IFRS2.

Volatility – a key assumption

One of the key assumptions in any valuation model is the expected future volatility of the company's share price. The higher the volatility, the more likely the share price will reach higher values, and so the more valuable the option. For example, a volatility of 30% pa broadly means that the return on the shares over a year will be between 70% and 130% of that expected for two-thirds of the time.

A starting point for the expected future volatility will be the historic figure. The graph below shows the range of historic volatilities of share prices for companies currently in the FTSE 100.

Average volatility over 5 years to 31st December 2003 %pa



This shows that more than half the companies have share prices with volatilities in the range of 25% to 40% pa, although there are a number of shares with considerably higher volatilities. As a change of 5% in the volatility from, say, 35% pa to 30% pa can reduce the calculated fair value of an option by over 10%, it will be important to see how clearly companies disclose their assumptions, and more significantly, whether they disclose how far their assumption deviates from the historic figure. We applaud *Abbey National* as one of the first companies to book such costs in its UK accounts. However, we believe that the clarity of such disclosures going forward could be enhanced. For example, disclosing a range for volatility of 22.7% to 42.3% leaves considerable uncertainty regarding this key assumption.

Abbey National

Lane
Clark &
Peacock

Actuaries & Consultants

Will share options survive?

Share options lose part of their attraction when they generate accounting charges for a company, especially since employees frequently place a lower value on share options than the value recognised in the accounts.

So will share options survive? They will survive only if they deliver the right incentive and are appreciated by the employees. This may mean that companies will need to review their current benefit package, or at least focus on communicating the value of the share options provided.

Directors' remuneration

Now that companies will have to calculate and disclose their annual charges for share-based remuneration, a potential next step might be to include the same information for each director's share options. This could enhance the current disclosure with a "fair value" figure in the remuneration table. We wait to see if the UK and European requirements follow Australia's lead in this area, where a fair value of each director's share options is already disclosed publicly.

Appendix 1 – FTSE 100 FRS17 disclosure listing

This table shows the key disclosures made by the companies in the FTSE 100 as at 1st January 2004 that reported FRS17 figures in their 2003 (and 2002) accounts. The source of the data is each company's annual report and accounts for the accounting period ending in 2003.

The FRS17 market value of assets and surplus/(deficit) figures before tax relate to the worldwide position of each company, not just the UK schemes. The assumptions for earnings growth, inflation and the discount rate refer to those disclosed for the companies' main UK schemes where available. "N/D" means figures were not disclosed.

| Company | Year-end | 2003 | | | | | | 2002 | | | | | |
|------------------------------|----------|------------------------------|-----------------------------------|----------------------|------------------------|------------------------|------------------------------------|------------------------------|-----------------------------------|----------------------|------------------------|------------------------|------------------------------------|
| | | Market value of assets £m | FRS17 surplus/ (deficit) £m | Discount rate %pa | Earnings growth %pa | Price inflation %pa | Expected return on equities %pa | Market value of assets £m | FRS17 surplus/ (deficit) £m | Discount rate %pa | Earnings growth %pa | Price inflation %pa | Expected return on equities %pa |
| 3i Group | Mar | 213 | (90) | 5.60 | 4.00 | 2.50 | 7.50 | 251 | (14) | 6.10 | 5.00 | 2.50 | 8.50 |
| Abbey National | Dec | 2,205 | (1,101) | 5.50 | 4.20 | 2.70 | 7.25 | 1,880 | (842) | 5.75 | 3.90 | 2.40 | 8.00 |
| Alliance & Leicester | Dec | 851 | (185) | 5.40 | 4.50 | 2.50 | 7.00 | 628 | (297) | 5.50 | 4.35 | 2.35 | 7.00 |
| Alliance UniChem | Dec | 105 | (49) | 5.40 | 3.80 | 2.80 | 7.80 | 80 | (35) | 5.40 | 3.30 | 2.30 | 7.50 |
| Allied Domecq | Aug | 1,882 | (586) | 5.60 | 4.00 | 2.50 | 7.50 | 1,878 | (480) | 6.00 | 4.10 | 2.30 | 7.50 |
| Amersham | Dec | 313 | (250) | 5.50 | 4.50 | 2.50 | 8.50 | 254 | (208) | 5.50 | 4.25 | 2.25 | 8.50 |
| Anglo American | Dec | 1,581 | (269) | 5.50 | 3.40 | 2.60 | 7.90 | 1,310 | (237) | 5.60 | 3.10 | 2.30 | 7.80 |
| Associated British Foods | Sep | 1,848 | 45 | 5.25 | 4.50 | 2.50 | 7.00 | 1,716 | 144 | 5.50 | 4.25 | 2.25 | 6.75 |
| AstraZeneca | Dec | 3,387 | (737) | 5.40 | 3.90 | 2.60 | 8.30 | 2,878 | (766) | 5.60 | 4.00 | 2.20 | 8.30 |
| Aviva | Dec | 5,696 | (838) | 5.60 | 4.40 | 2.60 | 8.10 | 4,858 | (654) | 5.75 | 4.00 | 2.20 | 8.25 |
| BAA | Mar | 1,214 | (309) | 5.50 | 4.10 | 2.60 | 7.80 | 1,654 | 419 | 6.20 | 4.30 | 2.80 | 7.50 |
| BAE Systems | Dec | 9,305 | (3,081) | 5.50 | 3.60 | 2.60 | 8.50 | 8,127 | (3,125) | 5.75 | 3.30 | 2.30 | 8.50 |
| Barclays | Dec | 12,370 | (1,624) | 5.50 | 4.30 | 2.75 | 8.00 | 10,509 | (1,529) | 5.70 | 3.80 | 2.30 | 8.42 |
| BG Group | Dec | 256 | (138) | 5.40 | 4.70 | 2.70 | 8.00 | 194 | (104) | 5.60 | 4.30 | 2.30 | 8.40 |
| The BOC Group | Sep | 1,690 | (356) | 5.30 | 4.10 | 2.60 | 8.50 | 1,473 | (302) | 5.50 | 3.90 | 2.40 | 8.50 |
| Boots Group | Mar | 2,694 | 154 | 5.50 | 4.10 | 2.60 | N/D | 2,392 | 166 | 6.10 | 4.30 | 2.80 | N/D |
| BP | Dec | 15,629 | (2,265) | 5.50 | 4.00 | 2.50 | 7.50 | 12,994 | (3,711) | 5.75 | 4.00 | 2.50 | 7.50 |
| Bradford & Bingley | Dec | 386 | (64) | 5.40 | 4.80 | 2.80 | 7.30 | 328 | (40) | 5.50 | 4.40 | 2.40 | 7.00 |
| British Airways | Mar | 8,858 | (1,261) | 5.70 | 3.75 | 2.25 | 8.50 | 9,953 | 719 | 6.00 | 4.00 | 2.50 | 8.20 |
| British American Tobacco | Dec | 4,195 | (947) | 5.40 | 4.80 | 2.80 | 7.80 | 3,701 | (1,063) | 5.50 | 4.30 | 2.30 | 7.50 |
| The British Land Company | Mar | 28 | (9) | 5.50 | 4.80 | 2.60 | 7.00 | 29 | 1 | 6.00 | 4.75 | 2.50 | 7.00 |
| BT | Mar | 21,500 | (9,033) | 5.40 | 3.78 | 2.25 | 8.20 | 27,100 | (1,830) | 6.00 | 4.04 | 2.50 | 8.00 |
| Bunzl | Dec | 227 | (59) | 5.50 | 3.75 | 2.75 | 7.30 | 193 | (64) | 5.50 | 3.25 | 2.25 | 7.00 |
| Cable & Wireless | Mar | 1,307 | (578) | 5.50 | 4.30 | 2.50 | 8.50 | 1,541 | (76) | 5.80 | 4.30 | 2.50 | 7.80 |
| Cadbury Schweppes | Dec | 1,738 | (353) | 5.50 | 4.50 | 2.50 | 8.10 | 1,462 | (375) | 6.00 | 3.95 | 2.38 | 9.00 |
| Centrica | Dec | 2,359 | (1,071) | 5.50 | 4.25 | 2.75 | 8.40 | 1,882 | (831) | 5.75 | 4.30 | 2.30 | 8.40 |
| Compass Group | Sep | 772 | (366) | 5.90 | 3.30 | 2.80 | 6.50 | 658 | (288) | 5.90 | 2.90 | 2.40 | 6.50 |
| Daily Mail and General Trust | Sep | 1,090 | (258) | 5.40 | 4.30 | 2.50 | 8.00 | 985 | (216) | 5.50 | 4.10 | 2.30 | 8.00 |
| Diageo | Jun | 3,436 | (1,419) | 5.20 | 4.00 | 2.60 | 7.50 | 3,829 | (366) | 5.90 | 4.30 | 2.60 | 8.00 |

Appendix 1 – continued

| Company | Year-end | 2003 | | | | | | 2002 | | | | | |
|-------------------------------|----------|------------------------------|-----------------------------------|----------------------|------------------------|------------------------|------------------------------------|------------------------------|-----------------------------------|----------------------|------------------------|------------------------|------------------------------------|
| | | Market value of assets £m | FRS17 surplus/ (deficit) £m | Discount rate %pa | Earnings growth %pa | Price inflation %pa | Expected return on equities %pa | Market value of assets £m | FRS17 surplus/ (deficit) £m | Discount rate %pa | Earnings growth %pa | Price inflation %pa | Expected return on equities %pa |
| Dixons Group | May | 336 | (227) | 5.60 | 4.00 | 2.30 | 8.30 | 393 | (76) | 6.00 | 4.25 | 2.50 | 8.00 |
| Emap | Mar | 66 | (33) | 5.50 | 4.00 | 2.50 | 8.50 | 77 | (13) | 6.00 | 4.00 | 2.50 | 8.30 |
| Exel | Dec | 1,814 | 76 | 5.40 | 4.00 | 2.50 | 8.00 | 1,617 | 59 | 5.60 | 3.75 | 2.25 | 8.25 |
| Friends Provident | Dec | 633 | (13) | 5.50 | 3.00 | 2.50 | 7.30 | 552 | (28) | 5.50 | 3.50 | 2.00 | 7.50 |
| Gallaher Group | Dec | 835 | (80) | 5.40 | 3.40 | 2.40 | 7.50 | 741 | (96) | 5.50 | 3.30 | 2.30 | 8.00 |
| GKN | Dec | 1,626 | (904) | 5.40 | 4.30 | 2.80 | 7.50 | 1,447 | (886) | 5.50 | 3.90 | 2.40 | 7.50 |
| GlaxoSmithKline | Dec | 5,703 | (1,895) | 5.25 | 4.00 | 2.50 | 8.25 | 4,652 | (1,861) | 5.75 | 3.75 | 2.25 | 8.25 |
| GUS | Mar | 577 | (307) | 5.50 | 4.30 | 2.50 | 8.50 | 667 | (93) | 6.00 | 4.30 | 2.50 | 8.00 |
| Hanson | Dec | 1,666 | (42) | 5.40 | 4.50 | 2.50 | 7.50 | 1,505 | (179) | 5.50 | 4.50 | 2.50 | 7.50 |
| Hays | Jun | 210 | (159) | 5.26 | 5.10 | 2.60 | 7.50 | 217 | (96) | 5.80 | 5.10 | 2.58 | 8.00 |
| HBOS | Dec | 3,776 | (1,496) | 5.60 | 3.80 | 2.80 | 8.50 | 3,161 | (1,136) | 5.80 | 3.40 | 2.40 | 8.50 |
| Hilton Group | Dec | 261 | (112) | 5.40 | 4.10 | 2.60 | 8.00 | 224 | (111) | 5.60 | 2.70 | 2.30 | 8.00 |
| HSBC Holdings | Dec | 10,123 | (2,024) | 5.50 | 3.00 | 2.50 | 8.50 | 7,814 | (2,202) | 5.60 | 2.75 | 2.25 | 8.50 |
| ICI | Dec | 7,350 | (795) | 5.50 | 3.90 | 2.40 | 8.30 | 7,052 | (639) | 5.70 | 3.80 | 2.30 | 8.60 |
| Imperial Tobacco Group | Sep | 2,287 | (406) | 4.85 | 3.60 | 2.60 | 7.60 | 2,121 | (268) | 5.15 | 3.55 | 2.30 | 7.55 |
| InterContinental Hotels Group | Dec | 403 | (176) | 5.40 | 4.30 | 2.80 | 8.00 | 1,045 | (370) | 5.50 | 3.80 | 2.30 | 8.00 |
| Johnson Matthey | Mar | 533 | (8) | 5.40 | 3.75 | 2.25 | 8.00 | 650 | 107 | 5.80 | 4.75 | 2.75 | 8.00 |
| Kingfisher | Feb | 782 | (268) | 5.50 | 3.90 | 2.30 | 8.50 | 1,068 | (160) | 5.70 | 4.00 | 2.40 | 8.00 |
| Land Securities | Mar | 76 | (19) | 5.50 | 4.75 | 2.50 | 7.50 | 78 | (10) | 6.00 | 5.00 | 2.75 | 7.50 |
| Legal & General | Dec | 864 | (96) | 5.50 | 3.50 | 3.00 | 8.00 | 762 | (104) | 5.50 | 4.00 | 2.50 | 8.00 |
| Liberty International | Dec | 34 | 0 | 5.50 | 4.75 | 2.75 | 8.25 | 27 | 0 | 5.50 | 4.30 | 2.30 | 8.00 |
| Lloyds TSB Group | Dec | 10,603 | (3,055) | 5.40 | 4.04 | 2.50 | 8.10 | 9,083 | (2,931) | 5.60 | 3.83 | 2.30 | 8.40 |
| Man Group | Mar | 107 | (40) | 5.40 | 5.00 | 2.50 | 8.60 | 116 | (5) | 6.00 | 5.50 | 3.00 | 7.80 |
| Marks & Spencer | Mar | 2,755 | (1,252) | 5.50 | 3.50 | 2.50 | 8.85 | 3,228 | (394) | 5.90 | 4.00 | 2.50 | 8.10 |
| mmO2 | Mar | 218 | (89) | 5.80 | 3.75 | 2.50 | 7.50 | 250 | (45) | 6.00 | 4.20 | 2.70 | 7.70 |
| Wm Morrison Supermarkets | Feb | 118 | (29) | 5.75 | 4.25 | 2.50 | 7.00 | 135 | 7 | 5.75 | 4.25 | 2.50 | 7.00 |
| National Grid Transco | Mar | 12,115 | (2,771) | 5.40 | 3.50 | 2.50 | 8.50 | 14,386 | 121 | 5.80 | 4.70 | 2.80 | 7.50 |
| Next | Feb | 151 | (102) | 5.25 | 4.00 | 2.25 | 7.00 | 196 | (19) | 5.50 | 4.00 | 2.25 | 7.00 |
| Northern Rock | Dec | 180 | (47) | 5.40 | 4.40 | 2.65 | 8.10 | 154 | (28) | 5.60 | 4.05 | 2.30 | 8.60 |
| Old Mutual | Dec | 329 | 5 | 5.40 | 4.25 | 2.25 | 7.50 | 296 | (3) | 6.00 | 4.00 | 2.15 | 7.50 |
| Pearson | Dec | 1,158 | (262) | 5.50 | 4.75 | 2.75 | 7.75 | 1,033 | (252) | 5.70 | 4.25 | 2.25 | 8.00 |
| Prudential | Dec | 3,990 | (602) | 5.40 | 4.70 | 2.70 | 7.75 | 3,570 | (547) | 5.50 | 4.25 | 2.25 | 8.00 |

| Company | Year-end | 2003 | | | | | | 2002 | | | | | |
|----------------------------------|----------|------------------------|-------------------------|---------------|-----------------|-----------------|-----------------------------|------------------------|-------------------------|---------------|-----------------|-----------------|-----------------------------|
| | | Market value of assets | FRS17 surplus/(deficit) | Discount rate | Earnings growth | Price inflation | Expected return on equities | Market value of assets | FRS17 surplus/(deficit) | Discount rate | Earnings growth | Price inflation | Expected return on equities |
| | | £m | £m | %pa | %pa | %pa | %pa | £m | £m | %pa | %pa | %pa | %pa |
| Reckitt Benckiser | Dec | 650 | (5) | 5.40 | 4.50 | 2.50 | 7.80 | 600 | (47) | 5.60 | 4.30 | 2.30 | 8.00 |
| Reed Elsevier | Dec | 2,030 | (251) | 5.50 | 4.80 | 2.80 | 7.80 | 1,791 | (137) | 5.70 | 4.30 | 2.30 | 9.00 |
| Rentokil Initial | Dec | 537 | (187) | 5.60 | 3.00 | 2.50 | 8.30 | 483 | (156) | 5.75 | 3.30 | 2.30 | 8.00 |
| Reuters Group | Dec | 153 | (44) | 5.50 | 3.75 | 2.50 | 8.25 | 130 | (65) | 5.50 | 4.00 | 2.25 | 8.25 |
| Rexam | Dec | 2,091 | (383) | 5.40 | 4.25 | 2.75 | 7.80 | 2,072 | (258) | 5.50 | 3.85 | 2.35 | 7.50 |
| Rio Tinto | Dec | 2,281 | (133) | 5.40 | 4.80 | 2.80 | 7.80 | 2,004 | (155) | 5.60 | 4.80 | 2.30 | 7.30 |
| Rolls-Royce Group | Dec | 4,420 | (1,456) | 5.40 | 4.30 | 2.80 | 8.30 | 3,921 | (1,839) | 5.50 | 3.80 | 2.30 | 8.00 |
| Royal & SunAlliance | Dec | 3,920 | (675) | 5.40 | 4.00 | 2.50 | 7.30 | 3,635 | (724) | 5.50 | 3.80 | 2.30 | 7.00 |
| The Royal Bank of Scotland Group | Dec | 12,887 | (1,968) | 5.60 | 3.95 | 2.70 | 8.40 | 11,692 | (1,856) | 5.75 | 3.50 | 2.25 | 8.40 |
| Safeway | Mar | 723 | (217) | 5.60 | 4.10 | 2.60 | 8.60 | 895 | 54 | 5.90 | 4.30 | 2.80 | 8.70 |
| J Sainsbury | Mar | 2,380 | (876) | 5.50 | 2.25 | 2.25 | 8.25 | 2,814 | (368) | 6.00 | 3.88 | 2.50 | 8.25 |
| Schroders | Dec | 354 | (29) | 5.40 | 4.30 | 2.80 | 8.30 | 302 | (16) | 5.50 | 3.80 | 2.30 | 8.00 |
| Scottish & Newcastle | Dec | 1,380 | (597) | 5.50 | 4.00 | 2.50 | 7.80 | 1,277 | (671) | 5.60 | 4.00 | 2.50 | 7.90 |
| Scottish & Southern Energy | Mar | 1,271 | (402) | 5.50 | 4.00 | 2.50 | 8.10 | 1,683 | 92 | 5.90 | 4.30 | 2.80 | 8.20 |
| ScottishPower | Mar | 2,167 | (674) | 5.40 | 3.90 | 2.40 | 7.20 | 3,205 | 83 | 6.00 | 4.30 | 2.80 | 8.00 |
| Severn Trent | Mar | 746 | (325) | 5.25 | 3.75 | 2.25 | 8.25 | 935 | 31 | 6.00 | 4.00 | 2.50 | 7.75 |
| Smith & Nephew | Dec | 256 | (121) | 5.40 | 4.80 | 2.80 | 7.80 | 215 | (111) | 5.60 | 4.30 | 2.30 | 7.80 |
| Smiths Group | Jul | 2,468 | (340) | 5.50 | 4.20 | 2.70 | 8.25 | 2,345 | (110) | 6.00 | 3.90 | 2.40 | 8.25 |
| Standard Chartered | Dec | 930 | (83) | 5.50 | 5.30 | 2.80 | 8.60 | 817 | (119) | 5.70 | 4.80 | 2.30 | 8.30 |
| Tesco | Feb | 1,506 | (769) | 5.50 | 3.60 | 2.30 | 8.60 | 1,574 | (184) | 5.80 | 3.60 | 2.30 | 7.70 |
| Tomkins | Jan | 446 | (148) | 5.50 | 4.00 | 2.50 | 8.14 | 426 | (195) | 5.75 | 3.85 | 2.50 | 8.75 |
| Unilever | Dec | 9,226 | (2,663) | 5.40 | 4.20 | 2.70 | 8.30 | 8,284 | (2,770) | 5.50 | 3.75 | 2.25 | 8.00 |
| United Utilities | Mar | 1,567 | (426) | 5.50 | 4.00 | 2.50 | 7.50 | 1,775 | 22 | 6.00 | 4.30 | 2.80 | 8.25 |
| Vodafone Group | Mar | 410 | (406) | 5.40 | 4.50 | 2.50 | 8.00 | 281 | (370) | 6.00 | 4.50 | 2.50 | 8.00 |
| Whitbread | Mar | 812 | (420) | 5.60 | 4.00 | 2.50 | 7.40 | 1,043 | (84) | 5.90 | 4.00 | 2.50 | 7.50 |
| Wolseley | Jul | 340 | (206) | 5.50 | 4.65 | 2.64 | 6.75 | 315 | (132) | 6.00 | 4.50 | 2.45 | 7.00 |
| WPP | Dec | 348 | (199) | 5.50 | 3.60 | 2.80 | 7.50 | 295 | (185) | 5.50 | 3.30 | 2.50 | 7.30 |
| Xstrata | Dec | 65 | (19) | 4.60 | 4.10 | 2.80 | 8.00 | N/D | N/D | N/D | N/D | N/D | N/D |

We have excluded from our survey the following 11 companies who had no evidence of significant UK defined benefit provision or who did not report pension costs under UK Generally Accepted Accounting Practices: Amvescap, BHP Billiton, Carnival, Foreign & Colonial Investment Trust, Granada, SABMiller, Sage Group, Shell, Shire Pharmaceuticals Group, Sky and Yell.





The following five companies have entered the FTSE 100 Index since 1st January 2004 and hence are not included in our survey: Antofagsta, Capita Group, Enterprise Inns, ITV and William Hill. The following five companies have exited the FTSE 100 Index since 1st January 2004: Amersham, Foreign & Colonial Investment Trust, Granada, GKN and Safeway.

The 2003 figures are as at accounting periods ending in 2003 (apart from Tomkins which has a balance sheet date of 3rd January 2004). The 2002 figures are as at the start of accounting period.

Where required to convert reported figures into Sterling, the exchange rates used were those in each companies' accounts where disclosed.

It should be remembered that many companies have for many years recognised unfunded liabilities for their retirement benefit schemes on their balance sheets, often choosing to hold a provision on their balance sheet rather than setting aside monies in a separate arrangement.


Appendix 2 – FTSE 100 FRS17 risk measures

| Company | Size of scheme relative to size of balance sheet ¹ % | Size of scheme relative to market capitalisation ¹ % | FRS17 ratio ² % % | Percentage of assets in equities ³ % | Notes |
|---|--|--|------------------------------------|--|-------|
| Small % implies: | Low risk | Low risk | Less well funded | Low equity exposure | |
| 3i Group | 10 | 12 | 70 | 68 | |
| Abbey National | 56 | 43 | 67 | 52 | |
| Alliance & Leicester | 61 | 25 | 82 | 54 | |
| Alliance UniChem | 16 | 11 | 68 | 58 | |
| Allied Domecq | 248 | 59 | 76 | 52 | |
| Amersham | 45 | 11 | 56 | 66 | |
| Anglo American | 14 | 10 | 85 | 63 | |
| Associated British Foods | 56 | 88 | 102 | 37 | |
| AstraZeneca | 55 | 9 | 82 | 49 | |
| Aviva | 89 | 59 | 87 | 63 | |
| BAA | 33 | 31 | 80 | 68 | |
|  BAE Systems | 221 | 242 | 75 | 71 | |
| Barclays | 84 | 43 | 88 | 51 | |
| BG Group | 10 | 4 | 65 | 82 | |
| The BOC Group | 107 | 50 | 83 | 76 | 4 |
| Boots Group | 135 | 62 | 106 | 0 | |
| BP | 41 | 18 | 87 | 75 | |
| Bradford & Bingley | 31 | 23 | 86 | 54 | |
|  British Airways | 445 | 899 | 88 | 42 | 4 |
| British American Tobacco | 109 | 42 | 82 | 50 | 4 |
| The British Land Company | 1 | 2 | 77 | 54 | |
|  BT | 1,129 | 224 | 70 | 64 | |
| Bunzl | 62 | 15 | 79 | 69 | |
| Cable & Wireless | 75 | 115 | 69 | 70 | |
| Cadbury Schweppes | 65 | 25 | 83 | 69 | |
| Centrica | 125 | 38 | 69 | 79 | |
| Compass Group | 43 | 15 | 68 | 61 | |
| Daily Mail and General Trust | 415 | 88 | 81 | 72 | |
| Diageo | 89 | 24 | 71 | 80 | 4 |
| Dixons Group | 32 | 26 | 60 | 89 | |
| Emap | 39 | 5 | 67 | 47 | |
| Exel | 252 | 83 | 104 | 74 | |
| Friends Provident | 32 | 29 | 98 | 83 | |
| Gallaher Group | 332 | 23 | 91 | 64 | 5 |
| GKN | 269 | 129 | 64 | 63 | |
| GlaxoSmithKline | 90 | 10 | 75 | 75 | |
| GUS | 33 | 18 | 65 | 64 | |
| Hanson | 63 | 57 | 98 | 46 | |
| Hays | 2,442 | 22 | 57 | 76 | |
| HBOS | 29 | 19 | 72 | 77 | |
| Hilton Group | 15 | 10 | 70 | 69 | |
| HSBC Holdings | 25 | 13 | 83 | 55 | |
|  ICI | 1,606 | 352 | 90 | 24 | 4 |
| Imperial Tobacco Group | 2,835 | 38 | 85 | 60 | 4 |
| InterContinental Hotels Group | 21 | 15 | 70 | 66 | |

We list below the companies in the FTSE 100 as at 1st January 2004 that disclosed FRS17 results in 2003.

A relatively large pension scheme coupled with a low ratio of assets to value of liabilities represents a significant issue for the company concerned. However, these figures should not be viewed in isolation.

The final column shows the percentage of the assets of the pension scheme that are invested in equities. A high percentage in this column coupled with a large pension scheme means that the company is particularly exposed to a movement in the equity market. For such companies, FRS17 represents a significant risk even if the pension scheme is currently in surplus.

 identifies six FTSE 100 companies that have balance sheets that under FRS17 are notably exposed to volatile movements (both upwards and downwards) in equities.

| Company | Size of scheme relative to size of balance sheet ¹ % | Size of scheme relative to market capitalisation ¹ % | FRS17 ratio ² % | Percentage of assets in equities ³ % | Notes |
|--------------------------------|--|--|----------------------------------|--|-------|
| Small % implies: | Low risk | Low risk | Less well funded | Low equity exposure | |
| Johnson Matthey | 60 | 33 | 98 | 66 | |
| Kingfisher | 23 | 21 | 74 | 50 | |
| Land Securities | 2 | 3 | 80 | 42 | |
| Legal & General | 29 | 15 | 90 | 47 | |
| Liberty International | 1 | 2 | 99 | 35 | |
| Lloyds TSB Group | 132 | 55 | 78 | 70 | |
| Man Group | 15 | 5 | 73 | 38 | |
| Marks & Spencer | 128 | 60 | 69 | 56 | |
| mmO2 | 3 | 8 | 71 | 86 | |
| Wm Morrison Supermarkets | 12 | 6 | 80 | 87 | |
| National Grid Transco | 1,204 | 124 | 81 | 43 | |
| Next | 92 | 12 | 60 | 79 | |
| Northern Rock | 16 | 8 | 79 | 53 | |
| Old Mutual | 8 | 9 | 102 | 31 | |
| Pearson | 45 | 29 | 82 | 54 | |
| Prudential | 136 | 49 | 87 | 67 | |
| Reckitt Benckiser | 44 | 10 | 99 | 68 | |
| Reed Elsevier | 93 | 39 | 89 | 66 | |
| Rentokil Initial | 118 | 21 | 74 | 78 | 5 |
| Reuters Group | 41 | 6 | 78 | 54 | |
| Rexam | 301 | 106 | 85 | 47 | |
| Rio Tinto | 43 | 15 | 94 | 66 | |
| Rolls-Royce Group | 274 | 199 | 75 | 67 | |
| Royal & SunAlliance | 137 | 182 | 85 | 50 | |
| The Royal Bank Of Scotland Grp | 48 | 31 | 87 | 64 | |
| Safeway | 43 | 34 | 77 | 72 | |
| J Sainsbury | 64 | 102 | 73 | 60 | |
| Schroders | 37 | 26 | 92 | 85 | |
| Scottish & Newcastle | 68 | 59 | 70 | 69 | |
| Scottish & Southern Energy | 113 | 31 | 76 | 68 | |
| ScottishPower | 60 | 41 | 76 | 67 | |
| Severn Trent | 48 | 44 | 70 | 67 | |
| Smith & Nephew | 59 | 9 | 68 | 75 | |
| Smiths Group | 321 | 69 | 88 | 49 | |
| Standard Chartered | 22 | 9 | 92 | 40 | |
| Tesco | 35 | 19 | 66 | 63 | |
| Tomkins | 76 | 29 | 75 | 66 | |
| Unilever | 264 | 33 | 78 | 62 | 4 |
| United Utilities | 78 | 61 | 79 | 64 | |
| Vodafone Group | 1 | 1 | 50 | 57 | |
| Whitbread | 62 | 80 | 66 | 69 | |
| Wolseley | 31 | 14 | 62 | 52 | |
| WPP | 13 | 8 | 64 | 38 | |
| Xstrata | 2 | 3 | 77 | 70 | |

¹ Size of scheme is taken as the greater of the assets and the liabilities. Size of balance sheet is taken to be net asset value (shareholders' funds including minority interests).

² The ratio of the schemes' market value of assets to the present value of liabilities disclosed under FRS17.

³ The percentage is for the company's schemes worldwide.

⁴ Surplus assets that are not recoverable by the company have been included.

⁵ Group net assets disclosed as negative at the year-end.

Lane
Clark &
Peacock

Actuaries & Consultants

Appendix 3 – Dow Jones STOXX 50SM blue-chip disclosure listing

| Company | Country | Accounting date | Market value of assets €m | Value of liabilities €m | Liabilities as % of market capitalisation | Surplus/(deficit) €m |
|--------------------------------|---------|-----------------|---------------------------|-------------------------|---|----------------------|
| ABN AMRO | NL | 31/12/2003 | 7,988 | 9,307 | 31% | (1,319) |
| Aegon | NL | 31/12/2003 | 3,435 | 3,438 | 22% | (3) |
| Allianz | DE | 31/12/2003 | 5,243 | 11,322 | 34% | (6,079) |
| Anglo American | UK | 31/12/2003 | 2,247 | 2,629 | 10% | (382) |
| Assicurazioni Generali* | IT | 31/12/2003 | N/A | N/A | N/A | N/A |
| AstraZeneca | UK | 31/12/2003 | 4,790 | 5,832 | 10% | (1,042) |
| Aviva | UK | 31/12/2003 | 8,070 | 9,258 | 59% | (1,188) |
| Axa | FR | 31/12/2003 | 5,526 | 8,609 | 36% | (3,083) |
| Barclays | UK | 31/12/2003 | 17,526 | 19,827 | 43% | (2,301) |
| BASF | DE | 31/12/2003 | 1,956 | 5,613 | 22% | (3,657) |
| Bayer | DE | 31/12/2003 | 7,745 | 12,979 | 82% | (5,234) |
| BBVA | ES | 31/12/2003 | 323 | 385 | 1% | (62) |
| BNP Paribas | FR | 31/12/2003 | - | 1,467 | 4% | (1,467) |
| BP | UK | 31/12/2003 | 22,085 | 25,285 | 18% | (3,200) |
| BSCH | ES | 31/12/2003 | 608 | 9,996 | 22% | (9,388) |
| BT | UK | 31/03/2003 | 30,462 | 43,260 | 219% | (12,798) |
| Carrefour | FR | 31/12/2003 | - | 355 | 1% | (355) |
| Credit Suisse | CH | 31/12/2003 | 3,849 | 4,679 | 14% | (830) |
| DaimlerChrysler | DE | 31/12/2003 | 26,328 | 32,132 | 106% | (5,804) |
| Deutsche Bank | DE | 31/12/2003 | 6,801 | 6,920 | 18% | (119) |
| Deutsche Telekom | DE | 31/12/2003 | 489 | 5,032 | 14% | (4,543) |
| Diageo | UK | 30/06/2003 | 4,868 | 6,879 | 24% | (2,011) |
| E.ON | DE | 31/12/2003 | 4,922 | 13,070 | 39% | (8,148) |
| Eni | IT | 31/12/2003 | - | 175 | 1% | (175) |
| Fortis | NL | 31/12/2003 | 5,742 | 6,552 | 34% | (810) |
| GlaxoSmithKline | UK | 31/12/2003 | 8,080 | 10,765 | 10% | (2,685) |
| HBOS | UK | 31/12/2003 | 5,350 | 7,470 | 19% | (2,120) |
| HSBC Holdings | UK | 31/12/2003 | 14,386 | 17,263 | 13% | (2,877) |
| ING | NL | 31/12/2003 | 9,651 | 11,710 | 35% | (2,059) |
| Lloyds TSB Group | UK | 31/12/2003 | 15,023 | 19,351 | 55% | (4,328) |
| L'Oreal | FR | 31/12/2003 | 782 | 1,877 | 9% | (1,095) |
| Nestle | CH | 31/12/2003 | 10,995 | 12,846 | 16% | (1,851) |
| Nokia | FI | 31/12/2003 | 887 | 1,009 | 2% | (122) |
| Novartis | CH | 31/12/2003 | 12,803 | 11,007 | 12% | (1,796) |
| Phillips | NL | 31/12/2003 | 17,749 | 18,924 | 64% | (1,175) |
| Roche | CH | 31/12/2003 | 5,850 | 7,245 | 13% | (1,395) |
| SAP | DE | 31/12/2003 | 183 | 205 | 1% | (22) |
| Shell** | NL | 31/12/2003 | 34,898 | 36,895 | 26% | (1,997) |
| Siemens | DE | 30/09/2003 | 15,899 | 20,878 | 49% | (4,979) |
| Suez | FR | 31/12/2003 | 1,900 | 3,565 | 24% | (1,665) |
| Swiss Re | CH | 31/12/2003 | 1,907 | 2,204 | 13% | (297) |
| Telecom Italia | IT | 31/12/2003 | - | 1,514 | 8% | (1,514) |
| Telefonica | ES | 31/12/2003 | - | 2,514 | 5% | (2,514) |
| Tesco | UK | 22/02/2003 | 2,134 | 3,223 | 20% | (1,089) |
| The Royal Bank of Scotland Grp | UK | 31/12/2003 | 18,259 | 21,047 | 32% | (2,788) |
| Total | FR | 31/12/2003 | 5,026 | 7,797 | 8% | (2,771) |
| UBS | CH | 31/12/2003 | 13,482 | 14,032 | 24% | (550) |
| Unilever*** | NL | 31/12/2003 | 13,031 | 16,792 | 33% | (3,761) |
| Vodafone Group | UK | 31/03/2003 | 581 | 1,156 | 1% | (575) |

This table shows the key disclosures made by the companies in the European Dow Jones STOXX 50SM blue-chip index as at 1st January 2004. The index consists of 50 stocks covering the market sector leaders in Europe. The source of the data is each company's annual report and accounts for the accounting period ending in 2003.

Data for companies in the Dow Jones STOXX 50SM blue-chip index was gathered from primary accounts where available. However, if greater transparency was available from other sources (notably from a US listing filing, called a "20-F") then this information was used.

The market value of assets and surplus/(deficit) figures before tax relate to the worldwide position of each company and are the market value of the assets less value of the liabilities for each company. "N/A" means figures were not available.

| Country | Code | Number | Market value of assets €m | Value of liabilities €m | Liabilities as % of market capitalisation | Surplus/ (deficit) €m |
|----------------|------|--------|---------------------------|-------------------------|---|-----------------------|
| Finland | FI | 1 | 887 | 1,009 | 2% | (122) |
| France | FR | 6 | 13,234 | 23,670 | 11% | (10,436) |
| Germany | DE | 9 | 69,566 | 108,151 | 38% | (38,585) |
| Italy | IT | 3* | – | 1,689 | 3% | (1,689) |
| Netherlands | NL | 7 | 92,494 | 103,618 | 32% | (11,124) |
| Spain | ES | 3 | 931 | 12,895 | 10% | (11,964) |
| Switzerland | CH | 6 | 48,886 | 52,013 | 15% | (3,127) |
| United Kingdom | UK | 14 | 153,861 | 193,245 | 23% | (39,384) |
| Total | | 49 | 379,859 | 496,290 | 22% | (116,431) |

* Assicurazioni Generali has been included in the count of companies but has no entries in any other column.

** Shell represents the Shell Group, including Royal Dutch Petroleum Company and Shell Transport and Trading Company plc, both of which are in the STOXX index.

*** Unilever includes Unilever NV and Unilever Plc.

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