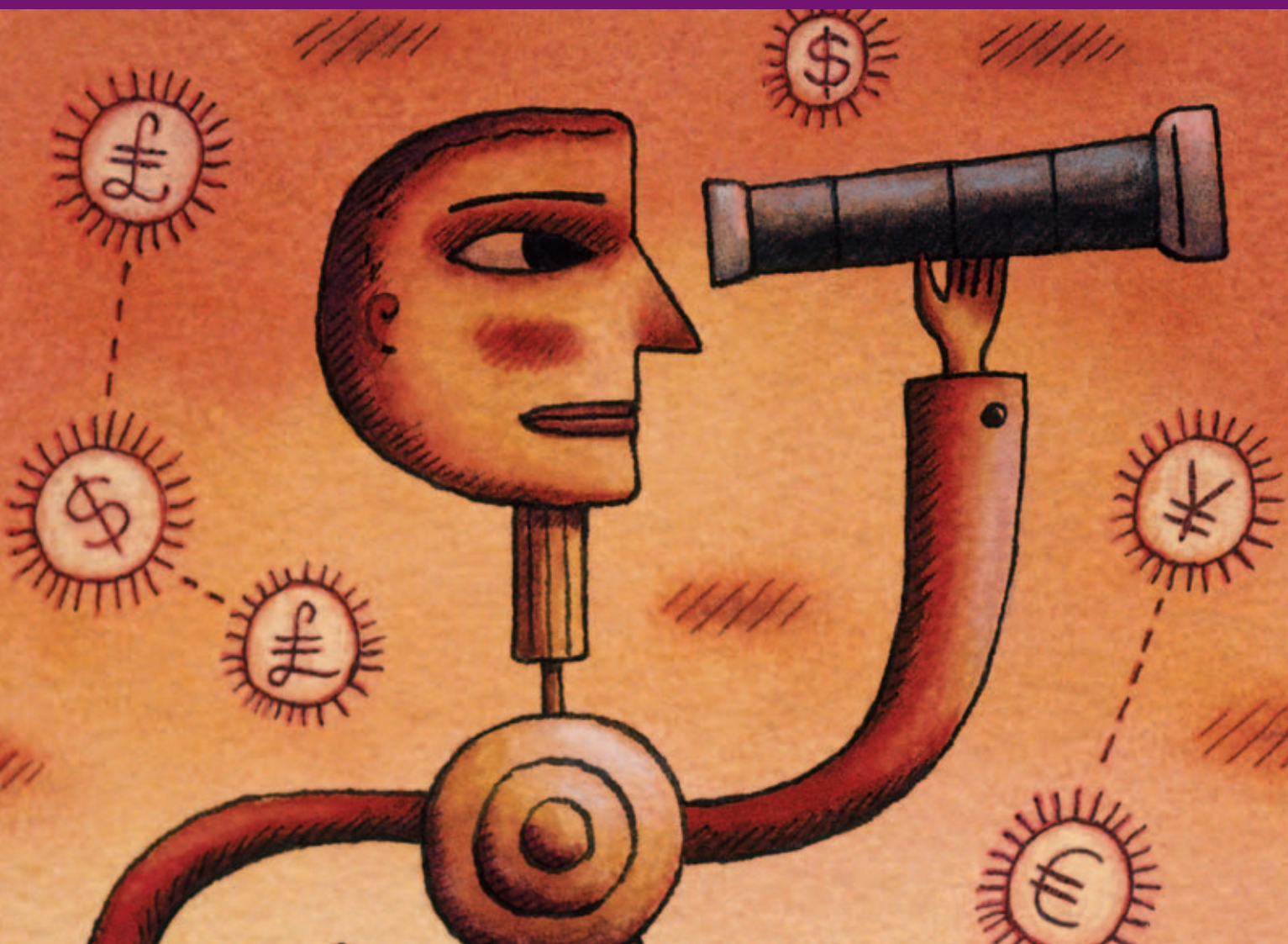


Lane
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Actuaries & Consultants

Accounting For Pensions
UK and Europe
Annual Survey 2005



This is the 12th 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 includes companies in the Europe Dow Jones STOXX 50SM.

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 **Claire Rothwell on 020 7439 2266** or email enquiries@lcp.uk.com.

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Accounting for Pensions

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1. Main findings

Limited deficit reduction

- Lane Clark & Peacock LLP (LCP) estimates that the overall deficit under FRS17 for the UK defined benefit pension schemes of FTSE 100 companies is £37 billion as of July 2005, down from £42 billion in July 2004.
- For every £100 of FRS17 liability, LCP estimates that the UK pension schemes of the FTSE 100 companies hold assets of only £88 as of July 2005. This compares with £85 in July 2004.
- All but four FTSE 100 companies in our survey declared an FRS17 deficit as at their 2004 year-ends. Six companies reported FRS17 deficits greater than 30% of their market capitalisation at that time.

Contributions increasing

- FTSE 100 companies paid contributions totalling £10.5 billion into their defined benefit schemes over their accounting years ending in 2004, £0.5 billion higher than the previous year.
- Three-quarters of the FTSE 100 companies paid higher contributions to their schemes in 2004 than in 2003.
- On average, for each £100 of pension benefits earned by employees according to FRS17, the FTSE 100 companies paid £150 into their pension schemes.
- Companies cited longer life expectancy, lower yields and a higher outlook for price inflation as reasons for the FRS17 value of benefits increasing over 2004 – offsetting the effect of favourable investment returns and higher contributions.
- Continuation of contributions at 2004 levels would wipe out the overall FRS17 deficit of the FTSE 100 companies in 8 years' time, if the assumptions that they made in their 2004 accounts were borne out. We calculate that contributions of a further £4 billion a year would reduce this to 5 years.

Pensioners vs shareholders

- New legislation gives more power to pension scheme trustees to negotiate higher contributions from sponsoring companies. Companies will no longer have the final say over how much they pay into their pension schemes. We expect to see greater confrontation between companies and trustees as a result.
- Companies without an FRS17 deficit may not need clearance from the new Pensions Regulator when carrying out corporate transactions and this may give companies an incentive to make one-off payments to fund their FRS17 deficits.

FTSE 100 companies pumped record amounts of cash in to their pension schemes over 2004 while equity markets continued to recover, but deficits reduced only slightly

Companies are paying significant one-off contributions to schemes, but pressure for higher contributions will continue

Companies will need to balance the needs of their pension scheme members and shareholders

- The net result is likely to be that, at least in the short-term, pension schemes gain at the expense of shareholders and, potentially, capital investment. Dividends declared in 2004 for shareholders of the FTSE 100 companies in our survey totalled £39 billion – this compares to the overall FRS17 deficit of £37 billion.

Investment risks

- Recognising pension scheme deficits in the accounts potentially exposes companies' balance sheets to the volatile movement of equity markets, both upwards and downwards. This year's survey identifies the companies that are the most exposed.
- Without additional cash injections, we project that a rise in the FTSE 100 Index to 6,700 would wipe out the overall FRS17 deficit of £37 billion by this time next year. Note that this would still leave some companies with FRS17 deficits, whilst others had surpluses.
- The more that pension schemes assets are moved out of equities into bonds, the greater the rise in the equity market needed to wipe out the FRS17 deficits.

Protection costs

- We estimate that the potential cost to FTSE 100 companies if they wished to 'walk away from' their UK defined benefit schemes could now be over £150 billion – far in excess of the FRS17 deficits disclosed in their accounts.
- The new Pension Protection Fund (PPF) provides partial compensation to members of pension schemes whose sponsoring employer becomes insolvent. Even so, we estimate that the failure of an 'average' FTSE 100 company could potentially cost the PPF £300 million.
- To put these figures into context, the levy to be raised by the PPF is set at approximately £150 million for 2005/06 but is expected to rise significantly in the future.
- The PPF has published its proposals for a 'risk-based' levy to apply from 2006/07. Companies with large pension deficits and low credit ratings could face significant increases in PPF levies from April 2006 and companies whose credit ratings fall could see large increases in PPF levies thereafter.

Europe

- The standard and content of pension disclosures for the largest 50 European blue-chip companies continues to vary greatly and it is therefore difficult to compare disclosures from different countries on a consistent basis. Under new EU rules, improved information is required from 2005.
- Nevertheless, Germany, Spain and the UK remain the three countries with the largest average pension deficits.

Equity investment exposes balance sheets to volatility

The UK environment within which companies operate defined benefit schemes is more difficult than ever

2. Introduction and summary

2.1 Introduction – content overview

This survey provides an insight into the disclosure of pension scheme costs in companies' accounts, comparing the different practices adopted by the UK and Europe's largest companies and highlighting their financial situations.

By analysing their pension disclosures we aim to identify those companies with the largest liabilities and deficits, particularly in relation to market capitalisation, and we consider what steps companies are taking to address their pension issues.

FTSE 100 companies scrutinised

In this survey we analyse the FRS17 pension cost disclosures for companies comprising the FTSE 100 index on 1st January 2005.

Of the companies reporting in 2004, 92 have defined benefit pension schemes and have either adopted FRS17 in their primary statements or have disclosed FRS17 information under the transitional requirements.

The information in and conclusions of this survey are based on detailed analysis of the information companies have disclosed in their annual report and accounts for accounting periods ending in 2004. We do not approach companies or advisers for additional information or explanation.

European companies analysed

For the second year running we have also examined the pension cost disclosures of the European companies comprising the Dow Jones STOXX 50SM blue-chip index on 1st January 2005. This includes some of the largest companies in Europe, providing interesting comparative information.

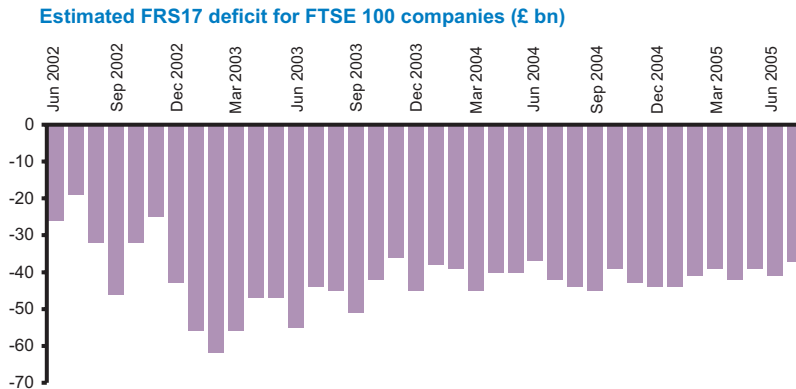
2.2 Pension scheme deficits

Update on FRS17 deficits

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

In mid-July 2005 we estimate the aggregate deficit under FRS17 of UK pension schemes sponsored by companies in the FTSE 100 to be £37 billion. This compares to £42 billion at the same time last year.

In the chart below we show how our estimate of the aggregate UK pension deficit has changed over the past three years.



Our figures have been calculated by projecting forward the financial positions of the pension schemes from their year-end positions as disclosed in the companies' latest annual reports, allowing for changes in the financial markets.

The deficits have been calculated as the sum of the companies' FRS17 liabilities less the sum of the assets of the UK pension schemes they sponsor and, like all deficits or surpluses quoted in this report, are prior to any adjustment for tax.

If we include these companies' other retirement benefits (such as overseas schemes and healthcare plans), then the aggregate deficit would be higher.

Across the FTSE 100 companies, the deficit of £37 billion as of mid-July 2005 can be viewed as:

- 5 months' worth of companies' 2004 pre-tax profits;
- a year's worth of dividend payments;
- 3% of the market capitalisation of FTSE 100 companies; or
- assets of £88 being held to fund each £100 of FRS17 liability. This compares to £85 at the same time last year.

Reported deficits for some schemes are quite small compared to the market capitalisation of the company. However some are large, with 6 FTSE 100 companies reporting deficits in excess of 30% of their market capitalisation at their 2004 year-ends. Companies with the largest deficits, in monetary value and as a proportion of market capitalisation, are listed in Appendix 2.

Does FRS17 tell the full story?

No – should a company wish to 'walk away' from its UK pension fund then it would become liable to top up the assets to meet the cost of securing the benefits in full with an insurance company. This is significantly more than the FRS17 liability disclosed in the company's accounts. We estimate that the aggregate shortfall was more than £150 billion as at mid-July 2005.

Pension Protection Fund

The Pension Protection Fund (PPF) was established from April 2005 to provide a 'safety net' for those pension schemes whose sponsoring employer becomes insolvent. Subject to certain conditions being met, the PPF will take over responsibility for payment of the scheme's benefits (up to a limit) - and will absorb the shortfall in assets. The PPF is financed by a levy which is charged on UK occupational defined benefit schemes.

We have estimated that should an 'average' FTSE 100 company in our survey fail and its scheme transfer to the PPF, the deficit taken on by the PPF would be broadly £300 million based on the position as at mid-July 2005. This compares to the PPF levy, initially set at approximately £150 million for 2005/06 but expected to rise significantly in the future. We provide further details in Section 3.

The shortfall will vary considerably between companies and, inevitably, the calculation of an 'average' shortfall is sensitive to the assumptions made.

Companies hampered by deficits

Companies with substantial FRS17 deficits will increasingly find that these deficits restrict their freedom to operate. This is due to a number of factors.

- From 2005, companies will be required to include the FRS17 pension deficit on their balance sheets (rather than merely disclosing the amount in a note to the accounts). This may restrict the ability of a company to pay dividends or raise capital.
- Secondly, if a company has an underfunded pension scheme then, under new legislation, it may need to seek clearance from the Pensions Regulator before being able to safely:
 - return funds to shareholders;
 - buy, sell or merge with another company; or
 - restructure or refinance.

This will have major implications for UK plc if not handled carefully. The Regulator has indicated that, for the time being, it will use FRS17 to measure the pension scheme deficit.

- Thirdly, trustees of company pension schemes will have new powers under the 'scheme funding' legislation to divert company resources to the pension scheme, rather than to shareholders.

We elaborate on this in Section 3.

2.3 Eliminating deficits

Without reducing benefits, an FRS17 deficit can be eliminated by a combination of:

- the injection of more cash into the scheme;
- favourable investment returns on scheme assets; or
- a fall in the measured value of the benefits.

Contributions increasing

Over the accounting years ending in 2004, FTSE 100 companies contributed £10.5 billion to their defined benefit pension schemes. This compares to £10.0 billion over the previous year, an increase of £0.5 billion.

Three-quarters of companies increased the amount of money they paid into their schemes in 2004 compared to 2003.

For every £100 worth of new benefits earned according to FRS17, the FTSE 100 companies paid £150 into their pension schemes during 2004. This is a similar level to that revealed last year. However, there is considerable variation between companies.

We project that the payment of the current level of contributions is on course to eliminate the FTSE 100 companies' aggregate deficit in 8 years time (using the FTSE 100 companies' own FRS17 assumptions for future investment returns). Reducing this timeframe to 5 years would require an aggregate annual increase in contributions of broadly £4 billion, a further 40% increase.

Substantial one-off contributions

Many companies have made – or are planning to make – sizeable injections of cash into their pension schemes. Examples include:

- *Royal Bank of Scotland* disclosed the highest payment of £1,145 million to their pension scheme which included a special cash contribution of £750 million.
- *Scottish & Newcastle* made a one-off special contribution of £200 million which helped reduce its FRS17 deficit from £597 million to £372 million.
- *Alliance & Leicester* paid contributions of £152.9 million in 2004, including a one-off contribution of £114 million. This helped to reduce its FRS17 deficit by two-thirds.

Under the new 'scheme funding' legislation, many pension scheme trustees will have more power – companies will no longer have the final say over how much they pay into their pension schemes.

Section 3 discusses whether the new legislation will lead to demands for higher cash payments – at the expense of shareholders – and hence whether we may see more 'robust negotiation' between trustees and company directors.

Royal Bank of Scotland

Scottish & Newcastle

Alliance & Leicester



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We note that, in aggregate, the FTSE 100 companies in our survey declared dividends of approximately £39 billion at their 2004 accounting year-ends, compared to contributions of £10.5 billion paid to their pension schemes over the accounting year.

Almost half of these companies declared dividends in 2004 that were in excess of the FRS17 deficits in their pension schemes.

Investment returns

The UK defined benefit pension schemes sponsored by the FTSE 100 companies have over £250 billion worth of assets. Although the move to bond investment has continued during 2004, nearly 60% of these assets are still invested in equities.

Over the accounting years ending in 2004, the schemes earned investment returns of some £32 billion, predominately from equity returns.

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

For the aggregate UK deficit of £37 billion to be eliminated purely by a rise in equity markets, we estimate that the FTSE 100 Index would need to climb from its current level of around 5,200 to over 6,700 by this time next year – a rise of almost 30%. Note that this would still leave some companies with FRS17 deficits, whilst others would have surpluses.

As pension schemes move out of equities and invest a greater proportion in bonds, the scope for equity market rises to eliminate FRS17 deficits is reduced.

Companies' balance sheets at risk?

Investment in equities can lead to a volatile FRS17 position, which can severely impact 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.

We have identified seven companies that were markedly exposed to movements in the equity markets. These companies are *BAE Systems*, *British Airways*, *BT*, *Exel*, *Rolls-Royce Group* and *Royal & SunAlliance*, plus *Corus*, which was not in the FTSE 100 Index for last year's survey.

Compared to the companies we highlighted last year *Exel* has replaced *ICI*.

We discuss these risks in more detail in Section 5.3.

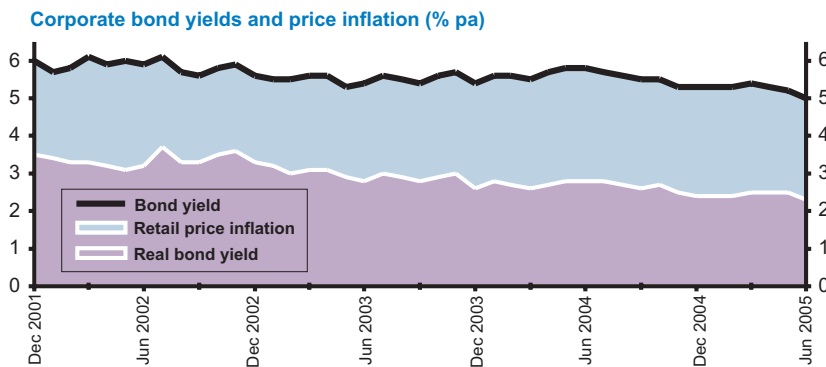
BAE Systems
British Airways
BT
Corus
Exel
Rolls-Royce Group
Royal & SunAlliance

How high a mountain is there to climb?

The calculation of FRS17 liabilities reflects market conditions which can, and do, fluctuate markedly from time to time.

In particular, the calculation of FRS17 liabilities depends on the 'real' yield (ie the difference between the yield on AA-rated corporate bonds and expectations of inflation). The higher the real yield, the lower the FRS17 value and vice-versa.

The graph below shows the fall in the real yield from more than 3.5% pa at the end of December 2001 to just below 2.5% pa at the end of June 2005.



We estimate that an increase of 0.5% pa in the real yield on AA-rated corporate bonds over the next year could reduce the UK FRS17 liabilities of the FTSE 100 by around £25 billion. However, there may be some associated movement in asset values that offsets this.

Bond and equity markets working together

The expected deficit in one year's time therefore depends crucially on the level of the equity market and the real yield. The table below shows the projected level of assets in one year's time for every £100 of FRS17 liability under different scenarios for the level of real bond yields and the FTSE 100 Index.

FTSE 100 Index	Real AA-rated bond yield		
	2.0% pa	2.5% pa	3.0% pa
4,000	£72	£77	£82
5,000	£80	£86	£92
6,000	£89	£95	£102
7,000	£98	£105	£112

A figure over £100 would mean that the aggregate FRS17 deficits of the UK schemes for the FTSE 100 companies had been eliminated. We wait with interest to see where the equity and bond markets go over the next year.

Alternative ways of dealing with deficits

Rather than simply making additional cash contributions or relying on market movements, some companies have adopted novel solutions to deal with their pension liabilities:

- *ICI* has provided an asset-backed guarantee of £250 million to support its commitments to its fund. The guarantee is secured by way of a fixed and floating charge over the assets of a specifically incorporated subsidiary.
- *National Grid Transco* has arranged for banks to provide its scheme with letters of credit until the 2007 actuarial valuation has been completed. The letters of credit could be drawn on following certain events which would imperil the interests of the scheme.
- *Kingfisher* effectively ‘sold’ a deficit of £63 million to Kesa Electricals as part of the demerger terms.
- *Whitbread* has entered into an agreement with trustees to fund the deficit over a period of up to 15 years and has given trustees undertakings similar to some of the covenants provided in respect of its banking agreements.

2.4 Variability in FRS17 liabilities

Under FRS17, the value placed on the liabilities is also affected by the assumptions made for inflation, salary increases, life expectancy, etc. Assumptions can, and do, vary over time due to changes in market conditions and other factors.

Over 2004 we have seen FRS17 liabilities increase, due to rising expectations for price inflation and life expectancy, coupled with falling corporate bond yields.

Our detailed analysis of the FRS17 assumptions adopted by the FTSE 100 companies is in Section 5. We comment briefly below on mortality and salary growth assumptions.

Mortality

In last year’s survey we highlighted the potential impact on pension scheme deficits of adopting mortality assumptions that reflect the latest longevity research.

It is, therefore, no surprise to us that *BAE Systems*, *Barclays*, *ITV*, *Royal & SunAlliance* and *WPP* all cited updated assumptions for mortality rates as a reason for reporting higher FRS17 liabilities in 2004. We expect this trend to continue.

More recently, *ICI* has announced that it expects its pension fund deficit to increase by up to £250 million when it increases the “allowance for future improvements in longevity”.

ICI

National Grid Transco

Kingfisher

Whitbread

BAE Systems

Barclays

ICI

ITV

Royal & SunAlliance

WPP

Lower salary growth expectations

Whilst the assumed rate of future inflation reflects market expectations, companies make their own assumptions about the additional, or 'real', salary growth that they expect over and above the rate of inflation. Reducing this assumed rate of real salary growth will reduce the FRS17 liability value, all other things being equal.

Of the 92 companies in the survey, 18 have reduced their assumed rate of real salary growth since last year, and 5 have increased their assumption. The comparable figures last year were 21 and 6.

There appears to be an emerging trend towards lower assumptions for real salary growth.

Whether the reduction in the assumption for real salary growth reflects an actual change in expectations, or merely closer scrutiny of an assumption that reduces the disclosed deficit, is impossible for us to determine.

2.5 Europe

We have again analysed the disclosures made by the 50 European companies in the Dow Jones STOXX 50SM blue-chip index of their post-retirement benefit liabilities.

The aggregate deficit disclosed by these companies was €116 billion – the same as last year.

The standard and volume of information provided continues to vary considerably between companies. It is nevertheless encouraging to see that some companies have increased the amount of information provided in advance of the introduction of International Financial Reporting Standards for all listed European companies which come into effect for accounting periods beginning on or after 1st January 2005.

3. Developments in UK pension provision

New legislation

The past 12 months have seen a vast amount of new legislation and regulation that affects companies who sponsor defined benefit pension schemes.

Measures introduced under the Pensions Act 2004 to improve the security of members' benefits will almost certainly accelerate the pace at which companies fund their schemes. Increased compliance costs and the impact of the PPF levy will increase the cost of running a defined benefit scheme in the short-term.

Somewhat controversially, some commentators have suggested that company directors who continue to admit new members to their defined benefit schemes could be deemed to be derelict in their duty to their shareholders, and that all schemes will soon be closed to new members. Others have been reported as saying that there will be no employees earning defined benefit pensions in 5 years' time.

Whether we have no schemes left or just no open schemes, it is clear that the next few years will see the UK pensions landscape change almost beyond recognition.

Against this background, David Blunkett has been appointed as Secretary of State for Work and Pensions, the most high profile holder of the post in recent times, and the Government has announced plans for a further pensions act in the current term of Parliament. It is somewhat worrying that this should be seen as necessary so soon after the major overhaul taking place through the Pensions Act 2004.

We look briefly at some of the key new developments below.

Pension Protection Fund

The Pension Protection Fund (PPF) was established from April 2005 to provide a 'safety net' for members of pension schemes whose sponsoring employer becomes insolvent.

Although the PPF compensates members for only part of the benefits that they could have expected from their schemes, the potential cost of taking on liabilities from a large number of underfunded pension schemes is very significant indeed.

As a result, many of the measures introduced under the Pensions Act 2004 are designed to protect the PPF against excessive claims. These measures include the establishment of the new Pensions Regulator, tasked with controlling claims on the PPF as one of its key responsibilities.

The Pensions Regulator

The new Pensions Regulator replaced OPRA in April 2005 and, unlike its predecessor, has wide-ranging powers to intervene in companies' affairs.

The Regulator has produced a steady stream of consultation papers and codes of practice since April and, as these have come into effect, their impact on companies has already been significant.

Any company planning to:

- return funds to shareholders;
- buy, sell or merge with another company; or
- undergo significant restructuring or refinancing

will need to pay close attention to its pension position. Otherwise, the Regulator may be able to require the company (or even individuals) to provide financial support to an underfunded scheme even where they are no longer directly associated with the scheme.

Clearance statements – FRS17 is key

Companies who are contemplating corporate activity are able to seek 'clearance' from the Regulator for the actions they intend to take, providing them with comfort that the Regulator will not intervene subsequently.

The Regulator has confirmed that it will not seek to intervene where the pension scheme is 'adequately funded' and, for this purpose, it is currently placing significant emphasis on the FRS17 funding position.

This places a new prominence on the FRS17 accounting numbers and the assumptions used to calculate them.

Notification requirements

To enable the Regulator to assist, and possibly intervene before a call on the PPF becomes inevitable, employers with defined benefit schemes are now required to notify the Regulator of certain events, including:

- a change in their credit rating;
- a change of company control;
- breaches of banking covenants; and
- changes to certain key employer posts.

Scheme funding

The new 'Scheme Funding' regulations are due to come into effect from September 2005.

Where the company currently has power to set the contribution policy, after September the trustees will determine the policy, although they will have to seek the company's agreement.

Although the regulations do not have any direct effect on the FRS17 calculations, upwards pressure on contribution rates may result in FRS17 deficits being eliminated more quickly than they otherwise might have been.

Changing dynamics in pension scheme relationships

The new funding regulations put trustees firmly in the driving seat and may potentially lead to 'robust negotiation' between companies and trustees. Some previously good working relationships may be jeopardised.

Individual trustees may find themselves with a conflict of interest. For example, a finance director who sits on the trustee board of the company's pension scheme may find himself (or herself) in a position of conflict should he or she come into possession of confidential information which, if known by the trustee board in general, could have an impact on its decisions.

For instance, the finance director is likely to know how much the company can afford to pay to the pension scheme which would make it inappropriate for him or her to take part in negotiations over contribution levels.

Overall impact

The result of all the new legislation is likely to be:

- increased cash contributions under the scheme funding legislation;
- higher costs arising from PPF levies; additional advisers' fees; and more detailed compliance requirements; and
- additional demands on management time.

Overall, pension schemes may increasingly come to be seen as a hindrance to normal corporate activity and this is likely to encourage companies to continue to look for further ways of reducing their defined benefit exposure.

4. Accounting standards for pension schemes

The end of an era

For companies reporting in 2004, there were two main, albeit fundamentally different, UK standards for reporting pension costs in companies' accounts: SSAP24 and FRS17.

The existing accounting rules, set out in SSAP24, continued to form the basis of the pension costs included in the primary financial statements of the majority of FTSE 100 companies in 2004, with FRS17 being reported in the notes to the accounts.

FRS17 was due to have replaced SSAP24 for accounting years commencing on or after 1st January 2005. However, FRS17 has itself been superseded for listed companies and will now never be used by many of the UK's largest companies following new regulations from the EU.

European harmonisation welcome

EU regulations now require all listed companies within the EU to prepare consolidated accounts in accordance with International Financial Reporting Standards (IFRS) for accounting periods starting on or after 1st January 2005, which means that pensions will be accounted for in accordance with the International Accounting Standard IAS19, rather than FRS17.

We welcome a harmonised set of accounting rules governing Europe and much of the rest of the world. However, full harmonisation will not be achieved in the UK since non-listed companies will have the option to choose to continue using UK accounting standards and hence FRS17 for pensions, or to follow the listed companies and use IFRS which would mean IAS19 for pensions.

Harmonisation without uniformity

Even companies using the IAS19 standard will not produce uniform pension accounting numbers. Why? Because changes to IAS19 introduced in December 2004 increased the number of options available for companies, 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 (ie 'actuarial gains and losses') to be excluded from the profit calculation altogether.

Such a variety of possible approaches for pensions accounting means that a comparison between companies of the headline profit figures becomes meaningless without a detailed review of the methodology adopted.

The result is that two companies, both reporting in accordance with IFRS, could show very different approaches to recognising pension costs in their profit and loss accounts and balance sheets.

We are already seeing a divide. Many FTSE 100 companies have published restated results prepared under IFRS. From these it appears that the vast majority of companies, but by no means all, are choosing to recognise actuarial gains and losses outside of profits (the third option described on the previous page).

Important differences

On first glance, FRS17 and the new option under IAS19 to recognise actuarial gains and losses outside of profits – and immediately on the balance sheet – may appear alike, and one might expect similar figures prepared under each standard. However, there are some differences which may mean this is not the case.

For example, *BAE Systems* declared a pre-tax FRS17 pension deficit in its 2004 accounts of £4.3 billion as at 31st December 2004. However because of a different treatment of joint ventures, we have interpreted its presentation of its IAS19 results as showing a lower pre-tax deficit of £3.4 billion at the same date.

BAE Systems

Accounting uncertainty

The International Accounting Standards Board has noted that a wider review of IAS19 will still remain under consideration. This is linked to the harmonisation of the international accounting standards with those used in the United States.

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.

Year-on-year changes to the assumptions, often not within the direct control of the directors, can have a significant financial impact. This is discussed in the next Section.

5. LCP's analysis of FRS17 disclosures

We have analysed the FTSE 100 companies reporting in 2004 who have either adopted FRS17 or disclosed FRS17 information under the transitional requirements. Of these, 92 have defined benefit pension schemes.

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 and the statement of total recognised gains and losses.

We have concentrated on the financial position of the defined benefit schemes in which the companies' employees participate. Many companies offer post-retirement healthcare provision, which we have excluded from our analysis where possible. Overseas pension arrangements have been included.

Early adoption of FRS17

The transitional period under FRS17 has now finished. For accounting periods commencing on or after 1st January 2005, companies will have to fully adopt the provisions of FRS17 or its international equivalent, IAS19.

Companies could have adopted FRS17 earlier if they wished. Some 26 companies have chosen to do so for their 2004 accounts, of which 10 were doing so for the first time.

FRS17 disclosures

The average pensions note now runs to almost 4 pages, with some companies dedicating as much as 10 pages of their accounts to pensions. This perhaps reflects the growing importance of pension deficits as well as the more extensive disclosure requirements of FRS17 compared to SSAP24. Interestingly we note that some companies have chosen to go even further than required under FRS17.

For example, *Diageo* disclosed that a decrease in the discount rate of 0.5% pa would increase the profit before taxation by approximately £11 million and increase the present value of the liabilities by around £385 million for its year ending 30th June 2004. This compares to the disclosed deficit of £1,044 million and pre-tax profits of £1,969 million.

For the first time in 2004, several companies provided details of their assumptions for future life expectancy, including:

- *Rio Tinto* stated that the mortality table used for the main pension arrangements implies that a 60 year old male has an expected future lifetime of 24 years.
- *Hanson* provided male and female life expectancies for current and future pensioners (together with historic comparators). For example, for their 2004 calculations a 65 year old male pensioner has an expected future lifetime of 18 years.

Diageo

Rio Tinto

Hanson



Actuaries & Consultants

- *ITV* provided the actual name of the mortality table used as the “PA92 tables” with mortality projected to 2015 for pensioner members and to 2030 for non-pensioner members.

We expect to see more detailed disclosures on mortality assumptions for future results reported under IAS19, since the international standard requires “any material actuarial assumptions” to be disclosed. The mortality assumption is clearly material.

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 its balance sheet.

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

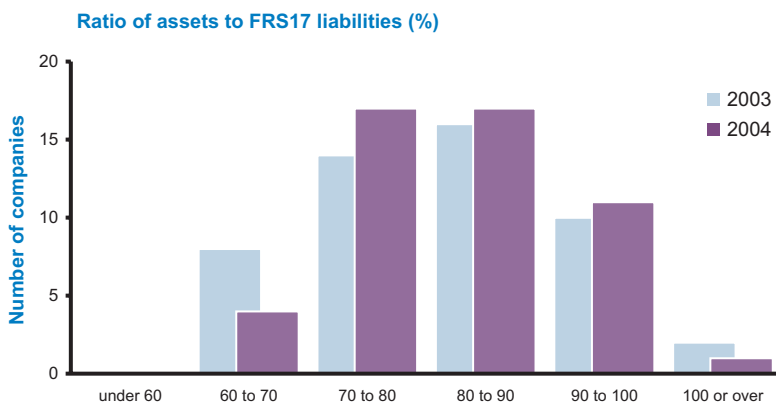
There were only 4 companies who reported an FRS17 surplus in their 2004 disclosures. These were *Associated British Foods*, *The British Land Company*, *Johnson Matthey* and *Old Mutual*.

Boots and *Exel*, who reported surpluses in 2003, each disclosed funding levels of 98% in 2004.

The lowest FRS17 funding ratio reported in 2004 was 65% by *Yell Group* as at 31st March 2004, although the scheme is small in relation to the company. The highest was *Johnson Matthey* with 105% as at 31st March 2004.

Further details of the companies with the highest and lowest FRS17 funding ratios are given in Appendix 2.

For the 50 FTSE 100 companies with year-ends in December 2004 the chart below shows that there has been a modest improvement in FRS17 funding ratios (calculated as the ratio of assets to FRS17 liabilities) over 2004.



ITV

Associated British Foods
The British Land Company
Johnson Matthey
Old Mutual

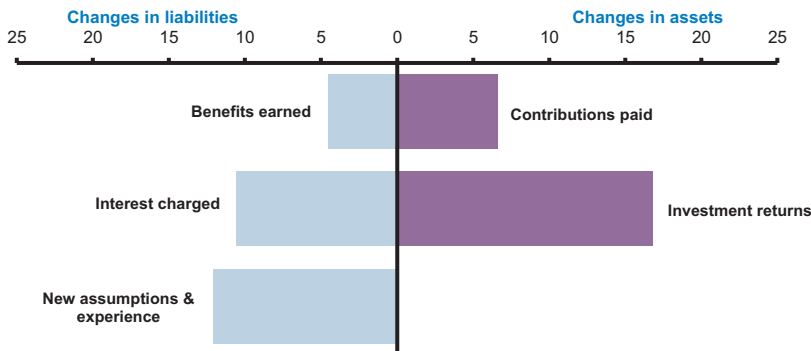
Boots
Exel

Yell Group

Sources of deficits and surpluses

For the 50 companies with December year-ends, additional funds from investment returns (£16.8 billion) have been swallowed up by interest charges on the liabilities (£10.6 billion), additional benefits earned by employees (£4.5 billion) and an increase in the FRS17 value placed on the projected benefits (£12.1 billion) due to revised assumptions and experience. This leaves nothing out of the contributions of £6.6 billion to reduce the pension deficit.

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

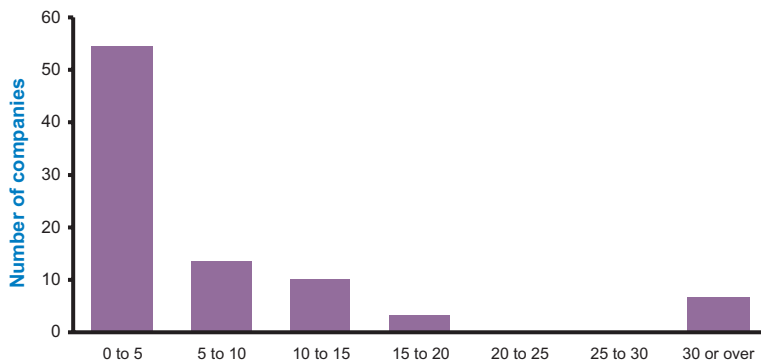


The net effect is that, for these 50 companies, deficits increased slightly between 31st December 2003 and 31st December 2004 in absolute terms, although their average FRS17 funding level increased marginally.

Shareholders vs pensioners

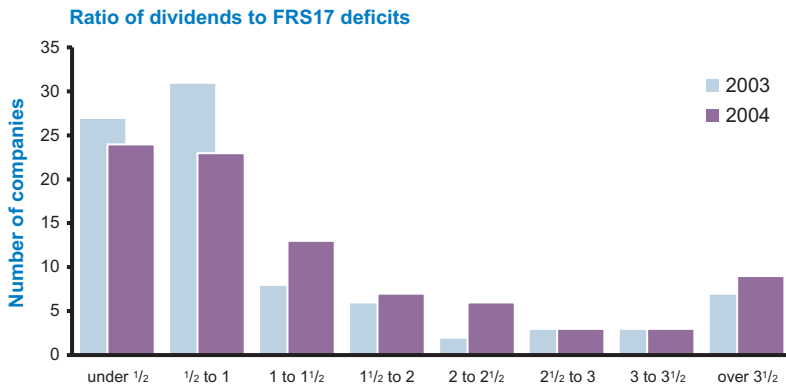
The chart below summarises the ratios of FRS17 deficits to market capitalisation (at their year-ends) of the 92 FTSE 100 companies in our survey. It shows that reported deficits for some schemes are generally small compared to the size of the company. However, some are significantly larger.

FRS17 deficit as a proportion of market capitalisation (%)



As discussed in Section 3, new legislation and guidance to the trustees of pension schemes will encourage trustees to compete with shareholders for access to available cash.

It is interesting to note that, during 2004, almost half of FTSE 100 companies declared shareholder dividends greater than the FRS17 deficits in their pension schemes. The graph below shows the range.



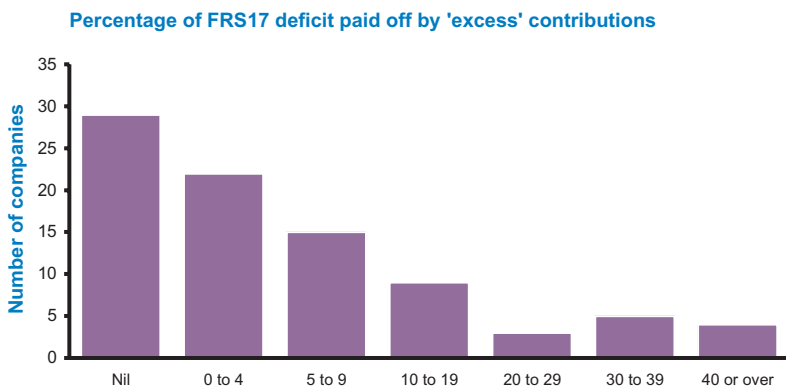
For example, *Northern Rock* is far from being in a unique or extreme position. It declared dividends of £110 million in respect of its 2004 accounting year, over twice the amount required to pay off its FRS17 deficit of £51.7 million (even before taking into account the effects of taxation).

At the other end of the scale, *British Airways* declared an FRS17 deficit of £1,306 million as at 31st March 2004 (44% of its market capitalisation at that time) and, for the second year running, has not paid a dividend to shareholders.

The level of contributions companies paid into their pension schemes over their accounting years ending in 2004 varies considerably. A third of companies in our survey paid contributions less than the FRS17 value of the benefits earned over the same period – notwithstanding the existence of an FRS17 deficit.

We have found that 36 of the companies in our survey with FRS17 deficits paid excess contributions (ie contributions in excess of the FRS17 value of the benefits earned) of more than 5% of their deficits at the start of the accounting year, while 9 companies paid more than 30% of their deficits.

For example, *The British Land Company* started its 2004 accounting year with an FRS17 deficit of £8.6 million, but paid in contributions of £11.7 million and was one of only 4 companies who reported an aggregate FRS17 surplus at their 2004 year-end.



Northern Rock

British Airways

The British Land Company

Results since December 2004

Of the companies in our survey, 28 reported results during the first half of 2005 and we have examined their 2005 pension disclosures.

The ratio of assets to FRS17 liabilities has increased for the vast majority of these companies, reflecting higher contributions and favourable investment returns. Two notable falls are for *The British Land Company* (down from over 100% to 92%) and *Yell Group* (down to 60% from 65%). Both reported as at 31st March 2005 and have shown updating actuarial assumptions as a major reason for the falls.

5.2 FRS17 key assumptions

We consider below the various assumptions used to put an FRS17 value 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.

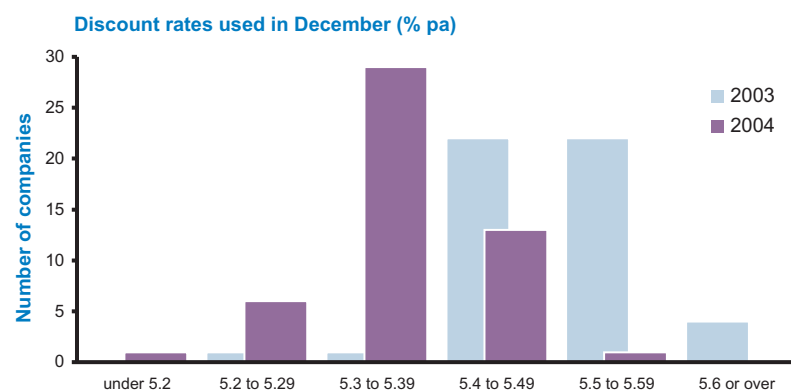
Our analysis is of the assumptions disclosed as at each company's 2004 accounting year-end.

Discount rate fluctuations

The discount rate 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.

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 above shows the discount rates as at 31st December 2003 and 2004 used by companies with accounting years ending in December.

Whilst 5.3% pa is the most common assumption for 2004, we have found variation in the discount rates adopted, some of which could be explained if the different maturities of schemes were disclosed.

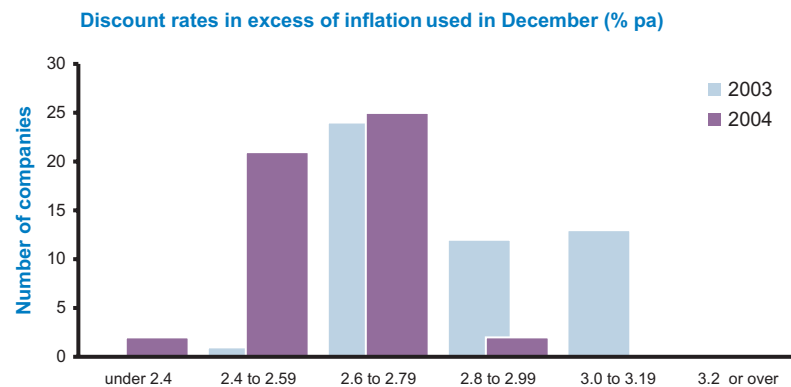
Of those companies with years ending in December, the highest discount rate of 5.5% pa was used by *Friends Provident*. The lowest disclosed was 5.2% pa used by *Gallaher Group* and *Royal & SunAlliance* (albeit *Old Mutual* disclosed a range of discount rates for their UK schemes of 2.25% to 2.3% pa, which we presume to be a printing error).

The significance of the discount rate is frequently not appreciated. A fall in the discount rate results in 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 2004 was 5.32% pa. This is 0.14% pa lower than at the same time last year and the reduction could easily have increased the value placed on the liabilities under FRS17 by 2%. This is equivalent to increasing deficits by approximately £6 billion for the FTSE 100 companies and has broadly the same impact on FRS17 deficits as a 4% fall in equity markets, all other things being equal.

FRS17 deficits have not decreased by as much as might have been expected over 2004, 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. The significance of this difference was described earlier in Section 2.

The chart below shows the difference between the discount rate and the assumption for inflation as at 31st December 2003 and 2004, used by companies with accounting years ending in December. A shift downwards can easily be seen.

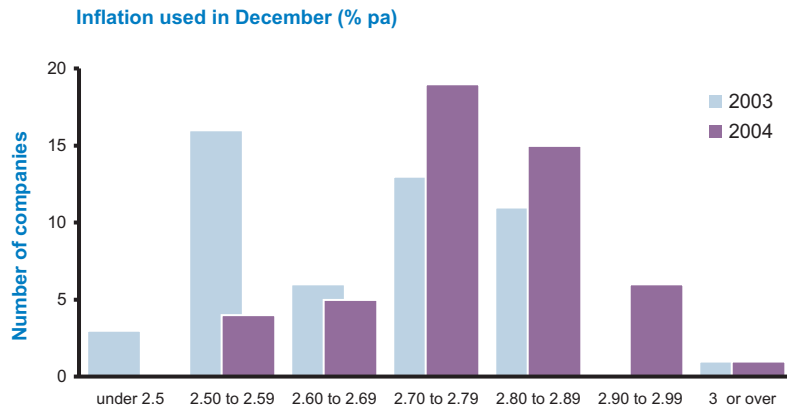


Friends Provident
Gallaher Group
Old Mutual
Royal & SunAlliance

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 2004. 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 there continues to be a spread in the assumptions for inflation. Perhaps this reflects the financial ramifications of increasing the inflation assumption.

Lower salary growth assumptions

The assumed rate of salary growth can also have a major effect on the disclosed FRS17 liabilities. A lower assumption for salary growth produces a lower projected pension and hence a lower FRS17 liability. A lower assumption will also produce higher reported profits where FRS17 is fully adopted.

Details of the salary assumptions used by each company are set out in Appendix 1. *The Man Group* assumed the highest salary increases of 2.6% 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. Although the average rate has remained around 1.5% pa above price inflation, there have been some significant revisions.

Of the 92 companies in the survey, 18 have reduced their assumed rate of salary growth in excess of inflation since last year, and hence the value placed on the FRS17 liabilities. In contrast, 5 companies have increased this assumption.

BT reduced in 2004 its assumption for salary growth in excess of inflation by 0.5% pa. In contrast, *WPP* increased its assumption by 0.7% pa, from 0.8% pa to 1.5% pa in excess of inflation, bringing it into line with the average.

The Man Group

**BT
WPP**

Lane
Clark &
Peacock

Actuaries & Consultants

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.

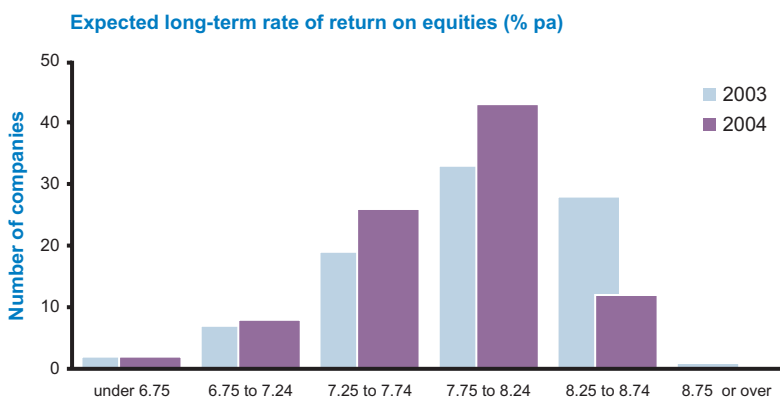
A company's profits are higher under FRS17 if it is more optimistic and expects a higher return.

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.

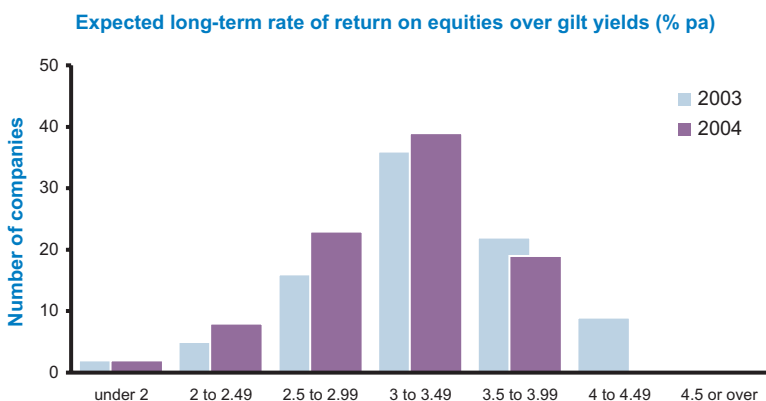
There is a wide range of expected return on equities, although the general consensus appears to be around 8% pa, unchanged from last year. Details of the expected return on equities used by each company are set out in Appendix 1.

The highest assumption of 8.5% pa was made by *Severn Trent* and *The BOC Group*. The lowest assumption was made by *William Hill* and *Enterprise Inns* of 6.5% pa.

The BOC Group
Enterprise Inns
Severn Trent
William Hill



The average expected rate of return on equities is some 3.16% 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 marginally lower than last year's figure of 3.22% pa.



Where disclosed, 22 companies have increased their expected rate of return on equities and 41 have reduced their expectation.

The largest changes were by *Compass Group*, which increased its expected rate of return on equities over the 2004 accounting year from 6.5% pa to 8.0% pa; and *Emap* which reduced it from 8.5% pa to 7.7% pa.

Subjective profits

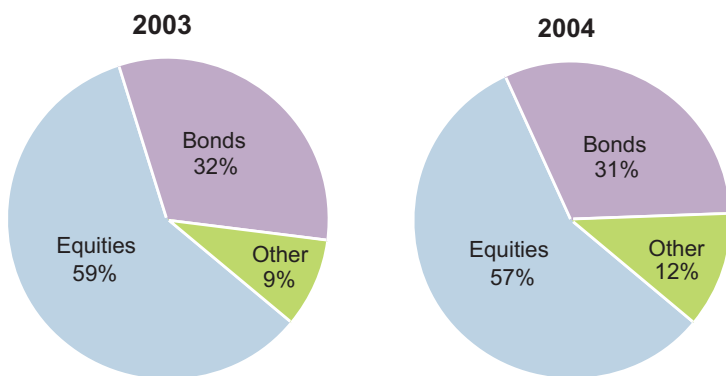
The choice of the expected return on equities is subjective. There is no 'correct' answer; expectations within a wide range can be justified. The wide choice of expected returns made by companies reflects this.

Profits calculated under FRS17 can be sensitive to this assumption. For example, *Diageo* has illustrated how sensitive its results are. They have disclosed that a 1% pa increase in the assumption used for the long-term expected rate of return on equities would improve profit before taxation by approximately £30 million.

If the FTSE 100 companies had not changed their expected rate of return on equities, pre-tax profits would have been over £160 million higher in aggregate for 2005 (due to a higher credit in the profit and loss account).

Investment strategy

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 that have reported balance sheet figures under FRS17 in 2003 and 2004.



The proportion of assets invested in equities has decreased slightly, continuing a trend seen over the last few years. 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.

Compass Group
Emap

Diageo



Actuaries & Consultants

For the UK plans of *Reuters Group*, the proportion of assets invested in equities has more than halved from 62% to 28%. In contrast, the proportion of assets in equities for *Kingfisher* has increased by more than 10% over its accounting year.

Boots continued to have the largest proportion of assets in bonds at its 2004 year-end, although it has since announced a reduction in favour of equities and property.

5.3 FRS17 and balance sheet risk

Under FRS17, 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 3 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 3 with balance sheets that under FRS17 are notably exposed to volatile movements in the equity markets – the upside as well as the downside. Each has pension schemes as at their 2004 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 seven companies are *BAE Systems*, *British Airways*, *BT*, *Corus*, *Exel*, *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 taking on the risk of a volatile balance sheet, is higher reported 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 that year.

This is because companies generally expect long-term returns from equities to exceed those from bonds and, under FRS17, a company books a credit

Reuters Group
Kingfisher

Boots

BAE Systems
British Airways
BT
Corus
Exel
Rolls-Royce Group
Royal & SunAlliance

in its profit and loss account for this expected return on its pension scheme's assets.

In aggregate, the 92 companies in our survey anticipated a credit under FRS17 of £16.7 billion, compared to the actual investment gain of £32.4 billion. In comparison, over 2003 they anticipated a credit of £16.4 billion, compared to the actual investment gain of £11.6 billion.

Profits vs cash

It should always be borne in mind that the underlying cash cost of a defined benefit 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.

6. Accounting for pensions in Europe

This is the second year that 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 European companies in the Dow Jones STOXX 50SM blue-chip index, to see what we could learn about their post-retirement benefit liabilities. Our key conclusions are:

- the standard and volume of information provided continues to vary considerably between companies;
- the aggregate deficit of Europe's largest blue-chip companies was broadly unchanged during 2004, standing at just under €116 billion at 31st December 2004;
- whilst more companies (8 in 2004 vs 6 in 2003) are reporting some form of information under International Financial Reporting Standards (IFRS), a total of 12 different sets of accounting rules were being followed by various companies; and
- comparisons between companies were once again often impossible.

The 50 largest blue-chip companies in Europe sponsor total pension liabilities for their employees of over €500 billion. More information on this liability is required. With EU law requiring harmonisation in line with IFRS by 31st December 2005, there is much work to be done to increase disclosure levels before the deadline.

Huge liabilities

There can be little doubt that Europe's largest companies are still bearing a huge post-retirement liability on behalf of their past and current employees. The overall deficit for the European companies in the Dow Jones STOXX 50SM is €116 billion as at 31st December 2004, broadly unchanged over 2004. 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 *BT*, *DaimlerChrysler*, *Siemens* and *Unilever*, for example) provide a detailed disclosure in the notes to their accounts.

In the case of other companies (for example *BBVA* and *Carrefour*) the level of disclosure was far less detailed and we found it challenging to identify the amount of liability recognised in the accounts.

A new dawn

For accounting periods starting on or after 1st January 2005 (ie accounting year-ends from 31st December 2005) all listed EU companies are required to

BT
DaimlerChrysler
Siemens
Unilever

BBVA
Carrefour

report in accordance with IFRS. For pension benefits this means the standard IAS19.

IAS19 contains detailed disclosure requirements which should result in clearer disclosures of assets and liabilities in the future. This will 'lift the veil' on many companies' pension liabilities.

We welcome this new level of disclosure as it will allow more transparent analysis of pension liabilities. It will enable informed readers of accounts to compare more easily the financial statements of different listed companies in different European countries irrespective of the country in which they publish their accounts.

Many companies (such as *BNP Paribas* and *Carrefour*) have mentioned the coming change to IFRS in their accounts. *Carrefour* went as far as to warn shareholders by stating that adopting IAS19 will "have a significant impact on the opening stockholders' equities...".

We are also encouraged by companies such as *Groupe Société Générale* which has published an additional section to its annual report showing the impact that adopting IAS19 would have had on its 2004 results. We expect most major European companies to make this information available over the course of 2005, if this has not already been published.

Schemes funding

A new EU Directive on pension scheme funding is due to come into effect from September 2005. This will mean that pension schemes will need to be funded up to the value of their 'technical provisions'. In the UK this has been incorporated into the recent Pensions Act 2004 which is expected to give pension scheme trustees the power to demand higher levels of funding for their pension scheme.

Some European countries, notably Germany and Spain, have traditionally not funded their pension arrangements via an external arrangement, instead backing the pension scheme with company assets. A protection fund in Germany protects benefits up to a certain level in the event of company insolvency. In recent years the tax rules have changed in Germany and now some companies are starting to fund their pension obligations via external arrangements. However, due to the history of not funding, Germany essentially has an exemption from the new EU Directive for their internally funded arrangements.

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 next year's annual reports when full compliance with IAS19's disclosure requirements is required throughout the EU.

BNP Paribas
Carrefour

Groupe Société Générale

Deficits revealed

The level of deficits in the pension schemes of European companies is coming to light as disclosures gradually improve, as they have in the UK over the past 10 years.

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. Recent 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 2005 were:

Country	2004 Average Deficit €m	2003 Average Deficit €m	Percentage change in 2004
Germany	4,343	4,287	1% increase
Spain	3,934	3,988	1% decrease
UK	2,562	2,813	9% decrease
Netherlands	2,120	1,589	33% increase
France	1,559	1,739	10% decrease
Sweden	1,146	n/a	-
Italy	1,019	1,080	6% decrease
Switzerland	931	521	79% increase
Finland	54	122	56% decrease

The average deficits shown above have been taken as the market value of assets less the value of the liabilities for each company by country, as shown in Appendix 4, divided by the number of companies for each country.

Germany, Spain and the UK remain the three countries with the largest average pension deficits.

The very different way in which pensions are provided in Germany and Spain is reflected in the high levels of 'deficit' shown. Here we have defined deficit as post-retirement liability in excess of externally held assets. This is not necessarily the local measure, but this is the approach used for both EU and US accounting standards.

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 *BP* and *Barclays* both have deficits of €3 billion. However, *BP's* market capitalisation is €156 billion compared to *Barclays'* market capitalisation of €53 billion and so the deficit is more material for *Barclays* than *BP*.

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

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 2005 that reported FRS17 figures in their 2004 (and 2003) accounts. The source of the data is each company's annual report and accounts for the accounting period ending in 2004. 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. "ND" means figures were not disclosed.

Company	Year-end	2004						2003					
		Market value of assets £m	FRS17 surplus/ (deficit) £m	Discount rate %pa	Salary growth %pa	Price inflation %pa	Expected return on equities %pa	Market value of assets £m	FRS17 surplus/ (deficit) £m	Discount rate %pa	Salary growth %pa	Price inflation %pa	Expected return on equities %pa
3i Group	Mar	272	(83)	5.50	4.40	2.90	7.90	213	(90)	5.60	4.00	2.50	7.50
Alliance & Leicester	Dec	1,062	(65)	5.40	4.50	2.75	7.50	851	(185)	5.40	4.50	2.50	7.00
Alliance UniChem	Dec	126	(53)	5.30	3.90	2.90	7.50	105	(49)	5.40	3.80	2.80	7.80
Allied Domecq	Aug	1,899	(561)	5.80	4.40	2.90	7.70	1,882	(686)	5.60	4.00	2.50	7.50
Anglo American	Dec	1,809	(268)	5.30	3.50	2.70	7.90	1,585	(269)	5.50	3.40	2.60	7.90
Associated British Foods	Sep	1,918	84	5.60	4.80	2.80	7.00	1,848	45	5.25	4.50	2.50	7.00
AstraZeneca	Dec	3,732	(884)	5.30	3.90	2.70	8.30	3,434	(854)	5.40	3.90	2.60	8.30
Aviva	Dec	6,301	(878)	5.40	4.50	2.70	8.20	5,696	(838)	5.60	4.40	2.60	8.10
BAA	Mar	1,526	(154)	5.50	4.40	2.90	7.70	1,214	(313)	5.50	4.10	2.60	7.80
BAE Systems	Dec	10,148	(4,334)	5.30	3.70	2.70	8.25	9,305	(3,081)	5.50	3.60	2.60	8.50
Barclays	Dec	13,542	(2,230)	5.40	4.30	2.75	7.85	12,370	(1,624)	5.50	4.30	2.75	8.00
BG Group	Dec	309	(155)	5.30	4.80	2.80	8.20	256	(138)	5.40	4.70	2.70	8.00
BHP Billiton	Jun	656	(124)	5.53	4.00	2.50	8.15	556	(170)	5.00	3.75	2.25	7.75
The BOC Group	Sep	1,894	(309)	5.50	4.40	2.90	8.50	1,690	(356)	5.30	4.10	2.60	8.50
Boots Group	Mar	2,836	(58)	5.50	4.40	2.90	ND	2,694	154	5.50	4.10	2.60	ND
BP	Dec	16,501	(2,389)	5.25	4.00	2.50	7.50	15,629	(2,265)	5.50	4.00	2.50	7.50
British Airways	Mar	10,060	(1,306)	5.60	4.00	2.50	8.40	8,858	(1,261)	5.70	3.75	2.25	8.50
British American Tobacco	Dec	3,327	(513)	5.30	4.80	2.80	7.50	4,195	(947)	5.40	4.80	2.80	7.80
The British Land Company	Mar	44	0	5.50	5.10	2.90	7.00	28	(9)	5.50	4.80	2.60	7.00
BT	Mar	26,900	(5,136)	5.50	3.63	2.60	8.20	21,500	(9,033)	5.40	3.78	2.25	8.20
Bunzl	Dec	259	(70)	5.30	3.75	2.75	7.00	227	(59)	5.50	3.75	2.75	7.30
Cable & Wireless	Mar	1,600	(403)	5.50	4.60	2.80	8.00	1,307	(578)	5.50	4.30	2.50	8.50
Cadbury Schweppes	Jan	1,887	(442)	5.30	4.50	2.70	8.00	1,738	(353)	5.50	4.50	2.50	8.10
Capita Group	Dec	234	(23)	5.33	3.75	2.75	7.00	151	(59)	5.38	3.88	2.75	7.25
Carnival	Nov	105	(20)	5.20	4.20	ND	7.70	93	(22)	5.30	4.00	ND	7.50
Centrica	Dec	2,041	(679)	5.40	4.30	2.80	8.10	2,359	(1,071)	5.50	4.25	2.75	8.40
Compass Group	Sep	850	(426)	5.60	3.20	2.70	8.00	772	(366)	5.90	3.30	2.80	6.50
Corus	Jan	12,173	(65)	5.40	4.30	2.60	8.00	11,529	(13)	5.50	4.25	2.50	8.00
Daily Mail & General Trust	Oct	1,197	(226)	5.50	4.30	2.75	8.00	1,090	(258)	5.40	4.30	2.50	8.00

Appendix 1 – continued

Company	Year-end	2004						2003					
		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
Diageo	Jun	3,730	(947)	5.70	4.40	3.00	8.20	3,435	(1,362)	5.20	4.00	2.60	7.50
Dixons Group	May	418	(126)	5.90	4.30	2.80	8.40	336	(227)	5.60	4.00	2.30	8.30
Emap	Mar	77	(29)	5.50	4.40	2.90	7.70	66	(35)	5.50	4.00	2.50	8.50
Enterprise Inns	Sep	13	(4)	5.50	3.90	2.90	6.50	ND	ND	ND	ND	ND	ND
Exel	Dec	2,253	(52)	5.30	4.10	2.60	7.80	1,814	76	5.40	4.00	2.50	8.00
Friends Provident	Dec	795	(24)	5.50	3.50	2.90	7.10	633	(13)	5.50	3.00	2.50	7.30
Gallaher Group	Dec	899	(72)	5.20	3.60	2.70	7.40	835	(80)	5.40	3.40	2.40	7.50
GlaxoSmithKline	Dec	6,352	(1,484)	5.25	4.00	2.50	8.25	5,703	(1,895)	5.25	4.00	2.50	8.25
GUS	Mar	801	(188)	5.50	4.60	2.80	8.00	577	(307)	5.50	4.30	2.50	8.50
Hanson	Dec	1,718	(56)	5.30	4.50	2.75	7.30	1,666	(66)	5.40	4.50	2.50	7.50
Hays	Jun	299	(68)	5.73	5.45	2.95	8.00	210	(159)	5.26	5.10	2.60	7.50
HBOS	Dec	4,201	(1,695)	5.45	3.80	2.80	8.20	3,776	(1,496)	5.60	3.80	2.80	8.50
Hilton Group	Dec	293	(120)	5.30	4.20	2.70	8.00	261	(112)	5.40	4.10	2.60	8.00
HSBC Holdings	Dec	10,818	(2,554)	5.30	3.20	2.70	8.10	10,148	(2,029)	5.50	3.00	2.50	8.50
ICI	Dec	7,638	(883)	5.30	4.00	2.60	8.20	7,350	(795)	5.50	3.90	2.40	8.30
Imperial Tobacco Group	Sep	2,427	(292)	5.05	3.80	2.90	7.25	2,287	(406)	4.85	3.60	2.60	7.60
InterContinental Hotels Group	Dec	528	(172)	5.30	4.30	2.80	8.00	403	(176)	5.40	4.30	2.80	8.00
ITV	Dec	1,690	(640)	5.40	4.25	2.75	7.50	1,117	(397)	5.50	4.25	2.75	7.80
Johnson Matthey	Mar	659	34	5.50	4.00	2.50	8.00	533	(15)	5.40	3.75	2.25	8.00
Kingfisher	Jan	909	(270)	5.60	4.30	2.70	8.00	782	(268)	5.50	3.90	2.30	8.50
Land Securities	Mar	105	(17)	5.50	4.00	2.75	7.50	76	(19)	5.50	4.75	2.50	7.50
Legal & General	Dec	942	(148)	5.30	3.30	3.00	8.00	864	(96)	5.50	3.50	3.00	8.00
Liberty International	Dec	36	(1)	5.30	4.60	2.60	7.70	34	0	5.50	4.75	2.75	8.25
Lloyds TSB Group	Dec	11,664	(3,187)	5.30	4.14	2.60	8.20	10,603	(3,055)	5.40	4.04	2.50	8.10
Man Group	Mar	128	(34)	5.50	5.50	2.90	8.20	107	(40)	5.40	5.00	2.50	8.60
Marks & Spencer Group	Apr	3,634	(649)	5.60	3.50	2.70	8.35	2,639	(1,254)	5.50	3.50	2.50	8.85
Wm Morrison Supermarkets	Feb	179	(68)	5.50	4.75	3.00	7.00	118	(29)	5.75	4.25	2.50	7.00
National Grid Transco	Mar	13,432	(1,846)	5.50	3.90	2.90	8.00	12,115	(2,771)	5.40	3.50	2.50	8.50
Next	Jan	202	(86)	5.50	4.25	2.75	7.00	151	(102)	5.25	4.00	2.25	7.00
Northern Rock	Dec	200	(52)	5.30	4.50	2.75	8.10	180	(47)	5.40	4.40	2.65	8.10
O2	Mar	299	(105)	5.70	4.30	2.80	7.80	218	(89)	5.80	3.75	2.50	7.50
Old Mutual	Dec	382	18	2.28	4.88	2.88	7.90	329	5	5.40	4.25	2.25	7.50
Pearson	Dec	1,274	(323)	5.40	4.80	2.80	7.50	1,158	(262)	5.50	4.75	2.75	7.75
Prudential	Dec	4,220	(649)	5.30	4.80	2.80	7.50	3,990	(602)	5.40	4.70	2.70	7.75
Reckitt Benckiser	Dec	734	(211)	5.30	4.80	2.80	7.80	701	(158)	5.40	4.50	2.50	7.80
Reed Elsevier	Dec	2,204	(321)	5.40	4.80	2.80	7.80	2,030	(251)	5.50	4.80	2.80	7.80

Company	Year-end	2004					2003						
		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
Rentokil Initial	Dec	570	(263)	5.30	3.50	2.80	7.60	537	(187)	5.60	3.00	2.50	8.30
Reuters Group	Dec	247	(70)	5.25	4.00	2.75	8.25	153	(44)	5.50	3.75	2.50	8.25
Rexam	Dec	2,091	(459)	5.30	4.30	2.80	7.50	2,091	(383)	5.40	4.25	2.75	7.80
Rio Tinto	Dec	2,480	(223)	5.30	4.90	2.90	7.90	2,281	(133)	5.40	4.80	2.80	7.80
Rolls-Royce Group	Dec	4,709	(1,398)	5.30	4.40	2.90	7.60	4,420	(1,456)	5.40	4.30	2.80	8.30
Royal & SunAlliance Insurance	Dec	4,230	(683)	5.20	4.00	2.50	7.30	3,920	(675)	5.40	4.00	2.50	7.30
Royal Bank Of Scotland Group	Dec	14,827	(2,850)	5.40	3.95	2.70	8.10	12,887	(1,968)	5.60	3.95	2.70	8.40
J Sainsbury	Mar	2,810	(680)	5.50	2.75	2.75	8.25	2,380	(876)	5.50	2.25	2.25	8.25
Schroders	Dec	389	(30)	5.30	4.40	2.90	8.00	354	(29)	5.40	4.30	2.80	8.30
Scottish & Newcastle	Dec	1,724	(372)	5.40	4.00	2.50	7.80	1,380	(697)	5.50	4.00	2.50	7.80
Scottish & Southern Energy	Mar	1,500	(178)	5.50	4.30	2.80	8.20	1,271	(402)	5.50	4.00	2.50	8.10
Scottish Power	Mar	2,487	(462)	5.50	4.30	2.80	7.45	2,167	(674)	5.40	3.90	2.40	7.20
Severn Trent	Mar	937	(368)	5.50	4.25	2.75	8.50	746	(325)	5.25	3.75	2.25	8.25
Smith & Nephew	Dec	285	(124)	5.30	4.90	2.90	7.50	256	(121)	5.40	4.80	2.80	7.80
Smiths Group	Jul	2,558	(160)	5.70	3.60	2.60	8.25	2,468	(340)	5.50	4.20	2.70	8.25
Standard Chartered	Dec	996	(76)	5.40	5.30	2.80	8.40	935	(90)	5.50	5.30	2.80	8.60
Tate & Lyle	Mar	970	(150)	5.50	4.50	2.80	8.00	876	(196)	5.40	4.20	2.50	8.10
Tesco	Feb	1,979	(674)	5.70	3.80	2.50	8.10	1,506	(769)	5.50	3.60	2.30	8.60
Unilever	Dec	9,626	(2,805)	5.30	4.30	2.80	8.00	9,226	(2,663)	5.40	4.20	2.70	8.30
United Utilities	Mar	1,849	(378)	5.50	4.30	2.80	7.60	1,567	(426)	5.50	4.00	2.50	7.50
Vodafone Group	Mar	641	(165)	5.50	4.50	2.50	7.50	410	(406)	5.40	4.50	2.50	8.00
Whitbread	Mar	952	(366)	5.60	4.40	2.90	7.80	812	(420)	5.60	4.00	2.50	7.40
William Hill	Dec	132	(65)	5.25	3.75	2.75	6.50	113	(45)	5.50	3.75	2.75	6.10
Wolseley	Jul	400	(183)	5.70	5.00	2.99	7.00	340	(206)	5.50	4.65	2.64	6.75
WPP	Dec	393	(202)	5.30	4.30	2.80	7.50	348	(199)	5.50	3.60	2.80	7.50
Xstrata	Dec	44	(13)	5.40	4.10	2.70	8.00	65	(30)	5.50	4.00	2.50	8.00
Yell Group	Mar	122	(66)	5.40	4.40	2.90	7.70	94	(47)	5.40	4.00	2.50	7.80

The 2004 figures are as at accounting periods ending in 2004 (apart from Corus and Cadbury Schweppes which have balance sheet dates of 1st and 2nd January 2005 respectively). The 2003 figures are as at the start of the accounting period.

The market value of assets and surplus/(deficit) figures before tax relate to the worldwide position of each company, not just the UK disclosure. Traditionally, some companies with overseas pension plans do not fund them via an external scheme, instead backing the pension plan with company assets, which may result in a larger FRS17 deficit being disclosed. All figures are rounded to the nearest million pounds. The figures have been converted to Sterling where a company has reported figures in its accounts in a different currency.

The assumptions for earnings growth, inflation and the discount rate refer to those disclosed for the companies' main UK schemes. Where a company has disclosed a range of assumptions, we have taken the mid-point. Where a company operates pension schemes in more than one country, we have considered the assumptions used for UK if separately given, or Europe otherwise. "ND" means figures were not disclosed.

We have excluded from our survey the following 8 companies who had no evidence of significant defined benefit provision or who did not report pension costs under UK Generally Accepted Accounting Principles: Amvescap, Antofagasta, Cairn Energy, SABMiller, Sage Group, Shell, Shire Pharmaceuticals and Sky.

The following 3 companies have entered the FTSE 100 Index since 1st January 2005 and hence are not included in our survey: BPB, Hammerson and International Power. The following 3 companies have exited the FTSE 100 Index since 1st January 2005: Bunzl, Cairn Energy and Corus Group.

Appendix 2 – FTSE 100 FRS17 measures

Largest FRS17 liabilities

Company	Liabilities £m
BT	32,036
BP	18,890
Royal Bank of Scotland	17,677
Barclays	15,772
National Grid Transco	15,278

Largest FRS17 deficits

Company	Deficit £m
BT	5,136
BAE Systems	4,334
Lloyds TSB Group	3,187
Royal Bank of Scotland	2,850
Unilever	2,805

Largest FRS17 liabilities compared to market capitalisation

Company	Liabilities £m	Market Cap £m	Liabilities/ Market Cap %
Corus	12,238	2,240	546
British Airways	11,366	2,992	380
ICI	8,521	2,871	297
Royal & SunAlliance	4,913	2,257	218
BT	32,036	15,346	209

The tables opposite show the key results of analysis of the disclosures made by the companies in the FTSE 100 as at 1st January 2005 that reported FRS17 figures in their 2004 accounts.

Largest FRS17 deficits compared to market capitalisation

Company	Deficit £m	Market Cap £m	Deficit/ Market Cap %
BAE Systems	4,334	7,004	62
British Airways	1,306	2,992	44
BT	5,136	15,346	33
Rolls-Royce Group	1,398	4,209	33
ICI	883	2,871	31

Lowest FRS17 funding levels

Company	Assets £m	Liabilities £m	Assets/ Liabilities %
Yell Group	122	189	65
WPP	393	595	66
BG Group	309	464	67
Compass Group	850	1,276	67
Rentokil Initial	570	833	68

Highest FRS17 funding levels

Company	Assets £m	Liabilities £m	Assets/ Liabilities %
Johnson Matthey	659	626	105
Old Mutual	382	364	105
Associated British Foods	1,918	1,834	105
British Land Company	44	44	100
Corus	12,173	12,238	99

Appendix 2 – continued

Largest employer contributions

Company	Conts £m
Royal Bank of Scotland	1,145
BT	1,051
Marks & Spencer Group	531
Unilever	524
GlaxoSmithKline	469

Largest FRS17 service costs

Company	FRS17 service costs £m
Royal Bank of Scotland	462
BT	439
BP	404
HSBC Holdings	353
Lloyds TSB Group	306

Largest employer contributions compared to FRS17 service cost

Company	Conts £m	FRS17 service cost £m	Conts/FRS17 service cost %
Emap	5	0.3	1,533
Scottish & Newcastle	284	32	888
Alliance & Leicester	148	18	822
Capita Group	63	9	672
British Land Company	12	2	488

Largest dividends compared to FRS17 deficit

Company	Dividends £m	Deficit £m	Dividends/ Deficit
Liberty International	84	0.5	168.0
Enterprise Inns	41	4	10.8
Land Securities	173	17	10.1
Vodafone Group	1,378	165	8.4
BHP Billiton	938	124	7.6






The source of the data is each company's annual report and accounts for the accounting period ending in 2004. The figures relate to the worldwide position of each company (not just the UK disclosure) but excludes healthcare and defined contribution plans where possible.

The surplus/(deficit) figures are before tax. The FRS17 Service Cost (representing the FRS17 value of benefits earned over the accounting period) includes the value of any past service benefits awarded to members.

Traditionally, some companies with overseas pension arrangements do not fund their pension arrangements via an external arrangement, instead backing the pension plan with company assets, which may result in a larger FRS17 deficit being disclosed.

The source of market capitalisation figures is the FTSE European Monthly Reviews as at the companies' 2004 year-ends.


Appendix 3 – FTSE 100 FRS17 risk measures

Company	Year-end 2004	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	Mar	10	9	77	69	
Alliance & Leicester	Dec	63	27	94	49	
Alliance UniChem	Dec	16	9	71	58	
Allied Domecq	Aug	417	50	77	50	
Anglo American	Dec	13	11	87	52	
Associated British Foods	Sep	55	73	105	38	
AstraZeneca	Dec	61	15	81	50	
Aviva	Dec	78	50	88	58	
BAA	Mar	33	31	91	69	
 BAE Systems	Dec	306	207	70	67	
Barclays	Dec	86	42	86	49	
BG Group	Dec	10	4	67	83	
BHP Billiton	Jun	10	7	84	51	4
The BOC Group	Sep	117	50	86	73	4
Boots Group	Mar	154	60	98	0	
BP	Dec	46	17	87	77	
 British Airways	Mar	468	380	89	48	4
British American Tobacco	Dec	71	26	87	46	4
The British Land Company	Mar	1	1	100	60	
 BT	Mar	1,020	209	84	64	
Bunzl	Dec	76	17	79	66	
Cable & Wireless	Mar	101	65	80	66	
Cadbury Schweppes	Jan	75	23	81	66	
Capita Group	Dec	71	11	91	59	
Carnival	Nov	5	2	84	32	
Centrica	Dec	106	30	75	78	
Compass Group	Sep	50	27	67	56	
 Corus	Jan	371	546	99	38	
Daily Mail & General Trust	Oct	347	69	84	73	
Diageo	Jun	112	21	80	76	4
Dixons Group	May	37	18	77	87	
Emap	Mar	37	5	73	49	
Enterprise Inns	Sep	1	1	77	75	
 Exel	Dec	322	107	98	69	
Friends Provident	Dec	33	27	97	61	
Gallaher Group	Dec	441	19	93	61	5
GlaxoSmithKline	Dec	126	11	81	65	
GUS	Mar	33	13	81	65	
Hanson	Dec	65	54	97	46	
Hays	Jun	492	17	81	64	
HBOS	Dec	29	18	71	80	
Hilton Group	Dec	16	9	71	66	
HSBC Holdings	Dec	26	14	81	54	
ICI	Dec	1,055	297	90	18	4
Imperial Tobacco Group	Sep	1,999	31	89	59	4
InterContinental Hotels Group	Dec	33	17	75	58	

We list here the companies in the FTSE 100 as at 1st January 2005 that disclosed FRS17 results in 2004.

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

The figures have been calculated as at each company's 2004 year-end.

Company	Year-end 2004	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	
ITV	Dec	68	54	73	71	
Johnson Matthey	Mar	76	34	105	57	
Kingfisher	Jan	27	18	77	62	
Land Securities	Mar	2	2	86	41	
Legal & General	Dec	32	15	86	41	
Liberty International	Dec	1	1	99	41	
Lloyds TSB Group	Dec	140	56	79	69	
Man Group	Mar	14	3	79	40	
Marks & Spencer Group	Apr	175	68	85	55	
Wm Morrison Supermarkets	Feb	19	7	72	92	
National Grid Transco	Mar	1,210	115	88	44	
Next	Jan	130	8	70	78	
Northern Rock	Dec	16	8	79	53	
O2	Mar	4	5	74	86	
Old Mutual	Dec	8	8	105	34	
Pearson	Dec	57	32	80	54	
Prudential	Dec	112	46	87	61	
Reckitt Benckiser	Dec	56	9	78	58	
Reed Elsevier	Dec	111	41	87	64	
Rentokil Initial	Dec	149	31	68	80	5
Reuters Group	Dec	52	6	78	39	
Rexam	Dec	324	102	82	49	
Rio Tinto	Dec	41	17	92	66	4
Rolls-Royce Group	Dec	265	145	77	66	
Royal & SunAlliance Insurance	Dec	162	218	86	49	4
Royal Bank Of Scotland	Dec	50	32	84	57	
J Sainsbury	Mar	67	93	81	67	
Schroders	Dec	38	33	93	72	
Scottish & Newcastle	Dec	77	54	82	55	
Scottish & Southern Energy	Mar	97	29	89	64	
Scottish Power	Mar	62	42	84	63	
Severn Trent	Mar	59	50	72	73	
Smith & Nephew	Dec	56	8	70	75	
Smiths Group	Jul	242	66	94	51	
Standard Chartered	Dec	22	9	93	42	
Tate & Lyle	Mar	110	78	87	48	
Tesco	Feb	33	14	75	71	
Unilever	Dec	298	36	77	60	4
United Utilities	Mar	72	77	83	69	
Vodafone Group	Mar	1	1	80	67	
Whitbread	Mar	63	60	72	58	
William Hill	Dec	74	8	71	87	
Wolseley	Jul	31	12	69	52	
WPP	Dec	15	9	66	38	
Xstrata	Dec	1	1	77	50	
Yell Group	Mar	21	8	65	54	

¹ Size of scheme is taken as the greater of the assets and the liabilities. Size of the balance sheet is taken to be the 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.

Appendix 4 – 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	2004 Surplus/ (deficit) €m	2003 Surplus/ (deficit) €m
ABN AMRO	NL	31/12/2004	8,754	10,715	32	(1,961)	(1,319)
Allianz	DE	31/12/2004	6,287	13,410	40	(7,123)	(6,079)
Anglo American	UK	31/12/2004	2,561	2,940	11	(379)	(382)
Assicurazioni Generali	IT	31/12/2004	-	1,471	5	(1,471)	(1,550)
AstraZeneca	UK	31/12/2004	5,283	6,534	15	(1,251)	(1,042)
Aviva	UK	31/12/2004	8,919	10,162	50	(1,243)	(1,188)
AXA	FR	31/12/2004	6,129	9,586	35	(3,457)	(3,083)
BBVA	ES	31/12/2004	326	420	1	(94)	(62)
BSCH	ES	31/12/2004	659	10,298	18	(9,639)	(9,388)
Barclays	UK	31/12/2004	19,169	22,326	42	(3,157)	(2,301)
BASF	DE	31/12/2004	1,946	5,905	20	(3,959)	(3,657)
BNP Paribas	FR	31/12/2004	-	1,349	3	(1,349)	(1,467)
BP	UK	31/12/2004	23,358	26,740	17	(3,382)	(3,200)
BT	UK	31/03/2004	38,078	45,349	209	(7,271)	(12,798)
Carrefour	FR	31/12/2004	-	342	2	(342)	(355)
Credit Suisse	CH	31/12/2004	10,645	11,815	32	(1,170)	(830)
DaimlerChrysler	DE	31/12/2004	27,804	34,448	117	(6,644)	(5,804)
Deutsche Bank	DE	31/12/2004	7,643	7,592	21	51	(119)
Deutsche Telekom	DE	31/12/2004	523	5,189	12	(4,666)	(4,543)
Diageo	UK	30/06/2004	5,280	6,621	21	(1,341)	(2,011)
E.ON	DE	31/12/2004	6,399	15,708	34	(9,309)	(8,148)
Eni	IT	31/12/2004	-	230	0	(230)	(175)
Ericsson	SE	31/12/2004	638	1,784	5	(1,146)	(1,017)
Fortis	NL	31/12/2004	6,033	7,203	29	(1,170)	(810)
GlaxoSmithKline	UK	31/12/2004	8,992	11,092	11	(2,100)	(2,685)
Groupe Société Générale	FR	31/12/2004	1,537	2,026	6	(489)	(456)
HBOS	UK	31/12/2004	5,947	8,346	18	(2,399)	(2,120)
HSBC Holdings	UK	31/12/2004	15,313	18,929	14	(3,616)	(2,877)
ING	NL	31/12/2004	10,664	13,222	31	(2,558)	(2,059)
Lloyds TSB Group	UK	31/12/2004	16,511	21,022	56	(4,511)	(4,328)
L'Oréal	FR	31/12/2004	931	2,054	12	(1,123)	(1,095)
Nestlé	CH	31/12/2004	11,549	13,405	17	(1,856)	(1,851)
Nokia	FI	31/12/2004	1,071	1,125	2	(54)	(122)
Novartis	CH	31/12/2004	13,049	12,181	13	868	1,796
Phillips	NL	31/12/2004	18,628	19,510	78	(882)	(1,175)
Roche	CH	31/12/2004	6,202	7,885	13	(1,683)	(1,395)
Royal Bank of Scotland Grp	UK	31/12/2004	20,988	25,023	32	(4,035)	(2,788)
Shell*	NL	31/12/2004	38,323	40,501	27	(2,178)	(1,997)
SAP	DE	31/12/2004	213	223	1	(10)	(22)
Siemens	DE	30/09/2004	17,708	20,794	40	(3,086)	(4,979)
Suez	FR	31/12/2004	2,101	3,499	19	(1,398)	(1,665)
Swiss Re	CH	31/12/2004	2,140	2,451	14	(311)	(297)
Telecom Italia	IT	31/12/2004	-	1,356	5	(1,356)	(1,514)
Telefónica	ES	31/12/2004	-	2,068	3	(2,068)	(2,514)
Tesco	UK	28/02/2004	2,801	3,755	14	(954)	(1,089)
Total	FR	31/12/2004	5,362	8,117	8	(2,755)	(2,771)
UBS	CH	31/12/2004	14,343	15,775	24	(1,432)	(550)
Unilever**	NL	31/12/2004	13,615	17,583	36	(3,968)	(3,761)
Vodafone Group	UK	31/03/2004	907	1,141	1	(234)	(575)

This table shows the key disclosures made by the European companies in the Dow Jones STOXX 50SM blue-chip index. 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 2004.

Data for the 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. The figures have been converted to Euros where a company has reported figures in its accounts in a different currency.

Country	Code	Number	Market value of assets €m	Value of liabilities €m	Liabilities as % of market capitalisation	2004 Surplus/ (deficit) €m	2003 Surplus/ (deficit) €m
Finland	FI	1	1,071	1,125	2	(54)	(122)
France	FR	7	16,060	26,973	10	(10,913)	(10,892)
Germany	DE	8	68,523	103,269	35	(34,746)	(33,351)
United Kingdom	UK	14	174,107	209,980	23	(35,873)	(39,384)
Italy	IT	3	-	3,057	3	(3,057)	(3,239)
Netherlands	NL	6	96,017	108,734	34	(12,717)	(11,121)
Spain	ES	3	985	12,786	8	(11,801)	(11,964)
Sweden	SE	1	638	1,784	5	(1,146)	(1,017)
Switzerland	CH	6	57,928	63,512	18	(5,584)	(3,127)
TOTAL		49	415,329	531,220	21	(115,891)	(114,217)

Notes:

* 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.

Notes

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