Lane Clark & Peacock

Actuaries & Consultants

Accounting For Pensions 2008

UK and International

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UK Professional Pensions Awards
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CONTENTS

Accounting For Pensions 2008

Accounting For Pensions – UK

Accounting For Pensions – International

1. Main findings

1.1. Deficits are back

- Lane Clark & Peacock LLP (LCP) estimates that under the accounting standard IAS19 the aggregate FTSE 100 UK pension deficits and surpluses stood at an overall deficit of £41 billion as at mid-July 2008, in stark contrast to an aggregate £12 billion surplus in July 2007.

- The aggregate position oscillated wildly throughout the year, reaching a high point of a £19 billion surplus at the end of November 2007, before falling back to a £41 billion deficit in mid-July 2008. Extreme volatility, therefore, is a key issue for both the company and pension fund balance sheets.

- During 2008, the financial conditions driving surpluses and deficits have been brutal. Over the period from 1st January 2008, we estimate that the overall funding position of FTSE 100 companies under IAS19 has suffered from the effects of first, equity market falls wiping off around £33 billion from scheme assets and second, new and severe market fears over rising inflation adding around £50 billion to scheme liabilities – a combined and unprecedented "double whammy" of £83 billion.

- At the same time, companies have benefited from one significant consequence of the credit crunch, namely the sharp rise in yields on corporate bonds (IAS19 requires companies to discount future pension liabilities using such yields). We estimate that the rise in bond yields since 1st January 2008 will have reduced IAS19 liabilities by around £40 billion – enough to offset almost half of the huge losses arising from equity market falls and rising inflation.

- Bond yields peaked in late March, enabling companies with March reporting dates to report smaller pension liabilities than if they had used current bond yields. 14 of 23 companies reporting in late March disclosed surpluses, totalling £5.9 billion. In the light of the subsequent fall in bond yields, equity market falls and increasing fears over inflation, we estimate that those 14 companies have suffered aggregate pension losses of almost £13 billion since March, with estimated deficits now totalling around £7 billion.

- Company contributions were again significant during the year (reported as £13.1 billion for 2007, down slightly from last year's record of £13.4 billion). However, they had relatively little impact on overall deficits given the sheer scale of movements in equity and corporate bond markets, and the impact of inflation expectations.

1.2 IAS19 now revealing cracks under severe pressure

- Our survey shows that, under IAS19, companies reporting at 31st March 2008 were able to choose from a far wider range of discount rates than was the case 12 months previously. As a result the numbers reported are much less useful in comparing one company with another.

- One proposal that could have addressed this would be for companies to report using a risk-free rate. We discuss later the implications of such a move and note that, as it stands, there is no timetable for the introduction of such a change. The International Accounting Standards Board (IASB) is not due to consider discount rates until "Phase II" of their ongoing review of IAS19.

1.3 Modest evidence only of company action to reduce pension risks

- Given the turbulent market conditions in recent times, one would have expected trustees and companies to wish to take steps to reduce or mitigate the risks associated with their pension schemes.

- There is an increasing range of options for reducing pension risks. In addition to interest rate and inflation swap products offered by investment banks, innovations include the use of a buy-out contract to match payments for some or all of the membership, and longevity swaps/insurance.

- There is some evidence of action by FTSE 100 companies to address pension risks through changes in asset allocation. At their 2007 balance sheet dates, FTSE 100 UK pension schemes invested just over 53% of total assets in equities, down from 59% the previous year. This is a notable reduction, although the impact on market-related pension risks is relatively slight. We estimate that there still remains a 1 in 10 chance that falling markets alone could cause a loss of at least £45 billion in a 12 month period.

- Trustee control over scheme asset strategy poses challenges for companies looking to de-risk. For example, trustees may initially prefer to adopt a cautious approach toward new strategies, and this caution can prevent companies benefiting from market opportunities as they arise. Effective de-risking strategies involve early engagement between the company and trustee board in conjunction with their advisers in order to agree a framework for implementing change.

- Present accounting disclosure rules do not require companies to set out details of pension risk hedging strategies, nor provide a standard for those that choose to disclose - this is in stark contrast with the detailed disclosure requirements when hedging other business risks. Analysts and investors are thus unable to assess, with confidence, the potential impact of adverse economic and market events on the company balance sheet.

1.4. Further increases in assumed life expectancy as companies respond to new research findings

- Following a clear leap forward in assumed life expectancy in 2006, FTSE 100 companies have adjusted their assumptions upwards again in 2007, reflecting research findings. For a male pensioner now aged 60 in the UK, average assumed life expectancy is now 85.5 years, up from 84.8 years in 2006, with a wide range of assumptions, from 82 to 89 years.
- Companies are now also strengthening assumptions for the rate at which life expectancy may continue to improve in the future. For 2007, companies assumed that, on average, members retiring in 20 years time will live 1.6 years longer than those retiring today, up from 1.3 years in 2006.
- Each additional year of life expectancy adds about £11 billion to aggregate FTSE 100 UK deficits. We estimate that about £9 billion extra has been added to deficits between 2006 and 2007, as a result of changes in assumed life expectancy.

1.5 Buy-out market continues to innovate, as prices rise

Lonmin

Friends Provident

- With keener buy-out pricing in the early part of the year, 2008 saw the first two FTSE 100 buy-out deals, for *Lonmin* and *Friends Provident*.
- Based on our rule of thumb, it appears that, at one point during the year, three FTSE 100 schemes could have been in a position to buy out their UK liabilities in full, without the need for additional company funding. By mid-July, however, deteriorating market conditions meant that none was in a position to do so. This highlights a possible governance gap in the running of pension schemes that, particularly with regard to investment matters, needs to be addressed as it becomes more important for decisions to be made quickly.
- We see continuing demand for buy-out, despite the increase in costs, as providers continue to innovate in this area. This includes the developing use of "partial buy-outs" for pensioners as a significant staging post in a de-risking process. In addition, buy-out providers are now showing the necessary speed of execution to become a valuable tool in mergers and acquisitions.
- Markets appear uncertain as to how to evaluate the benefits of a buy-out. We see no clear evidence that markets either welcome or penalise companies that divert resources to enable either full or partial buy-outs.

1.6 The Pensions Regulator acts, with new powers due shortly

- The Pensions Regulator took firm action this year, in pursuit of its objective of protecting members. The most public example was its handling of the takeover of *telent* by *Pension Corporation*, The Regulator's approach in that case will have made companies and trustees even more cautious in assessing buy-out type solutions that operate outside of a FSA regulated environment – so-called "non-insured" buyouts.
- The Government has proposed an extension to the Regulator's present powers, with the stated objective of further deterring the use of certain "business models" for non-insured buyouts. Given the apparent success of the Regulator in the *telent* case, it is not obvious that the Regulator's powers needed strengthening in this regard.
- The proposed powers would allow the Regulator far greater latitude to act against companies in a range of scenarios. Were the proposals to pass into law intact, fears of Regulator action may inhibit important corporate activity.

1.7 International

- Overall, FTSE Global 100 Index companies disclosed net pension deficits of £18 billion at their 2007 balance sheet dates, compared to £58 billion in 2006.
- As mentioned earlier, the main reason for this improvement is that corporate bond yields have risen, as a result of the "credit crunch", and this means that reported liability values are lower.
- Although bond yields have continued to rise in 2008, falls in asset values over the same period meant that, by mid-July 2008, we estimate that the FTSE Global 100 Index companies had a net pension deficit of around £30 billion.
- We estimate that falls in equity markets to mid-July 2008 may have reduced plan assets by £40 billion. This highlights the risk in holding equity assets to back pension liabilities.
- This is despite the fact that during 2007, a number of companies, particularly those in the US, reduced their allocation to equities. Nevertheless, the companies surveyed still held 50% of their pension plan assets in equities at their 2007 balance sheet dates.
- Based on asset allocations disclosed in 2007 accounts, we estimate that there is still a 1 in 10 chance that falls in total asset values could lead to a loss of more than £80 billion over the coming 12 months.
- Few companies outside the UK disclose their mortality assumptions, which makes it impossible to tell whether all of these multinational companies are allowing for the levels of improvements in a consistent way to those based in the UK.

telent
Pension Corporation

MAIN FINDINGS

- Amongst those companies that do disclose their mortality assumptions, the rates vary widely and it is often difficult to see the justification for such differences.

MAIN FINDINGS

Accounting For Pensions 2008

UK

2. Summary of UK findings

2.1 Introduction – content overview

This report provides an insight into the disclosure of pension scheme costs in companies' accounts, comparing the different practices adopted by the largest UK and international companies and highlighting the financial implications.

By analysing their pension disclosures we aim to measure the exposure that companies have to their pension liabilities and deficits, particularly in relation to capitalisation and liquidity, and we identify the steps that companies are taking to address their pension issues.

FTSE 100 companies scrutinised

This year the report covers 89 of the FTSE 100 companies, analysing 2007 annual reports based on the FTSE 100 constituents as at 31st December 2007. Eight companies were excluded as there was no evidence of material defined benefit pension liabilities. Three further companies were excluded as their annual reports were not published in time for this report. A full listing and summary details of the 89 companies' key pension disclosures are set out in appendix 1.

In the light of recent extreme conditions in corporate bond markets, we have for this year extended our analysis to include annual reports published by 23 FTSE 100 companies before 30th June, for accounting years ending in late March 2008.

All the UK companies analysed have reported under international accounting standards – IAS19 for pension costs – as required under EU regulations.

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

2.2 Pension scheme deficits

Overall position highly volatile

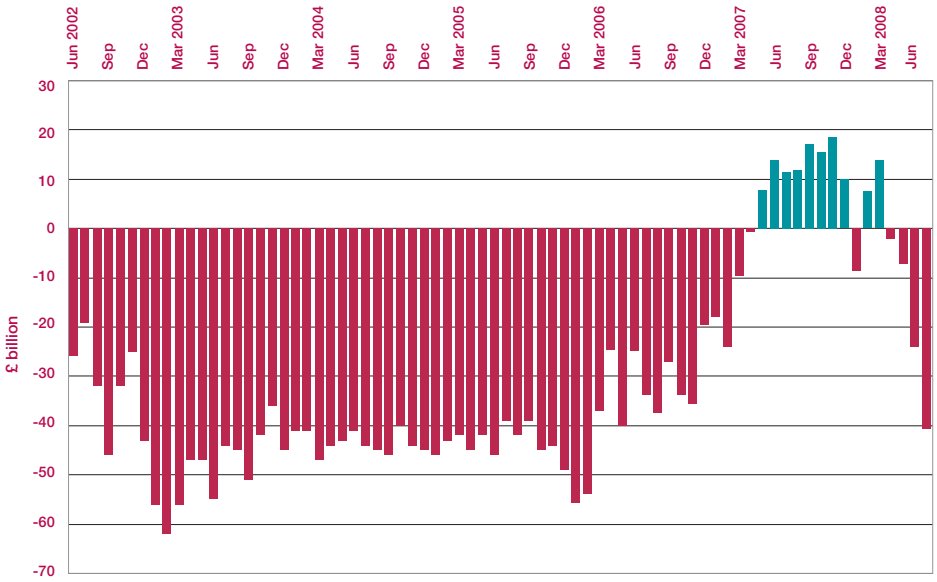
Under IAS19, companies are required to recognise a measure of the surplus or deficit in the pension scheme directly on the balance sheet.

In mid-July 2008, we estimate that the net deficit under IAS19 of UK pension schemes sponsored by companies in the FTSE 100 stood at £41 billion. This has switched from an aggregate £12 billion surplus at the same point last year.

As at mid-July, we estimate that the FTSE 100 companies had about £327 billion of assets and £368 billion of IAS19 liabilities in their UK pension schemes.

The chart below shows how the position has developed since June 2002.

Estimated FRS17 / IAS19 position for UK schemes of FTSE 100 companies (£ billion)



Funding levels under IAS19 have been highly volatile, particularly since the turn of the year. Having opened 2008 with a surplus of £10 billion, the position swung sharply between deficit and surplus, before closing with a £41 billion deficit in mid-July.

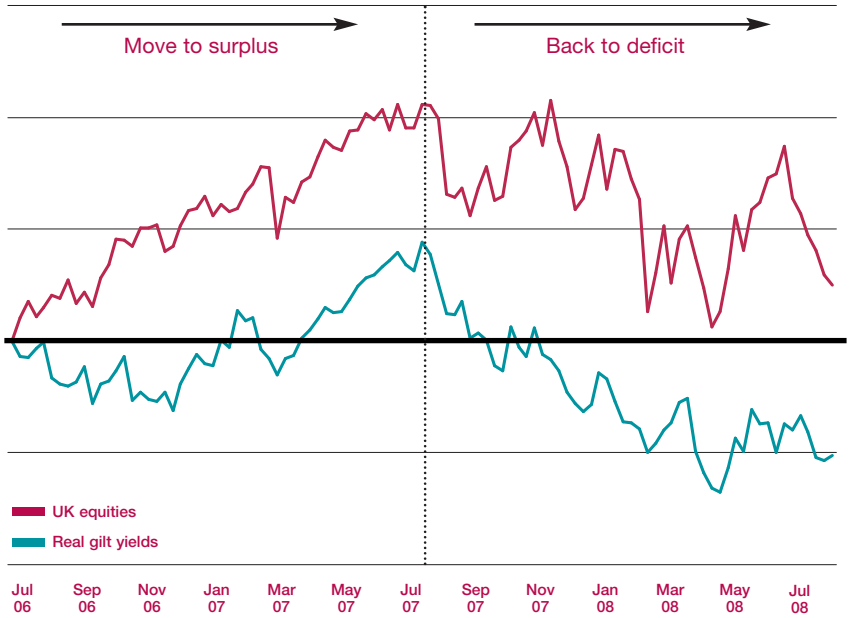
Our figures exclude, where possible, the overseas pension schemes sponsored by FTSE 100 companies and any employee benefits other than pensions. The figures do include unfunded pension promises.

The net position has been calculated as the sum of all companies' IAS19 liabilities less the sum of all assets, for the UK pension schemes. The assets and liabilities have been projected forwards from the year-end balance sheet positions allowing for the estimated impact of changes in financial markets. Like all deficits and surpluses quoted in this report, they are prior to any adjustment for tax. The chart above also allows for the entry and exit of companies from the FTSE 100 index.

Last year's gains now gone

Looking back over the full year since our last report, we see a stark reversal of earlier progress. Over the year, to July 2007, the opening deficit of £36 billion improved to a surplus of £12 billion as equity markets performed strongly and real gilt yields rose. This year has seen the reverse, with equity markets sliding back to levels last seen two years ago, and real gilt yields falling even further, to their all-time low, in the face of new inflation fears.

The chart below illustrates the extent of these market movements, over the two years together:-



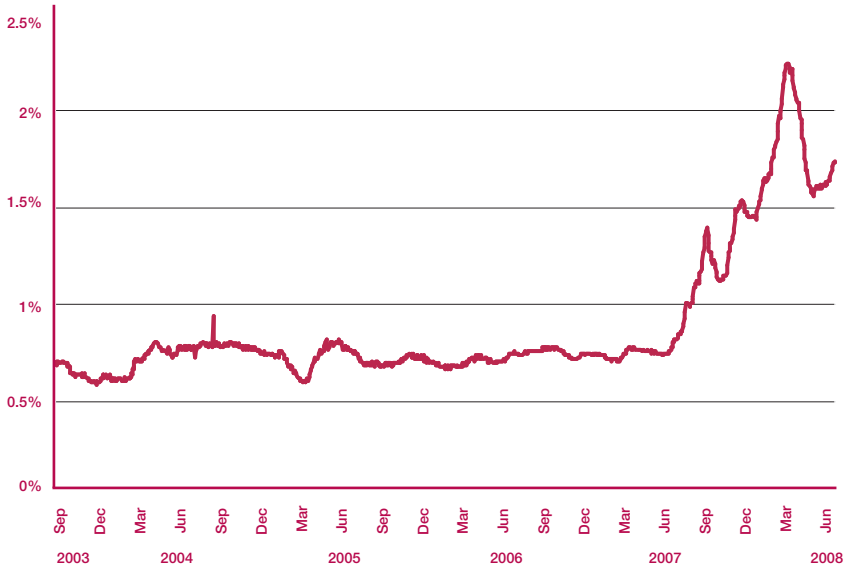
Given the significant fall in real yields over the period, one might expect the position for FTSE 100 companies as at mid-July 2008 to be far worse than that as at mid-July 2006. However, the overall deficit in mid-July 2008 (£41 billion) is comparable to that in mid-July 2006 (£36 billion), and we focus below on the main reason for this.

"Cushioned" by IAS19

IAS19 requires that future pension costs are discounted back to the present day, where discount rates are based on the yields available on "high quality" corporate bonds. Higher discount rates mean lower assessed liability values, so rising corporate bond yields would have the effect of allowing companies to place a lower value on pension liabilities.

Corporate bond yields have risen sharply over the last year, due to market concerns over the impact of tighter credit conditions. The chart below demonstrates the extent of that rise, and follows the progress over the last five years of "credit spreads" (ie the additional yield available on UK corporate bonds relative to risk-free UK Government bonds). The chart looks at AA-rated corporate bonds, the grade of bond on which IAS19 valuations are most commonly based.

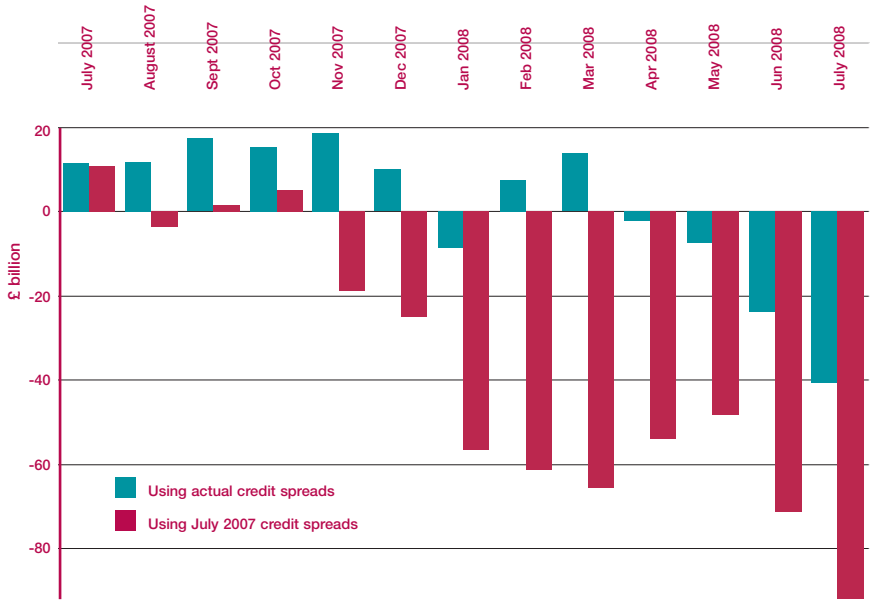
Credit spreads (AA-rated bonds)



The knock-on effect on IAS19 valuations over the year has been remarkable, as companies reporting under IAS19 were able to employ higher discount rates, thus driving down the reported value of their pension liabilities.

The chart below illustrates the degree to which changing credit spreads have affected IAS19 funding levels for FTSE 100 companies over the year. It sets out and compares IAS19 funding levels for the FTSE 100 over the last year and our estimate of IAS19 funding levels, had credit spreads remained unchanged over the year:

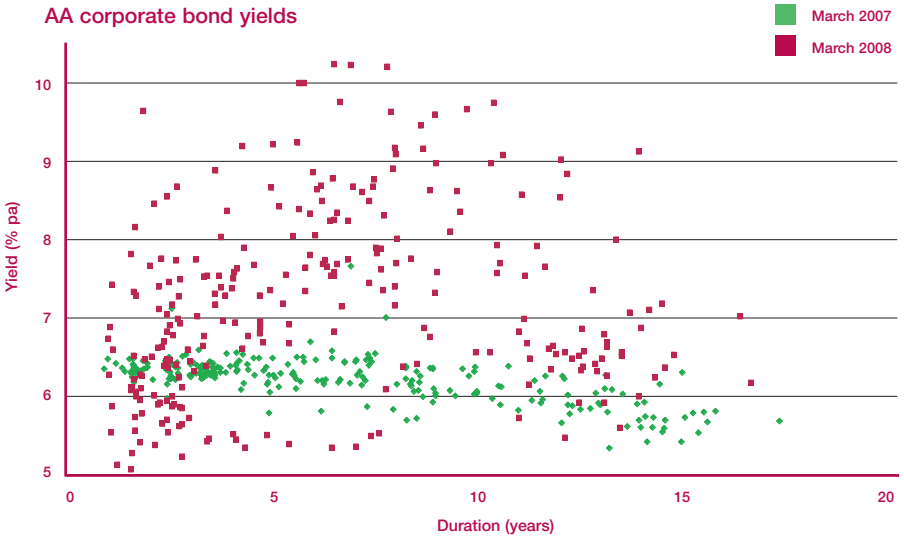
Estimated IAS19 position for UK pension schemes of FTSE 100 companies (£ billion)



As can be seen, changes in credit spreads over the year have had a highly flattering effect on IAS19 funding levels for FTSE 100 companies, compared to the position in July 2007. For example, as at 31st March 2008 (when credit spreads were close to their peak for the year), the net IAS19 funding position for FTSE 100 companies would have been a deficit of £66 billion, rather than a surplus of £14 billion. In other words, changes in credit spreads since July 2007 had "flattered" FTSE 100 IAS19 deficits as at 31st March 2008 to the value of some £80 billion.

Yield dispersion presents difficulties for users of accounts

The credit crunch has also led to a notable increase over the last year in the dispersion of corporate bond yields. The chart below demonstrates the extent of this dispersion, by comparing yields on individual AA-rated corporate bonds as at March 2007 and March 2008.



Companies reporting as at March 2008 therefore had considerable latitude for selecting a discount rate for IAS19 purposes, compared with the previous year. We note that those companies with material UK pension liabilities reporting as at 31st March 2008, employed discount rates ranging from 6.0% pa to 7.0% pa - a far wider range than 12 months previously, when rates ranged from 5.0% pa to 5.45% pa.

United Utilities

Scottish and Southern Energy

For example, in 2008, *United Utilities* employed a discount rate of 6% pa (5.3% pa in 2007), whereas *Scottish and Southern Energy* used 6.9% pa (5.4% pa in 2007) – both discount rates could clearly be accommodated within the requirements of IAS19. However, using a discount rate of 6% pa rather than 6.9% pa could increase IAS19 liabilities by nearly 20%, or some £350 million for *Scottish and Southern Energy* - around 12% of that company's net assets.

From the perspective of a user of company accounts, this presents a confusing picture. The flexibility enjoyed by companies reporting in March 2008 to "pick"

discount rates from within a wide range will frustrate any comparative analysis, leading to concerns about the robust nature of IAS19. One way to narrow this range would be to require companies to discount pension liabilities at a "risk-free" rate, rather than using corporate bond yields. We comment on the potential implications of such a change in section 4.

It is helpful that an increasing number of annual reports now provide information on the sensitivity of pension liabilities to changes in the main valuation assumptions. This trend follows a recommendation by the Accounting Standards Board, as part of their "best practice" guidelines issued in 2006.

For 2007, 47 companies provided some level of disclosure on sensitivities, where the impact in certain cases is substantial. For example, *British Airways* disclosed that a 0.1% pa decrease in the discount rate employed in its 2007 disclosures would increase UK pension liabilities by around £240 million. *Barclays* disclosed that a 0.5% pa increase in assumed inflation would increase their UK pension liabilities by around £1.4 billion.

British Airways
Barclays

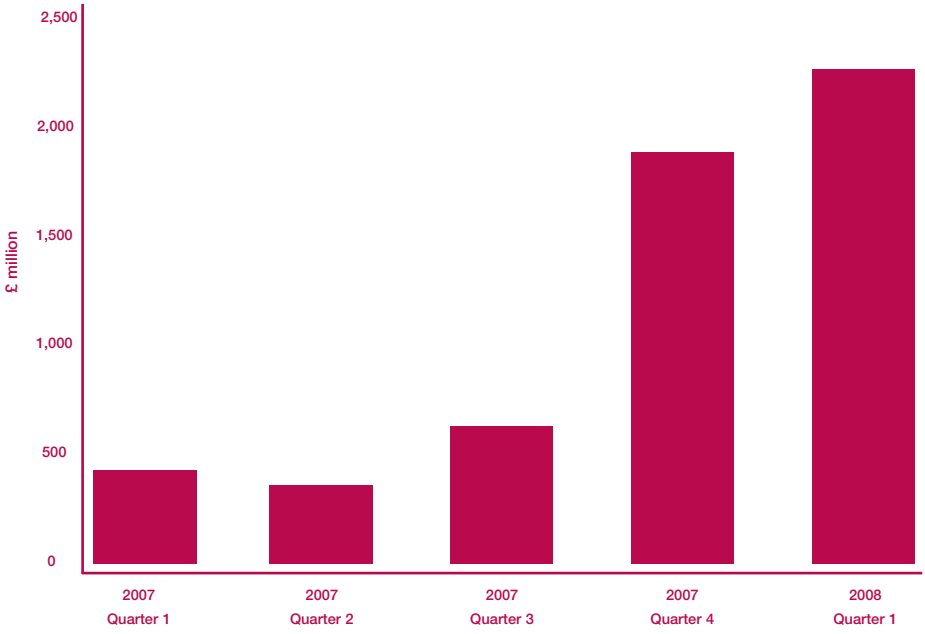
UK

2.3 Managing pension liabilities and risks

Buy-out market takes off

For the increasing number of companies who have closed their defined benefit schemes, the eventual aim in most cases will be to secure the liabilities with an insurance company and wind-up the scheme. Until recently, the market for such "buy-out" transactions was very limited but, over the past 18 months, market capacity has expanded hugely. The chart below, which plots business volumes per quarter since the beginning of 2007, shows the pace at which the market has grown.

Business written in the insured buyout market



LCP estimates that the buy-out market may transact over £10 billion of business in 2008. This is a substantial figure although it still represents only a small fraction of the assets in defined benefit pension schemes in the UK.

Lonmin
Paternoster
Friends Provident
Norwich Union

Buy-out activity has now spread to the FTSE 100, with the first two transactions involving FTSE 100 companies being announced in May 2008. First, *Lonmin* announced a deal with *Paternoster* to secure its pension liabilities in relation to their UK scheme – shown in the 2007 accounts as having assets of £78 million compared with IAS19 liabilities of £66 million. *Friends Provident* then announced a deal with *Norwich Union* to secure pensioner liabilities, with around £350 million of scheme assets being passed across.

We estimate that, at one point during the last year, three FTSE 100 companies could have afforded to buy out all their pension benefits without the need for additional contributions. However, by mid-July 2008, due to a combination of slightly lower bond yields, rising inflation expectations and sharp falls in scheme assets we estimate that no FTSE 100 company was in a position to buy out without making additional contributions.

Innovation drives buy-out market forward

Nevertheless, we expect further buy-out activity amongst FTSE 100 companies. In particular, where full buy-out remains out of reach, companies have the option of securing liabilities instead for a subset of members. The *Friends Provident* deal, referred to above, was such a case, with a buy-out of pensioners only. Such partial buy-outs – or "buy-ins", where the scheme retains the liability to pay pensions and holds the insurance policy as an asset – may be seen as a significant first step on a de-risking process taking place over a period.

2.4 Investment risk

The extent to which companies were affected by events since the turn of the year will largely depend upon scheme asset strategy, not only their holdings in equities but also the extent to which inflation and interest rate risks were matched.

Royal Dutch Shell
BP

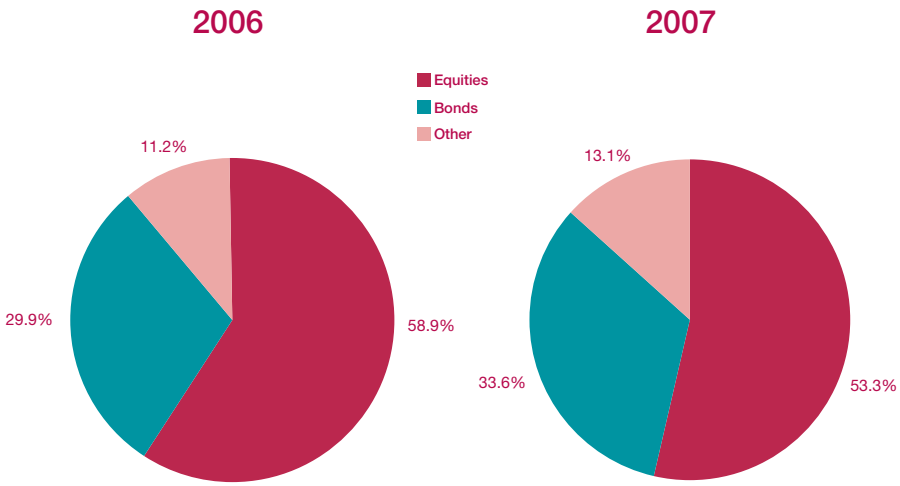
For example, *Royal Dutch Shell* and *BP* are both heavily exposed to equity market movements – with equity holdings making up more than 60% of total pension scheme assets at the 2007 year end. The slide in world equity markets in the first half of 2008 will have led to substantial falls in the value of their equity holdings, which we estimate as being around £4 billion and £2 billion for *Royal Dutch Shell* and *BP* respectively over that period, based on global market movements. We comment further upon schemes with the largest equity holdings in the appendix.

HSBC Holdings
Prudential
Rolls-Royce Group
RSA

At the other extreme, we note *HSBC Holdings, Prudential, Rolls-Royce Group* and *RSA* as examples of companies with significant pension liabilities, but whose equity holdings were less than 30% of assets - well below the average FTSE 100

allocation to equities. However, even there, aggregate holdings in equities across the four companies total in excess of £6 billion.

The charts below compare the distribution of UK pension schemes' assets (or worldwide if the UK is not shown separately) disclosed by the FTSE 100 companies. These show a net move, between 2006 and 2007, of more than 5% away from equities, mainly to bonds so that, at their balance sheet dates, the companies had just over 53% of their assets in equities. This continues the trend seen in recent years – in 2001, our survey showed that FTSE 100 companies invested 67% of their pension scheme assets in equities.



A number of FTSE 100 companies have disclosed how they have reduced their exposure to equity market risks. For example, *Rolls-Royce Group* reduced its equity market holdings from £3.9 billion (2006) to £1.7 billion (2007), as part of a broader de-risking exercise (we return to this further on). *Amec* similarly reduced its equity holdings from £671 million (2006) to £434 million (2007).

Despite these reductions in equity holdings, FTSE 100 companies remain exposed to substantial investment risks through asset strategies operated by their pension schemes. One way to evaluate investment risk is a Value at Risk ("VaR") approach, which measures the loss that could occur over a set time period, due to a "bad news" event.

Based on the asset allocation disclosed in 2007 company accounts, we estimate that there is a 1 in 10 chance that the aggregate IAS19 funding position of the FTSE 100 companies could turn out to be £45 billion or more worse than expected, as a result of asset movements over the following year (a slight reduction only from the "1 in 10" risk of £50 billion or more we assessed last year). In practice, falls in equity markets alone since 1st January 2008 have already reduced funding levels for FTSE 100 companies by £33 billion.

Rolls-Royce Group

Amec

Addressing investment risk

In addition to the companies who have bought out some or all of their pension liabilities, we have noted a number of FTSE 100 companies where 2007 reports provide evidence of de-risking activity during the year. These include:-

Company	Reported de-risking activity
Rolls-Royce Group	As well as reducing their equity holdings (referred to above), the "majority of the interest rate and inflation risks" are now hedged through the use of swaps.
Prudential	As at 31st December 2007, the scheme held interest rate swaps with a nominal value of £1.2 billion, and inflation rate swaps with a nominal value of £700 million (these were not disclosed in the previous year's accounts).
Friends Provident	In 2007, as a prelude to securing its pensioner liabilities, 60% of assets were moved into instruments that were a "good match to the interest rate … sensitivities of the liabilities."

Rolls-Royce Group
Prudential
Friends Provident

With such measures in place, companies were better placed to bear the brunt of events so far in 2008. However, only for a relatively small minority do the 2007 accounts reveal any details of activity to manage these risks. It is possible that other companies have such arrangements in place, but have chosen not to disclose them. Unfortunately, IAS19 does not require companies to disclose details of swap or derivative positions held by their pension schemes.

There are a number of reasons why some companies may not have taken greater steps to mitigate or to manage their pension risks.

Royal Dutch Shell
BP

One reason is that the company may prefer to carry these risks in the expectation that these will "pay off" in due course, through an improved funding position and a reduction in cash funding costs. Notably, both *BP* and *Royal Dutch Shell* are presently enjoying contribution holidays arising from scheme surpluses. Further, both companies have also been long-term investors in equity markets through their pension schemes.

Another reason could be that although the company is keen to act, the scheme trustees have unilateral control over asset strategy. Companies will therefore need to negotiate any changes to asset strategy with the trustees.

Trustee thinking on asset strategy may differ from that of the company, and for a number of reasons. For example:-

- Trustees focus on a much longer time horizon than company shareholders, thus leading to different views on the appropriate level of risk;

- Trustee preferences may be "anchored" by perceptions of what represents normal market practice. For example, at present, overall equity holdings by FTSE 100 companies are just over 53%, which may lead trustees to consider whether they would be exposed to criticism, were they to consent to a reduction in equity holdings, and markets were subsequently to recover strongly;

- Some trustees may not be keen to move out of equities as they recognise that the sponsoring employer effectively bears the equity risk;

- Trustees may be cautious about relatively new opportunities, such as swaps, and insurance providers – including a number of the new entrants to the buy-out market. Trustees will need to carry out appropriate "due diligence" so that they can be satisfied that the opportunity does not expose member benefits to inappropriate risks; and

- Finally, most trustees are not investment experts and it takes time for them to undertake the necessary training and education so that they are in a position to understand the implications of the investment opportunities that the company may be asking them to consider.

Overall, companies wishing to move quickly to address unwanted levels of investment risk face a particular form of "agency risk", where those in control of asset risks (ie the trustees) may not act in the best interests of the ultimate bearer of those risks (ie the company). Buy-out offers a simple solution to this, by ensuring that assets are managed by the party bearing the risks (ie the buy-out provider).

The events of the last six months have highlighted to companies the importance of understanding and managing the risks that they run in their pension schemes.

In markets which are much more volatile than even in the recent past and where new products and opportunities are becoming available to trustees, there is a greater need for trustees to be able to assess the options quickly and to act swiftly and decisively.

2.5 Life expectancy

Over the last twelve months the focus on mortality assumptions has continued, reflecting the substantial financial impact of an assumption that contains some very subjective aspects.

It is therefore not surprising that the Pensions Regulator has consulted on proposals for guidance to trustees in respect of funding; the Board for Actuarial Standards is consulting on guidance to actuaries on this assumption; and the Accounting Standards Board now recommends that the assumption is disclosed in companies' financial statements.

Techniques for deriving an appropriate mortality assumption are becoming ever more sophisticated. Profiling the characteristics of the membership of the pension scheme so that a standard mortality table can be adjusted (or rated) appropriately is vital – a range of techniques exists, including using postcodes to analyse the profile of the specific streets where the members live, and forming a view of the socio-economic make-up of the membership based on their occupation.

However, the assumption about future rates of improvement in longevity remains a subjective one.

Life expectancy today

For this year, the second for which all companies surveyed have reported under IAS19, 78 of the 89 companies analysed have disclosed a meaningful mortality assumption.

The average life expectancy assumed by FTSE 100 companies was 85.5 years for a male pensioner aged 60 at their 2007 accounting date. The equivalent average life expectancy disclosed by the same companies for 2006 was 84.8 years.

For the 51 companies that disclosed assumed longevity in both 2006 and 2007, 31 increased their assumption over the year by an average of 1.2 years. To put this into context, we estimate that each year of extra life expectancy adds around 3% to typical pension liabilities – that is about £11 billion across the FTSE 100 companies. The largest increase disclosed was by *Smith & Nephew*; a rise of 3.7 years. Further analysis is set out in section 5.

Future improvements in life expectancy

As well as setting assumptions to estimate current rates of mortality – ie the "base table" assumption – companies must also decide how quickly mortality rates will reduce in future – ie the "future improvement" assumption. Allowing for future improvements can result in significant increases to reported pension scheme liabilities, and therefore deficits.

Current research regarding historic improvement rates does not provide a clear picture of how rates may continue to improve in the future. The most common approach adopted by FTSE 100 companies is to assume that rates improve in line with the "medium cohort" projections – of the 45 companies that disclosed the name of the underlying mortality table used, 30 quoted "medium cohort".

Smith & Nephew

Friends Provident

Legal & General Group

Prudential

Standard Life

The standard "medium cohort" projections allow for the improvements identified as a result of the "cohort effect" to die down after 2020. However, with no clear evidence yet that the rate of improvement is slowing down, some companies have strengthened longevity assumptions by introducing a minimum level of future improvement, known as a "floor". In total, eight companies disclosed use of a "floor" in 2007, compared with one in 2006. Of these, we note that four (*Friends Provident*, *Legal & General Group*, *Prudential* and *Standard Life*) are life insurance companies, and are thus exposed to longevity risks on the operating side of the business as well.

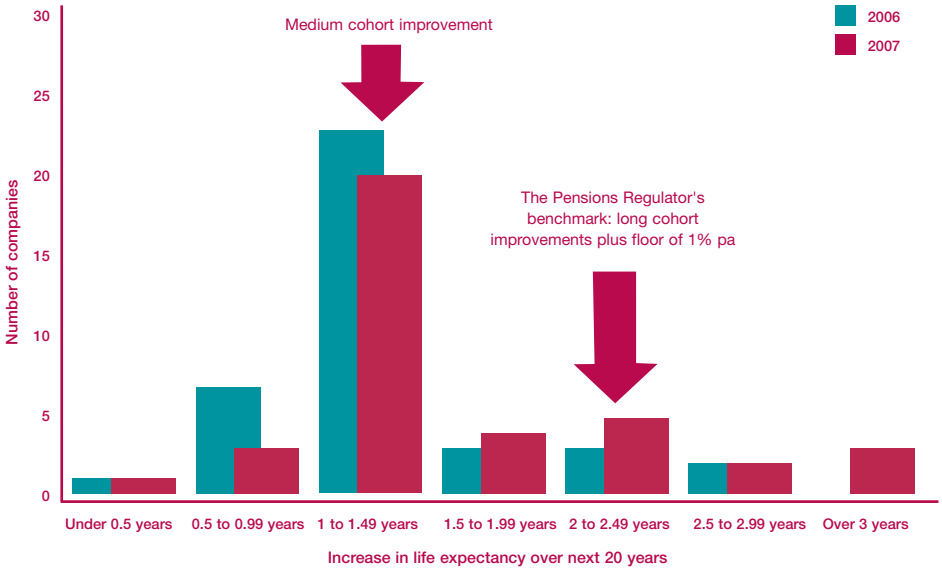
The Pensions Regulator has indicated that it expects trustees to make suitably prudent allowances for future improvements. In a draft statement published in February 2008, the Regulator suggested a benchmark assumption based on the "long cohort" projection and with some form of minimum annual rate of improvement. This would imply an increase in life expectancy of nearly 2.3 years over the next 20 years for men retiring at age 60, using a minimum improvement rate of 1% pa.

For the 39 companies that disclosed assumptions in relation to future improvements in both years, the average allowance for future improvements in life expectancy for a 60 year old over the next 20 years increased from 1.3 years (2006) to 1.6 years (2007). We note that of these companies, only six allowed for improvements that were in line with or greater than the Regulator's draft statement. This is no great surprise, as the Regulator's draft statement was directed at scheme trustees, who are required to act prudently in choosing longevity assumptions, whereas IAS19 requires that assumptions fulfil "best estimate" criteria.

The chart below shows the allowance that companies have made for increases to longevity over the next 20 years.

Additional life expectancy improvements reported in 2007

Improvements for male members aged 60 now versus aged 60 in 2027



To put these numbers in context, we estimate that - based on statistics published by the Office for National Statistics in November 2007 - actual life expectancy for a 60 year-old male has improved over the 20 years to 2006 by around 4 years, ie significantly above what is currently assumed for IAS19 purposes. If historic rates of improvement continue in the future, companies will need to adjust their assumptions further, with consequences for both balance sheets and income statements.

2.6 Other findings

Contributions level off

FTSE 100 companies paid contributions totalling £13.1 billion to their defined benefit pension schemes for accounting periods ending in 2007. This is slightly below the record £13.4 billion reported by the same companies for the previous year.

BT

The largest reported contribution was by *BT* at £926 million, all into its UK scheme, and more than double the 2006 reported figure. This included a £520 million one-off contribution towards the funding deficit. The top six contributions are shown in appendix 2.

Recognising surpluses

Reuters Group

IAS19 requires that a surplus may be recognised as a company asset only to the extent that the company can benefit from that surplus. For example, *Reuters Group* declared a surplus on its UK schemes of £119 million, but was only able to recognise £8 million of it as a company asset.

Compass Group

For reporting years commencing on or after 1st January 2008, IFRIC14 may further limit the ability of companies to recognise pension surpluses in their accounts. Some companies have already chosen to apply the requirements of IFRIC14 in their 2007 accounts. For example, *Compass Group* has excluded £92 million of surplus, in accordance with their understanding of IFRIC14.

Of the 31 FTSE 100 companies reporting scheme surpluses during 2007, 19 were required to limit the amount of surplus recognisable as a company asset, by slightly over £1 billion in total.

We also analysed accounts of 23 companies with a reporting date in late March 2008. 14 of these companies disclosed a surplus but five were required to limit the amount recognised, by £1.8 billion in total.

Scheme closures

FTSE 100 companies have continued to take steps to reduce the rate at which liabilities accrue moving forward. Examples over the past 12 months include:

- *BG Group* closed its UK defined benefit scheme to new employees in April 2007 providing a defined contribution replacement;
- *ITV* confirmed that changes had been made to the structure of the UK defined benefit scheme for future service. Changes included an increase in the normal retirement age, a reduction in the rate of benefit accrual and an increase in member contributions; and
- *British Airways* negotiated changes to the future service terms of one of its UK defined benefit schemes. The changes were an increase in normal retirement age, and a cap on future increases in pensionable pay.

54 of the FTSE 100 companies disclosed that their main UK defined benefit pension scheme is now closed to new employees. However, only four companies – *BP*, *Diageo*, *Tesco* and *Vedanta Resources* – disclosed that they have a UK defined benefit pension scheme open to new members.

Based upon accounting disclosures, we note that *Taylor Wimpey* closed a UK defined benefit scheme to all future accrual during 2007, joining *Rentokil Initial* and *Enterprise Inns* as the only FTSE 100 companies to have announced that they had taken such a step.

Company contributions to defined contribution schemes continue to increase with a 16% rise to £2.3 billion reported in 2007. This reflects the growing trend away from defined benefit provision, although defined benefit provision is still more widespread; for comparison, we note £8.8 billion of new benefits reported in 2007 accounts.

BG Group

ITV

British Airways

BP
Diageo
Tesco
Vedanta Resources

Taylor Wimpey
Rentokil Initial
Enterprise Inns

UK

3. Developments in UK pension provision

This year saw remarkable growth in the insured "buy-out" market with some of the new players – notably Paternoster – writing large contracts. Competition, innovation and the effect of the credit crunch pushed prices down and provided companies with the opportunity to remove some or all of their pension risks at reasonable cost.

Given the potential size of this market (in aggregate, UK pension assets for the FTSE 100 companies were around £400 billion and, in total, assets were around the £1 trillion mark) there was understandable interest from a wide range of possible entrants to the market.

We also saw the development of a new "non-insured" buy-out market, outside the supervision of the Financial Services Authority, which offered companies an alternative way to offload their pension schemes. The development of this market ran somewhat less smoothly than the insured market, attracting the close scrutiny of – and eventual intervention from – the Pensions Regulator.

It was a busy year for the Pensions Regulator in other respects, with increasing evidence of its intentions to manage risks to pensions in a proactive manner. This included a significant update to its original guidance on clearance procedures, and proposals that would, in effect, direct trustees to consider significantly more cautious positions on future improvements in mortality.

Finally, the Department for Work and Pensions has proposed to extend the range of the Pensions Regulator's powers to act against companies and individuals, a step that has generated a considerable and mostly adverse response.

The "non-insured" buy-out market

Citigroup and *Pension Corporation* both completed "non-insured" buy-out transactions, taking on schemes operated by *TRN* (*Citigroup*), *Thorn*, *Threshers Group* and *telent* (*Pension Corporation*), with assets approaching £4 billion in total.

For other organisations trying to enter the market, progress has been less evident. This may, in part, have been due to understandable trustee concerns regarding the complexity of the solutions being proposed, as well as the nature and degree of any counter-party risks arising. However, the main reason was that buy-out prices fell sharply during late 2007 and early 2008, which left very limited scope to price competitively, relative to buy-out.

The future development of the "non-insured" market will depend crucially on the ability of providers to take advantage of the recent upswing in buyout pricing, whilst resolving trustee concerns regarding security. It will also depend on the stance taken by the Pensions Regulator.

The Pensions Regulator lands a blow, and is promised new powers

The takeover of *telent* by *Pension Corporation* in September 2007 triggered

Citigroup
Pension Corporation
TRN
Thorn
Threshers Group
telent

telent
Pension Corporation

Pension Corporation

telent

immediate interest from the Pensions Regulator, in reaction to concerns aired by the trustees of its pension scheme. In particular, a concern that the transaction was designed to enable *Pension Corporation* to gain access to funds approaching £500 million held in an escrow account, operated by the company, and intended to top up scheme funds should a deficit arise. The Pensions Regulator acted quickly to appoint three independent trustees to safeguard member interests.

The outcome of the *telent* case has made it unlikely that similar arrangements might be agreed in the future, without prior clearance from or the explicit consent of the Pensions Regulator.

The Department for Work and Pensions (DWP) announced, on 14th April 2008, proposals to extend the power of the Pensions Regulator to act against companies and individuals, where member benefits were deemed to be at risk. A key change is the removal of the requirement to demonstrate that it was the intention of a company to harm member benefits; instead, it will only be necessary to show that the effect was so. Although the DWP has made statements confirming that the powers are intended to deter certain business models in the "non-insured" buy-out market, the changes proposed are sufficiently broad to catch a wide range of business activities including, corporate transactions, re-structuring and re-financing.

The DWP is presently considering responses to the consultation document before proceeding. Reaction to the proposals from most quarters has been highly negative. The British Venture Capital Association has said that it "*finds it hard to see how investing in a company with a defined benefit scheme will in future be a viable investment*". The Institute for Turnaround commented "...*these measures increase the probability of struggling companies with defined benefits schemes moving straight from A&E to the mortuary*".

We await the DWP's next step with interest.

New guidance on clearance

In March 2008, the Pensions Regulator issued finalised revised guidance on the clearance process operated to provide companies with prior certainty that the Regulator will not employ its anti-avoidance powers in relation to a specific event.

Compared to previous guidance, the update provides less clarity regarding situations when clearance may be appropriate, moving from a "rules" based to a "principles" based approach. Whilst this allows the Regulator more room for manoeuvre than previously, companies now face greater uncertainty as to whether or not clearance is an appropriate step in any particular set of circumstances.

Scheme Funding

New legislation on scheme funding was introduced in 2005, which required trustees to act prudently in setting their funding terms, and put trustees on at least equal

footing with companies, in terms of the control of scheme funding. Where there is a deficit, trustees are required to submit to the Pensions Regulator a "recovery plan", setting out the agreement with the company for eliminating that deficit.

The Pensions Regulator issued in September 2007 an initial analysis of recovery plans received since the new regime was put in place. The analysis suggests that trustees and companies, in agreeing scheme funding terms, have been looking closely at liabilities valued under either IAS19 or FRS17 (the equivalent standard under UK accounting standards, which has very similar requirements). In a large proportion of cases, trustees and companies have agreed to fund deficits very close to that shown under IAS19 or FRS17.

We would expect trustees to be more careful in interpreting IAS19 or FRS17 numbers disclosed in accounts to March 2008, given the impact that wider credit spreads have had in improving the funding position under those standards.

Increasing use of contingent assets

AstraZeneca

When companies are not in a position to, or do not wish to, make cash payments to their pension scheme, they can provide additional security to the scheme through a variety of contingent assets. The rationale for contingent asset use is well stated by *AstraZeneca* (which employs an escrow account arrangement for this purpose) in its 2007 report "*The Group…does not believe in committing excessive capital for funding whilst it has better uses of capital within the business nor does it wish to generate surpluses*".

British Airways

Marks and Spencer Group

We note further use of contingent assets by FTSE 100 companies during 2007. Notable examples include *British Airways*, where the trustees have been provided with a letter of credit secured on aircraft, and *Marks and Spencer Group*, where an existing and innovative property-based arrangement was extended to cover an additional £400 million of property.

We would expect to see further strong growth in the use of contingent assets, particularly as companies increasingly look to preserve valuable cash resources in tight credit conditions.

Buy-out as part of a corporate transaction

Another development is the use of buy-out as part of merger and acquisition strategy.

Emap

Paternoster

In October 2007, *Emap* transferred its pension liabilities in full to *Paternoster* through a buy-out. This was followed shortly afterwards by a break-up and sale of the *Emap* businesses. It is notable that *Emap* considered buy-out to be a more efficient approach to the transaction than negotiating the sale with the pension liabilities still attached.

We expect to see such strategies more frequently in future, particularly if the powers of the Pensions Regulator to act against companies in a wide variety of situations (including a transaction) are extended as noted above.

Pension Protection Fund

The PPF announced in November 2007 a number of revisions to the way in which levies will be calculated. Overall, the changes had the impact of spreading the total annual levy collected, so that better-funded schemes paid a relatively larger proportion of the total levy than previously. The PPF presented the change as one that would increase the stability of the levy.

In June 2008, the PPF announced that the scaling factor (a device used by the PPF to target total PPF levies collected) for 2008/9 would be set at a level more than double that previously indicated. The announcement was made well after the deadline for putting in place arrangements to mitigate the 2008/9 levy, such as additional company contributions or group guarantees in favour of the pension scheme. This was unhelpful, as many companies had relied on the – highly misleading – indicative scaling factor in deciding whether or not to put in place such arrangements. Companies that took no action (presumably on the basis that the anticipated levy was manageable) will no doubt feel aggrieved over the outcome.

Solvency II – a threat on the horizon?

A longer term concern is "Solvency II", the new EU regime which will determine the capital that insurers must hold to provide security for the liabilities they have underwritten. It requires them to hold sufficient assets to ensure there is a 99.5% chance that their liabilities are at least 100% funded in a year's time, making equities a highly unattractive choice of asset.

At one stage it was feared that pension schemes might fall within the scope of Solvency II. Whilst it has now been confirmed that Solvency II will not apply directly to pension schemes, it is still possible that a new Solvency II-type regime will be introduced specifically for pensions, and the European Commission has announced that it will be launching a wide-ranging consultation into solvency regimes for company pension funds this year.

The implications for UK pension schemes are far from clear at this stage as the original Solvency II requirements would need to be adapted for use in a company pension environment. For example, a pension scheme has access to further funds from the employer (whilst it remains solvent) whereas an insurer does not. However, unless the Solvency II requirements are weakened, they would be extremely onerous, particularly for UK schemes which often invest a significant proportion of their assets in equities. Some commentators have estimated that schemes would either have to switch all assets into bonds, or face an increase in funding targets of more than 50%.

"Solvency II" therefore has the potential to alter the UK pensions landscape fundamentally, and is an area to watch closely over the coming year.

4. Accounting standards for pensions

The next few years could bring a number of important changes to accounting standards, with potentially significant implications for FTSE 100 companies.

- The removal of the "expected return on assets" from income statements. One proposal, under which all pension-related gains and losses would go through the income statement, could have a material and unpredictable impact on reported profits.

- The removal of the "corridor" mechanism would have an impact on the income statements and balance sheets of those nine FTSE 100 companies who currently follow this approach.

- Requiring companies to discount their pension liabilities using a risk-free rate (rather than corporate bond yields as at present) would have a huge impact on FTSE 100 companies with pension funds. We estimate that it could add £130 billion to balance sheet liabilities.

The first two changes come from an IASB discussion paper and are proposed for implementation from 2011. The third and most significant change is not yet under consideration – the IASB is not due to consider changes to discount rates until "Phase II" of its ongoing review of IAS19.

Changes such as these that affect the way in which companies account for pensions will surely hasten the rate at which companies take steps to close down their defined benefit schemes.

We have set out further details below.

Who sets the standards?

Listed companies in the UK and most of the world outside the US use accounting standards set by the IASB. Although partially funded by governments across the world, the IASB is run independently.

The IASB regularly reviews its accounting standards, and the pensions accounting standard IAS19 is one of several that is currently under review, with a revised standard expected in 2011.

The IASB is not the only accounting standards setting organisation. There is the Financial Accounting Standards Board in the US, and various other national standard setters that largely consider the requirements for non-listed organisations. This latter group has created a consortium called PAAinE, including the UK's Accounting Standards Board, and has recently publicised its views on a number of issues which it believes the IASB should take into account in moving forward. Again, many of the options being put forward represent a sharp break with the present, and would, if introduced, have a direct and substantial impact on financial statements.

In considering the potential impact of these changes, it is important to distinguish those changes already proposed by the IASB that are likely to be introduced and for which there is a clear timetable for implementation, and those that are simply under discussion.

A new direction in IAS19

As part of the IASB's long-term project of overhauling IAS19, a discussion paper – "Preliminary Views on Amendments to IAS19 Employee Benefits" – was released in March 2008. The document proposes a number of key amendments to IAS19, with two in particular likely to be highly significant to FTSE 100 companies:

- The removal of the "expected return on assets" item within income statements; and
- The removal of the "corridor" mechanism used by some companies to smooth out the pension amounts recognised on the balance sheet.

We assess below the impact of these two proposals on FTSE 100 companies.

Proposal 1
Removal of "expected return on assets" from 2011

At present under IAS19, gains or losses achieved on scheme assets each year are split into two for reporting purposes. The income statement reports the "expected return on assets" – a stable and predictable item, which reflects the views of management on likely market performance. The second item is effectively the difference between management's expectation of asset returns and what was actually earned. This latter item can be highly volatile, but rather than going through the income statement it goes through the Statement of Recognised Income and Expense (SORIE) and therefore forms no part of reported profits.

The IASB objects to the flexibility of this approach which, it says, allows entities to "manipulate" the income statement, through assuming aggressive asset returns. The IASB discussion paper proposes to change this, and sets out some alternative approaches presently under consideration. All these proposed approaches are substantially different to the current rules and would result in different reported profits.

One approach has attracted particular concern, as it would bring all gains and losses on assets and liabilities through the income statement. The impact would be large, and unpredictable. The full effect of a variety of pension-related developments, including equity market rises or falls, changes in bond yields and increases in assumed longevity, would be directly reflected in reported profits.

For example, under this approach, were FTSE 100 companies to increase

assumed longevity by one year, on average, that alone would reduce overall reported profits for FTSE 100 companies by around £11 billion.

While this approach would given investors a much more accurate feel for the impact of volatility on a pension scheme's funding position, it simply accentuates the short-term nature of pensions accounting and its mismatch with the fundamental long-term nature of these types of arrangement. Were this approach to be implemented, companies are likely to look closely at ways to protect income statements against such potentially large swings. This could precipitate very substantial changes to the way in which pension schemes are run and potentially to their coverage.

Action could, in theory, include steps such as large reductions in scheme holdings in equities, with a consequential impact on equity markets as a whole, or the closure of a scheme to existing members. We would expect the IASB to consider the wider consequences of each approach under consideration, in deciding how best to proceed.

Proposal 2
Removal of the "corridor" approach from 2011

IAS19 presently allows companies the option of spreading gains and losses through what is known as the "corridor" approach, thereby reducing the impact on a company's balance sheet of changes in market conditions. The IASB notes that this option presents a confused picture to users of accounts, and is now proposing to remove this. This would force all companies to instead recognise all gains and losses as they arise. We agree with this. If the objective of an accounting standard is to help compare one company with another, then one set of rules to cover them all is essential.

Based on 2007 reports, nine FTSE 100 companies employ a corridor, with total gains of £700 million and total losses of £9.0 billion not presently recognised on their balance sheets. The implications of the proposed change for those companies will depend upon specific company circumstances. We would expect affected companies to be looking carefully at this proposal, and the options available to them in dealing with the impact.

Longer term challenges - changes proposed to the discount rate

In the background, a consortium of standard setters (PAAinE), including the UK's Accounting Standards Board, issued a detailed report in January 2008 setting out its position on many of the issues under review. One proposal in particular, namely that pension liabilities should be discounted at the "risk-free" rate, rather than one derived from high-quality corporate bonds, has attracted significant attention and comment.

Were discount rates to reflect the risk-free rate, the impact on balance sheets and income statements would be substantial. For example, were such an approach to

apply as at mid-July 2008, FTSE 100 balance sheets in aggregate would be hit by an increase in deficits of over £130 billion.

The IASB was not a part of the PAAinE consortium. Although it may well be influenced by the PAAinE report, it is not due to consider changes to the current discount rate rules until Phase II of its review, which is some years away. However, as a measure of the degree of concern this proposal has aroused, the DWP has already announced that it would make representations to the Accounting Standards Board on this issue, following negative comment by various bodies including the Confederation of British Industry and the National Association of Pension Funds.

Moving forward

The IASB is presently seeking feedback on its proposals with a view to producing an exposure draft of the new IAS19 in the second half of 2009 leading to a significantly different new standard in 2011. Phase II of the review, due to take place later in the decade, could well be even more significant. Whichever of the proposed changes come into effect, companies can expect a big shift in the rules, and are likely to review their pension strategies as a result.

Our major concern is that accounting standards, which are designed to ensure that companies report in a consistent manner, will continue to affect the way in which pension funds are managed. Further, there is significant risk that making these types of changes may only hasten the demise of defined benefit pension provision in the UK.

5. LCP's analysis of FTSE 100 IAS19 disclosures

We have analysed 89 FTSE 100 companies reporting in 2007. Eight companies were excluded as they did not sponsor a defined benefit pension scheme. A further three had not disclosed accounts by 30th June 2008, as a result of corporate activity. A full listing can be found in appendix 1.

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

The disclosures

Friends Provident

The average pension note runs to over four pages, with most companies also having several paragraphs of pension commentary in the main body of their reports. Once again, the longest disclosure was by *Friends Provident*, who this year has 14 pages of its report dedicated to pensions.

For many FTSE 100 companies, pensions are important and the volume of information disclosed in the accounts reflects this. However, for those companies whose pension arrangements are not so material, the minimum disclosure requirements under IAS19 can be unduly onerous.

5.1 Analysis of results

Funding levels

IAS19 takes a snapshot of the surplus or deficit at the company's year-end; if the company has not chosen to adopt the "corridor" approach (see section 4), this is the number that appears on the balance sheet.

This year 31 companies disclosed surpluses in their defined benefit schemes, up from 15 last year. It should be noted, however, that the period of analysis ended before the onset of turbulent market conditions in early 2008. Consequently, funding levels shown in this section will have deteriorated sharply since then.

A full list of the disclosed surpluses and deficits of the FTSE 100 companies is set out in appendix 1.

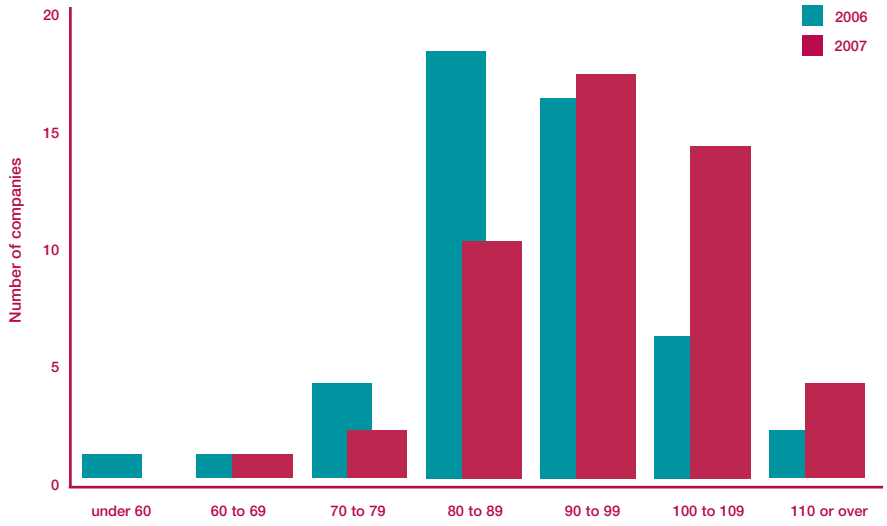
Old Mutual

Old Mutual had the highest funding level at 127%, as at 31st December 2007, and more than two thirds of the 90 companies reported being better than 90% funded on an accounting basis.

Changes over 2007

The chart below shows how worldwide funding levels have changed over the year for the 48 FTSE 100 companies in our report who have December 2007 year-ends.

Ratio of assets to IAS19 liabilities at end December (%)

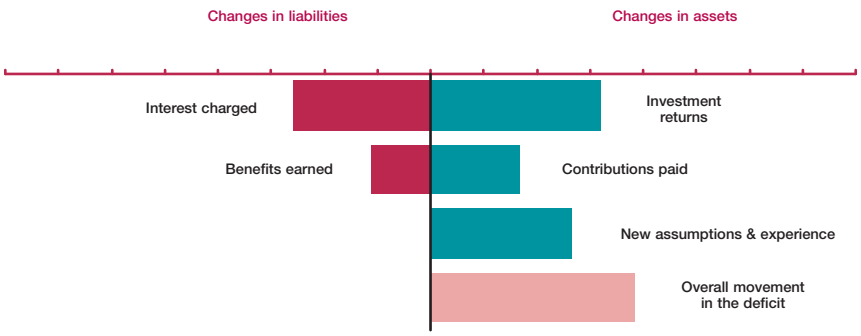


Once again there is a noticeable shift upwards as the average reported IAS19 funding level increased from 90% to 97%.

Sources of deficits and surpluses

For the 48 companies with December year-ends, deficits reduced by £19 billion in absolute terms over 2007. Investment returns of £16 billion more than covered interest charges (£13 billion); aggregate contributions exceeded the IAS19 cost of extra benefits earned by £3 billion; and revised assumptions reduced reported IAS19 values of benefits by £13 billion. This is illustrated in the chart below.

IAS19 sources of assets and liabilities for companies with December year-ends only (£ billion)



What have companies done to tackle their deficits?

Whilst favourable investment returns and higher bond yields as a result of the credit crunch have been the main factors behind the elimination of deficits, company contributions to pension schemes have continued at a high level.

Most companies have contributed at a rate greater than the IAS19 value of benefits earned over the year. This, combined with lower IAS19 values at the year end, has meant that companies removed a considerable proportion of their deficits over the year.

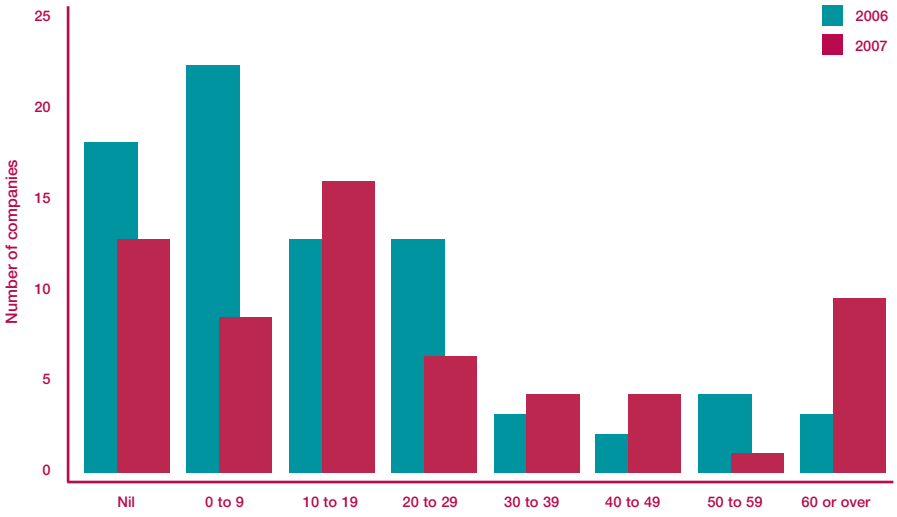
Royal Bank of Scotland Group

Even some companies who paid less than the IAS19 service cost have seen their position improve over the 2007 accounting year. For example, *Royal Bank of Scotland Group* paid contributions of £599 million over 2007 compared to £706 million of benefits earned by employees over the year. Even so, *Royal Bank of Scotland Group*'s deficit of nearly £2 billion at the end of 2006 vanished over the year and become a surplus of £340 million.

Rolls-Royce Group

The chart below shows the "excess" contributions that companies paid during the year (ie contributions over and above the IAS19 value of the benefits earned during the year) as compared to the deficit disclosed in the accounts at the end of the year. *Rolls-Royce Group* paid off the greatest proportion – 98% – of its 2007 year-end deficit.

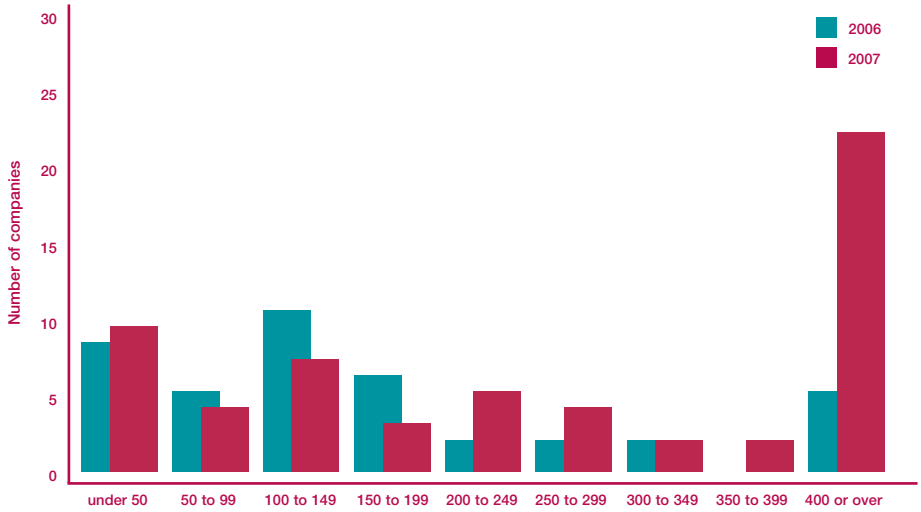
Proportion of year-end deficits paid off over the year (%)



Pension schemes versus shareholders

The following chart shows how pension deficits compare to dividends paid. Of the 58 FTSE 100 companies with a pension deficit, 46 disclosed a deficit that was less than or equal to the dividends paid to their shareholders in 2007 and, in 36 cases, the deficit was less than or equal to half the 2007 dividend.

Percentage of deficit that could be paid off with one year's declared dividends (%)

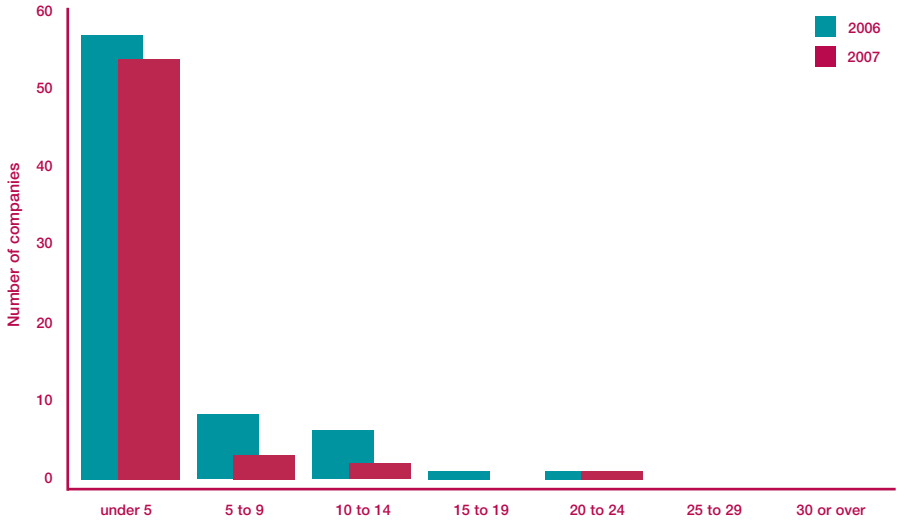


For example, *Vodafone* paid dividends of nearly £3.6 billion in 2007, significantly more than its accounting deficit of just £41 million.

On the other hand, *BAE Systems* paid dividends of £397 million in 2007 compared with its accounting deficit of nearly £2 billion and contributions to its pension schemes of £594 million.

The chart below summarises the ratio of deficits to market capitalisation (at their year-ends) for the 58 FTSE 100 companies which reported a deficit. It shows that reported deficits for some schemes are generally small compared to the size of the company. However, a small number are significantly larger.

Accounting deficits as a proportion of market capitalisation (%)



UK

Vodafone

BAE Systems

British Airways

Appendix 2 lists those companies with the largest liabilities or deficits compared to market capitalisation. *British Airways* is the only FTSE 100 company with a 2007 deficit that exceeds 20% of market capitalisation (23%), albeit significantly reduced from the 2006 position (38%).

5.2 Key assumptions

We consider below the various assumptions used to place an IAS19 value on pension 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 the accounting year-end.

Life expectancy

Under the IAS19 standard, companies are required to disclose any "material actuarial assumptions". Whilst no specific mention is made of mortality, the majority of companies have disclosed this assumption. 78 out of the 89 companies with defined benefit pension schemes have provided sufficient information for us to derive basic mortality statistics – specifically a male life expectancy at age 60 in the UK – with 51 companies providing previous year comparators to allow us to analyse to what extent companies have revised their assumptions over their accounting year.

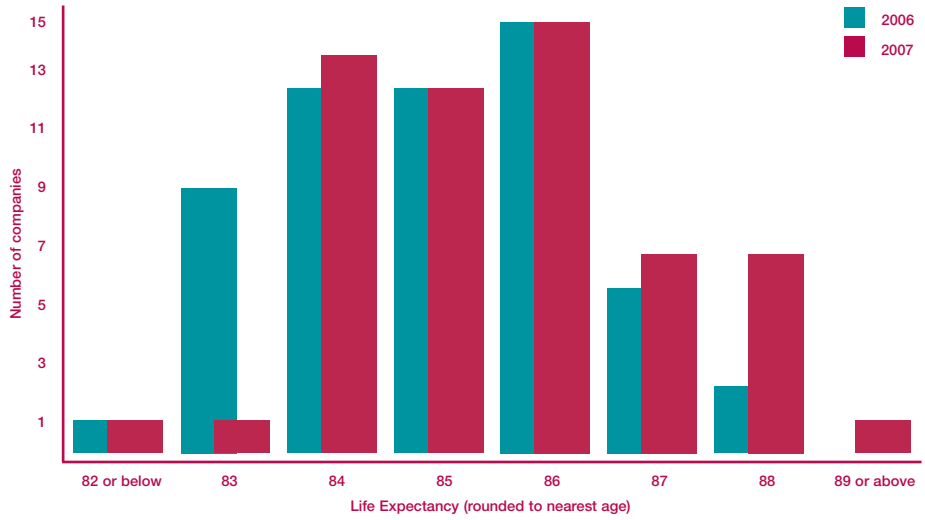
Companies who did not disclose enough information on their UK mortality assumptions to calculate a life expectancy included: *Alliance & Leicester*, *Anglo American*, *FirstGroup*, *ICAP*, *J Sainsbury*, *Old Mutual*, *Persimmon*, *SABMiller*, *Sage Group*, *Vedanta Resources* and *Xstrata*.

The following chart shows that, as might be expected with a diverse group, there continues to be considerable variation in life expectancy assumptions across the FTSE 100 companies. It also demonstrates the scale of the shift between 2006 to 2007.

Alliance & Leicester
Anglo American
FirstGroup
ICAP
J Sainsbury
Old Mutual
Persimmon
SABMiller
Sage Group
Vedanta Resources
Xstrata

Life expectancy assumptions reported in 2007

Males retiring at age 60 on the accounting date



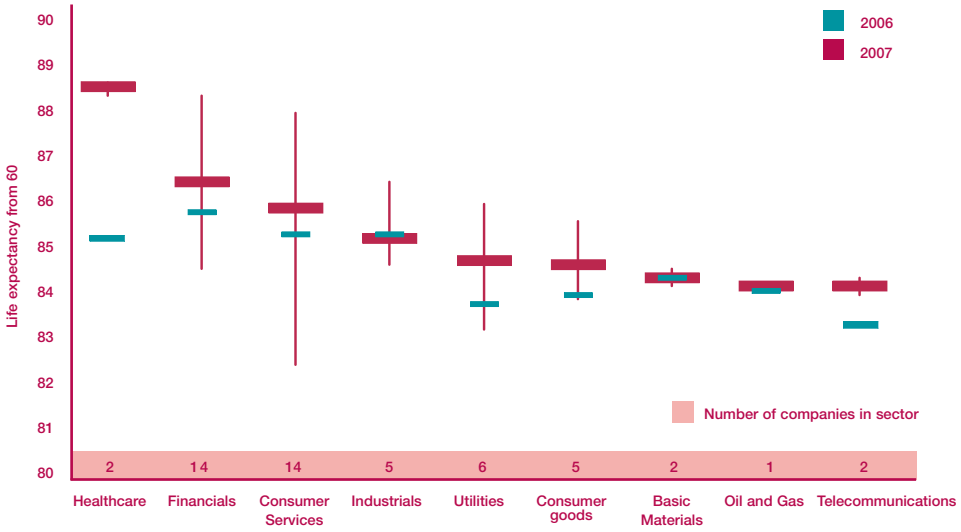
The average assumption was that male members in the UK who retire at age 60 on the accounting date would live to age 85.5 – up from 84.8 in their 2006 accounts. Companies continue to revise their life expectancy assumptions upwards; 31 companies have disclosed that they moved to more cautious longevity assumptions in 2007, adding 1.2 years on average to the assumed life expectancy.

Research has shown that two of the main indicators of life expectancies are socio-economic group and income. In this respect it is interesting to analyse the FTSE 100 companies' assumed life expectancies by the sector in which the company operates as this should loosely be connected to the socio-economic group and income levels of the employees.

In the charts below the horizontal bars show the average life expectancy for a male aged 60 in the UK for each sector[1]. The vertical lines show the extent of the variation used by FTSE 100 companies within that sector.

Life expectancy assumptions reported in 2007 split by sector

Males retiring at age 60 on accounting date



[1]The sector is the Industry Classification Benchmark as published by FTSE.

AstraZeneca
Smith & Nephew

This chart shows that the highest assumed life expectancies are found in the healthcare, financials, consumer services and industrials sectors. The lowest assumed life expectancies are found in the oil and gas and telecoms sectors. Nevertheless, there is still considerable variation between individual companies.

Notably, both *AstraZeneca* and *Smith & Nephew* increased their longevity assumptions by well over three years compared to last year's accounts, so that pensioners in healthcare are now assumed to live more than 2.5 years longer on average than members in any other sector.

Future improvements in life expectancy

As well as setting assumptions to estimate current rates of mortality – ie the "base table" assumption, companies must also decide how quickly these mortality rates will reduce looking into the future – ie the "future improvement" assumption. These future improvements can result in significant increases to reported pension scheme liabilities, and therefore deficits.

Further analysis and comment on this area can be found earlier in the report in section 2.

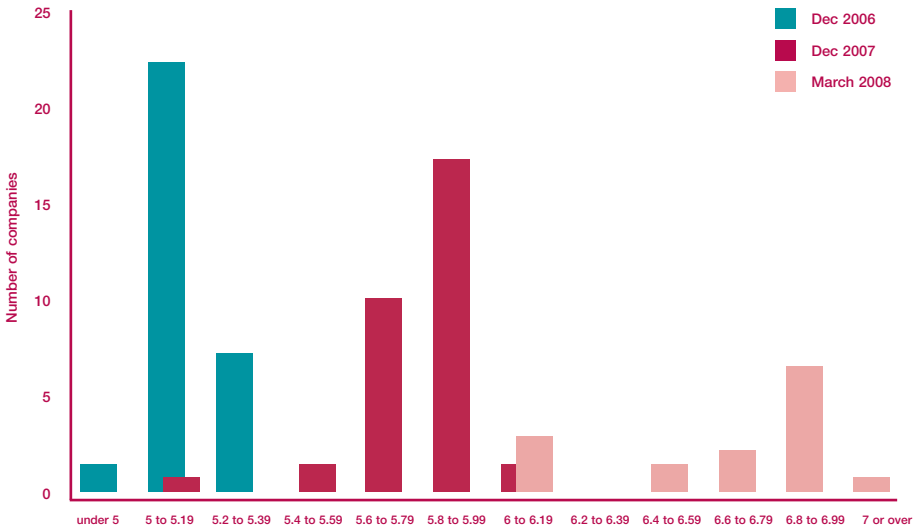
Discount rates

The discount rate assumption used by each company is set out in appendix 1.

The discount rate is used to calculate the present value of the projected pension benefits. Under IAS19 the discount rate should be based on "high quality" corporate bonds and the term of the corporate bonds should be consistent with the estimated term of the pension obligations.

The yields on high quality corporate bonds, and hence the discount rates, will fluctuate from day to day in line with market conditions. This year we have chosen to analyse March 2008 year-ends (where data was available at time of writing) in addition to December 2007 year-ends to note the effect of the credit crunch on corporate bond yields in the first quarter of 2008.

Discount rates used in December 2006, 2007 and March 2008 (% pa)



The average discount rate has risen from 5.1% pa in December 2006 to 5.75% pa in December 2007, reaching a high of 6.6% pa in March 2008.

The chart above clearly shows rising corporate bond yields, as each year of data steadily progresses rightwards. There is also a considerable range of assumptions adopted by companies for their December 2007 and March 2008 disclosures.

In 2007, the highest December discount rate (6.0% pa) was disclosed by *Rentokil Initial* and *Royal Bank of Scotland Group* and the lowest (5.0% pa) was disclosed by *Old Mutual*.

In 2008, the highest March discount rate (7.0% pa) was adopted by *British Airways* for one of its UK schemes. The next highest (6.90% pa) was adopted by several companies including *Experian*, *J Sainsbury*, *Land Securities*, *Man Group*, and *Scottish and Southern Energy* whilst *3i Group*, *British Energy Group*, *British Land Company* and *United Utilities* adopted the lowest March discount rate (6.0% pa). This represents a material dispersion in yields employed, compared with the previous year.

Pension liabilities are generally linked to price inflation in some way. It is therefore the discount rate net of assumed future price inflation which is the key assumption.

The chart below shows the difference between the discount rate and the assumption for future price inflation (the net discount rate) as at 31st December 2006 and 2007, for companies with December accounting year-ends, and as at 31st March 2008.

The net discount rate has been widening since December 2006, largely due to rising corporate bond yields over the period to March 2008, although this has been offset slightly by increasing expectations of future inflation. Overall, this has the effect of reducing companies' pension scheme liabilities, as measured under IAS19.

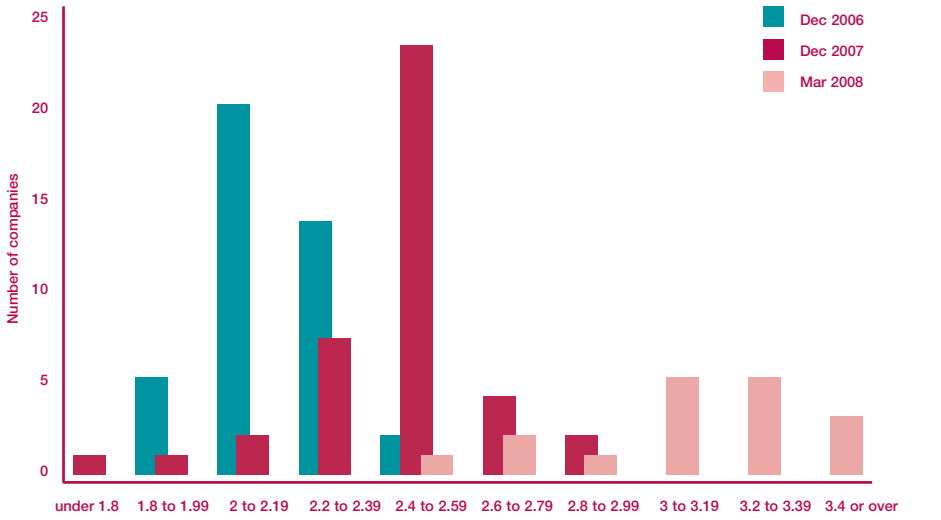
UK

Rentokil Initial
Royal Bank of Scotland Group
Old Mutual

British Airways
Experian
J Sainsbury
Land Securities
Man Group
Scottish and Southern Energy
3i Group

British Energy Group
British Land Company
United Utilities

Discount rates used in excess of inflation used in December 2006, 2007 & March 2008 (% pa)

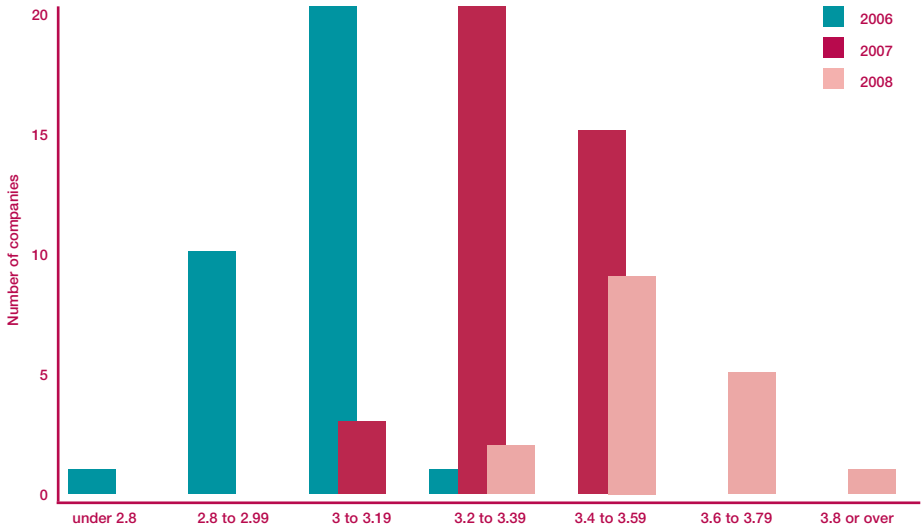


Inflation

Details of the assumption for future price inflation used by each company are set out in appendix 1.

The chart below shows that there has been an increase in the assumption for long-term retail price inflation used by companies with year-ends in December and further increases used by companies with year-ends in March. An increase in the price inflation assumption will lead directly to a higher level of projected benefit payments, and hence a larger value being placed on those benefits, all other things being equal.

Inflation used in December 2006, 2007 and March 2008 (% pa)



With recent fears of rising inflation, assumptions for March 2008 companies have hit a recent high, with *Man Group* disclosing an assumption of 3.8% pa. On the

Man Group

other hand, *British Energy* and *FirstGroup* have not recognised such a high level of future inflation in their March 2008 disclosures, choosing only to adopt an assumption of 3.3% pa. Overall, the higher long term expectation for inflation has eroded some of the reduction in pension scheme liabilities caused by rising corporate bond yields.

British Energy

FirstGroup

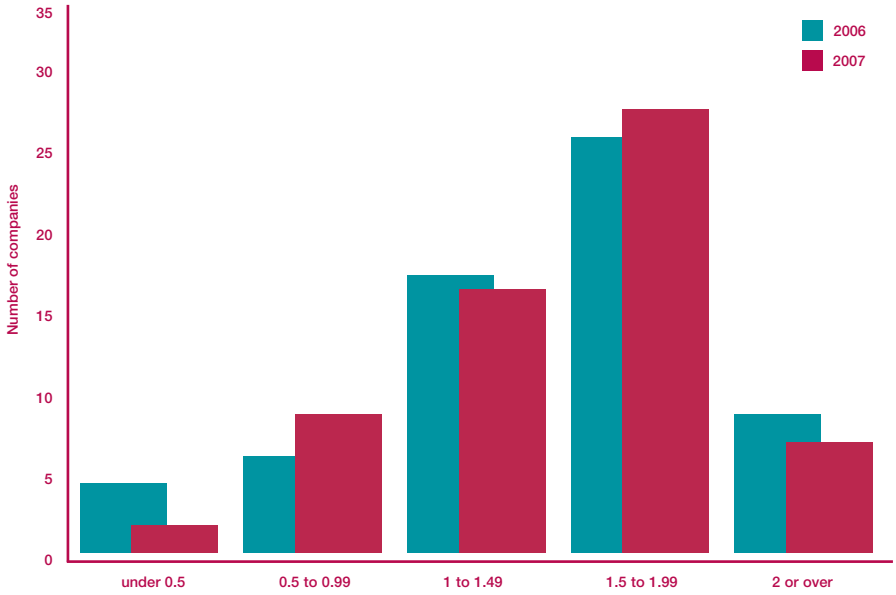
The Bank of England publishes statistics for future price inflation rates implied by gilt spot rates. These showed that expectations of long-term price inflation were around 3.5% pa at December 2007 but had risen to almost 4.2% pa by the end of June 2008.

Salary growth

The assumed rate of salary growth affects the disclosed IAS19 liability and the reported cost of benefits being earned, although the impact of this assumption is reducing as more schemes are closed to new members and to future accrual. A lower assumption for salary growth produces a lower projected pension and hence lower pension liabilities as well as a lower charge to operating income.

The average real salary increase has fallen slightly over the year and so this will have helped reduce deficits further. This is shown below.

Salary growth rates used in excess of inflation (% pa)



The average real salary growth rate has remained broadly the same as last year, at around 1.3% pa above price inflation. Of the 70 companies which disclosed sufficient information to analyse, most maintained their 2006 assumption for salary increases above inflation, but 12 have reduced the assumption and 7 have increased it. Both *Standard Life* and *Taylor Wimpey* increased their assumption for salary increases above inflation significantly compared to last year, by 1.5% pa and 1.75% pa respectively.

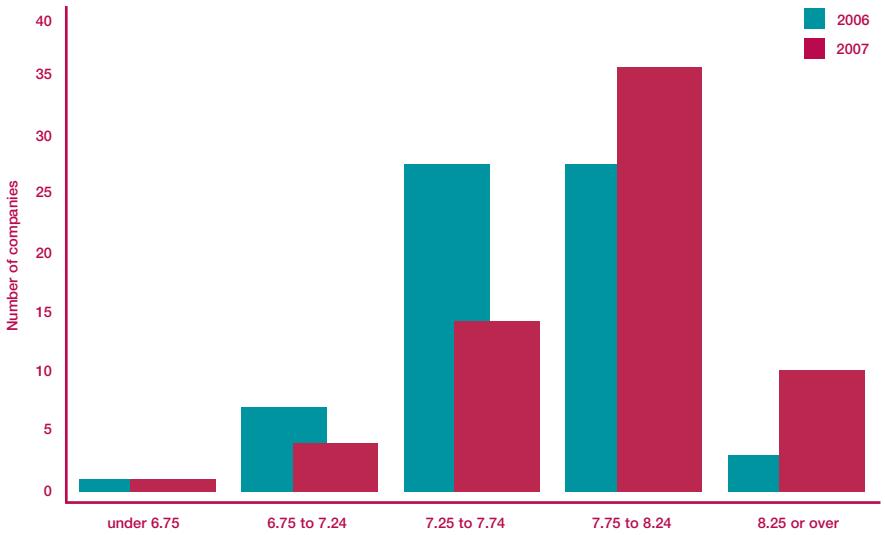
Standard Life

Taylor Wimpey

Expected return on equities

There is a wide range of values for this assumption, reflecting its subjective nature.

Expected long-term rate of return on equities (% pa)



The lowest assumption was 6.55% pa as disclosed by *Next* (who also adopted the lowest assumption last year) and the highest was 8.5% pa by *Persimmon* (who also adopted the highest assumption last year) and *Standard Chartered*.

The average expected rate of return on equities was 3.22% pa higher than the long-term yields available on gilts as at the balance sheet dates. This difference represents companies' views of the so-called "equity risk premium" (which is the additional return expected from investing in equities, compared with risk-free assets such as gilts, to compensate for the increase in risk). The average equity risk premium is unchanged from last year.

Where disclosed, 35 companies increased their assumed equity return, eight reduced it and 19 companies did not alter their assumption from the previous year.

Next
Persimmon
Standard Chartered

Accounting For Pensions 2008

INTERNATIONAL

6. International accounting for pensions

6.1 Introduction

We have analysed the pension disclosures of the companies in the FTSE Global 100 Index as at 31st December 2007. This index covers the world's largest multinationals, based in the US, Europe and Asia-Pacific.

Key conclusions

The key conclusions from our analysis are:

- Overall, FTSE Global 100 Index companies disclosed net pension deficits of £18 billion at their 2007 balance sheet dates, compared to £58 billion in 2006.
- As mentioned earlier, the main reason for this improvement is that corporate bond yields have risen, as a result of the "credit crunch", and this means that reported liability values are lower.
- Although bond yields have continued to rise in 2008, falls in asset values over the same period meant that, by mid-July 2008, we estimate that the FTSE Global 100 Index companies had a net pension deficit of around £30 billion.
- We estimate that falls in equity markets to mid-July 2008 may have reduced plan assets by £40 billion. This highlights the risk in holding equity assets to back pension liabilities.
- This is despite the fact that during 2007, a number of companies, particularly those in the US, reduced their allocation to equities. Nevertheless, the companies surveyed still held 50% of their pension plan assets in equities at their 2007 balance sheet dates.
- Based on asset allocations disclosed in 2007 accounts, we estimate that there is still a 1 in 10 chance that falls in total asset values could lead to a loss of more than £80 billion over the coming 12 months.
- Few companies outside the UK disclose their mortality assumptions, which makes it impossible to tell whether all of these multinational companies are allowing for the levels of improvements in a consistent way to those based in the UK.
- Amongst those companies that do disclose their mortality assumptions, the rates vary widely and it is often difficult to see the justification for such differences.

Companies scrutinised

This year we have widened our analysis to cover 97 separate companies in the FTSE Global 100 Index as at 31st December 2007. This index covers the world's largest multinationals, with a market capitalisation of £4.5 trillion in 13 countries around the world.

A full listing and details of the companies analysed is set out in appendix 3. Almost all of the companies analysed have reported under either international (IAS19) or US (FAS87 and FAS 158) accounting standards. A few in the Asia Pacific region report under local standards. These standards are similar enough for us to make direct comparisons between the companies.

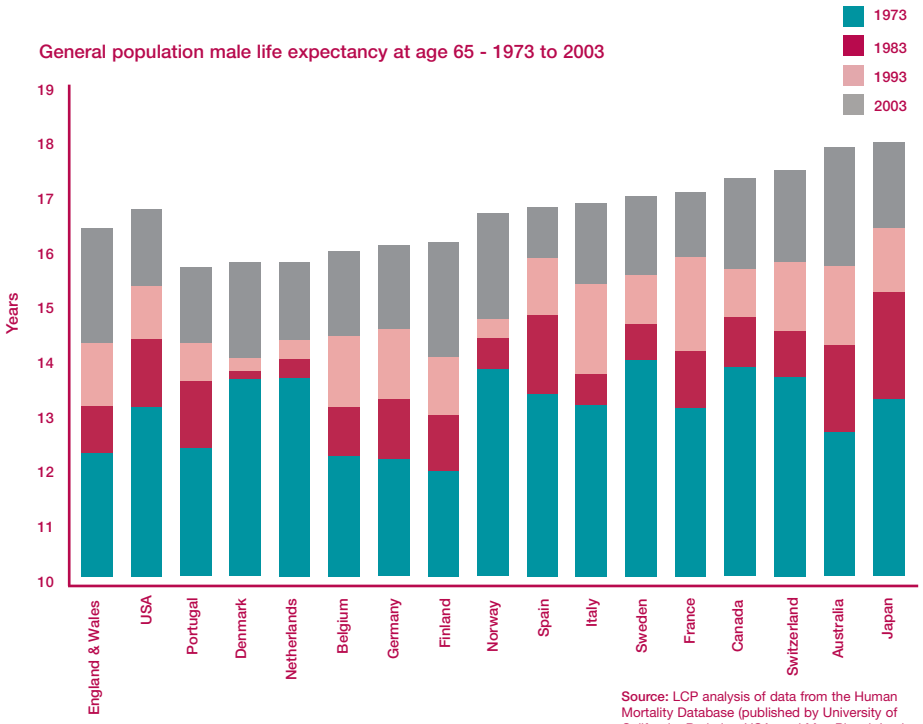
6.2 Analysis of disclosures

Mortality assumptions

The life expectancy assumption made by a company is a key piece of information for investors to understand the risks associated with that company's pension scheme.

The chart below shows how general population male life expectancy at age 65 has increased over the last 30 years. On average there has been an increase of over one year in each decade between 1973 and 2003. Many experts are predicting that this trend will continue into the future.

General population male life expectancy at age 65 - 1973 to 2003



Source: LCP analysis of data from the Human Mortality Database (published by University of California, Berkeley, USA, and Max Planck Institute for Demographic Research, Germany www.mortality.org)

Companies therefore need to consider carefully how they should allow for future mortality improvements when valuing their global pension schemes.

IAS19 requires companies to disclose any assumption deemed to be material, although neither IAS19 nor the US accounting standards explicitly requires the disclosure of mortality assumptions.

Banco Santander
BBVA
Deutsche Bank
InBev
Novartis
Roche
UBS
3M

AstraZeneca

UK companies continue to lead the way in providing information about this important assumption. Only 25 companies in the FTSE Global 100 Index disclosed mortality assumptions in their 2007 accounts. This includes all of the 17 companies listed, or dual-listed, in the UK and seven other companies listed in Europe (*Banco Santander, BBVA, Deutsche Bank, InBev, Novartis, Roche* and *UBS*). Only one US-listed company, *3M*, disclosed its assumption.

The disclosures made by a number of companies reveal significant differences in how their assumed life expectancies for plan members compare to general population life expectancy around the world. For example, *AstraZeneca* assume that its current UK pensioners will live for over three years longer than those in Sweden and six years longer than those in Germany. *UBS* assume that its UK pensioners will outlive its German pensioners by three years and its US and Swiss pensioners by four years.

From the disclosures made, we cannot tell whether such differences are objectively justified by differences in the membership profiles in the different countries or whether it simply reflects different market practice as regards mortality assumptions.

Sensitivity analysis

With corporate bond yields affected by the credit crunch and fears of inflation returning, it is important for investors to be able to understand how a company's pension liabilities may be affected by changes in financial conditions.

A number of companies provide detailed disclosures on how sensitive the pension liabilities are to changes to assumptions. Of the continental European companies, *Bayer, Deutsche Bank, InBev* and *Siemens* provide particularly detailed sensitivity analyses.

Bayer
Deutsche Bank
InBev
Siemens

Unrecognised gains/losses

11 companies accounting under IAS19 (or equivalent local standards) have adopted the "corridor" method to recognise actuarial gains and losses over time rather than recognise them immediately on the balance sheet. These companies are predominantly banks or companies based in France and Germany. *Banco Santander, Daimler, Deutsche Bank, ING Group, L'Oréal, Nissan, Royal Dutch Shell* and *Total* all disclosed significant unrecognised gains or losses in 2007. *Zurich* switched away from the corridor method in 2007.

Banco Santander
Daimler
Deutsche Bank
ING Group
L'Oréal
Nissan
Royal Dutch Shell
Total
Zurich

Since the introduction of FAS158 in the US, all US companies recognise gains and losses immediately on the balance sheet. Under proposals made by the IASB, described in section 4, the option of the corridor method under IAS19 could fall away completely from 2011. This could have material balance sheet implications for those companies who still use the corridor method, in addition to the potential impact on the income statement that could affect all companies reporting under IAS19.

Restrictions in balance sheet assets

Companies are increasingly wary about paying excessive contributions into their pension schemes. During 2007, companies in the FTSE Global 100 Index contributed £19 billion to their pension schemes, down from £20 billion in 2006 and just £4 billion more than the assessed cost of future benefit accrual.

Indeed, if a company cannot show that it may derive some economic benefit from any surplus that may arise in the future, IAS19 requires it to restrict any related pension asset shown on the balance sheet. A number of European-listed companies have been significantly affected by this. These include *BASF* (assets restricted by £396 million), *InBev* (£160 million), *Nestlé Group* (£831 million), *Roche* (£364 million) and *UBS* (£1.1 billion).

There is no such requirement under US accounting standards.

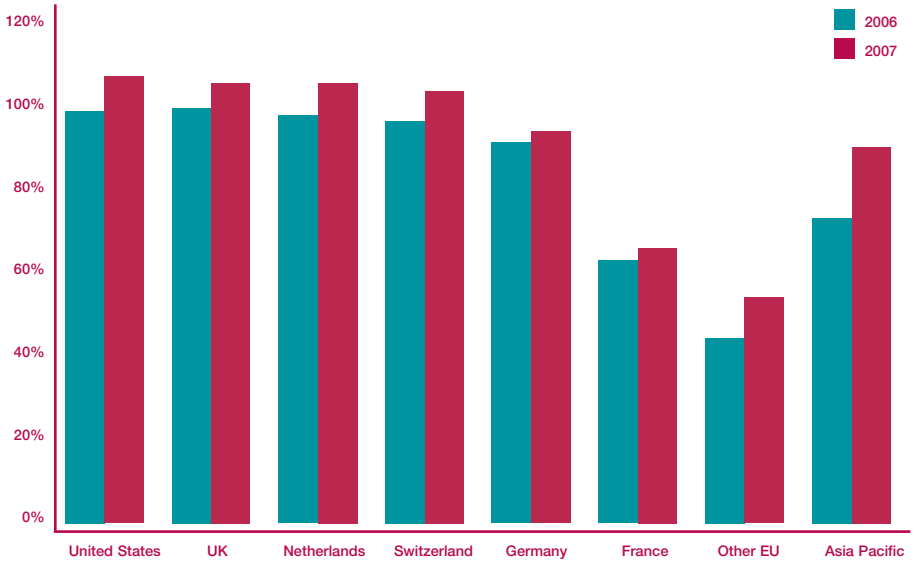
6.3 Global trends

Deficits and funding levels

FTSE Global 100 Index companies disclosed an overall net deficit of £18 billion at their balance sheet dates in 2007. This reflected total assets of £578 billion and liabilities valued at £596 billion (roughly 13% of total market capitalisation for these companies) and represented a marked improvement in disclosed funding levels compared to the position in 2006.

The improvement was across all countries. The chart below sets out the average funding level (ie the ratio of assets to the assessed value of liabilities) for each company based on the country, or region, where it is listed.

Average funding level in 2007 and 2006 shown by country of listing



BASF
InBev
Nestlé Group
Roche
UBS

INTERNATIONAL

Altria Group
Boeing
Goldman Sachs
IBM
Pfizer
GSK

Companies listed in the UK, US, Netherlands and, Switzerland all have an average funding level above 100%. French and Spanish listed companies have the lowest funding levels. This is due to a number of the principal schemes for French and Spanish listed companies being unfunded in line with local legislation and market practice.

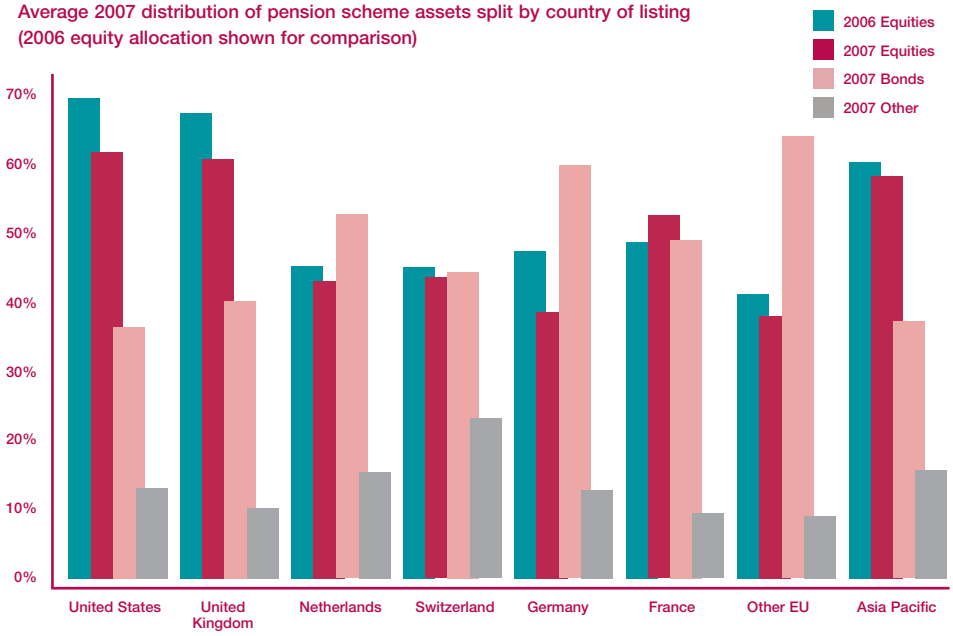
Investment strategy

A number of companies have "de-risked" their principal schemes by reducing the proportion of their assets in equities and investing more heavily in bonds or alternative assets.

Altria Group, Boeing, Goldman Sachs, IBM and *Pfizer* all disclosed that they had reduced, or were about to reduce, equity allocations in their US schemes by 10% or more. *GSK* is to reduce the equity and property allocation for its US scheme by 20% in 2008 and are to consider, with the UK trustees, a strategy to reduce the equity allocation in its UK scheme and linking the allocation to the scheme funding level.

Despite these reductions, the FTSE Global 100 Index companies still had 50% of their worldwide pension scheme assets in equities at their 2007 balance sheet date with the highest allocations for the UK, US and Japanese listed companies. The chart below shows the proportions held in different asset classes for companies listed in different countries/regions, and the 2006 equity allocation for comparison.

Average 2007 distribution of pension scheme assets split by country of listing
(2006 equity allocation shown for comparison)



A handful of companies also disclosed their pension scheme exposure to sub-prime mortgage holdings. For example, *GE* revealed an exposure of £488 million at the end of 2007.

GE

Scheme design

Many of the FTSE Global 100 Index companies have closed their defined benefit schemes to new employees and some have gone further and closed to future accrual as well.

Companies who close their defined benefit schemes have set up a variety of different arrangements in their place, depending on local regulation and practice. For example, *UBS* changed its Swiss final salary scheme to a defined contribution scheme with a minimum return. *BP* set up a cash balance scheme for new employees in the US, although its UK final salary scheme remains open to new employees.

UBS

BP

Accounting For Pensions 2008

APPENDICES

Appendix 1 – FTSE 100 accounting disclosure listing

This table shows the key disclosures made by the companies in the FTSE 100 as at 1st January 2008 that reported IAS19 figures in their 2007 accounts. The source of the data is each company's annual report and accounts for the accounting period ending in 2007. The market value of assets and surplus/(deficit) figures before tax relate to the worldwide position of each company, not just the UK schemes. All figures are rounded to the nearest million pounds. The assumptions for the discount rate and price inflation refer to those disclosed for the companies' main UK schemes where available. "ND" means no UK figures were disclosed.

Company	Year-end	2007							2006						
		Market value of assets	Surplus/(deficit) Total	Funded schemes	Discount rate	Inflation	Expected return on equities	Disclosed Mortality?[1]	Market value of assets	Surplus/(deficit) Total	Funded schemes	Discount rate	Inflation	Expected return on equities	Disclosed Mortality?[1]
		£m	£m	£m	% pa	%pa	% pa		£m	£m	£m	% pa	%pa	% pa	
3i Group	Mar	479	(1)	(1)	5.00	3.00	ND	Y	455	(17)	(17)	4.60	2.70	ND	Y
Alliance & Leicester	Dec	1,377	42	53	5.75	3.30	7.75	N	1,311	(26)	(17)	5.20	3.00	7.50	N
Amec	Dec	1,328	237	237	5.70	3.20	8.10	Y	1,243	93	93	5.10	3.00	7.70	N
Anglo American	Dec	1,574	27	81	ND	ND	ND	N	2,122	(49)	81	ND	ND	ND	N
Associated British Foods	Sep	2,474	310	341	5.80	3.30	7.30	Y	2,393	163	187	5.10	3.00	7.30	N
AstraZeneca	Dec	4,492	(1,022)	(789)	5.80	3.30	8.00	Y	4,367	(963)	(713)	5.10	3.00	8.20	Y
Aviva [4]	Dec	9,839	(178)	(71)	5.80	3.40	7.60	Y	9,223	(973)	(878)	5.10	3.10	8.00	N
BAE Systems [3]	Dec	15,110	(1,999)	(1,901)	5.80	3.30	8.00	Y	14,289	(3,167)	(3,087)	5.20	3.00	8.00	Y
Barclays [2]	Dec	18,027	551	641	5.82	3.45	8.30	Y	17,506	(644)	(580)	5.12	3.08	7.90	Y
BG Group [2]	Dec	591	(201)	(136)	5.60	3.50	7.90	Y	482	(245)	(190)	4.90	3.10	7.70	N
BHP Billiton	Jun	876	(15)	16	ND	ND	ND	Y	873	(96)	(63)	ND	ND	ND	N
BP	Dec	21,418	1,429	4,272	5.70	3.20	8.00	Y	20,345	383	3,219	5.10	2.80	7.50	Y
British Airways [2]	Mar	13,316	(1,294)	(1,287)	5.35	3.00	ND	Y	12,836	(1,501)	(1,496)	5.00	2.80	ND	N
British American Tobacco [2]	Dec	4,209	(150)	(39)	5.80	3.40	7.50	Y	3,938	(358)	(251)	5.10	3.10	7.50	Y
British Energy Group	Mar	2,671	(65)	(65)	5.40	3.00	8.30	Y	2,455	(215)	(215)	5.00	2.75	7.90	N
British Land Company	Mar	79	9	9	5.40	3.20	7.00	Y	67	(11)	(11)	4.90	3.00	6.80	N
BT	Mar	38,390	(389)	(389)	5.35	3.00	7.40	Y	35,640	(2,547)	(2,547)	5.00	2.75	7.40	Y
Cable & Wireless	Mar	2,289	51	91	5.30	3.00	7.80	Y	2,214	(91)	(53)	4.90	2.80	7.50	N
Cadbury Schweppes	Dec	2,742	117	211	5.80	3.25	8.00	Y	2,537	(171)	(87)	5.10	3.00	8.15	Y
Capita Group	Dec	488	4	4	5.90	3.20	7.60	Y	444	(27)	(27)	5.20	2.90	7.60	Y
Carnival	Nov	145	13	13	5.90	3.15	ND	Y	113	(19)	(19)	4.90	2.80	ND	Y
Centrica	Dec	3,327	97	97	5.80	3.40	8.10	Y	2,988	(296)	(296)	5.00	3.00	7.80	Y
Compass Group	Sep	1,442	(70)	64	5.80	3.20	8.00	Y	1,408	(282)	(111)	5.00	2.80	7.70	Y
Diageo	Jun	5,019	(402)	(272)	5.80	3.20	8.40	Y	4,647	(777)	(553)	5.20	2.80	7.80	Y
Enterprise Inns	Sep	19	2	2	5.70	3.40	8.35	Y	19	0	0	5.00	3.00	7.75	Y
Experian	Mar	545	53	72	5.40	3.10	8.10	Y	1,161	30	57	4.90	2.90	7.90	N
FirstGroup	Mar	2,507	18	18	5.45	2.80	8.45	N	1,993	(201)	(201)	5.00	2.60	8.35	N
Friends Provident	Dec	1,126	(22)	(20)	5.51	3.53	7.16	Y	1,045	(77)	(75)	5.02	3.02	7.00	Y
G4S	Dec	1,240	(167)	(136)	5.80	3.40	ND	Y	1,164	(251)	(226)	5.20	3.10	ND	N
GSK	Dec	10,182	(156)	103	5.75	3.25	8.00	Y	9,248	(1,097)	(851)	5.00	3.00	8.00	N

Appendix 1 – continued

Company	Year-end	2007 Market value of assets £m	2007 Surplus/(deficit) Total £m	2007 Surplus/(deficit) Funded schemes £m	2007 Discount rate % pa	2007 Inflation %pa	2007 Expected return on equities % pa	2007 Disclosed Mortality?[1]	2006 Market value of assets £m	2006 Surplus/(deficit) Total £m	2006 Surplus/(deficit) Funded schemes £m	2006 Discount rate % pa	2006 Inflation %pa	2006 Expected return on equities % pa	2006 Disclosed Mortality?[1]
Hammerson	Dec	47	(6)	1	ND	ND	ND	Y	43	(12)	(5)	ND	ND	ND	Y
HBOS	Dec	7,329	(294)	(250)	5.70	3.40	8.20	Y	6,644	(857)	(815)	5.15	3.00	ND	Y
Home Retail Group	Mar	637	9	20	4.90	3.10	7.90	Y	605	26	35	4.90	2.90	7.90	Y
HSBC Holdings	Dec	15,175	(953)	(744)	5.80	3.30	8.30	Y	14,101	(2,313)	(2,119)	5.10	3.00	8.00	Y
ICAP	Mar	6	(1)	(1)	ND	ND	ND	N	6	(2)	(2)	ND	ND	ND	N
Imperial Tobacco Group	Sep	3,238	205	590	5.90	3.40	8.10	Y	3,035	(37)	370	5.10	3.10	8.00	Y
InterContinental Hotels Group	Dec	376	(13)	32	5.50	3.40	7.90	Y	325	(62)	(15)	5.00	3.10	7.90	Y
International Power [2]	Dec	264	(5)	(5)	5.80	3.40	8.00	Y	226	(15)	(15)	5.10	3.10	7.50	Y
ITV	Dec	2,491	(112)	(76)	5.70	3.40	7.70	Y	2,372	(285)	(247)	5.12	3.00	7.60	Y
J Sainsbury	Mar	4,298	(103)	(97)	5.30	ND	ND	N	3,710	(658)	(651)	4.90	ND	ND	N
Johnson Matthey	Mar	952	30	34	5.40	3.10	7.75	Y	909	52	54	4.90	2.90	7.75	N
Kelda Group	Mar	865	(13)	(13)	5.30	3.00	7.15	Y	782	(85)	(85)	4.90	2.70	6.85	Y
Kingfisher	Feb	1,377	(55)	(55)	5.30	2.90	7.80	Y	1,220	(240)	(240)	4.70	2.70	7.60	N
Land Securities	Mar	144	(6)	(6)	5.40	3.25	7.50	Y	150	(7)	(7)	4.90	3.00	7.50	Y
Legal & General Group [4]	Dec	1,202	(182)	(182)	5.70	3.40	7.50	Y	1,170	(176)	(176)	5.10	3.20	7.60	Y
Liberty International	Dec	59	(0)	(0)	5.60	3.20	ND	Y	47	0	0	5.10	2.80	ND	N
Lloyds TSB Group [2]	Dec	16,112	(683)	(683)	5.80	3.30	8.00	Y	15,279	(2,099)	(2,099)	5.10	2.90	8.00	N
London Stock Exchange	Mar	225	(15)	(15)	5.30	3.10	7.60	Y	223	(20)	(20)	4.90	2.80	7.90	Y
Lonmin	Sep	78	12	12	5.80	3.40	ND	Y	79	6	6	5.00	3.00	7.60	Y
Man Group [2]	Mar	182	(25)	(25)	5.40	3.20	8.00	Y	187	(44)	(41)	5.00	3.00	ND	N
Marks and Spencer Group	Mar	5,228	(261)	(260)	5.30	3.00	8.40	Y	4,606	(777)	(775)	4.90	2.90	8.00	Y
Morrisons	Feb	1,774	(198)	(198)	5.00	3.20	7.00	Y	1,536	(416)	(416)	4.75	3.00	7.00	Y
National Grid	Mar	15,468	(659)	(576)	5.40	3.20	ND	Y	15,341	(1,275)	(1,179)	4.90	2.90	ND	N
Next	Jan	380	(47)	(41)	5.30	3.00	6.55	Y	313	(116)	(104)	4.65	2.85	6.70	Y
Old Mutual [2]	Dec	855	180	180	5.00	3.33	7.75	N	836	78	78	5.00	3.13	7.80	N
Pearson	Dec	1,853	42	54	5.80	3.30	ND	Y	1,633	(177)	(165)	5.20	3.00	ND	Y
Persimmon	Dec	279	(61)	(61)	5.80	3.10	8.50	N	257	(104)	(104)	5.10	2.90	8.50	N
Prudential [4]	Dec	5,150	135	324	5.90	ND	7.50	Y	4,988	(222)	(35)	5.20	ND	7.50	Y
Reckitt Benckiser Group	Dec	873	(60)	(60)	5.80	3.30	7.90	Y	850	(109)	(109)	5.10	3.00	7.40	Y
Reed Elsevier	Dec	3,018	50	141	ND	ND	ND	Y	2,772	(236)	(149)	ND	ND	ND	Y
Rentokil Initial	Dec	993	50	61	6.00	ND	ND	Y	921	(119)	(113)	5.10	ND	ND	Y
Reuters Group	Dec	1,345	125	145	5.80	3.30	8.20	Y	1,298	(110)	(92)	4.93	3.00	8.10	Y
Rexam	Dec	2,361	(63)	(3)	5.60	3.30	7.87	Y	2,313	(326)	(245)	5.00	3.00	7.37	Y
Rio Tinto	Dec	8,235	(729)	(236)	5.90	3.40	ND	Y	3,077	23	94	5.20	3.10	7.50	Y
Rolls-Royce Group	Dec	6,903	(9)	275	5.80	3.50	7.80	Y	5,906	(993)	(703)	5.10	2.90	7.50	N
RSA	Dec	5,244	184	232	5.60	3.20	7.50	Y	4,870	56	103	5.10	2.70	7.50	N
Royal Bank Of Scotland Group	Dec	27,662	340	340	6.00	3.20	8.10	Y	18,959	(1,992)	(1,992)	5.30	2.90	8.10	Y

Company	Year-end	2007 Market value of assets £m	2007 Surplus/(deficit) Total £m	2007 Surplus/(deficit) Funded schemes £m	2007 Discount rate % pa	2007 Inflation %pa	2007 Expected return on equities % pa	2007 Disclosed Mortality?[1]	2006 Market value of assets £m	2006 Surplus/(deficit) Total £m	2006 Surplus/(deficit) Funded schemes £m	2006 Discount rate % pa	2006 Inflation %pa	2006 Expected return on equities % pa	2006 Disclosed Mortality?[1]
Royal Dutch Shell [2]	Dec	37,692	6,764	8,004	ND	ND	ND	Y	34,419	3,683	4,668	ND	ND	ND	N
SABMiller	Mar	566	(161)	(65)	ND	ND	ND	N	597	(147)	(51)	ND	ND	ND	N
Sage Group	Sep	13	(5)	(5)	ND	ND	ND	N	10	(2)	(2)	ND	ND	ND	N
Schroders	Dec	555	43	43	5.70	3.10	7.80	Y	518	17	17	5.20	2.90	8.30	Y
Scottish & Southern Energy	Mar	2,110	(92)	(92)	5.40	3.10	8.00	Y	2,017	(194)	(194)	4.90	2.90	7.70	Y
Severn Trent	Mar	1,365	(135)	(128)	5.40	3.00	8.25	Y	1,403	(222)	(210)	4.90	2.70	8.00	Y
Smith & Nephew	Dec	516	(77)	(66)	5.80	3.30	7.60	Y	455	(64)	(50)	5.10	2.90	7.00	Y
Smiths Group	Jul	3,319	248	300	5.80	3.10	8.20	Y	3,111	30	75	5.30	2.80	8.00	N
Standard Chartered	Dec	1,246	(151)	(23)	5.90	3.20	8.50	Y	1,193	(271)	(94)	5.20	3.00	7.50	Y
Standard Life	Dec	1,384	(203)	(155)	5.75	3.45	ND	Y	1,271	(220)	(176)	5.10	3.05	7.31	N
Taylor Wimpey	Dec	1,434	(216)	(216)	5.80	3.10	8.10	Y	750	(206)	(206)	5.10	3.00	8.00	N
Tesco	Feb	4,007	(950)	(923)	5.20	3.00	8.10	Y	3,448	(1,211)	(1,194)	4.80	2.70	8.10	Y
Thomas Cook Group	Oct	636	(176)	(13)	ND	ND	ND	Y	514	(278)	(92)	ND	ND	ND	N
Unilever	Dec	12,654	(225)	893	5.80	3.00	8.00	Y	11,585	(1,455)	234	5.10	2.90	8.00	N
United Utilities	Mar	2,706	62	70	5.25	3.00	ND	Y	2,740	19	32	4.90	2.80	ND	Y
Vedanta Resources	Mar	9	(18)	(18)	ND	ND	ND	N	8	(22)	(22)	ND	ND	ND	N
Vodafone Group	Mar	1,251	(41)	57	ND	ND	ND	Y	1,123	(101)	(5)	ND	ND	ND	Y
Whitbread	Mar	1,366	(196)	(196)	5.20	3.00	8.00	Y	1,238	(338)	(338)	4.80	2.70	7.20	N
Wolseley	Jul	711	(107)	(53)	5.70	3.30	7.90	Y	613	(188)	(131)	5.10	3.10	7.40	Y
WPP	Dec	504	(134)	(40)	5.80	3.30	7.30	Y	470	(187)	(86)	5.10	3.00	7.30	N
Xstrata	Dec	1,257	(112)	(109)	ND	ND	ND	N	1,222	(108)	(105)	ND	ND	ND	N
Yell Group	Mar	302	(27)	(27)	5.20	3.10	7.50	Y	271	(40)	(38)	4.90	3.00	7.20	Y

[1] This column indicates companies who disclosed sufficient information to calculate their assumption for life expectancy for a male pensioner aged 60.

[2] All of the companies above accounted using immediate recognition of gains and losses (through the SORIE), with the exception of Barclays, BG Group, British Airways, British American Tobacco, International Power, Lloyds TSB Group, Man Group, Old Mutual and Royal Dutch Shell who opted to spread gains and losses under IAS19.

[3] BAE Systems allocated £401 million of its 2007 deficit (£691 million in 2006) to equity accounted investments and other participating employers.

[4] Aviva, Legal & General Group and Prudential split their pension scheme surplus/(deficit) between shareholder and with-profit funds.

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 schemes do not fund them via an external scheme, instead backing the pension scheme with company assets, which may result in a larger deficit being disclosed. Where disclosed, the surplus/(deficit) attributable to funded schemes is also shown above. 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 discount rate and price inflation refer to those disclosed for the companies' main UK scheme(s). 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 the UK if separately given. "ND" means no UK figures were disclosed.

We have excluded from our survey the following eight companies who had no evidence of significant defined benefit provision: Antofagasta, Admiral Group, British Sky Broadcasting Group, Cairn Energy, Carphone Warehouse Group, Kazakhmys, Shire and Tullow Oil. Resolution, Scottish & Newcastle and TUI Travel have also been excluded as they did not produce 2007 accounts by 30th June 2008.

The following ten companies have entered the FTSE 100 index since 1st January 2008 and hence are not included in our survey: The Alliance Trust, Bunzl, Cobham, Drax Group, Eurasian Natural Resources Corp, Ferrexpo, Invensys, Petrofac, Thomson Reuters Corp and Wood Group. The following ten companies have exited the FTSE 100 index since 1st January 2008: Alliance & Leicester, Home Retail Group, Kelda Group, Persimmon, Rentokil Initial, Resolution, Reuters Group, Scottish & Newcastle, Taylor Wimpey and Yell Group.

Appendix 2 – FTSE 100 accounting risk measures

Largest liabilities

Name	2007 Liabilities £m	*2006 Liabilities £m*
BT	38,779	*38,187*
Royal Dutch Shell	30,927	*30,736*
Royal Bank Of Scotland Group	27,322	*20,951*
BP	19,989	*19,962*
Barclays	17,476	*18,150*
BAE Systems[1]	17,109	*17,456*

Largest deficits

Name	2007 Deficit £m	*2006 Deficit £m*
BAE Systems[1]	1,999	*3,167*
British Airways	1,294	*1,501*
AstraZeneca	1,022	*963*
HSBC Holdings	953	*2,313*
Tesco	950	*1,211*
Rio Tinto	729	*-23*

These tables show the key results of analysis of the disclosures made by the companies in the FTSE 100 as at 1st January 2008 that were reported in their 2007 accounts. 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 source of the data is each company's annual report and accounts for the accounting period ending in 2007.

The surplus/(deficit) figures are before allowing for deferred tax.

Traditionally, some companies with overseas pension schemes do not fund them via an external scheme, instead backing the pension scheme with company assets, which may result in a larger deficit being disclosed.

The source of market capitalisation figures is the FTSE European Monthly Reviews and FTSE All-Share Index Series Weightings reports as at the companies' year-ends.

All figures shown here have been calculated using unrounded numbers. Therefore, some metrics shown may differ to those calculated using the rounded figures.

Largest liabilities compared to market capitalisation

Name	Liabilities £m	Market Cap £m	2007 Liabilities / Market Cap %	*2006 Liabilities / Market Cap %*
British Airways	14,610	5,589	261	*359*
BT	38,779	25,322	153	*204*
British Energy Group	2,736	2,348	117	*72*
RSA	5,060	4,760	106	*107*
BAE Systems[1]	17,109	17,468	98	*128*

[1]BAE Systems allocated £401 million of its 2007 deficit (£691 million in 2006) to equity accounted investments and other participating employers.

Largest deficit compared to market capitalisation

Name	Deficit £m	Market Cap £m	2007 Deficit / Market Cap %	*2006 Deficit / Market Cap %*
British Airways	1,294	5,589	23	*38*
BAE Systems[1]	1,999	17,468	11	*23*
Taylor Wimpey	216	2,187	10	*4*
Whitbread	196	3,245	6	*12*
Thomas Cook Group	176	2,936	6	*N/A*

Highest funding level

Name	Assets £m	Liabilities £m	2007 Assets / Liabilities %	*2006 Assets / Liabilities %*
Old Mutual	855	675	127	*110*
Royal Dutch Shell	37,692	30,927	122	*112*
Amec	1,328	1,091	122	*108*
Lonmin	78	66	119	*108*
Associated British Foods	2,474	2,164	114	*107*
British Land Company	79	70	113	*86*

Lowest funding level

Name	Assets £m	Liabilities £m	2007 Assets / Liabilities %	*2006 Assets / Liabilities %*
Vedanta Resources	9	27	33	*27*
Sage Group	13	18	70	*82*
BG Group	591	792	75	*66*
SABMiller	566	727	78	*80*
Thomas Cook Group	636	812	78	*65*

Appendix 2 – continued

Largest employer contributions

Name	2007 Contribut'ns £m	*2006 Contribut'ns £m*
BT	926	*452*
Unilever	790	*744*
Rolls-Royce Group	707	*153*
HSBC Holdings	635	*235*
Royal Dutch Shell	628	*704*
Marks and Spencer Group	611	*130*

Largest service cost[2]

Name	2007 Service Cost £m	*2006 Service Cost £m*
Royal Bank Of Scotland Group	706	*668*
BT	600	*568*
Royal Dutch Shell	592	*692*
BP	433	*428*
HSBC Holdings	404	*418*
Barclays	352	*407*

Largest employer contributions compared to service cost[2]

Name	Contribut'ns £m	Service Cost £m	2007 Contribut'ns / Service Cost %	*2006 Contribut'ns / Service Cost %*
Rentokil Initial	82	2	4,080	*149*
J Sainsbury	362	15	2,413	*235*
Whitbread	110	6	1,825	*1184*
InterContinental Hotels Group	37	5	740	*100*
Taylor Wimpey	31	5	612	*284*
Marks and Spencer Group	611	114	537	*117*

[2]The service cost (representing the value of benefits earned over the accounting period) includes the value of any past service benefits awarded to members during the year.

Largest employer contributions compared to dividends paid

Name	Contribut'ns £m	Dividends £m	2007 Contribut'ns / Dividends %	*2006 Contribut'ns / Dividends %*
J Sainsbury	362	140	259	*144*
Marks and Spencer Group	611	261	235	*64*
BAE Systems	594	397	150	*342*
FirstGroup	95	68	139	*115*
RSA	168	133	126	*233*

Highest Equity Allocation

Name	2007 Equity Allocation £m	*2006 Equity Allocation £m*
BP	75	*79*
Centrica	75	*78*
Vodafone Group	72	*72*
Home Retail Group	70	*71*
FirstGroup	70	*73*
International Power	70	*72*

Lowest Equity Allocation

Name	2007 Equity Allocation £m	*2006 Equity Allocation £m*
Hammerson	0	*55*
Lonmin	0	*26*
Sage Group	12	*22*
London Stock Exchange	16	*31*
Rentokil Initial	18	*20*
RSA	25	*45*

Appendix 2 – continued

Largest % increase in funding level

Name	2007 Funding level %	*2006 Funding level %*	Increase in Funding level %
British Land Company	113	*86*	27
Carnival	110	*86*	24
Reuters Group	110	*92*	18
Old Mutual	127	*110*	17
Rentokil Initial	105	*89*	16
Next	89	*73*	16

Largest % decrease in funding level

Name	2007 Funding level %	*2006 Funding level %*	Decrease in Funding level %
Sage Group	70	*82*	12
Rio Tinto	92	*101*	9
Home Retail Group	101	*104*	3
Johnson Matthey	103	*106*	3
SABMiller	78	*80*	2
Liberty International	100	*101*	1

Appendix 3 – FTSE 100 Global accounting disclosure listing

This table shows the key disclosures made by FTSE Global 100 Index companies. The source of the data is each company's annual report and accounts for the accounting period ending in 2007.

Country/Region	Number	Market value of assets £m	Value of liabilities £m	Liabilities as % of market capitalisation	2007 Surplus/ (deficit) £m	2006 Surplus/ (deficit) £m	2007 Service Cost £m	2007 Employer Contrib'ns £m	2007 Contrib'ns/ Assets %	2007 Equities £m	2007 Equities/ Total Assets %	Number disclosing mortality assumptions
France	6	15,751	(24,483)	10%	(8,732)	(9,442)	627	723	5%	7,459	47%	0
Germany	6	50,029	(54,742)	22%	(4,713)	(7,669)	1,533	1,729	3%	17,394	35%	1
Netherlands	3	38,427	(37,377)	31%	1,050	(1,766)	738	1,699	4%	14,892	39%	1
Switzerland	7	55,110	(54,632)	15%	478	(3,231)	1,275	1,839	3%	21,606	39%	3
UK	15	128,375	(124,892)	15%	3,483	(3,846)	2,484	3,222	3%	70,429	55%	15
USA	42	239,044	(229,465)	11%	9,579	(8,664)	5,906	5,614	2%	133,748	56%	1
Asia Pacific (including Australia)	11	36,637	(41,694)	10%	(5,057)	(8,762)	1,629	2,214	6%	16,882	46%	1
Other European Union	7	15,328	(29,066)	12%	(13,738)	(14,807)	424	2,049	13%	5,243	34%	3
TOTAL	**97**	**578,701**	**(596,351)**	**13%**	**(17,650)**	**(58,186)**	**14,617**	**19,089**	**3%**	**287,653**	**50%**	**25**

Company	Country	2007 Year End	Market value of assets £m	Value of liabilities £m	Liabilities as % of market capitalisation	2007 Surplus/ (deficit) £m	2006 Surplus/ (deficit) £m	2007 Service Cost £m	2007 Employer Contrib'ns £m	2007 Contrib'ns/ Assets %	2007 Equities £m	2007 Equities/ Total Assets %	Mortality Disclosed?
BHP Billiton **	Australia	Jun	876	(892)	1%	(16)	(96)	32	34	4%	354	40%	Y
National Australia Bank	Australia	Sep	3,488	(3,271)	12%	217	(35)	96	122	4%	1,972	57%	N
InBev **	Belgium	Dec	1,662	(1,946)	25%	(284)	(385)	51	94	6%	848	51%	Y
KBC **	Belgium	Dec	1,120	(1,316)	11%	(196)	(148)	72	66	6%	498	45%	N
AP Moller - Maersk Group **	Denmark	Dec	1,100	(1,269)	11%	(169)	(283)	24	57	5%	592	54%	N
Nokia	Finland	Dec	1,602	(1,670)	2%	(68)	(113)	92	120	7%	184	11%	N
Axa	France	Dec	5,200	(9,546)	23%	(4,346)	(4,389)	217	46	1%	3,016	58%	N
Danone	France	Dec	326	(504)	2%	(178)	(143)	15	7	2%	95	29%	N
L'Oréal *	France	Dec	1,111	(1,742)	8%	(631)	(729)	76	124	11%	430	39%	N
LVMH *	France	Dec	297	(452)	2%	(155)	(172)	28	29	10%	151	51%	N
Sanofi-Aventis **	France	Dec	3,951	(6,249)	13%	(2,298)	(2,432)	174	108	3%	2,015	51%	N
Total * **	France	Dec	4,866	(5,990)	6%	(1,124)	(1,576)	118	410	8%	1,752	36%	N
BASF **	Germany	Dec	8,852	(8,779)	24%	73	(414)	199	96	1%	2,655	30%	N
Bayer **	Germany	Dec	7,172	(10,436)	30%	(3,264)	(3,938)	186	408	6%	3,149	44%	N
Daimler *	Germany	Dec	10,150	(11,559)	23%	(1,409)	(1,542)	449	475	5%	5,379	53%	N
Deutsche Bank* **	Germany	Dec	6,876	(6,277)	18%	599	214	195	126	2%	550	8%	Y
SAP	Germany	Dec	256	(244)	1%	12	3	28	41	16%	141	55%	N
Siemens **	Germany	Sep	16,723	(17,447)	24%	(724)	(1,992)	476	583	3%	5,519	33%	N
Hutchison Whampoa *	Hong Kong	Dec	781	(844)	5%	(63)	(160)	41	43	6%	430	55%	N
Canon	Japan	Dec	2,694	(2,707)	9%	(13)	(347)	108	97	4%	983	36%	N
Honda Motor Co.	Japan	Mar	5,325	(7,091)	31%	(1,766)	(2,241)	314	319	6%	2,814	53%	N
Matsushita Electric Industrial Co.	Japan	Mar	7,836	(8,447)	33%	(611)	(1,553)	257	674	9%	3,526	45%	N
Mitsubishi	Japan	Mar	2,162	(1,778)	4%	384	320	54	93	4%	1,362	63%	N
Nintendo	Japan	Mar	83	(92)	0%	(9)	(13)	6	0	0%	ND	ND	N
Nissan *	Japan	Mar	4,359	(5,504)	44%	(1,145)	(2,061)	223	0	0%	ND	ND	N
Sony	Japan	Mar	2,874	(3,688)	13%	(814)	(1,077)	151	254	9%	1,301	45%	N

Appendix 3 – FTSE 100 Global accounting disclosure listing

Company	Country	2007 Year End	Market value of assets £m	Value of liabilities £m	Liabilities as % of market capitalisation	2007 Surplus/ (deficit) £m	2006 Surplus/ (deficit) £m	2007 Service Cost £m	2007 Employer Contrib'ns £m	2007 Contrib'ns/ Assets %	2007 Equities £m	2007 Equities/ Total Assets %	Mortality Disclosed?
Toyota	Japan	Mar	6,159	(7,380)	10%	(1,221)	(1,500)	347	577	9%	4,139	67%	N
ING Group *	Netherlands	Dec	10,838	(10,684)	25%	154	(941)	301	601	6%	3,577	33%	N
Philips	Netherlands	Dec	14,885	(13,764)	56%	1,121	634	195	245	2%	3,978	27%	N
Unilever	Netherlands	Dec	12,704	(12,929)	24%	(225)	(1,460)	242	853	7%	7,337	58%	Y
Banco Santander *	Spain	Dec	8,717	(17,554)	26%	(8,837)	(9,751)	154	1,667	19%	3,020	35%	Y
BBVA	Spain	Dec	1,127	(5,278)	11%	(4,151)	(4,088)	31	45	4%	100	9%	Y
Repsol YPF	Spain	Dec	0	(33)	0%	(33)	(38)	n/a	n/a	n/a	ND	ND	N
ABB	Switzerland	Dec	4,459	(4,448)	13%	11	(59)	95	149	3%	1,427	32%	N
Credit Suisse	Switzerland	Dec	6,532	(6,396)	18%	136	(703)	139	325	5%	1,597	24%	N
Nestlé Group **	Switzerland	Dec	10,922	(10,597)	12%	325	(260)	301	230	2%	5,024	46%	N
Novartis **	Switzerland	Dec	9,190	(8,564)	13%	626	382	212	30	0%	3,860	42%	Y
Roche **	Switzerland	Dec	5,461	(6,218)	10%	(757)	(1,193)	170	92	2%	2,666	49%	Y
UBS **	Switzerland	Dec	11,895	(11,470)	24%	425	(324)	202	348	3%	4,764	40%	Y
Zurich **	Switzerland	Dec	6,651	(6,939)	32%	(288)	(1,074)	155	665	10%	2,268	34%	N
Anglo American **	UK	Dec	1,574	(1,547)	4%	27	(49)	29	35	2%	682	43%	Y
AstraZeneca	UK	Dec	4,492	(5,514)	18%	(1,022)	(963)	150	173	4%	2,020	45%	Y
BG Group *	UK	Dec	591	(792)	2%	(201)	(245)	52	62	10%	372	63%	Y
BP	UK	Dec	21,418	(19,989)	17%	1,429	383	426	375	2%	16,010	75%	Y
British American Tobacco	UK	Dec	4,209	(4,359)	15%	(150)	(358)	75	138	3%	1,856	44%	Y
Diageo	UK	Jun	5,019	(5,421)	19%	(402)	(777)	98	95	2%	2,792	56%	Y
GSK	UK	Dec	10,182	(10,338)	15%	(156)	(1,097)	249	504	5%	6,247	61%	Y
HSBC Holdings	UK	Dec	15,175	(16,128)	16%	(953)	(2,313)	401	635	4%	4,015	26%	Y
National Grid	UK	Mar	15,468	(16,127)	76%	(659)	(1,275)	115	276	2%	5,926	38%	Y
Rio Tinto	UK	Dec	8,235	(8,964)	12%	(729)	(211)	131	117	1%	4,939	60%	Y
Royal Dutch Shell *	UK	Dec	37,692	(30,928)	23%	6,764	3,686	595	631	2%	23,272	61%	Y
SABMiller **	UK	Mar	566	(727)	5%	(161)	(147)	21	14	2%	358	63%	Y
Standard Chartered	UK	Dec	1,246	(1,397)	5%	(151)	(272)	48	55	4%	427	34%	Y
Vodafone Group	UK	Mar	1,251	(1,292)	1%	(41)	(101)	74	55	4%	902	72%	Y
Xstrata	UK	Dec	1,257	(1,369)	5%	(112)	(108)	22	58	5%	612	49%	Y
3M	USA	Dec	7,770	(7,546)	25%	224	(290)	159	188	2%	3,785	49%	Y
Abbot Laboratories	USA	Dec	2,837	(2,896)	7%	(59)	(270)	125	141	5%	1,986	70%	N
AIG	USA	Dec	2,043	(2,454)	3%	(411)	(534)	113	198	10%	1,116	55%	N
Altria Group	USA	Dec	4,770	(4,316)	5%	454	94	120	66	1%	3,195	67%	N
Apple	USA	Sep	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	N
Boeing	USA	Dec	25,253	(22,898)	67%	2,355	317	477	290	1%	9,596	38%	N
Bristol Myers Squibb	USA	Dec	3,014	(3,096)	12%	(82)	(270)	125	162	5%	1,962	65%	N
Caterpillar	USA	Dec	6,616	(7,082)	30%	(466)	(767)	134	29	0%	4,492	68%	N
Chevron	USA	Dec	5,913	(6,523)	7%	(610)	(818)	193	159	3%	3,628	61%	N
Cisco Systems	USA	July	61	(115)	0%	(54)	(64)	ND	ND	n/a	ND	n/a	N
The Coca-Cola Company	USA	Dec	1,716	(1,761)	2%	(45)	(105)	62	30	2%	997	58%	N
Dell	USA	Feb	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	N
The Dow Chemical Company	USA	Dec	8,076	(7,813)	42%	263	(455)	145	92	1%	4,119	51%	N
Du Pont	USA	Dec	11,324	(11,118)	56%	206	(480)	192	139	1%	6,228	55%	N
EMC	USA	Dec	211	(170)	1%	41	24	0	0	0%	148	70%	N
Emerson	USA	Sep	1,902	(1,717)	8%	185	88	31	65	3%	1,240	65%	N

Company	Country	2007 Year End	Market value of assets £m	Value of liabilities £m	Liabilities as % of market capitalisation	2007 Surplus/ (deficit) £m	2006 Surplus/ (deficit) £m	2007 Service Cost £m	2007 Employer Contrib'ns £m	2007 Contrib'ns/ Assets %	2007 Equities £m	2007 Equities/ Total Assets %	Mortality Disclosed?
ExxonMobil	USA	Dec	13,923	(17,292)	7%	(3,369)	(4,146)	406	1,235	9%	9,582	69%	N
GE	USA	Dec	33,601	(26,015)	14%	7,586	4,525	865	434	1%	18,029	54%	N
Goldman Sachs	USA	Nov	514	(554)	1%	(40)	(71)	38	18	4%	270	53%	N
Google	USA	Dec	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	N
Hewlett Packard	USA	Oct	6,820	(6,013)	9%	807	(45)	189	130	2%	4,363	64%	N
IBM	USA	Dec	49,197	(43,628)	58%	5,569	2,344	659	224	0%	25,356	52%	N
Intel	USA	Dec	388	(544)	1%	(156)	(173)	44	26	7%	201	52%	N
Johnson & Johnson	USA	Dec	5,242	(6,010)	6%	(768)	(1,082)	299	159	3%	3,827	73%	N
Kraft	USA	Dec	5,531	(5,120)	20%	411	65	130	144	3%	3,588	65%	N
Lilly (Eli) & Co	USA	Dec	3,657	(3,285)	11%	372	20	144	102	3%	2,743	75%	N
McDonald's	USA	Dec	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	N
Medtronic	USA	April	644	(611)	2%	33	18	46	61	9%	380	59%	N
Microsoft	USA	June	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	N
Monsanto	USA	Aug	810	(919)	3%	(109)	(164)	19	36	4%	515	64%	N
Motorola	USA	Dec	3,076	(3,348)	18%	(272)	(957)	91	205	7%	2,153	70%	N
News Corp	USA	June	1,141	(1,194)	5%	(53)	(87)	35	33	3%	696	61%	N
Oracle Corp	USA	May	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%	n/a	n/a	N
Pepsico	USA	Dec	3,696	(3,829)	6%	(133)	(383)	152	64	2%	2,255	61%	N
Pfizer	USA	Dec	7,294	(8,145)	10%	(851)	(1,677)	301	335	5%	4,538	62%	N
Procter & Gamble	USA	June	3,668	(4,900)	4%	(1,232)	(1,674)	139	282	8%	2,054	56%	N
Qualcomm	USA	Sep	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	N
Schering Plough	USA	Dec	1,649	(2,015)	9%	(366)	(355)	69	98	6%	890	54%	N
Schlumberger	USA	Dec	1,576	(1,549)	3%	27	(140)	47	125	8%	1,039	66%	N
Texas Instruments	USA	Dec	1,252	(1,262)	5%	(10)	(62)	35	40	3%	642	51%	N
United Technologies	USA	Dec	11,340	(10,972)	29%	368	(692)	219	190	2%	6,577	58%	N
Wyeth	USA	Dec	2,519	(2,755)	9%	(236)	(401)	107	114	5%	1,559	62%	N
		TOTAL	**578,701**	**(596,351)**	**13%**	**(17,650)**	**(58,186)**	**14,617**	**19,089**	**3%**	**287,653**	**50%**	**25**

* Company uses corridor method for recognising gains/losses under IAS19
** Company restricts balance sheet assets due to irrecoverable surplus under IAS19
The 2007 and 2006 figures are taken from the companies' reported pensions disclosures in the published accounts for the accounting periods ending in 2007 and 2006 respectively.
Pension liabilities exclude post-retirement medical plans and other post-employment benefits where these are disclosed separately.
Pension plan assets include reimbursement rights and other segregated assets where these are shown in the pensions disclosures.
They exclude any other company assets that may be included elsewhere on company balance sheet in order to fund pension obligations.
The surplus/(deficit) are before tax and represent the difference between the assets and liabilties.
For companies that report under IAS19 (or other similar local standards) no account is taken of, where applicable, any unrecognised balance sheet items or restrictions to balance sheet assets.
All analysis and projections has been based on the companies in the FTSE Global 100 Index as at 31st December 2007. No allowance is made for changes to constituent members in 2007 and 2008.
Since 31st December 2007, Gilead Sciences, Mosaic Company, Philip Morris International, Transocean and Apache Corp have entered the Index.
Since 31st December 2007, SABMiller, Dow Chemical, EMC Corp, Motorola and Schering-Plough have left the Index.
Market capitalisations were taken from the FTSE Global 100 Index constituent report published as at 31st December 2007.
Roche, News Corp, Royal Dutch Shell and AP Moller have two lines of shares. The market capitalisation is the sum of both lines.
Rio Tinto, Unilever and BHP Billiton are listed as separate companies in two countries. The country identified with the company is the country where the company's market capitalisation is higher. However the combined market capitalisation for both entities is shown.
McDonald's and Repsol YPF only disclose a net pensions liability.
Apple, Dell, Google, Oracle, Qualcomm do not appear to provide any material defined benefit arrangements.
Where a company has reported figures in its accounts in a currency other than Sterling, all figures for that year have been converted to Sterling using exchange rates appropriate as at the company's balance sheet date.
As at 31st December 2007 the following exchange rates were used: 1 GBP = 2.0 USD = 1.4 EUR = 2.2 CHF = 10.1 DKK = 224.3 JPY = 15.6 HKD = 2.3 AUD.
As at 31st December 2006 the following exchange rates were used: 1 GBP = 2.0 USD = 1.5 EUR = 2.4 CHF = 11.1 DKK = 233.3 JPY = 15.2 HKD = 2.5 AUD.

Appendix 4 – FTSE Global 100 accounting risk measures

Largest deficits[1]

Name	2007 Deficit £m	*2006 Deficit £m*
Banco Santander	8,837	*9,751*
Axa	4,346	*4,389*
BBVA	4,151	*4,088*
ExxonMobil	3,369	*4,146*
Bayer	3,264	*3,938*
Sanofi-Aventis	2,298	*2,432*

Largest liabilities

Name	2007 Liabilities £m	*2006 Liabilities £m*
IBM	43,628	*43,873*
Royal Dutch Shell	30,928	*30,736*
GE	26,015	*26,709*
Boeing	22,898	*23,266*
BP	19,989	*19,962*
Siemens	17,447	*18,085*

Largest liabilities compared to market capitalisation

Name	2007 Liabilities £m	2007 Market Cap £m	2007 Liabilities/ Market Cap %
National Grid	16,127	21,283	76%
Boeing	22,898	33,939	67%
IBM	43,628	74,579	58%
Du Pont	11,118	19,846	56%
Philips	13,764	24,695	56%
Nissan	5,504	12,450	44%

Largest deficit[1] compared to market capitalisation

Name	2007 Deficit £m	2007 Market Cap £m	2007 Deficit/ Market Cap %
Banco Santander	8,837	67,987	13%
Axa	4,346	41,821	10%
BBVA	4,151	45,924	9%
Bayer	3,264	34,986	9%
Nissan	1,145	12,450	9%
Honda Motor Co.	1,766	23,128	8%

[1] These deficits take into account assets shown in the companies' disclosures including reimbursement rights and other segregated assets where these are shown in the pensions disclosures. They exclude any other company assets that may be included elsewhere on company balance sheet in order to fund pension obligations.

Appendix 4 – continued

Highest funding levels

Name	2007 Assets £m	2007 Liabilities £m	2007 Assets/ Liabilities %
GE	33,601	26,015	129%
EMC	211	170	124%
Mitsubishi	2,162	1,778	122%
Royal Dutch Shell	37,692	30,928	122%
Hewlett Packard	6,820	6,013	113%
IBM	49,197	43,628	113%

Largest equity allocation compared to market capitalisation

Name	2007 Equity £m	2007 Market Cap £m	2007 Equity/ Market Cap %
IBM	25,356	74,579	34%
Du Pont	6,228	19,846	31%
Boeing	9,596	33,939	28%
National Grid	5,926	21,283	28%
The Dow Chemical Company	4,119	18,814	22%
Caterpillar	4,492	23,265	19%

Largest employer contribution compared to service cost

Name	Contribut'ns £m	Service Cost £m	2007 Contribut'ns/ Service Cost %
Banco Santander	1,667	154	1082%
Zurich	665	155	429%
Unilever	853	242	352%
Total	410	118	348%
ExxonMobil	1,235	406	304%
Xstrata	58	22	270%

Notes

Notes

Notes

This is the 15th edition of Lane Clark & Peacock's Accounting for Pensions report.

It is widely recognised as an authoritative survey of the accounting standards that regulate accounting and disclosure of pensions information in UK company accounts. The report covers over 180 of the world's largest companies from the UK FTSE 100 and the FTSE Global 100.

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