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Impact of Pension Schemes on UK Business

July 2013



With input from:



University of the
West of England



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With the Government looking for companies to increase their levels of investment to kick-start the economy, the significant level of contributions being paid to clear defined benefit (DB) pension scheme deficits must be unwelcome.

The persistence of DB scheme deficits, despite the contributions being paid, and the uncertainty this creates must also be a concern when considering future investment plans. However, for many companies cash holdings remain high and opportunities may arise in the next few years for significant de-risking of the pension scheme.

The Pensions Regulator (TPR) is to be given a new statutory objective to minimise the impact scheme funding will have on the sustainable growth of the employer. It will be interesting to see whether this has any real effect particularly on the small but significant number of companies whose future plans must be heavily dictated by the funding of their pension schemes.

Building on the research we have carried out over the last few years, we have considered and quantified the continuing impact DB schemes are having on UK business looking at cashflow, profit and the balance sheet. We have also looked at the impact that cash being diverted to plug DB deficits is having on dividend payments.

This illustrates another interesting example of investors' returns, including defined contribution (DC) pension savers, being adversely impacted by company profits which are diverted to fund benefits for the generation of employees with a DB pension.

With the introduction of auto-enrolment, the Government has taken a small step towards closing the generational pensions saving divide that will materialise over the coming years. However, if employers are expected to provide the majority of the funding to close the gap further, then the cost of future pension provision being earned by employees will need to increase significantly. If you have a fixed pension budget then this increase is reliant on DB deficit contributions reducing.

We have received valuable input from the Centre for Global Finance at the University of the West of England in the generation of this report. The report will be of interest to Directors of companies that sponsor a DB scheme and will allow them to benchmark their pension exposure against their peers. This report considers data collected from the 208 companies within the FTSE350 that have DB pension arrangements, though separate analysis has been carried out for FTSE250 companies as well as companies within different industry sectors.

I would like to thank Michal Bobula, Rebekah Boddy and John O'Malley from Barnett Waddingham and Ismail Ufuk Misirlioglu and Jon Tucker from the University of the West of England for their work in helping prepare this report.

If you would like a personalised report benchmarking your company against the companies included in this research using the metrics described in this report, or for further information on the results of this research, please contact me.

Nick Griggs, Head of Corporate Consulting
July 2013

Impact on Cash Flow

DB Scheme Deficits – Impact on Cash Flow

Cash flow remains a problematic area for many companies and the levels of contributions required to clear DB pension scheme deficits are often considerable.

The aggregate IAS19 deficit¹ for companies in the FTSE350 increased in 2012 from £54.5bn to £64.9bn. This is the highest level of aggregate deficit since 2009 and has arisen despite deficit contributions of around £11bn being paid by companies in the last year. The impact of actuarial losses was particularly pronounced in 2012 as shown in the chart below. The red bars show the expected reduction in deficits since 2009, given £35bn of deficit contributions that have been paid over the period. However, actuarial losses, shown by the light blue bars, have largely offset them.

Progression of aggregate pension deficit since 2009

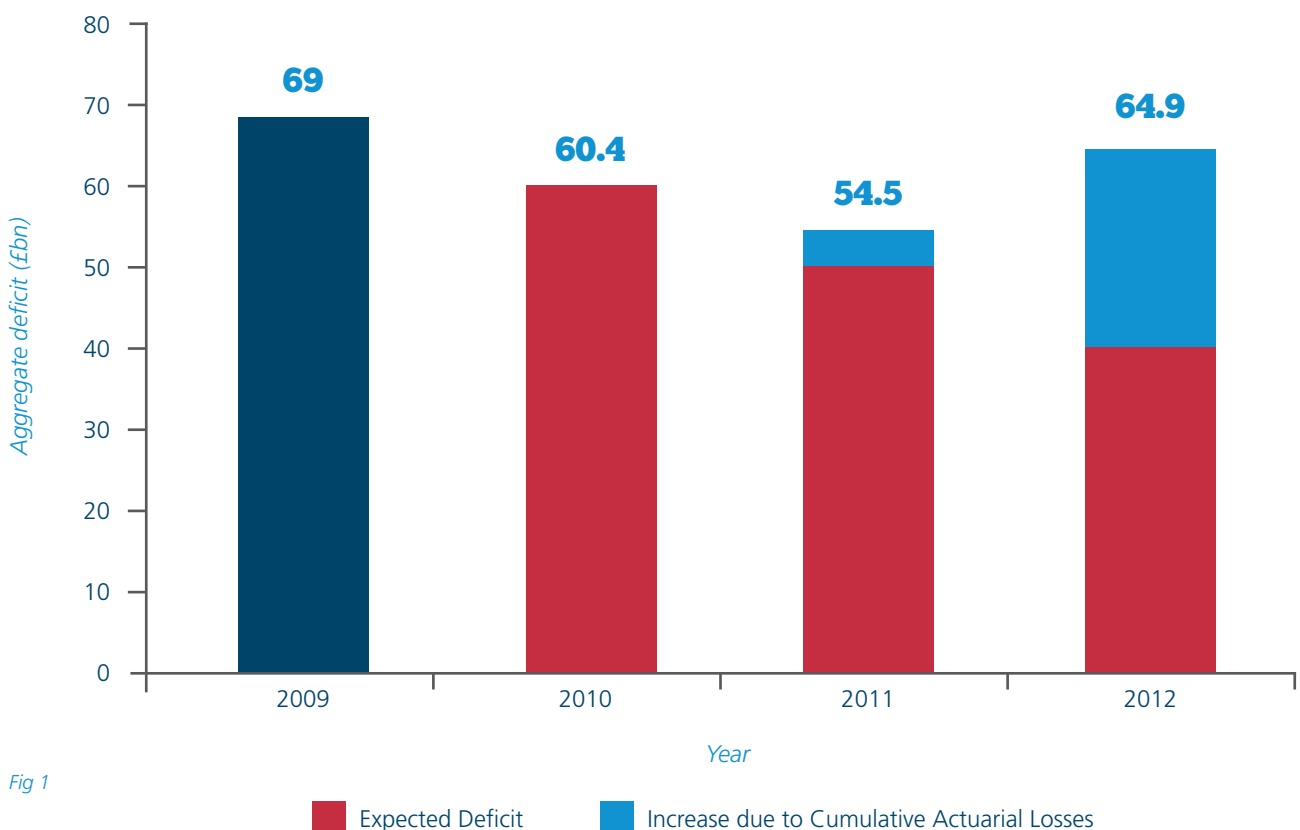


Fig 1

A more detailed analysis of the increase in aggregate deficit over the last year is shown in the graph on the next page. It shows the extent to which increasing liability values, as corporate bond yields have fallen, has been the main driver for the increase in the aggregate deficit.

¹ As disclosed in the latest set of published accounts up to and including 31 December 2012 and ignoring the 37 companies with an IAS19 surplus or neutral position.

Analysis of change in aggregate deficit in 2012

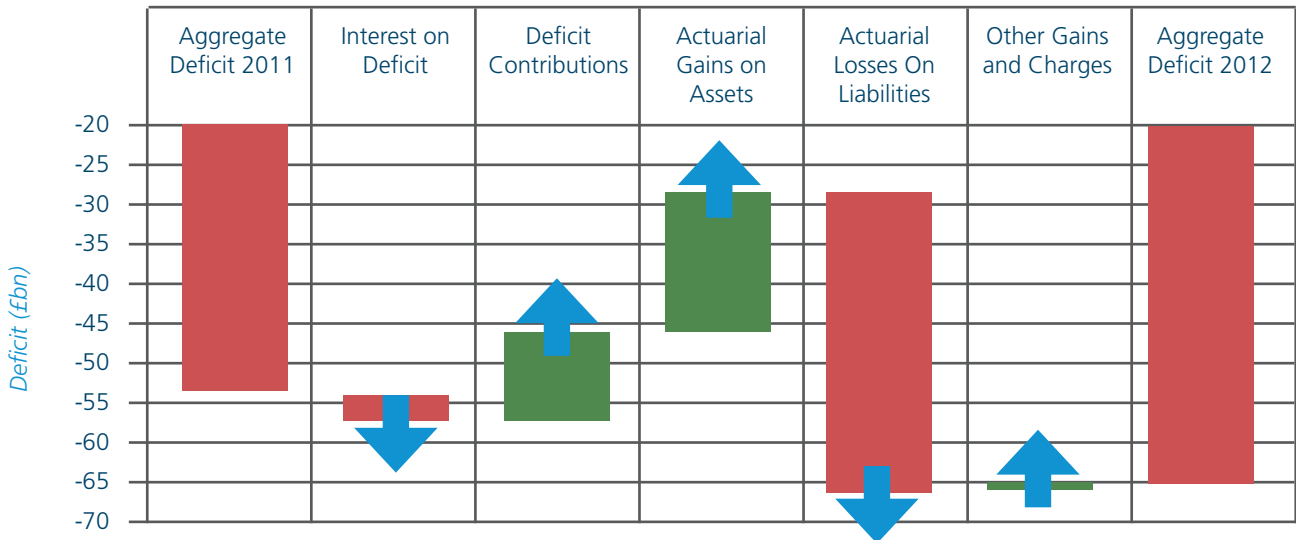


Fig 2

The analysis below shows deficit contributions being made by employers as a proportion of their free cash flow (FCF) over the past four years².



Deficit contributions exceeded free cash flow for 51 companies in the FTSE350 during 2012

Deficit contributions as % of free cash flow

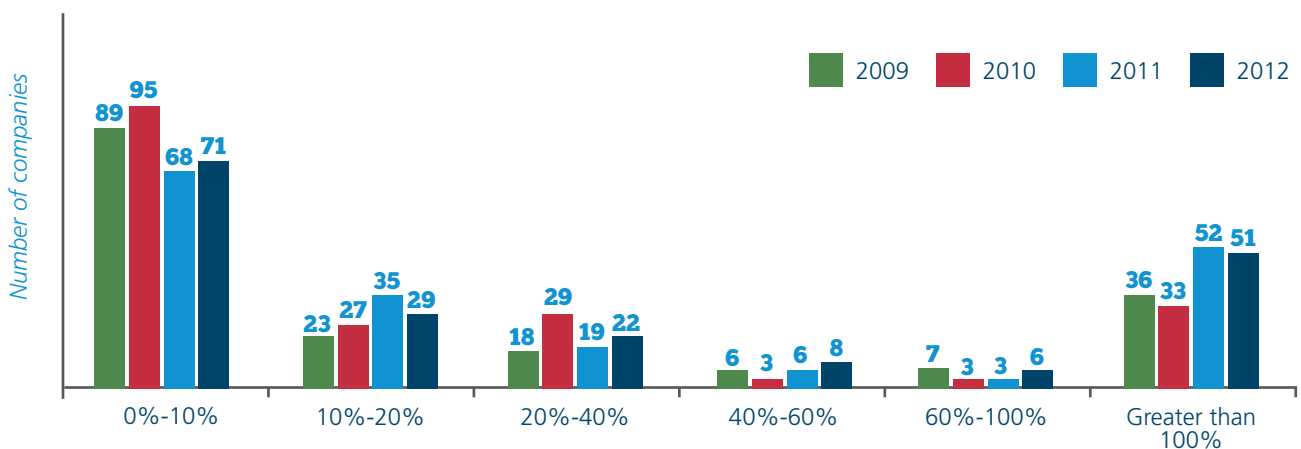


Fig 3

² Free cash flow is cash generated by a company over and above that required to maintain or expand its asset base.

In general we would expect companies with high levels of free cash to be required, after negotiations with the pension scheme trustees, to clear pension scheme deficits more quickly. The graph below compares the implied deficit clearing period³ against the amount of deficit contributions expressed as a proportion of free cash flow.

Deficit contributions and implied deficit clearing period

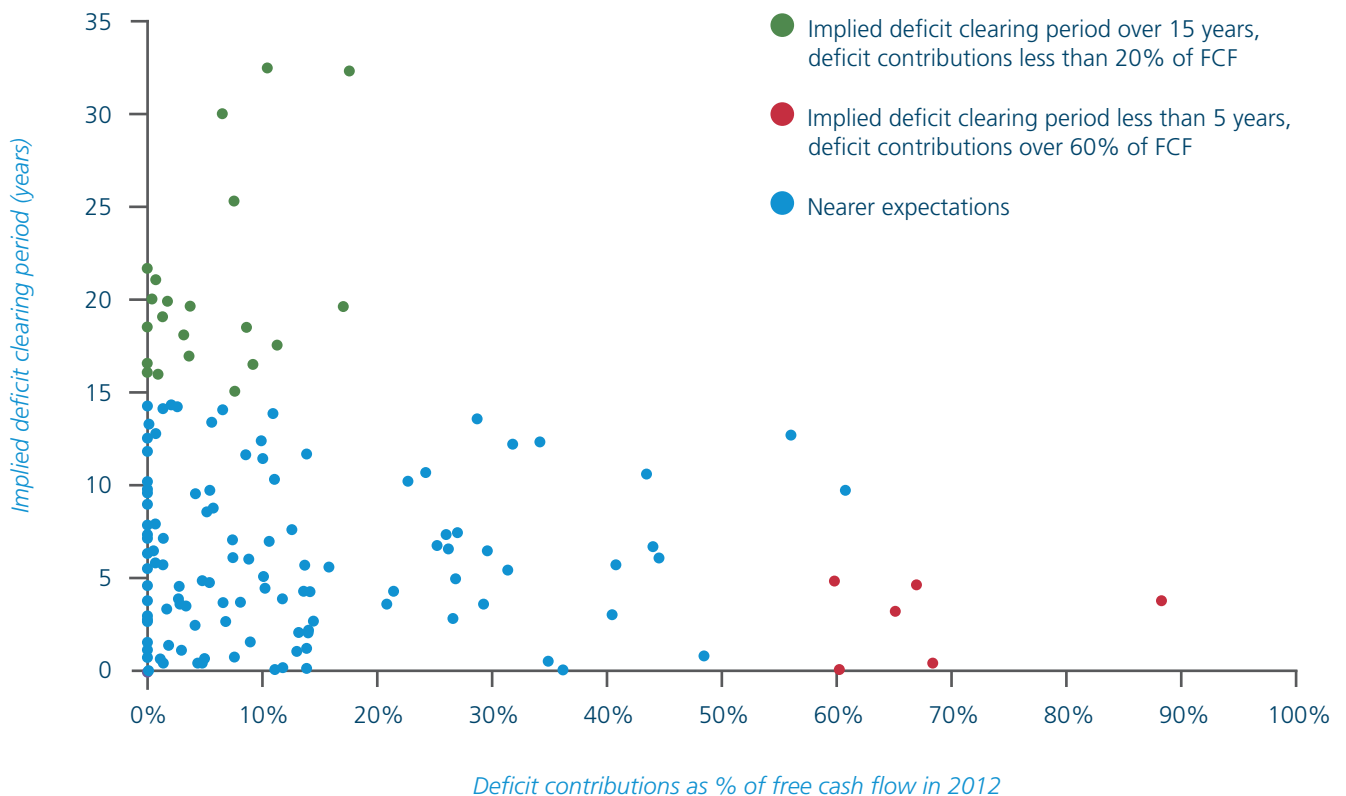


Fig 4

This highlights some significant variations within the FTSE350. There are a number of companies who have a comparatively short implied recovery period and are paying a substantial proportion of free cash flow in deficit contributions (highlighted in red). The opposite is also true for others in the FTSE350 (highlighted in green).

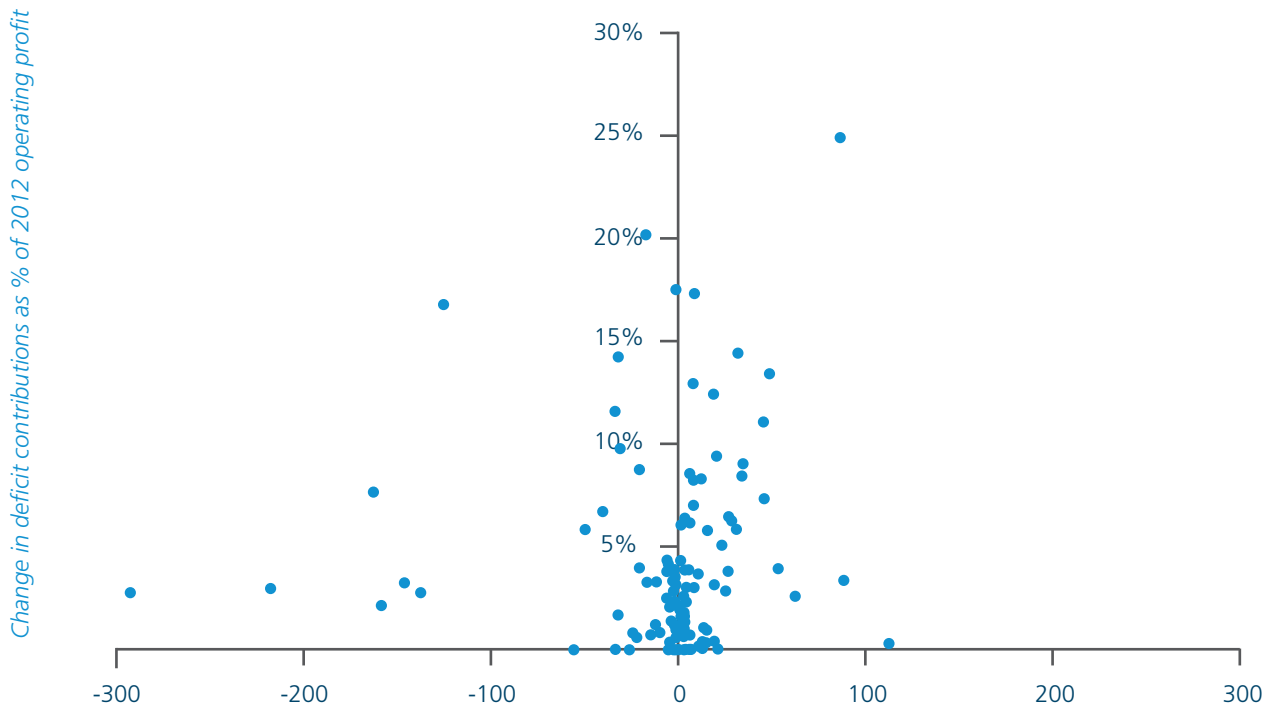
There were also 19 companies, not shown on the above chart, whose deficit contributions exceeded free cash flow in 2012 and whose implied deficit clearing periods were less than five years.

For a majority of FTSE350 companies, deficit contributions (i.e. contributions in excess of those required to pay for future provision for current employees) were not a major proportion of their free cash flow. However, for a significant number of firms they have become, and remain, substantial. In many cases they now surpass the disclosed free cash flow figure. For such firms, deficit contributions can significantly impact upon investment elsewhere in the business, crowding out potentially profitable investment project opportunities.

³ Calculated as the 2012 IAS19 deficit divided by the average deficit contributions paid over the last three years

In certain cases, contribution levels will have changed markedly between 2011 and 2012. The graph below shows the mix of companies that have significantly increased or decreased contributions last year both in £s terms and also when expressed as a proportion of operating profit (i.e. 'earnings before interest and taxes', or EBIT).

Change in deficit contributions from 2011 and 2012



Change in deficit contributions from 2011 and 2012 (£m)

Fig 5

When compared against a profitability measure, deficit contributions again represent an increasingly significant cost for the majority of companies.

On average deficit contributions now represent 12.4%⁴ of operating profit for the FTSE350. Despite making an operating loss, 11 companies still paid deficit contributions in 2012.



**Despite making an operating loss,
11 companies still had to pay deficit
contributions in 2012**

⁴ This excludes 2 significant outliers in 2012

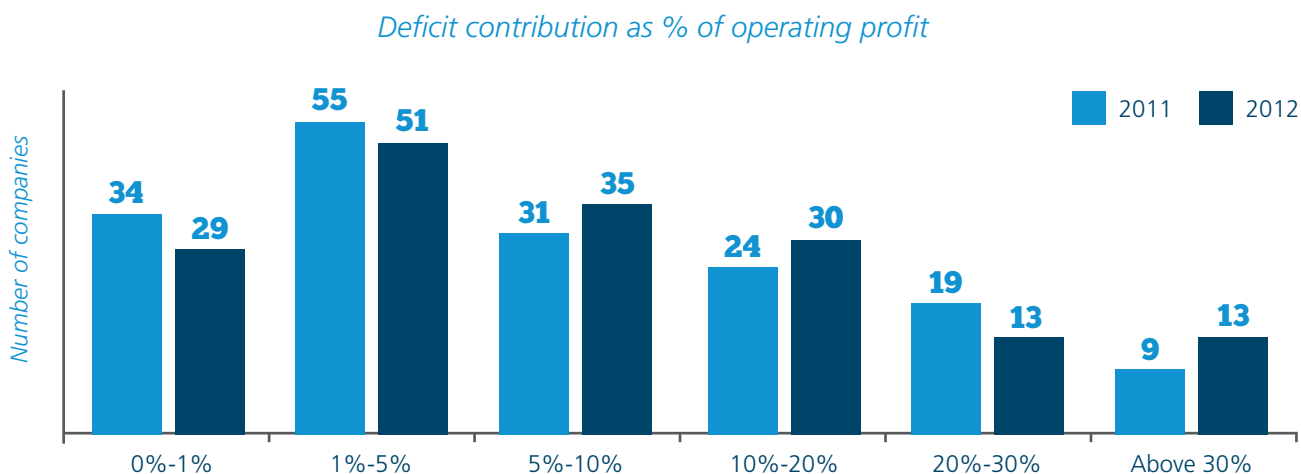


Fig 6

From the above graph, there were 13 companies paying deficit contributions that were more than 30% of operating profit in 2012. These extreme cases have been caused by a reduction in operating profit in recent years rather than an increase in deficit contributions.

Some industry sectors have been affected more than others, as shown in the table below. In 2012, deficit contributions represented a significant proportion of average free cash flow and/or average revenue⁵ amongst companies operating within the Industrials, Consumer Discretionary, Healthcare, Telecommunication Services and Utilities sectors. The figures in brackets show the percentage change from the proportion of deficit contributions paid in 2011.

| Sector | Deficit contributions in 2012 as % of average revenue | Deficit contributions in 2012 as % average free cash flows |
|---|---|--|
| Energy | 0.19% (-0.03%) | 11.96% (-1.68%) |
| Materials | 0.39% (+0.02%) | 11.97% (+0.49%) |
| Industrials | 1.44% (+0.34%) | 42.20% (+9.92%) |
| Consumer Discretionary | 0.71% (+0.06%) | 14.95% (+1.34%) |
| Consumer Staples | 0.38% (+0.06%) | 6.20% (+0.93%) |
| Health Care | 1.20% (-0.61%) | 8.24% (-4.22%) |
| Financials | 0.61% (-0.61%) | 4.3% (-4.29%) |
| Information Technology | 0.32% (-0.07%) | 3.86% (-0.82%) |
| Telecommunication Services ⁶ | 2.84% (+1.19%) | 17.25% (+7.23%) |
| Utilities | 0.96% (+0.26%) | 19.02% (+5.20%) |
| Total | 1.09% (+0.05%) | 19.07% (-1.30%) |

Fig 7

⁵ We have smoothed free cash flow and revenue by taking the average of disclosed figures in the 2009, 2010, 2011 and 2012 accounts.

⁶ The figures in this sector are dominated by the considerable deficit contribution from 1 company

To put these deficit contributions in the context of the total expenditure on pensions, the average contribution per employee being paid to clear the DB deficit was £3,970 in 2012. This represented an increase of around 15% on the per capita contribution in 2011.

By comparison, the cost of providing future pension provision for current employees, including DC arrangements, was £2,600 per employee in 2012. This was unchanged from the previous year. The graph below compares deficit contributions against future service contributions in 2012.



For 74 companies, annual deficit contributions are higher than the contributions in respect of pension benefits being earned each year for current employees

Deficit contributions vs future service contributions

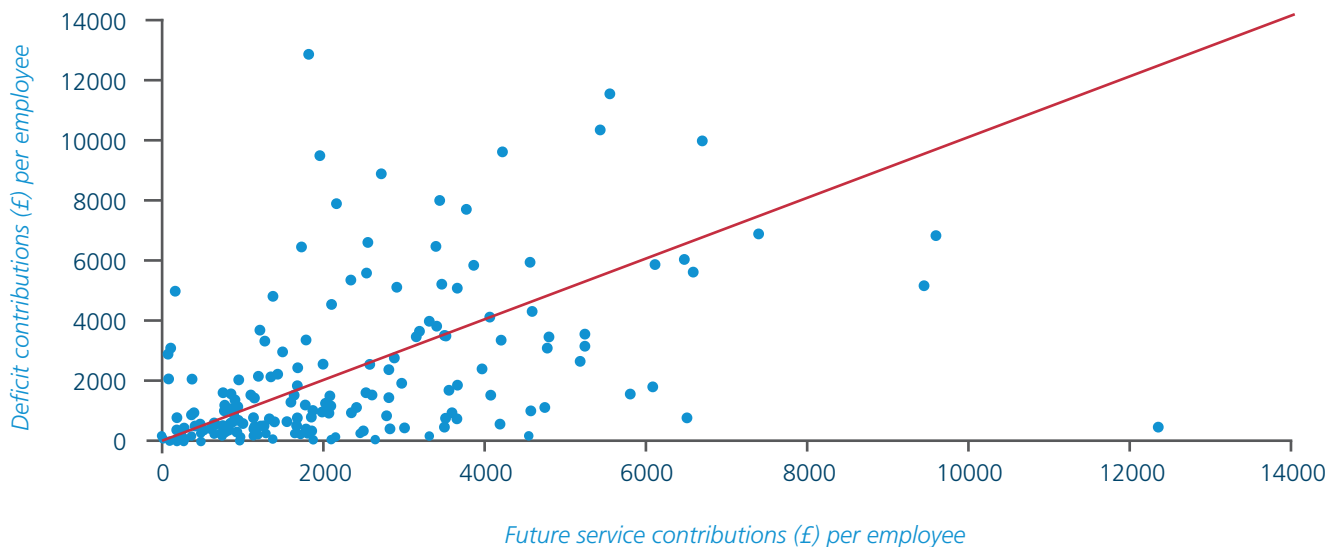


Fig 8

The analysis showed that there were 74 companies in the FTSE350 paying higher deficit contributions per employee than the contributions for future pension provision (represented by those above the red line)⁷. These companies had an average deficit per employee of £18,000, which was significantly higher than the FTSE350 average of £13,000. In 2011, 60 out of the 74 companies also paid more towards deficit reduction than for future pension provision (per employee).

This issue is most pronounced in the Utilities and Telecommunication sectors where 7 out of the 12 companies analysed are paying more in deficit contributions than they are for future pension provision for current employees. Both sectors saw a significant increase in deficit contributions between 2011 and 2012.

⁷ In 2011, 75 companies were above the red line; in 2010, it was 73

Impact on Shareholders

Our analysis has shown the significant level of DB deficit contributions currently being paid, but how does this compare to the dividends being paid to shareholders?

Over the last 4 years the total dividends paid by FTSE350 companies which sponsor DB schemes exceeded £181bn. Over the same period cash paid into DB schemes to reduce funding deficits equalled £47bn. Therefore, DB deficit contributions are material enough to impact on not only potential investment opportunities but also to reduce the visible rewards to equity investors.

The amounts paid varied significantly from company to company and this is illustrated in the chart below. The average ratio of deficit contributions to dividends paid was 0.53 over the last 4 years.



**53
PENCE**

Over the past 4 years the average FTSE350 company has paid 53p of deficit contributions for every £1 of dividend paid to shareholders

Total dividends vs total deficit contributions

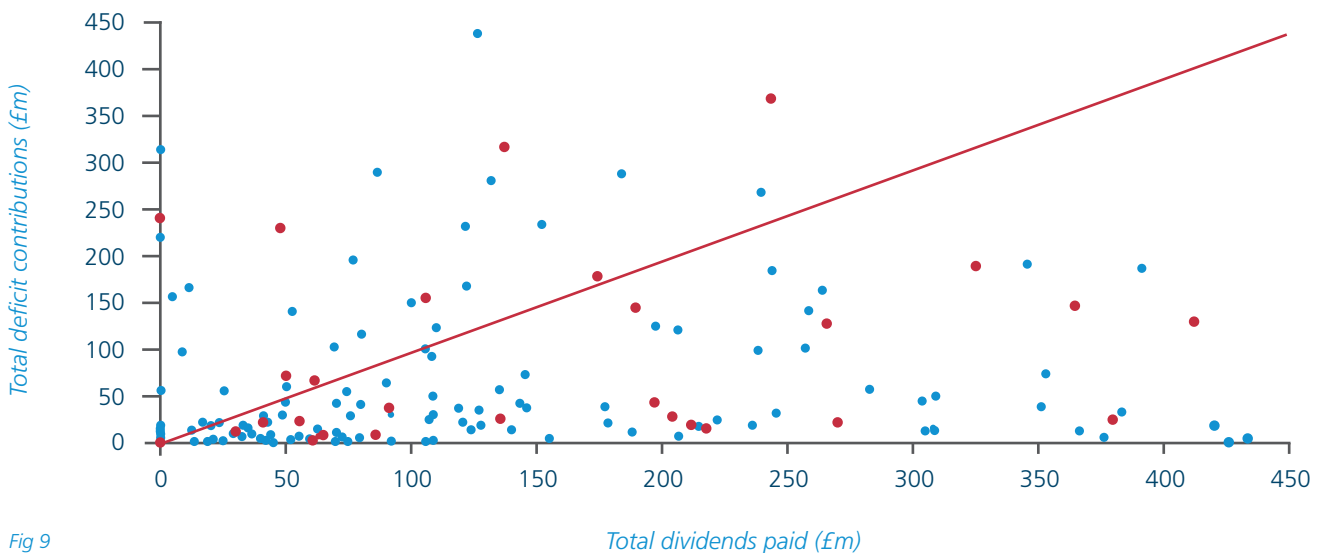


Fig 9

● Implied deficit clearing period over 10 years ● Implied deficit clearing period less than 10 years

In 2009, 30 companies paid more in deficit contributions than they paid to shareholders in the form of dividends. In 2012, there were 23 companies which were in this position⁸. Of this latter group, 9 companies paid no dividend whilst paying deficit contributions to an affiliated DB scheme.

You would only expect a company to be paying a relatively low level of deficit contributions compared to its dividend payments if those deficit contributions were still expected to clear the deficit relatively quickly. The graph on the previous page highlights those where the accounting figures suggest that this might not be the case (red dots below the red line).

The overall picture emphasises the pressure that Finance Directors are under to find an appropriate balance between tackling pension scheme deficits and providing returns to investors. In a recent survey by the Bank of England⁹, firms have acknowledged that deficit contributions can divert cash away from both dividend payments and staff remuneration. For a quarter of the businesses with DB schemes surveyed, it was recognized that the need to fund DB deficits was having a 'major negative impact' on dividend payments. From an investor perspective, cash dividends are particularly valued in current financial market conditions where bond yields are at historically low levels and investors require an income from their investments.

Research conducted by Liu and Tonks (2013)¹⁰ shows that the effects of FTSE350 company pension contributions can be seen more through the "financial" channel (i.e. with a negative impact on dividends) rather than the "real" channel (i.e. with a negative effect on real investment projects). The research also suggests the impact on UK companies has become more pronounced over time with the strengthening in funding requirements.

⁸ In 2009, dividends paid was £38bn; in 2012, dividends paid was £44bn

⁹ Agent's Summary of Business Conditions' – published by the Bank of England (June 2013)

¹⁰ Liu, W. and Tonks, I. (2013). Pension funding constraints and corporate expenditures, Oxford Bulletin of Economics and Statistics, Volume 75, No. 2, pp. 235-258

Impact on Cash Holdings

Many companies continue to face difficulties in generating cash, with the DB scheme consuming a significant proportion of the cash that is generated from core operations. For the FTSE350 firms included in our study, the equivalent of 5.5 months of cash generated during the last 4 years through core business activities¹¹ has been paid into DB schemes.

Looking at the 2012 financials, we estimate it would take companies on average nearly 8 months¹² to clear their IAS19 deficit using net cash¹³ generated from their core activities; this compared with an average of 7 months in 2011. The distribution of periods required by FTSE350 companies is shown in the graph below.

Time needed to clear current IAS19 deficit using net cash generated from businesses' core activities

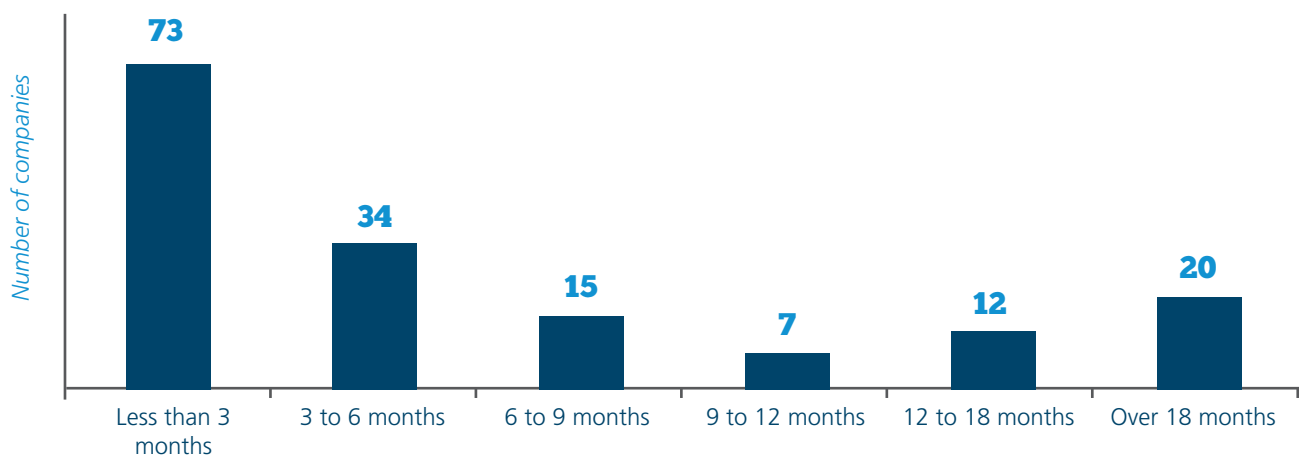


Fig 10



For 32 companies it would take over one year to repay the deficits using the net cash generated from day to day operations.

This demonstrates that companies continue to divert a significant proportion of the cash they generate towards their DB schemes and this looks unlikely to change in the short term. If companies are aiming for a full buy-out, we have estimated that on average 35 months of cash generated from core operations would be needed to achieve this, based on market conditions at the time of the company's 2012 accounts.

¹¹ Operating cash flow is a measure of net cash generated each year from core activities.

¹² This ignores 1 significant outlier as well as 9 companies with negative net operating cash flows.

¹³ 'Net cash' refers to the cash generated from operations after paying for the costs of those operations.

Whilst trading conditions in most sectors remain tough, the level of cash being held by many large companies has provided much comment over the past couple of years, with some quite marked examples of “cash hoarding”. In total, the 208 companies analysed were holding £110bn in cash at their 2012 year end; this represented a slight increase from the £103bn held by the same companies twelve months previously¹⁴.

Recent research from the ICAEW¹⁵ asserts that if even £10bn of the cash held by UK companies was injected into the UK economy, the UK would return to pre-crisis investment levels.

There has been some debate as to whether the increase in cash holding is cyclical or structural. It would normally be assumed that a cyclical rise in cash holding would be reversed once confidence in the economic outlook was restored and corporate spending resumes. However, some commentators are suggesting that the increased holdings could represent a more permanent structural change with companies wanting to be less reliant on the banking sector and the wider debt markets in the presence of a more challenging lending environment as banks continue to rebuild their balance sheets.

Approximately 55% of the FTSE350 companies included in our study, which have seen an increase in their cash holdings between 2011 and 2012, have also increased their deficit contributions.

Clearly, using cash reserves to address the pension scheme deficit may not be seen as a priority. However, many companies will be looking to de-risk their DB schemes and this would be expected to increase pension costs (although a full buy-out might only be an aspirational target at this stage). Having said that, 74 of the companies analysed would be able to achieve a full buy-out from their cash holdings, although for 31 of these companies it would involve committing over 50% of their total cash holding at the date of their 2012 accounts. There were 21 companies in our survey that would have been able to fund a buy-out based on the increase in their cash holdings between 2011 and 2012.

The normal level of cash held will vary significantly from company to company but around 75% could be defined as holding excess cash¹⁶. A quarter of the firms with excess cash could afford to buy-out the scheme with it. There were 83 companies that could clear their IAS19 deficit from excess cash.



83 companies could clear their entire IAS19 deficit with their excess cash holdings

¹⁴ This excludes companies in the Financial sector, where some or all of the capital is held to fulfil regulatory obligations and is thus not ‘discretionary’

¹⁵ Cash Surplus Research 2012, ICAEW Research Report (November 2012)

¹⁶ Ozkan, A. and Ozkan, N. (2004). Corporate cash holdings: An empirical investigation of UK companies, Journal of Banking & Finance, Volume 28, pp. 2103-2134 suggests that the average cash ratio is 10% for UK firms

Impact on Balance Sheet

DB Scheme Deficits – What impact are they having on the balance sheets of UK businesses?

In previous years we have highlighted the significant number of FTSE350 companies who have a DB Scheme deficit that has a major impact on the company's balance sheet.

Despite significant increases in share price during the last twelve months¹⁷ we only see a slight improvement¹⁸ in DB scheme deficits as a percentage of the market capitalisation of FTSE350 companies. This ratio decreased to 6.5% of the market capitalisation for FTSE350 companies in 2012 (7.4% in 2011). This ratio was higher for the FTSE250 and for companies in certain industry sectors.

The graph below highlights differences across the individual sectors. There were marginal improvements in several sectors, though DB deficits remain a significant issue in the Industrial and Consumer Discretionary sectors. The ratio for the Telecommunications sector worsened significantly compared with 2011, although this was heavily influenced by leavers and joiners to the Index.

For 6 companies the deficit exceeds 20% of the market capitalisation of the company after removing the pension scheme liability; for 33 companies it exceeds 20% of the balance sheet value of equity (again, after removing the pension scheme liability).

Deficit as % of market capitalisation by sector (and % change from 2011)

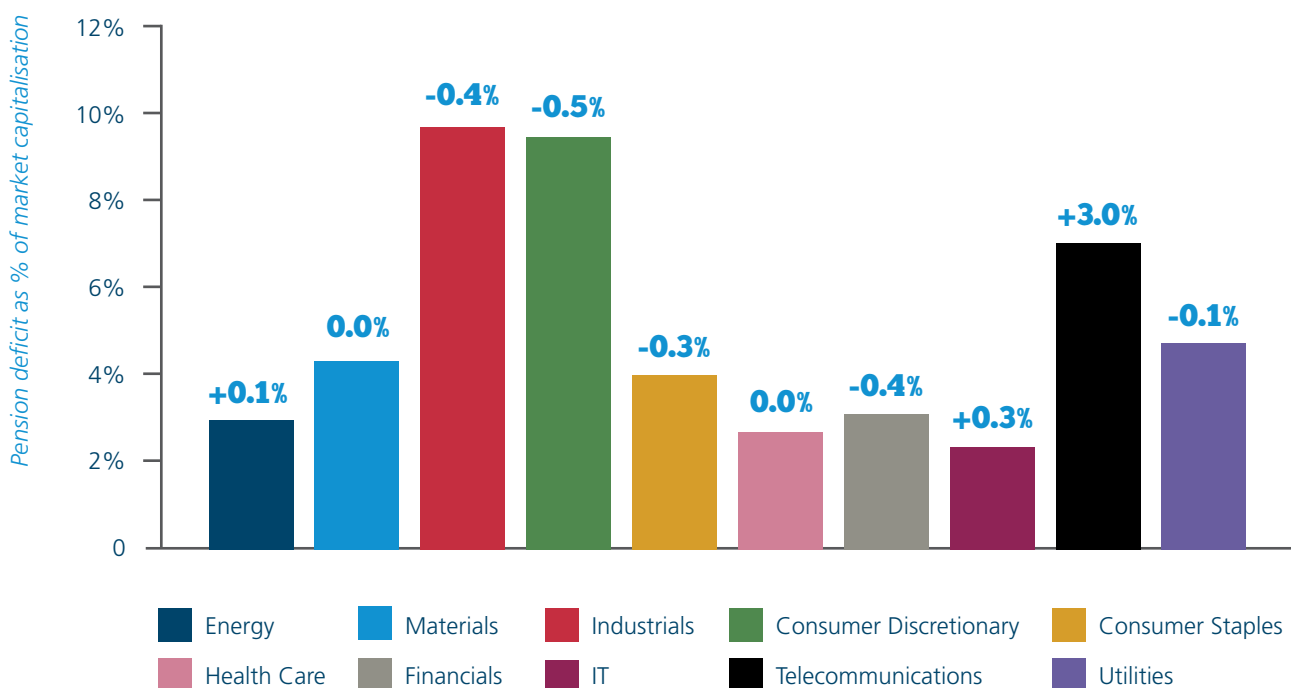


Fig 11

¹⁷ The 2012 calendar year saw a 7.9% increase in the FTSE350 Index

¹⁸ Based on companies that reported an IAS19 deficit in both in 2011 and 2012



For 6 companies the deficit exceeds 20% of the market capitalisation of the company



For 33 companies it exceeds 20% of the balance sheet value of equity

We have also analysed these ratios after “stripping out” the DB scheme deficit from the company valuation. The graph below shows DB scheme deficits as a proportion of companies’ equity and market capitalisation in 2012, after adjusting both figures to remove DB scheme deficits.

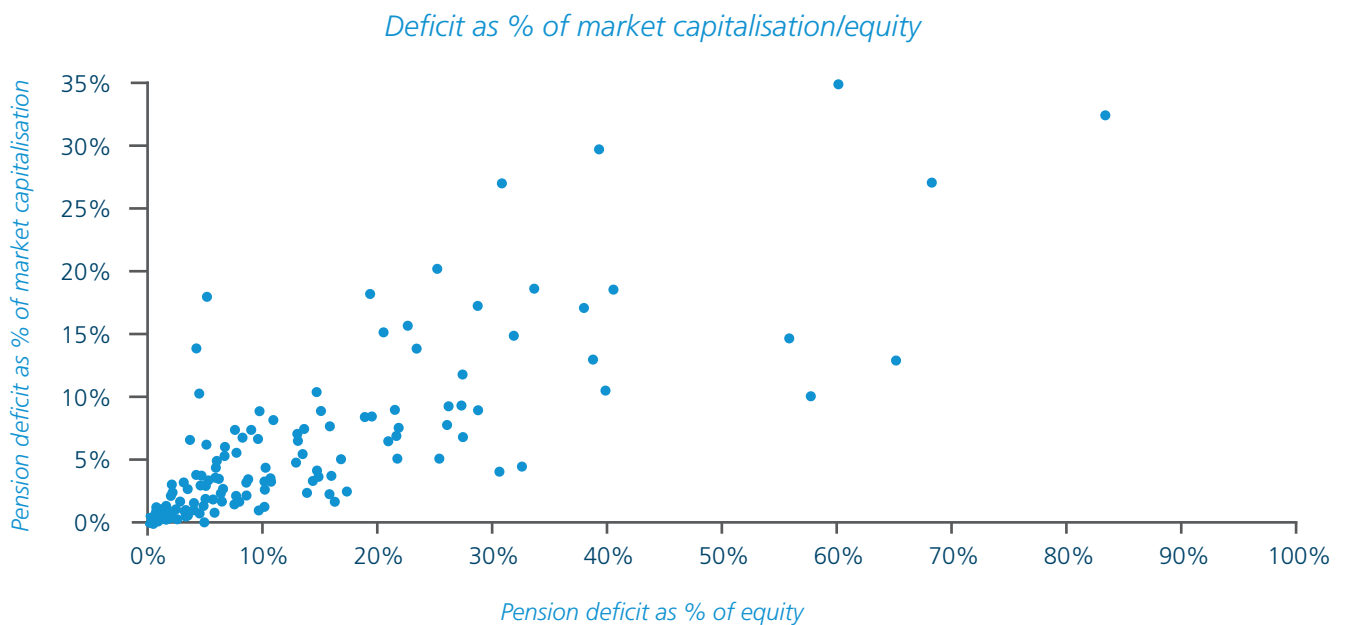


Fig 12

The impact of DB scheme deficits on company balance sheets varies considerably within the FTSE350, but overall these ratios seem to heading, albeit very slowly, in the right direction.

| | 2009 | 2010 | 2011 | 2012 ¹⁹ |
|--|-------|-------|-------|--------------------|
| DB scheme deficit as proportion of the book value of equity if the DB pension scheme is ignored | 12.8% | 13.2% | 11.8% | 11.3% |
| DB scheme deficit as proportion of the market capitalisation if the DB pension scheme is ignored | 6.8% | 8.3% | 5.5% | 5.2% ²⁰ |

Fig 13

¹⁹ One significant outlier removed from 2012 data.

²⁰ Market capitalisation has been adjusted by adding back DB pension deficit, thus different to 6.5% where market capitalisation has not been so adjusted.

Ability to Raise Finance

One potential consequence for a company with a large pension scheme deficit disclosed on the balance sheet is the impact it will have on the company's gearing ratio (a measure often used to assess financial risk or longer term solvency).



For a significant number of companies the DB scheme deficit exerts a significant impact on the gearing ratio, which could ultimately impact on a company's ability to raise new finance or indeed to refinance its existing debt.

On average the impact was to worsen the gearing ratio by 4.6% which is 0.6% higher than a year ago. However, for 21 companies the increase in gearing was more than 10%

Financing needs vary across companies, reflecting their current level of gearing, the availability and cost of new finance, as well as long term capital structure strategy considerations. For those FTSE350 companies which sponsor DB schemes, 97 increased their level of debt over the course of 2012, with £43bn raised in total. There were also 90 companies that reduced their level of debt financing during 2012.

In some cases the increased gearing, caused at least in part by the pension deficit, may increase a company's cost of debt financing. Whilst gearing ratios will typically vary from sector to sector, often depending on the level of fixed assets against which borrowing can be secured or factors such as industry earnings volatility, the graph below shows the impact of the pension scheme on the gearing ratio for the Industrials and Consumer Discretionary sectors, where the impact is particularly severe.

Impact of pension schemes on gearing ratio

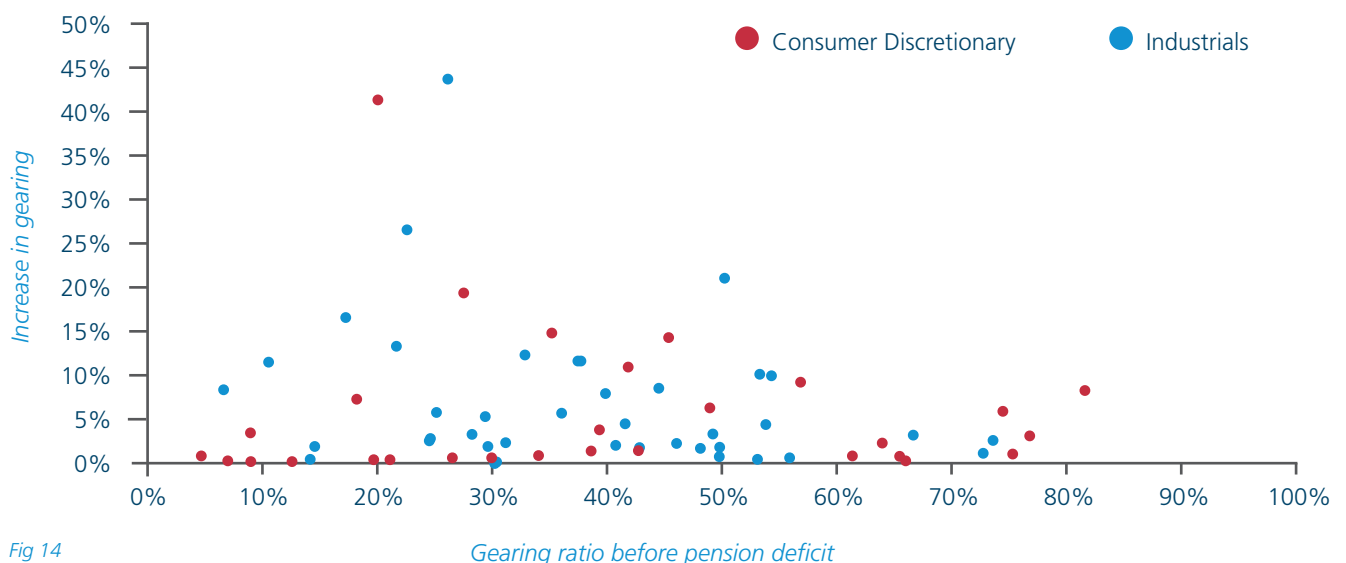


Fig 14

Size of Pension Risk

In 2012, companies in the FTSE350 had total DB pension scheme assets of around £535 billion.

In addition to studying how the deficit or surplus in the pension scheme affects the company balance sheet, we have also considered the potential risk posed by the pension scheme to the business. This has been investigated by considering the size of the pension obligations in relation to the size of the company. The exposure of the company to equity markets via their pension scheme is often considerable. Of the companies analysed, there were 14 with an equity holding in their scheme which was more than 50% of the market capitalisation of the company. We have also looked at the exposure to long term interest rate movements.



In the FTSE350, 26 companies had pension liabilities that exceeded the market capitalisation of the company

The below graph shows both pension scheme liabilities and equity holdings as a percentage of market capitalisation, for those companies in the Industrial and Consumer Discretionary sectors.

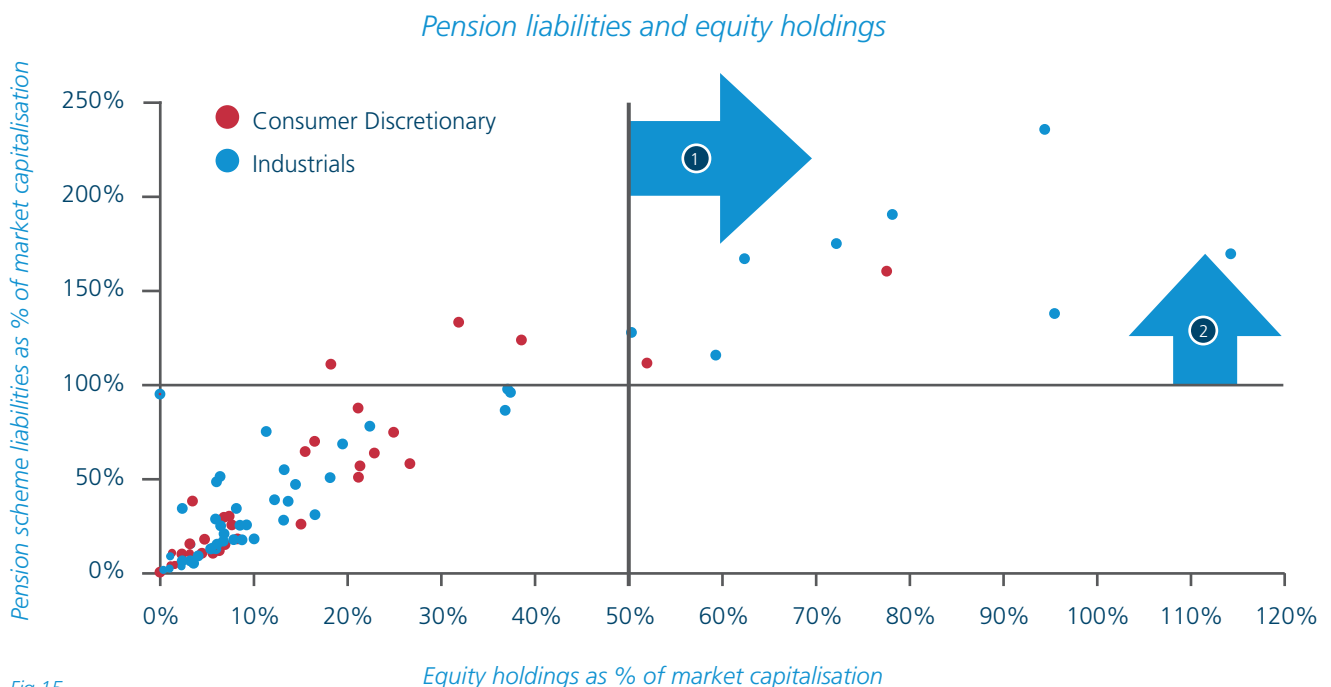


Fig 15

- ① Companies with indirect equity exposure through the pension scheme greater than 50% of the company's market cap
- ② Companies with pension liabilities greater than company's market cap

Overall DB schemes in the FTSE350 have reduced their exposure to equity markets with average equity holdings falling from 41.2% to 40.0% over the year to 2012; average bond holdings (including gilts and corporates) increased from 40.5% to 41.1% in the same period.

On average FTSE250 companies are more exposed to pension risks than the FTSE100 as these companies have proportionally more DB schemes which are large in relation to the size of the company.

Historically the level of equities held by a DB scheme was seen as an indicator of the level of risk within the pension scheme. Over the last few years changes in the discount rate and inflation assumptions affecting the measurement of pension liabilities have caused greater volatility in IAS19 funding levels. This is illustrated in the graph below.

These two issues are partially linked because traditionally schemes have held a mix of equities and bonds. However, the volatility in IAS19 funding levels in the last few years should be attributed to the fact that schemes are not holding assets that provide interest rate protection rather than the fact that they are holding equities.

Impact of equity and real yield risk

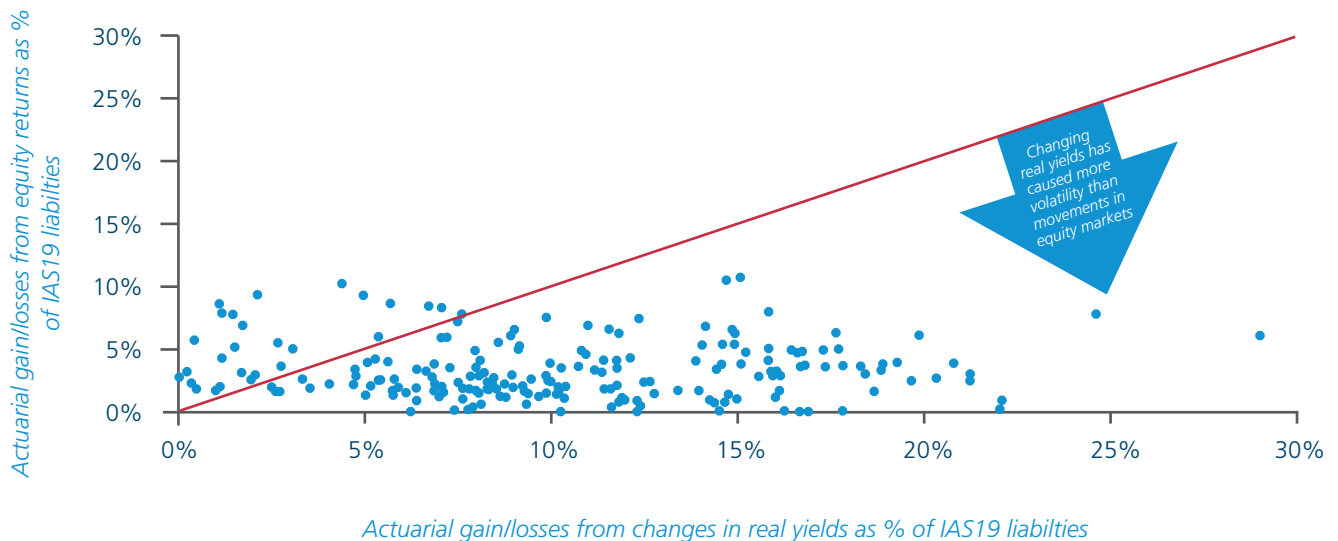


Fig 16

Actuarial gains and losses, although not reported in a company's Profit & Loss account, are the main cause of change in the pension scheme liability disclosed on the balance sheet. Over the last 4 years annual actuarial gains and losses on assets and liabilities have on average resulted in an 18% annual movement in the equity position of FTSE350 companies. This shows the significant volatility that the pension scheme brings to a business. For some the movements have been even more severe with 11 companies seeing actuarial gains and losses on average leading to changes in equity of more than 50%.

There are significant differences relating to the scale of companies. Notably, the FTSE250 has been considerably more exposed to this volatility with actuarial gains and losses resulting in average movements of 24% of the equity position compared with only 10% in the FTSE100.

The incoming Governor of the Bank of England, Mark Carney, and the wider Monetary Policy Committee (MPC) have signalled a desire to provide some guidance on the future path of interest rates which should lead to less volatility in bond prices in coming years.

Impact on Profit & Loss Account

Cost of Pension Provision – What is the P&L Impact?

Finance Directors will already be aware of the revised IAS19 regime and how this will affect the reporting requirements in relation to their DB scheme obligations.

For most companies the revised IAS19 will result in a higher finance cost. We analysed the impact adopting the revised requirements would have had on the 2012 disclosure for the 208 companies considered in this report. We estimate that the impact will be an additional aggregate P&L charge of approximately £5.1bn for the FTSE350, representing 2.6% of aggregate profit before tax. The table below shows how this was apportioned across the different sectors.

| Sector | Increased charge to P&L under revised IAS19 (£ m) | Increase in finance cost as % of profit before tax |
|----------------------------|---|--|
| Energy | 1,250 | 2.0% |
| Materials | 240 | 1.0% |
| Industrials | 690 | 6.2% |
| Consumer Discretionary | 400 | 4.2% |
| Consumer Staples | 700 | 2.5% |
| Health Care | 130 | 1.0% |
| Financials | 740 | 2.6% |
| Information Technology | 20 | 1.4% |
| Telecommunication Services | 490 | 4.0% |
| Utilities | 440 | 7.3% |
| Total | 5,100 | 2.6% |

Fig 17

In around 20 cases characterised by a lower risk investment strategy, the switch to using the discount rate instead of the expected return on assets in calculating the finance cost will result in a reduction to the P&L charge.

The chart below considers the effect of these changes on profit before tax. There are 9 companies where the additional finance cost would have reduced profit before tax by more than 25%.

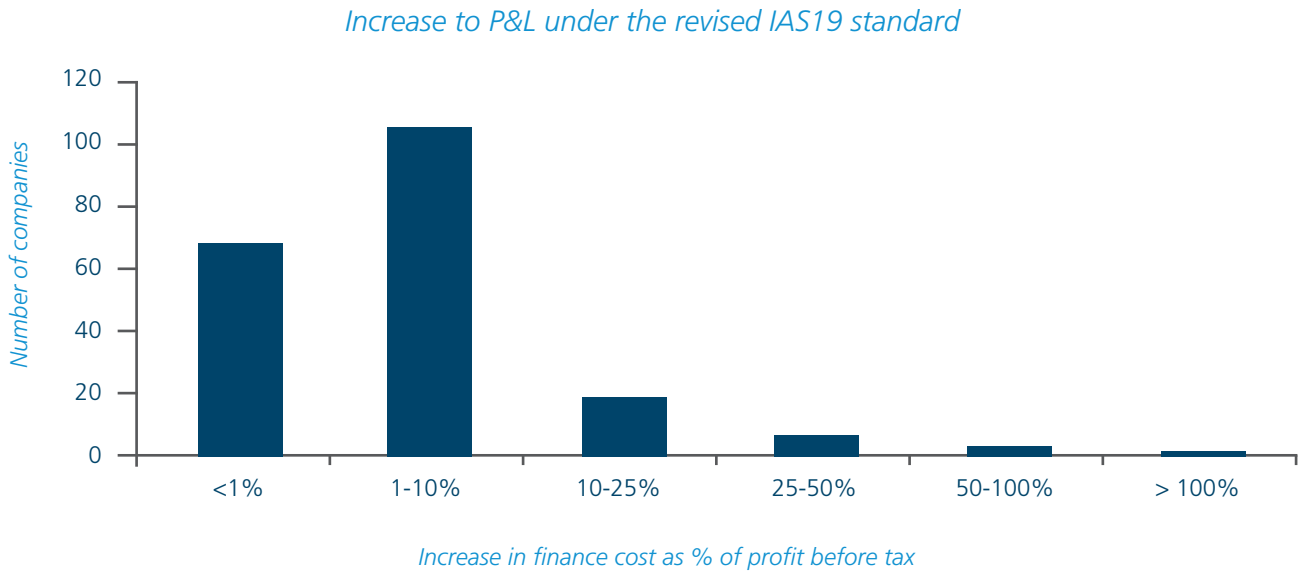


Fig 18

Defined Contribution Costs

With DB schemes continuing to require high levels of deficit contributions, the cost associated with providing future pension provision remains under increasing pressure for companies in the FTSE350. The average annual cost of pension provision (including DC schemes) earned by employees has remained at around £2,600 per employee over the past 3 years. This is likely to increase next year with the introduction of auto-enrolment in the UK.

Some employers have been seeing a significant increase in the number of employees joining a pension scheme. For the very largest employers, the initial staging date was October 2012. Thus, the effect that this will have upon pension contributions may only be fully apparent as the 2013 financials are reported.

Appendix

All data taken from company accounts published in the year up to and including 31 December 2012. Where comparisons are made with previous years, these are taken from the 2010 and 2011 accounts.

Market sector classification of companies based on Global Industry Classification Standard taken from Osiris database.

- Fig 1-9: Deficit contributions approximated by subtracting disclosed service cost (in respect of future pension provision) from the amount of contributions being paid into the DB pension scheme. A number of companies are excluded which do not pay deficit contributions based on this method in the relevant years.
- Fig 2: Where there is a difference in the expected return on assets and discount rate assumptions (as allowed under the 'old' IAS19 regime), this is included under 'Actuarial Gains on Assets'.
- Fig 6: 11 companies did not make any operating profit in 2012 but paid deficit contributions. These are not included in the bar chart.
- Fig 7: Mean average deficit contribution in 2012 (as described above) calculated for each market sector and divided by the mean average free cash flow/revenue for that sector during 2009, 2010, 2011 and 2012. We have also shown the % change from mean average deficit contributions paid in each sector since 2011.
- Fig 8: Future Service Contributions assumed to equal disclosed service cost plus contributions paid into DC Scheme.
- Fig 10: 9 companies with a negative average net operating cash flow are excluded.
- Fig 11: Market capitalisation recorded at earnings publication date of each company (and excluding one significant outlier).
- Fig 12-13: Equity or market capitalisation ignoring the pension scheme calculated by increasing total equity or market capitalisation by the amount of the scheme deficit.
- Fig 14: Gearing ratio calculated using disclosed long term liability as a proportion of equity plus long term liability. Gearing ratio ignoring the pensions scheme calculated by removing the DB scheme deficit as a long term liability.
- Fig 16: The absolute value of actuarial gains and losses has been used to illustrate the level of volatility that can be positive or negative. Average actuarial gains/losses have been calculated as a mean average of the absolute values over 2009, 2010, 2011 and 2012.

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