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International Accounting Standards Board

This document is provided as a convenience to observers at the Analyst Representative Group meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the ARG meeting. Paragraph numbers correspond to paragraph numbers used in the ARG agenda paper.

INFORMATION FOR OBSERVERS

ARG Meeting: February 2009, London

Project: Extracts from the Generico Annual Report 2007
(Agenda paper 2B)

Objective

1. The following employee benefit disclosures are provided to stimulate discussion on the questions set out in the Appendix A of agenda paper 2.

Background

2. The following pension disclosures are extracted from the Generico Annual Report for the year ended 31 December 2007. Generico is a fictional company. Generico Annual Report is produced by Report Leadership, a multi-stakeholder group that aims to challenge established thinking on corporate reporting (More information, including the complete annual report, is available at . The contributors to this initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc.

3. Paragraph references to the disclosures required by IAS 19 are highlighted (eg 120A.a).

4. Disclosures not **specifically** required (NSR) by IAS 19 have a text box, shaded background and note in the top left hand side of box (eg Additional disclosures).

Notes to the financial statements

for the year ended 31 December 2007

1 Accounting policies

120A.a) and b)

Pension

The group operates two **defined benefit plans**, one in the UK and one in the US. In both plans, assets are set aside in separate trustee administered funds to meet future liabilities. The UK scheme was closed to new members on 1 January 2007.

The group also provides **post-employment healthcare benefits** to its retired employees in the US. Unlike the pension plans, no assets are set aside in a separate fund to provide for the future liability.

In the primary financial statements the following accounting treatment is followed:

Annual costs charged to profit and loss

The annual cost in respect of the pension plans and post-employment healthcare benefits consists of the following:

Current service cost

Plus: **Past service cost***

Charged to operating profit

Interest costs

Less: **Expected return on plan assets†**

Charged to finance cost

Total pension and healthcare costs

***Past service costs** are charged to the profit and loss account in full, unless the changes to the benefits are conditional on the employees remaining in service for a specified period of time (the **vesting period**). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

†Expected return on plan assets relates only to the assets held by the pension plans. There are no related assets that fund the provision of post-employment healthcare benefits. An explicit allowance for administration expenses, investment expenses and the UK Pension Protection Fund levy is deducted from the expected return on plan assets.

Explanations

A **defined benefit plan** is a pension plan where the rules of the scheme determine how much pension members will receive during retirement, dependent on a number of factors. The relevant factors in both the Generico schemes are: final salary at retirement age, number of years of service and age at retirement.

Post-employment healthcare benefits are provided to retired employees in North America conditional on the employee having remained in service up to retirement age and the completion of a minimum service period.

The **current service cost** (as calculated by the actuary) is the increase in the present value of the pension plan and post-employment healthcare liabilities resulting from employees' service in the current period.

The present value of the plan liabilities is calculated by independent actuaries, WXY partnership, using the **projected unit credit method** by discounting the estimated future cash outflows. The discount rate used to calculate the present value back to the balance sheet date is set with reference to the interest rate on high-quality corporate bonds (AA rating) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Past service costs are the additional costs to the plan when the trustees change the terms of the benefits with respect to previous years service.

The **interest cost** represents the increase in the **present value of the plan liabilities** as the benefits are one period closer to being paid out. This is a consequence of the idea that an amount payable today is a bigger burden than the same amount payable in the future.

The **vesting period** is the period of time before an employee is entitled to benefits as a result of age and or service.

The **expected return on plan assets** represents the expected income from plan assets as at the beginning of the year.

120A.a) and b)

1 Accounting policies continued

Amounts recognised in the statement of recognised income and expense

As is common practice in the UK, the group has chosen to recognise all **actuarial gains and losses** relating to the pension plans and the post-employment health care benefits immediately in the statement of recognised income and expense (SORIE).

Pension deficit shown in the balance sheet

The pension deficit represents the amount by which the **present value of the plan liabilities** exceeds the **fair value of the plan assets** held in trustee-administered funds. The value of both the assets and pension liabilities are calculated using the guidance in IAS 19 at the balance sheet date. That is, the pension deficit is calculated as follows:

Plan liabilities

Less: **Fair value of plan assets**

Equals pension deficit

Provision for post-employment healthcare benefits shown in the balance sheet

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. That is, the present value of the healthcare costs, as calculated by an independent actuary, ZZZ Ltd, is recognised as a provision in the balance sheet.

Annual cash contributions (funding)

The amount charged to the profit and loss account does not usually equal the annual cash contributions to the defined benefit plans. Annual cash contributions are determined based upon periodic actuarial valuations and local regulatory requirements.

Actuarial gains and losses can be experience adjustments (that is, the effects of differences between the previous actuarial assumptions and what has actually occurred) or the effects of changes in actuarial assumptions.

The **projected unit credit method** is the required actuarial method used to calculate pensions and similar obligations under IAS 19 and measures the pensions obligations accrued as at the balance sheet date, making allowance for anticipated increases in salaries.

The **fair value of the plan assets** is calculated using various methods depending on the type of assets held. The group holds three types of plan assets, namely: quoted equity investments; quoted bonds and property (all of which is not related to the group). IAS 19 does not provide specific guidance as to how fair value is determined for plan assets and, as such, it is necessary to look to other standards. Quoted equity investments and quoted bonds are valued at the quoted market price in accordance with IAS 39. Properties are valued based on the current market price of a similar property in the same location and condition, based on independent valuations.

15 Pensions

As discussed in Note 1, the group operates two defined benefit pension plans, one in the UK and one in the US. Both plans are valued under IAS 19 by WXY Partnership using the projected unit credit method.

Pensions deficit included in the balance sheet:

		31 December 2007			31 December 2006	
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
Market value of plan assets:						120A.j)
Equities	**46,000**	**12,400**	**58,400**	34,400	10,600	45,000
Bonds	**32,600**	**6,800**	**39,400**	41,400	5,800	47,200
Property and other	**8,300**	**2,700**	**11,000**	6,600	2,400	9,000
	86,900	**21,900**	**108,800**	82,400	18,800	101,200
Present value of plan liabilities	**(98,000)**	**(25,600)**	**(123,600)**	(90,500)	(22,100)	(112,600)
Pension deficit in the balance sheet	**(11,100)**	**(3,700)**	**(14,800)**	(8,100)	(3,300)	(11,400) 120A.f)

Amounts charged to the profit and loss account with respect to defined benefit pensions: 120A.g)

		Year ended 31 December 2007			Year ended 31 December 2006	
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
Current service cost	**1,600**	**700**	**2,300**	1,300	500	1,800
Past service cost	**200**	**100**	**300**	100	-	100
Charged to operating profit	**1,800**	**800**	**2,600**	1,400	500	1,900
Interest cost	**4,700**	**1,500**	**6,200**	4,700	1,400	6,100
Expected return on plan assets	**(5,000)**	**(1,500)**	**(6,500)**	(4,800)	(1,500)	(6,300)
Charged/(credited) to finance expense	**(300)**	**-**	**(300)**	(100)	(100)	(200)
Total	**1,500**	**800**	**2,300**	1,300	400	1,700

Amounts recognised in the SORIE:

		Year ended 31 December 2007			Year ended 31 December 2006	
	UK £'000	**US £'000**	**Total £'000**	UK £'000	US £'000	Total £'000
Experience adjustments on plan assets	**1,600**	**400**	**2,000**	2,000	600	2,600 NSR
Changes in assumptions on plan liabilities	**(7,000)**	**(1,000)**	**(8,000)**	-	-	-
Experience adjustments on plan liabilities	**1,100**	**700**	**1,800**	(1,800)	(200)	(2,000)
Total	**(4,300)**	**100**	**(4,200)**	200	400	600 120A.h)

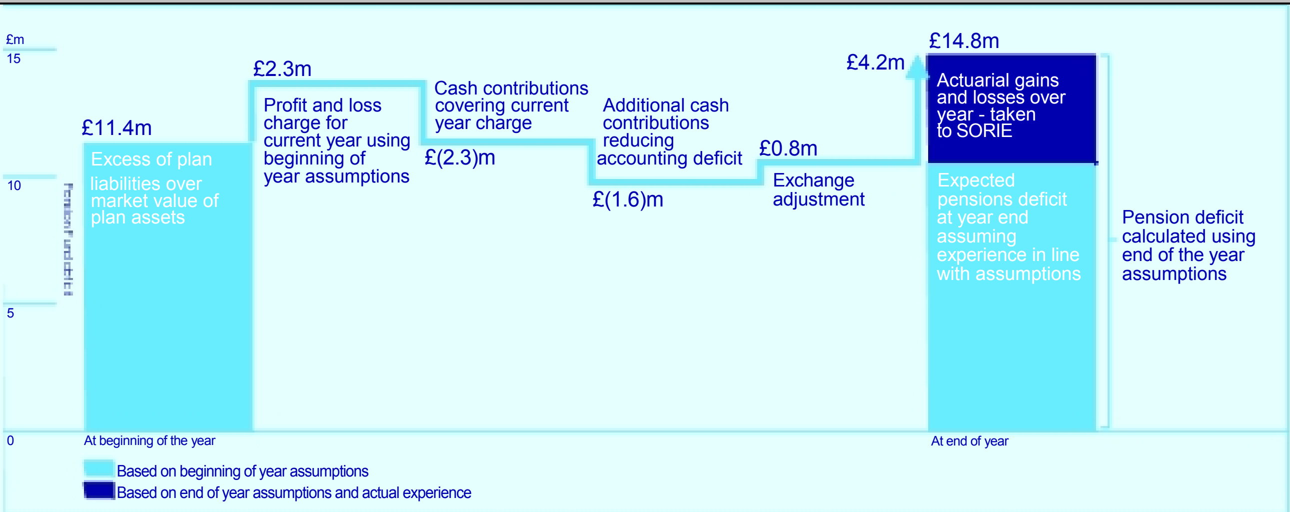
Notes to the financial statements continued

15 Pensions continued

Development of pensions deficit during the year Not Specifically Required

Under IAS 19, the pensions cost is calculated based on assumptions made at the start of the year.

If experience over the year is in line with assumptions made at the start of the year, the pension deficit would grow by any excess of the profit and loss charge over the cash contributions paid. Actuarial gains and losses due to differences between actual experience and the assumptions made are recognised immediately outside the profit and loss account in the SORIE.



Principal actuarial assumptions at balance sheet dates:

	31 December 2007		31 December 2006		31 December 2005		
	UK	**US**	UK	US	UK	US	
Inflation rate	**2.8%**	**3.5%**	2.8%	3.5%	2.8%	3.5%	NSR
Expected rate of salary increases	**4.6%**	**4.5%**	4.5%	4.5%	4.5%	4.5%	120A.n)
Expected rate of pension increases	**2.8%**	**0.0%**	2.8%	0.0%	2.8%	0.0%	NSR
Discount rate	**4.8%**	**6.0%**	5.4%	6.1%	4.8%	6.1%	120A.n)
Number of years a current pensioner is expected to live beyond age 65:							Not specifically required unless principal assumptions
p Men	**21.2**	**17.7**	19.2	17.7	19.2	17.7	
p Women	**24.0**	**20.6**	22.0	20.6	22.0	20.6	
Number of years future pensioners currently aged 45 are expected to live beyond age 65							
p Men	**22.4**	**19.8**	19.9	17.7	19.9	17.7	
p Women	**25.1**	**22.0**	22.8	20.6	22.8	20.6	
Expected return on plan assets	**6.3%**	**7.3%**	6.5%	7.5%	6.7%	7.0%	120A.n)
Analysed as:							Not specifically required unless principal assumption
Equities	**7.5%**	**8.6%**	8.0%	8.8%	8.3%	8.9%	
Bonds	**4.6%**	**5.3%**	5.2%	5.5%	5.6%	5.5%	
Property and other	**6.0%**	**6.6%**	6.5%	6.8%	6.8%	6.9%	

Assumptions used to calculate 2006 and 2007 present value of plan liabilities.

Assumptions used to calculate 2006 and 2007 charge to the profit and loss account with respect to defined benefit plans.

15 Pensions continued

The expected return on plan assets assumption was determined by considering the expected returns available on the assets underlying the current investment policy, namely:

→ Bonds - based on the gross redemption yields on both corporate and government bonds in the relevant territory at the balance sheet date, weighted by the holding in each class

→ Equities and property - for the UK (US) plan assumes outperformance of 3.5% (4.0%) and 2.0% (2.0%) per annum respectively above the yield on long dated government bonds at the balance sheet date

The expected return on plan assets is stated gross of administration expenses and the levy payable to the Pensions Protection Fund in the UK and the Pension Benefit Guaranty Corporation in the US - 120A.l)
see page 64 for more details.

Demographics assumptions: Not specifically required unless principal assumptions

	UK	US
Basic mortality table used	PA 92	UP-94
Based upon mortality experience of:	UK insured pensioner mortality between 1991-1994	US uninsured pensioner mortality between 1988-1994
Year the mortality table was published	1999	1985
Allowance for future improvements in longevity	Year of birth projections, with medium cohort improvements with adjustments to reflect expected scheme experience	Projection scale AA projected to 2008 for pensioners and 2026 for non-pensioners
Allowance made for members to take a cash lump sum on retirement	All members are assumed to take 25% of their benefit in the form of cash	N/A

As this is the first year we have disclosed information relating to the assumptions regarding the longevity of pensioners, we have provided an expanded discussion on mortality tables, focusing on the UK plan as it has the highest deficit on page 46 of the annual report.

Sensitivities:
Sensitivity of 2007 pension liabilities and cost to changes in assumptions are as follows:

Assumption	Assumption change	Impact on:	Estimated increase/ (decrease) (%)	Estimated increase/ (decrease) impact (£'000)
Pensions				
Discount rate	Increase by 0.5%	Pension liabilities	(9%)	(11,000)
		Pension cost	(35%)	(800)
Expected rate of salary increases	Increase by 0.5%	Pension liabilities	3%	4,000
		Pension cost	17%	400
Expected rate of pension increases	Increase by 0.5%	Pension liabilities	3%	4,000
		Pension cost	17%	400
Life expectancy	Increase by one year	Pension liabilities	4%	5,000
		Pension cost	17%	400

Notes to the financial statements continued

15 Pensions continued

Not Specifically Required

Membership details as at 31 December 2007:

	UK	US
Active workers	700	175
Total pensionable salary roll	£14.7m	£4m
Average age	40	42
Average service in plan	11 years	12 years
Number of deferred members	400	121
Total deferred benefits (at date of leaving scheme)	£1.5m	£0.4m
Average age	38	34
Number of pensioners	200	43
Total pensions in payment	£1.6m	£0.5m

Investment strategy:
The Trustees of the UK plan are responsible for setting the investment strategy for the UK plan after consultation with the sponsoring company and professional advisers. The company sets the investment strategy of the US plan. The following investment approach is being taken in each territory:

120A.j)

	UK	US
Equity/bond/property split	50/40/10	60/30/10

Not Specifically Required

Within equities:		
- Home/overseas split	80/20	70/30
Within bonds:		
- Index-linked/fixed income split	30/70	20/80

The plan assets do not include any of the group's financial instruments, nor any property occupied by, or other assets used by, the group. The property holding includes a small holding of cash. 120A.k)

The actual return on plan assets during the year was £8.5m (2006: £7.7m). 120A.m)

Not Specifically Required

Cash funding:
Accounting costs do not impact on the incidence or amount of cash contributions for defined benefit plans. Future cash contributions are determined based upon periodic actuarial valuations and local regulatory requirements.

	UK	US
Date of last formal funding valuation	1 July 2007	1 June 2007
Surplus/(deficit)	(£3m)	£2m
Funding approach	Assumes that plan assets will outperform government bonds by 2.0% per annum pre-retirement and 0.5% post-retirement	Assumes that plan assets will outperform government bonds by 3.5% per annum
Contribution rate agreed to meet the cost of benefits accruing, plus related expenses	14% of pensionable salary	12% of pensionable salary
Lump sum contributions per annum to remove the deficit	£1.1m per annum	£200,000 per annum
Period over which the deficit is expected to be removed	1 January 2008 to 1 January 2011	N/A
Expected contributions during 2008	£3.2m	£0.5m
Expected 2008 levy	£50,000*	Negligible
Payable to	Pension Protection Fund	Pension Benefit Guaranty Corporation

120A.q)

*The Dun & Bradstreet failure score underlying the levy is 96 out of 100.

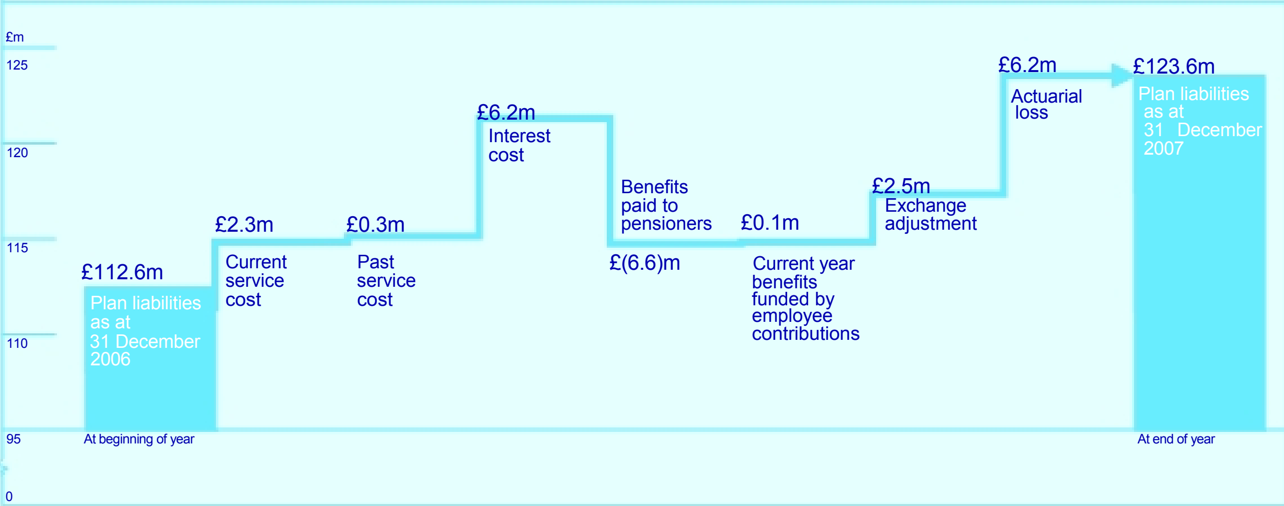
Not Specifically Required

15 Pensions continued

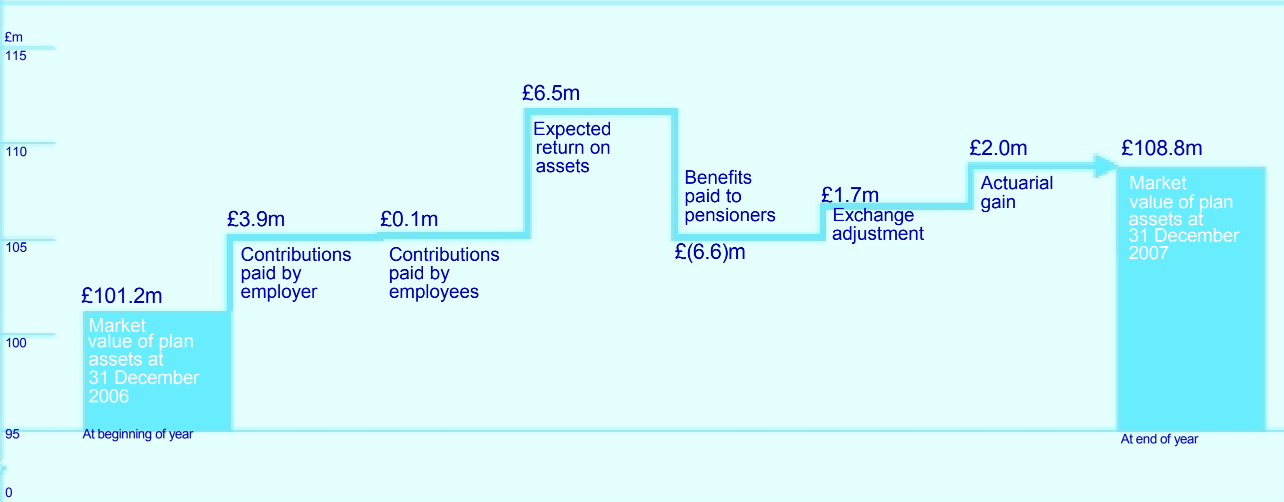
The graphs below set out source of the changes during the year in both plan liabilities and assets.

NSR

Change in the pension plan liabilities



Change in market value of pension plan assets



Analysis of the movement in the pension deficit:

Not Specifically Required

	2007			2006		
	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
At beginning of year	**(8,100)**	**(3,300)**	**(11,400)**	(9,200)	(3,900)	(13,100)
Total expense	**(1,500)**	**(800)**	**(2,300)**	(1,300)	(400)	(1,700)
Contributions	**2,800**	**1,100**	**3,900**	2,200	900	3,100
Exchange differences	**-**	**(800)**	**(800)**	-	(300)	(300)
Actuarial gain/(loss)	**(4,300)**	**100**	**(4,200)**	200	400	600
At end of year	**(11,100)**	**(3,700)**	**(14,800)**	(8,100)	(3,300)	(11,400)

Notes to the financial statements continued

15 Pensions continued

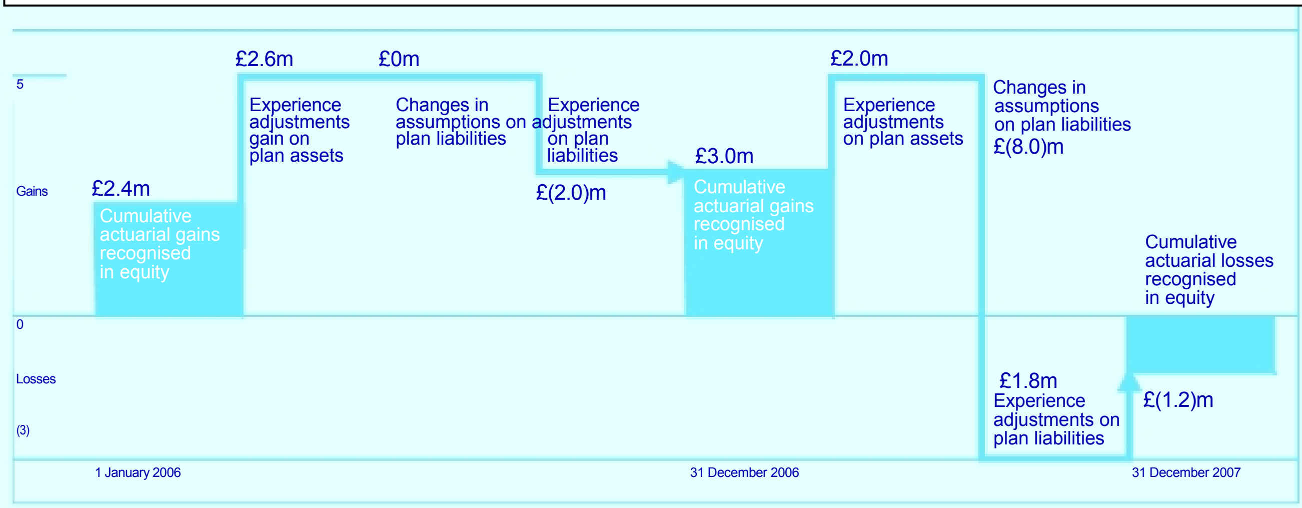
Analysis of the movements in the present value of the plan liabilities: 120A.c)

	UK £'000 2007	US £'000 2007	Total £'000 2007	UK £'000 2006	US £'000 2006	Total £'000 2006
At beginning of year	**90,500**	**22,100**	**112,600**	87,200	22,800	110,000
Current service cost	**1,600**	**700**	**2,300**	1,300	500	1,800
Past service cost	**200**	**100**	**300**	100	-	100
Interest cost	**4,700**	**1,500**	**6,200**	4,700	1,400	6,100
Actuarial loss/(gain)	**5,900**	**300**	**6,200**	1,800	(1,000)	800
Contribution paid by employees	**100**	**-**	**100**	100	-	100
Benefits paid	**(5,000)**	**(1,600)**	**(6,600)**	(4,700)	(1,500)	(6,200)
Exchange differences	**-**	**2,500**	**2,500**	-	(100)	(100)
At end of year	**98,000**	**25,600**	**123,600**	90,500	22,100	112,600

Analysis of the movements in the market value of plan assets: 120A.e)

	UK £'000 2007	US £'000 2007	Total £'000 2007	UK £'000 2006	US £'000 2006	Total £'000 2006
At beginning of year	**82,400**	**18,800**	**101,200**	78,000	18,900	96,900
Expected return on assets	**5,000**	**1,500**	**6,500**	4,800	1,500	6,300
Actuarial gain/(loss)	**1,600**	**400**	**2,000**	2,000	(600)	1,400
Contributions paid by employer	**2,800**	**1,100**	**3,900**	2,200	900	3,100
Contributions paid by employees	**100**	**-**	**100**	100	-	100
Benefits paid	**(5,000)**	**(1,600)**	**(6,600)**	(4,700)	(1,500)	(6,200)
Exchange differences	**-**	**1,700**	**1,700**	-	(400)	(400)
At end of year	**86,900**	**21,900**	**108,800**	82,400	18,800	101,200

Cumulative actuarial gains and losses recognised in equity 120A.i)



15 Pensions continued

History of experience gains and losses

120A.p) however requires current and previous four years

All experience adjustments are recognised directly in equity, net of related tax.

History of experience gains and losses	2005	2004	2003
Experience adjustments arising on plan assets:			
Amount (£000)	1,200	2,000	2,300
% of plan assets	1%	2%	3%
Changes in assumptions arising on present value of plan liabilities: (Not Specifically Required)			
Amount (£000)	2,000	-	-
% of present value of plan liabilities	2%	-	-
Experience adjustments arising on present value of plan liabilities: (120A.p) however requires current and previous four years)			
Amount (£000)	(3,300)	(2,000)	1,100
% of present value of plan liabilities	(3%)	(2%)	1%
Present value of plan liabilities	(110,000)	(105,700)	(97,200)
Market value of plan assets	96,900	93,000	88,000
(Deficit)	(13,100)	(12,700)	(9,200)

16 Other post-employment benefits

As discussed in Note 1, the group provides post-employment healthcare benefits to its retired employees in North America. The present value of the healthcare costs is calculated by independent actuaries, ZZZ Ltd. In calculating this value, the actuary makes a number of assumptions with regard to the factors that will affect future costs of providing healthcare benefits. The principal assumptions made by the actuary were:

120A.n)

	31 December 2007	31 December 2006	31 December 2005
Inflation rate	**3.5%**	3.5%	3.5%
Discount rate	**6.0%**	6.1%	6.1%
Expected increase in medical costs	**12%pa for first five years decreasing to to 9%pa**	11%pa for first five years decreasing to 8%pa	10%pa for first five years decreasing to 7%pa

Sensitivity to changes in assumptions in the actuarial valuations as 31 December 2007 is as follows:

Assumption	Assumption change	Impact on:	Estimated impact (%)	Estimated impact (£'000)
Post-retirement benefits				
Discount rate	Increase by 0.5%	Post employment healthcare liabilities	(7%)	(75)
		Healthcare costs	(10%)	(15)
Expected rate of increase in medical costs	Increase by 1.0%	Post employment healthcare liabilities	12%	130
		Healthcare costs	22%	33

120A.o) however requires sensitivity analysis for 1% only

Notes to the financial statements continued

16 Other post-employment benefits continued

The amount recognised in the profit and loss account is determined as follows: 120A.g)

	2007 £'000	2006 £'000
Current service cost	**200**	100
Past service credit	**(200)**	-
Charged to operating profit	**-**	100
Interest cost	**150**	200
Total	**150**	300

Changes in the present value of the benefit liability were as follows: 120A.c)

	2007 £'000	2006 £'000
At beginning of year	**900**	600
Current service cost	**200**	100
Past service cost/(credit)	**(200)**	-
Interest cost	**150**	200
Actuarial loss/(gain) (recognised in SORIE)	**500**	700
Benefits paid	**(600)**	(500)
Exchange differences	**100**	(200)
At end of year	**1,050**	900

Cumulative actuarial gains and losses recognised in equity: 120A.h) & i)

	2007 £'000	2006 £'000
At beginning of year	**900**	200
Changes in assumptions	**400**	300
Experience adjustments	**100**	400
At end of year	**1,400**	900

History of experience gains and losses 120A.p)

All experience adjustments are recognised directly in equity, net of related tax.

History of experience gains and losses	**2007**	2006	2005	2004	2003
Changes in assumptions on plan liabilities:					
Amount (£000)	**400**	300	100	50	10
% of present value of plan liabilities	**38%**	33%	14%	10%	3%
Experience adjustments arising on present value of plan liabilities:					
Amount (£000)	**100**	400	(200)	(50)	(10)
% of present value of plan liabilities	**10%**	44%	(29%)	(10%)	(3%)
Present value of plan liabilities	**1,050**	900	700	500	300