

6 EMPLOYEE BENEFIT COSTS AND EMPLOYEE NUMBERS continued**Employee numbers**

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
Average number of employees during the financial year, analysed by geographic segment was:		
North America	220	201
Europe	1,136	804
Middle East	615	639
Australia	742	570
Asia	633	349
Corporate and development	233	187
Average number of employees	3,579	2,750

7 PENSION SCHEMES

Group entities operate pension arrangements in order to provide pension benefits to retired employees. Benefits granted have been developed to reflect local practice and may be provided through defined benefit or defined contribution schemes.

The main defined benefit plans are in the UK and Australia:

UK: The majority of pensions for UK employees are funded through the industry-wide scheme, the Electricity Supply Pension Scheme (ESPS), which is a defined benefit scheme with assets invested in separate trustee administered funds. The ESPS is divided into sections, and the International Power Group of the ESPS was opened to members on 1 April 2002 and employees' past service rights were transferred into the Group later that year.

The majority of employees taken on in First Hydro, as part of the acquisition of the EME portfolio, are members of another section of the ESPS, the Edison Mission Energy Group.

The liabilities and costs shown in the disclosures for the UK schemes are based on the most recent actuarial valuations at 31 March 2004. The results of these valuations have been updated to 31 December 2005 by independent qualified actuaries to take account of the requirements of IAS 19.

AUSTRALIA: Employees at Hazelwood and Loy Yang B participate in a standard Australian superannuation fund called Equipsuper. This plan provides benefits primarily for employees in the electricity, gas and water industry, and was developed from the scheme sponsored by the State Electricity Commission of Victoria. Employees at Synergen participate in the Electricity Industry Superannuation Scheme.

The liabilities and costs shown in the disclosures for the Australian schemes are based on the most recent actuarial valuations at 30 June 2005. The results of these valuations have been updated to 31 December 2005 by independent qualified actuaries to take account of the requirements of IAS 19.

The Group operates a number of other defined benefit schemes for employees of its businesses in other countries. Full actuarial valuations of these schemes have been carried out within the last three years and results have been updated to 31 December 2005 by independent qualified actuaries.

The liabilities and costs for IAS 19 were determined using the projected unit credit method. The Group has decided to recognise gains and losses through the income statement over the expected working lifetime of active employees to the extent that gains or losses are in excess of the 'corridor' (10% of the greater of the defined benefit obligation and the plan assets).

The charge for 2005 in respect of defined contribution plans was £3 million (2004: £1 million).

The Group used the following assumptions to calculate the scheme liabilities under IAS 19:

Financial assumptions	31 December 2005		31 December 2004		31 December 2003	
	UK %	Australia %	UK %	Australia %	UK %	Australia %
Discount rate	4.7	4.6	5.3	4.5	5.4	7.5
Rate of increase in salaries	4.4	4.0	4.4	4.0	4.3	4.0
Inflation rate	2.9	3.0	2.9	3.0	2.8	3.0
Increase to deferred benefits during deferment	2.9	n/a	3.0	n/a	2.9	n/a
Increases to pensions payments	2.9	n/a	2.9	n/a	2.9	n/a

The amount recorded in the income statement in relation to the defined benefit pension plans for the year ended 31 December 2005 was as follows:

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Amounts charged to profit from operations		
Current service cost	(9)	(5)
Expected return on schemes' assets	11	7
Interest on schemes' liabilities	(9)	(6)
Curtailment cost	–	(1)
Total operating charge	(7)	(5)

The assets in the schemes and expected rates of return (weighted averages) were:

	31 December 2005		31 December 2004		31 December 2003	
	UK %	Australia %	UK %	Australia %	UK %	Australia %
Long-term rate of return expected:						
Equities	7.1	7.5	7.5	7.3	7.8	7.6
Bonds	4.4	5.0	4.9	4.8	5.1	4.8
Other	6.0	5.9	6.0	5.5	6.6	6.1
Total long-term rate of return expected	6.6	6.7	7.0	6.5	7.4	6.7

The expected rates of return reflect the Group's best estimate of the investment returns that will be earned on each asset class. These returns are based on advice provided by independent qualified actuaries.

	31 December 2005			31 December 2004			31 December 2003		
	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m
Assets in schemes:									
Equities	84	52	136	66	44	110	36	35	71
Bonds	14	17	31	11	16	27	5	14	19
Other	16	15	31	12	10	22	4	5	9
Total market value of assets	114	84	198	89	70	159	45	54	99

Other assets principally comprise property and cash.

The reconciliation of the schemes' (deficits)/surpluses to the balance sheet amount is:

	31 December 2005			31 December 2004			31 December 2003		
	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m	UK £m	Australia £m	Total £m
Total market value of assets	114	84	198	89	70	159	45	54	99
Present value of scheme liabilities	(161)	(79)	(240)	(114)	(70)	(184)	(58)	(58)	(116)
(Deficit)/surplus in the scheme	(47)	5	(42)	(25)	–	(25)	(13)	(4)	(17)
Unrecognised actuarial losses/(gains)	22	(7)	15	–	(4)	(4)	–	–	–
Unrecognised asset due to limit in IAS 19 para 58(b)	–	–	–	–	–	–	–	–	–
Pension liability before deferred tax	(25)	(2)	(27)	(25)	(4)	(29)	(13)	(4)	(17)

7 PENSION SCHEMES continued

Movements in fair value of assets:	2005 £m	2004 £m
At 1 January	159	99
Expected return on assets	11	7
Actuarial gains	16	9
Employer contributions	9	6
Scheme participants' contributions	3	2
Benefits paid	(2)	(2)
Expenses, taxes and premiums paid	(1)	(1)
Acquisitions, divestitures and combinations	–	41
Exchange differences	3	(2)
At 31 December	198	159
Movements in defined benefit obligations:	2005 £m	2004 £m
At 1 January	184	116
Service cost	9	5
Interest cost	9	6
Actuarial losses	35	4
Scheme participants' contributions	3	2
Benefits paid	(2)	(2)
Expenses, taxes and premiums paid	(1)	(1)
Acquisitions, divestitures and combinations	–	55
Settlements and curtailments	–	1
Exchange differences	3	(2)
At 31 December	240	184

As the Group's transition date to IFRS was 1 January 2004, the following historical data has been presented from that date. The historical data will be built up to a rolling five-year record over the next three years.

History of asset experience gains and losses

	Year ended 31 December 2005	Year ended 31 December 2004
Difference between the actual and expected return on schemes' assets:		
Amount (£m)	16	9
Percentage of schemes' assets	8%	6%
Experience gains and losses on schemes' liabilities*:		
Amount (£m)	11	7
Percentage of the present value of schemes' liabilities	5%	4%

*Does not include the effect of changes in assumptions.

Contributions in 2006

The Group expects to make contributions of approximately £8 million to its main pension arrangements in 2006.