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Pension Forecast Update

January 2004

Projected Pre-Tax Cash Funding Requirements

Congress adjourned in December without passing legislation to extend interest rate relief. Current law requires companies to use the yield on the 30 Year Treasury bond to calculate pension liabilities. The relief proposed would allow companies to use a higher interest rate, thus lowering the pension liability. Possible action this year could be retroactive to January.

Without extended relief, large cash contributions could be needed in 2005 and 2006 as shown in the table below. These estimates were prepared using current demographic data. This data will be updated in March and the update could have a large impact on the 2004 funding requirements.

$ in Millions,	2003	2004	2005	2006
Relief Extended	67	26	77	102
No Relief	67	41	132	146

Balance Sheet Impact on Equity Account

A charge to equity results when the current value of pension assets is lower than the present value of future liabilities. Due to the strong asset performance during 2003, $215 million of the pretax charge to equity recorded in 2002 will be reversed as shown in the table below.

$ in Millions, cumulative	2002	2003	2004	2005	2006
Equity Charge, pretax	(900)	(685)	(786)	(770)	(732)

Income Statement Impact

Pension expense will be higher as investment losses from past years are amortized. The following table summarizes the pretax impact on the income statement.

$ in millions	2003	2004	2005	2006
Pension Expense	(3)	41	78	103

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These estimates are based on the following assumptions:

Accounting Assumptions	2003	2004
Return on Assets	9.00%	8.75%
Discount Rate	6.75%	6.25%
Basis for Discount Rate	Moody's AA Corporate Bond Index	Moody's AA Corporate Bond Index

Funding Assumptions	2003	2004
Discount Rate	8.50%	8.50%
Current Liability Interest Rate	6.65%	5.43%
Maximum Interest Rate Allowed	120% of 4 year average of 30 Year Treasury Bond	105% of 4 year average of 30 Year Treasury Bond