

De La Rue plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is disclosed on page 102 of this annual report. The consolidated financial statements of the Company for the period ended 30 March 2013 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The Company financial statements present information about the Company as a separate entity and not about its Group. The principal activities of the Group are described in note 1. The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

European Union (EU) law (IAS Regulation EC 1606/2002) requires that the consolidated financial statements, for the period ended 30 March 2013, be prepared in accordance with international financial reporting standards (IFRS) as adopted by the EU (Adopted IFRS). These consolidated financial statements have been approved by the Directors and prepared in accordance with Adopted IFRS including interpretations issued by the International Accounting Standards Board (IASB).

The Company has elected to prepare its financial statements in accordance with UK generally accepted accounting practice (UK GAAP).

During the year a number of amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share. A number of other new and amended IFRS were issued during the year which do not become effective until after 30 March 2013, other than revisions to IAS 19 'Employee Benefits', none of these are likely to have a material impact on the Group for the 2013/14 year.

Note 22 to the consolidated financial statements describes in greater detail how the revised IAS 19 would have impacted 2012/13 had the amendments been applied and also estimates the impact on the 2013/14 year.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. The accounts have been prepared as at 30 March 2013, being the last Saturday in March. The comparatives for the 2011/12 financial year are for the period ended 31 March 2012.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 20 to 23 and 27 to 30 of the business review. The accounting policies used in the preparation of the financial position are described in pages 65 to 70. In addition, pages 79 to 84 include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 24 to 26 of the business review.

As described on page 26, the Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2016. The Group's forecasts and projections, which cover a period of more than 12 months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business. As a consequence and notwithstanding the net liability position being reported in the consolidated balance sheet, which has primarily arisen due to the value of the deficit in the retirement benefit obligations, or the uncertainty as to the outcome of the paper production issues noted on page 15, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 30 March 2013. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date that control commences or until the date that control ceases. The majority of the subsidiaries prepare their financial statements up to 30 March except for certain subsidiaries whose year end is 31 December. In the case of the subsidiaries whose financial statements are made up to 31 December 2012, results for the period to 30 March 2013 and the balance sheet as at 30 March 2013 have been consolidated.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to the income statement in the period of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra Group transactions, balances, income and expenses are eliminated on consolidation.

Accounting policies

Continued

Significant accounting policies and judgements applied

Foreign currency

Foreign currency transactions

These financial statements are presented in sterling, which is the functional and presentational currency of the Company. The functional currency of Group entities is principally determined by the primary economic environment in which the respective entity operates.

Transactions in foreign currencies entered into by Group entities are translated into the functional currencies of those entities at the rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Foreign currency non monetary items measured in terms of historical cost are translated at the rate of exchange at the date of the transaction. Exchange differences on non monetary items are recognised in line with whether the gain or loss on the non monetary item itself is recognised in the income statement or in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (refer to the accounting policy on derivative financial instruments below for details of the Group's accounting policies in respect of such derivative financial instruments).

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and intangible assets, are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at average exchange rates (which approximate to actual rates). Exchange differences arising on retranslation are recognised in the Group's translation reserve, which is a component of equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Exchange differences in respect of foreign operations that arose before 27 March 2004, the date of transition to Adopted IFRS, are presented as part of retained earnings, as permitted by IFRS 1.

Net investment in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operations are recognised in the translation reserve to the extent the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised as finance income or costs in the income statement. Cumulative gains or losses in equity arising since the date of transition to Adopted IFRS are taken to the income statement on disposal of the foreign operation.

Financial instruments

The Group's operating activities expose it to financial risks of changes in foreign currency exchange rates and interest rates. The Group uses a range of derivative instruments, including forward contracts and swaps to hedge its risk to changes in foreign exchange rates and interest rates. Derivative financial instruments are only used for hedging purposes. The use of financial derivatives is governed by the Group's risk management policies approved by the Board, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

Derivative financial instruments are recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The gain or loss on subsequent fair value measurement is recognised in the income statement unless the derivative qualifies for hedge accounting when recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the period in which the hedged item also affects the income statement.

However, if the hedged item results in the recognition of a non financial asset or liability, the amounts accumulated in equity on the hedging instrument are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Fair value hedges

For an effective hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in net income. Gains or losses from re-measuring the derivative or, for non derivatives, the foreign currency component of its carrying value, are recognised in net income.

Embedded derivatives

Derivatives embedded in other financial instruments or other non financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. Any unrealised gains or losses on such separated derivatives are reported in the income statement.

Revenue recognition

Group revenue predominantly represents sales to external customers of manufactured products which fall within the Group's ordinary trading activities. This excludes VAT and other sales taxes.

Revenue is recognised in the income statement to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group and the amount can be reliably measured. In practice this means that revenue is recognised when goods are supplied to external customers in accordance with the terms of sale.

When goods are supplied, this is when the significant risks and rewards of ownership are transferred to the buyer.

Revenues and costs on project based contracts are recognised by reference to the stage of completion, based on the work performed to date and the overall contract profitability. The assessment of the stage of completion is dependent on the nature of the contract and is assessed by reference to reviews of work performed, achievement of contractual milestones and costs incurred.

Revenue on service based contracts is recognised as services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any impairment losses. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration transferred in a business combination over the Group's share of the fair value of identifiable assets, liabilities and contingent liabilities of the business acquired at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested annually for impairment or when there are indications of impairment. Any impairment loss is recognised immediately in the income statement and is not subsequently reversed.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business. Goodwill arising on the acquisition of subsidiaries is presented in goodwill and goodwill arising on the acquisition of associates is presented in investments in associates. Internally generated goodwill is not recognised as an asset.

Goodwill arising on acquisitions before 27 March 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Development costs

Expenditure incurred in the development of products or enhancements to existing product ranges is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the income statement as incurred. Capitalised development costs are amortised on a straight line basis over their estimated useful economic lives, which vary between five and ten years, once the product or enhancement is available for use. Product research costs are written off as incurred.

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost less accumulated amortisation and impairment losses. Software intangibles are amortised on a straight line basis over the shorter of their useful economic life or their licence period at rates which vary between three and five years.

Distribution rights are capitalised at cost less accumulated amortisation and impairment losses and are amortised over their useful economic lives as determined by the life of the products to which they relate.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation and any accumulated provision for impairment in value. Assets in the course of construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date.

No depreciation is provided on freehold land. Freehold and long leasehold buildings are depreciated over their estimated useful economic lives of 50 years. Other leasehold interests are depreciated over the lesser of the unexpired period of the lease and 50 years.

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between 8 per cent and 50 per cent per annum. The principal annual rate of depreciation used is 10 per cent on plant and machinery and on fixtures and fittings. No depreciation is provided for assets in the course of construction.

Depreciation methods, residual values and useful lives are reviewed at least at each financial year end, taking into account commercial and technical obsolescence as well as normal wear and tear, provision being made where the carrying value exceeds the recoverable amount.

Borrowing costs

Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement.

Accounting policies

Continued

Non financial assets

The carrying amounts of the Group's non financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet ready for use, the recoverable amount is estimated at each reporting date.

Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. In addition, goodwill is tested at least annually for impairment. Impairment tests are performed for all cash generating units (CGUs) to which goodwill has been allocated at the balance sheet date or whenever there is indication of impairment. For all other intangible assets, an impairment test is performed whenever an indicator of impairment exists.

An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use and, in the case of goodwill, is not subsequently reversed. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For other intangible assets, at each balance sheet date an assessment is made to determine whether there is any indication that an impairment loss recognised in prior periods may no longer exist or has decreased. Where such an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Associated companies

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

The Group's share of the results, assets and liabilities of associated companies are included in these financial statements using the equity method of accounting, except when classified as held for sale.

The results are presented after interest, tax and non controlling interest. Investments in associates are carried in the balance sheet at cost as adjusted by the post acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of the individual investment. Losses of the associate in excess of the Group's interest in that associate are not recognised unless the Group has a legal or constructive obligation to fund those losses.

Any excess of the cost of acquisition over the fair values of the identifiable net assets at the date of acquisition of the associate is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to the income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Associated companies prepare their financial information as at 31 December. Results for the period to 30 March and the balance sheet as at 30 March have been included in the consolidated statements.

Leasing

A lease is defined as an agreement whereby the lessor conveys to the lessee the right to use a specific asset for an agreed period of time in return for a payment or a series of payments.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as property, plant and equipment at an amount equal to the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease, and then depreciated over their useful economic lives. Lease payments are apportioned between repayment of capital and interest. The capital element of future lease payments is included in the balance sheet as a liability. Interest is charged to the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Where a leasehold property is vacant, or sublet under terms such that the rental income is less than the head lease rental cost, provision is made for the best estimate of unavoidable lease payments during the vacancy or on the anticipated future shortfall of sub lease income compared with the head lease expense.

Taxation

The tax expense included in the income statement comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, including adjustments in respect of prior periods, using tax rates enacted or substantively enacted by the balance sheet date.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill, not deductible for tax purposes, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and deferred tax liabilities are only offset to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities, they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis or to realise an asset and settle a liability simultaneously.

Inventories

Inventories and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and comprises directly attributable purchase and conversion costs, including direct labour and an allocation of production overheads based on normal operating capacity that have been incurred in bringing those inventories to their present location and condition. Net realisable value is the estimated selling price less estimated costs of completion and selling costs.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash held by the Group and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Loans

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employment benefits

Pensions

The Group operates a number of retirement benefit schemes. The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under each scheme is determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in operating costs in the Group income statement. Past service costs are similarly included where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit pension schemes and the imputed interest on pension scheme liabilities are disclosed as retirement benefit obligation finance income and retirement benefit obligation finance expense respectively in the income statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of the scheme assets, as determined by actuarial valuations carried out at the balance sheet date.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

Share based payments

The Group operates various equity settled and cash settled option schemes. For equity settled share options, the services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the consolidated income statement, together with a corresponding increase in shareholders' equity, on a straight line basis over the vesting period, based on the number of shares that are actually expected to vest, taking into account non market vesting conditions (including service conditions). Vesting conditions, other than non market based conditions, are not taken into account when estimating the fair value.

For cash settled share options, the services received from employees are measured at the fair value of the liability for options outstanding and recognised in the consolidated income statement on a straight line basis over the vesting period. The fair value of the liability is re-measured at each reporting date and at the date of settlement with changes in fair value recognised in the consolidated income statement.

Share option schemes

The De La Rue Employee Share Ownership Trust (Trust) is a separately administered trust. Liabilities of the trust are guaranteed by the Company and the assets of the Trust mainly comprise shares in the Company.

The own shares held by the Trust are shown as a reduction in shareholders' funds. The shares will be held at historical rates until such time as they are disposed of. Any profit or loss on the disposal of own shares is treated as a movement in reserves rather than as an income statement item.

Provisions

Provisions are recognised when the Group has a present obligation in respect of a past event, it is probable that an outflow of resources will be required to settle the obligation, and where the amount can be reliably estimated. Provisions are measured at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date and are discounted where the time value of money is considered material.

Dividends

Final dividends proposed by the Board and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised in the period that they are paid.

Accounting policies

Continued

Critical accounting judgements and key sources of estimation uncertainty

The Group's accounting policies are set out above. Management is required to exercise significant judgement in the application of these policies. Areas which management believe require the most critical accounting judgements or which involve estimation are set out below.

Critical accounting judgements in applying the Group's accounting policies

Cash flow hedge accounting

The Group enters into forward contracts to hedge the risk of movements in foreign exchange and interest rates. These contracts fall within the definition of derivative financial instruments and accordingly have to be recorded at fair value. Accounting for these contracts as cash flow hedges allows, to the extent the hedges are effective, the change in values of the derivatives to be recognised in other comprehensive income and accumulated in equity. In order to achieve cash flow hedge accounting it is necessary for the Group to determine, on an ongoing basis, whether a forecast transaction being hedged is highly probable and whether the hedge is effective.

Exceptional items

The Directors consider items of income and expenditure which are both material by size and/or by nature and non recurring should be disclosed separately in the financial statements so as to help provide an indication of the Group's underlying business performance. The Directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the Directors believe would give rise to exceptional items for separate disclosure would include: gains or losses on the disposal of businesses (other than those within the scope of IFRS 5), curtailments on defined benefit pension arrangements, restructuring of businesses and asset impairments. All exceptional items are included on the appropriate income statement category to which they relate.

Income taxes

The Group is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for those taxes. The level of current and deferred tax recognised is dependent on subjective judgements as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the Group operates. It is necessary to consider which deferred tax assets should be recognised based on an assessment of the extent to which they are regarded as recoverable, which involves assessment of the future trading prospects of individual statutory entities. The actual outcome may vary from that anticipated. Where the final tax outcomes differ from the amounts initially recorded, there will be impacts upon income tax and deferred tax provisions and on the income statement in the period in which such determination is made.

Key sources of estimation uncertainty

Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives are impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations prepared on the basis of management's assumptions and estimates of future cash flows, discounted at suitable rates.

Provisions for liabilities and charges

The Group measures provisions at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated.

Pension obligations

Pension costs within the income statement and the pension obligations as stated in the balance sheet are both dependent upon a number of assumptions chosen by management. These include the expected long term rate of return on the relevant plan assets, the rate used to discount future liabilities, the expected longevity for current and future pensioners and estimates of future rates of inflation.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long term historical returns, asset allocation and future estimates of long term investment returns. The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds 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. See page 26 for details of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.