Reference

Appendix I – Policies and disclosures for areas not relevant to PwC Holdings Limited Group

Employee compensation

Disclosures
Note – Accounting policies

(a) *Post-employment benefits*

The Group operates both defined benefit and defined contribution post-employment benefit plans. FRS 1 (110)

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due. FRS 19 (7) FRS 19 (44)

Defined benefit plans are post-employment benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation. FRS 19 (7)

The liability recognised in the balance sheet in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have tenures approximating to that of the related post-employment benefit obligations. FRS 19 (54) FRS 19 (64) FRS 19 (78)

Actuarial gains and losses are recognised directly in retained earnings and presented in the Statement of Recognised Income and Expense in the period in which they arise. FRS 19 (93-93D) FRS 19 (120A)(a)

Past service costs are recognised immediately in income, unless the changes to the pension plan 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. FRS 19 (96)

(b) *Other post-employment obligations* FRS 1 (110)

Some group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Actuarial gains and losses are recognised directly in retained earnings and presented in the Statement of Recognised Income and Expense in the period in which they arise. These obligations are valued annually by independent qualified actuaries. FRS 19 (120A)(a) FRS 19 (120A)(b)

Reference

Note – Retirement benefit obligations

	Group 2006 $'000	Group 2005 $'000
Balance sheet obligations for:		
Pension benefits	**3,225**	1,532
Post-employment medical benefits	**1,440**	701
	4,635	2,333
Income statement charge for (Note 7):		
Pension benefits	**755**	488
Post-employment medical benefits	**149**	107
	904	595

Pension benefits

FRS 19 (120A)(d,f)

	Group 2006 $'000	Group 2005 $'000
The amounts recognised in the balance sheet were determined as follows:		
Present value of funded obligations	**6,155**	2,943
Fair value of plan assets	**(5,991)**	(2,797)
	164	146
Present value of unfunded obligations	**3,206**	1,549
Unrecognised past service cost	**(145)**	(163)
Liability in the balance sheet	**3,225**	1,532

FRS 19 (120A)(g)

	Group 2006 $'000	Group 2005 $'000
The amounts recognised in the income statement were as follows:		
Current service cost	**751**	498
Interest cost	**431**	214
Expected return on plan assets	**(510)**	(240)
Past service cost	**18**	16
Losses on curtailment	**65**	–
Total, included in staff costs (Note 7)	**755**	488

Of the total charge, $521,000 (2005: $324,000) and $241,000 (2005: $172,000) were included in "cost of goods sold" and "administrative expenses", respectively. FRS 19 (120A)(g)

The actual return on plan assets was $495,000 (2005: $235,000). FRS 19 (120A)(m)

Reference

The movement in the defined benefit obligation was as follows: FRS 19 (120A)(c)

	Group	
	2006	2005
	$'000	$'000
Beginning of financial year	**4,492**	3,479
Current service cost	**751**	498
Interest cost	**431**	214
Contributions by plan participants	**55**	30
Actuarial (losses)/gains	**(15)**	495
Exchange differences	**(43)**	(103)
Benefits paid	**(66)**	(121)
Liabilities acquired in a business combination (Note 11)	**3,691**	–
Curtailments	**65**	–
Settlements [1]	**–**	–
End of financial year	**9,361**	4,492

The movement in the fair value of plan assets was as follows: FRS 19 (120A)(e)

	Group	
	2006	2005
	$'000	$'000
Beginning of financial year	**2,797**	2,264
Expected return on plan assets	**510**	240
Actuarial (losses)/gains	**(15)**	(5)
Exchange differences	**25**	(22)
Employer contributions	**908**	411
Employee contributions	**55**	30
Benefits paid	**(66)**	(121)
Business combinations (Note 11)	**1,777**	–
End of financial year	**5,991**	2,797

The principal actuarial assumptions used were as follows:

FRS 19 (120A)(n)

	Group	
	2006	2005
Discount rate	**7.0%**	6.8%
Expected return on plan assets	**8.5%**	8.3%
Future salary increases	**5.0%**	4.5%
Future pension increases	**3.0%**	2.5%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 is as follows:

	Group	
	2006	2005
Male	**18.5**	18.5
Female	**22.0**	22.0

Reference

Post-employment medical benefits

FRS 19 (122)(b)

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8.0% a year (2005: 7.6%). FRS 19 (120A)(n)

The amounts recognised in the balance sheet were determined as follows: FRS 19 (120A)(d,f)

	Group	
	2006	2005
	$'000	$'000
Present value of funded obligations	**705**	340
Fair value of plan assets	**(620)**	(302)
	85	38
Present value of unfunded obligations	**1,325**	663
Liability in the balance sheet	**1,410**	701

The amounts recognised in the income statement were as follows: FRS 19 (120A)(g)

	Group	
	2006	2005
	$'000	$'000
Current service cost	**153**	107
Interest cost	**49**	25
Expected return on plan assets	**(53)**	(25)
Total, included in staff costs (Note 7)	**149**	107

Of the total charge, $102,000 (2005: $71,000) and $48,000 (2005: $36,000), respectively were included in "cost of goods sold" and "administrative expenses". FRS 19 (120A)(g)

The actual return on plan assets was $51,000 (2005: $24,000). FRS 19 (120A)(m)

The movements in the defined benefit obligation in the year were as follows: FRS 19 (120A)(c)

	Group	
	2006	2005
	$'000	$'000
Beginning of financial year	**1,003**	708
Current service cost	**153**	107
Interest cost	**49**	25
Contributions by plan participants [1]	**–**	–
Actuarial (losses)/gains [1]	**(2)**	204
Exchange differences	**25**	(41)
Benefits paid [1]	**–**	–
Liabilities acquired in a business combination (Note 37)	**802**	–
Curtailments [1]	**–**	–
Settlements [1]	**–**	–
End of financial year	**2,030**	1,003

[1] In practice, where these balances are zero, these lines could be omitted. They have been included to highlight the required information.

Reference

The movements in the fair value of plan assets of the year were as follows: FRS 19 (120A)(e)

	Group	
	2006	2005
	$'000	$'000
Beginning of financial year	**302**	207
Expected return on plan assets	**53**	25
Actuarial losses	**(2)**	(1)
Exchange differences	**5**	(2)
Employer contributions	**185**	73
Employee contributions [1]	**–**	–
Benefits paid [1]	**–**	–
Business combinations	**77**	–
End of financial year	**620**	302

[1] In practice, where these balances are zero, these lines could be omitted. They have been included to highlight the required information.

Reference

The effect of a 1% change in the assumed medical cost trend rate is as follows: FRS 19 (120A)(o)

	Group Increase/(Decrease)	
	2006	2005
	$'000	$'000
Effect on the aggregate of the current service cost and interest cost	**24**	(20)
Effect on the defined benefit obligation	**366**	(313)

	2006	2005	
	$'000	$'000	
Actuarial (gains) and losses recognised in the SoRIE	**–**	705	FRS 19 (120A)(h)
The cumulative actuarial (gains) and losses recognised in the SoRIE	**705**	705	FRS 19 (120A)(i)

Plan assets are comprised as follows: FRS 19 (120A)(j)

	Group			
	2006		2005	
	$'000	**%**	$'000	%
Equity	**3,256**	**49**	1,595	51
Debt	**2,571**	**39**	855	28
Other	**784**	**12**	649	21
	6,611	**100**	3,099	100

Pension plan assets included the Company's ordinary shares with a fair value of $136,000 (2005: $126,000) and a building occupied by the Group with a fair value of $612,000 (2005: $609,000). FRS 19 (120A)(k)

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. FRS 19 (120A)(l)

Expected contributions to post-employment benefit plans for the year ending 31 December 2007 are $1,150,000. FRS 19 (120)(q)

FRS 19 (120A)(p)

	Group		
	2006	2005	2004
	$'000	$'000	$'000
As at 31 December			
Present value of defined benefit obligation	**11,391**	5,495	4,187
Fair value of plan assets	**(6,611)**	(3,099)	(2,471)
Deficit	**4,780**	2,396	1,716
Experience adjustments on plan liabilities	**(326)**	125	–
Experience adjustments on plan assets	**(17)**	(6)	–

Revenue recognition: multiple element arrangements

Note – Accounting policies

The Group offers certain arrangements whereby a customer can purchase a personal computer together with a two-year servicing agreement. When such multiple element arrangements exist, the amount recognised as revenue upon the sale of the personal computer is the fair value of the computer in relation to the fair value of the arrangement taken as a whole. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement taken as a whole, is recognised over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

Reference

Appendix II – Critical accounting estimates not relevant to PwC Holdings Limited Group

Critical accounting estimates

FRS 1 (116)

The following critical accounting estimates may be applicable, among many other possible areas not presented in PwC Holdings Limited Group's financial statements.

Useful lives of technology division's plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

If the actual useful lives of the technology division plant and equipment were to differ by 10% from management's estimates, the carrying amount of the plant and equipment would be an estimated $1,000,000 higher or $970,000 lower.

Post-employment pension obligations

The present value of the post-employment pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This 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 have tenure approximating the tenure of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

If the discount rate used were to differ by 1% from management's estimates, the carrying amount of pension obligations would be an estimated $425,000 lower or $450,000 higher.

Warranty claims

The Group generally offers three-year warranties for its personal computer products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

If claims costs were to differ by 10% from management's estimates, the warranty provisions would be an estimated $2,000,000 higher or $1,875,000 lower.

Property, plant and equipment

The Group's business is fairly capital intensive and the annual depreciation of property, plant and equipment forms a significant component of total costs charged to the income statement. The Group reviews the residual values and useful lives of property, plant and equipment at each balance sheet date in accordance with the accounting policy in Note 2.4. The estimation of the residual values and useful lives involves significant judgement. The net book value of property, plant and equipment at 31 December 2005 was $153.8 million and the annual depreciation charge for the year ended 31 December 2005 was $17.7 million.

If the actual useful lives of the property, plant and equipment were longer or shorter than the management's estimate by one year on average, the Group's annual depreciation charge would reduce by $4.0 million and increase by $6.0 million, respectively.