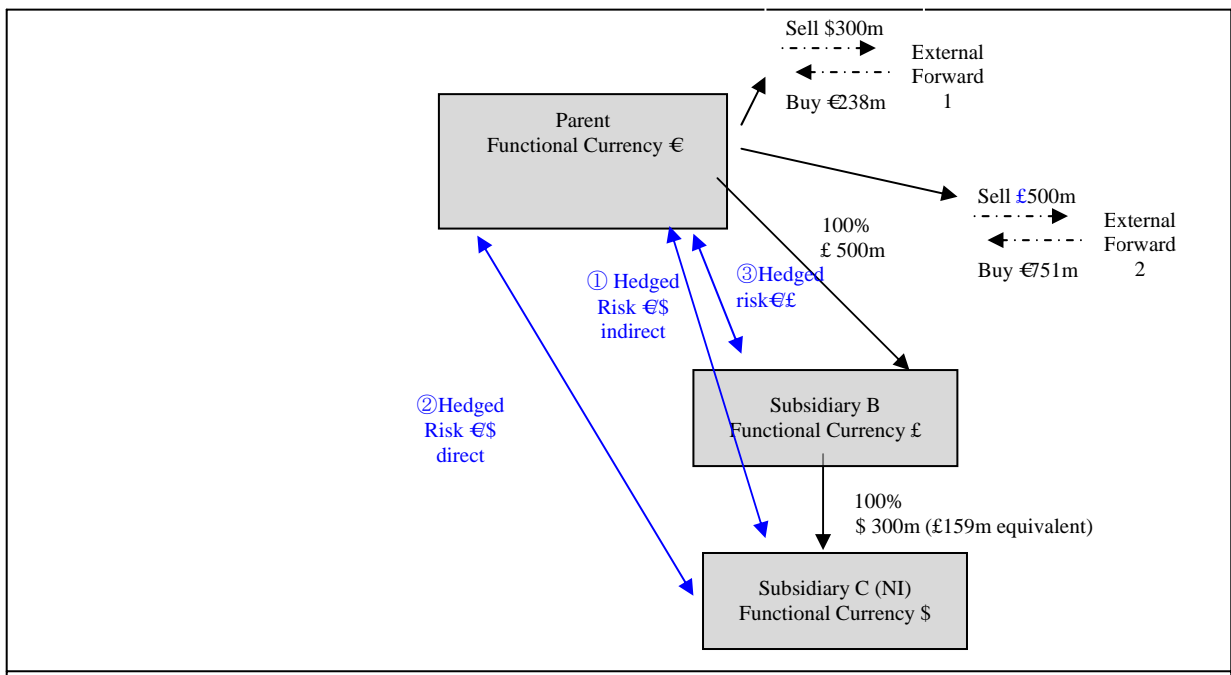


Subsidiary B in its consolidated financial statements. Although €\$ risk from a net investment in Subsidiary C between Parent and Subsidiary C is different risk from €£ risk from a net investment in Subsidiary B between Parent and Subsidiary B, hedging the remaining £159m of net assets in Subsidiary B, which represent the net investment in Subsidiary C, would amount to hedging the same net assets, those of Subsidiary C, twice for the same risk, ie retranslation into €. It would result in an overhedge of a net investment in Subsidiary B in Parent's consolidated financial statements.

As the external forward contracts are not within the consolidated financial statements of Subsidiary B, the question of designation at that level is not applicable.



Results of hedge effectiveness

Step-by-step method of consolidation

Hedged risk	In which financial statements?	
	In Parent's consolidated F/S	In Sub B's consolidated F/S
① Euro/\$ exposure from a net investment in Subsidiary C between Parent and Subsidiary C	Spreadsheet No. 3B-1 Forwards 100% effective	N/A
③ Euro/£ exposure from a net investment in B between parent and Subsidiary B	Spreadsheet No. 3B-1 Forwards 100% effective	

Direct method of consolidation

Hedged risk	In which financial statements?	
	In Parent's consolidated F/S	In Sub B's consolidated F/S
① Euro/\$ exposure from a net investment in Subsidiary C between Parent and Subsidiary C	Spreadsheet No. 3B-2 Forwards 100% effective	N/A
③ Euro/£ exposure from a net investment in B between parent and Subsidiary B	N0. 3B-2 100% effective	

SITUATION 3B - 1 FORWARD (step-by-step method): designate \$/Euro exposure from Entity C and £/Euro exposure from Entity B as hedged risks

Year 0												
USD	1											
JPY	118											
EUR	0.8											
GBP	0.53											
	P (EUR)	A(JPY)	A(EUR)	C(USD)	C(GBP)	B(GBP)	consol adj	BC(GBP)	BC(EUR)	pre-acq	consol adj	PABC(EUR)
Investment in A												0
Investment in B	755											0
Investment in C						159	-159					0
Other assets	0			300	159	341		500	755			755
	755	0	0	300	159	500		500	755			755
Opening												
FCTR	-755			-300	-159	-500	159	-500	-755		755	-755
Income												
Closing												
Equity	-755	0	0	-300	-159	-500		-500	-755			-755
Fwd #1	0											
68.2% of Fwd #2	0											
31.2% of Fwd #2	0											
Fwd #1 & #2	0			0	0	0		0	0		0	0
Check	0	0	0	0	0	0		0	0			0

Year 1 average											
USD	1										
JPY	125										
EUR	0.88										
GBP	0.58										

P accounts				EUR			
Forward #1	Year 0		0	Forward #2	Year 0		0
Forward #1	Year 1		-26	Forward #2	Year 1		-2
P/L			-26	P/L			-2

P accounts				EUR			
Forward #1	Year 0		0	Forward #2	Year 0		0
Forward #1	Year 1		-5	Forward #2	Year 1		-2
P/L			-5	P/L			-2

helper
0.318
0.682

Year 1 average												
Investment in A	P (EUR)	A(JPY)	A(EUR)	C(USD)	C(GBP)	B(GBP)	consol adj	BC(GBP)	BC(EUR)	pre-acq	consol adj	PABC(EUR)
Investment in B	755											0
Investment in C						159	-159					0
Other assets	0			300	174	341		515	781			781
	755	0	0	300	174	500		515	781			781
Opening												
FCTR (Entity B)*2	-755			-300	-159	-500	159	-500	-755		755	-755
FCTR (Entity C)*3					-15			-15	-4			-4
Income (USD forward)	26								-23			-23
Income (£341 forward)	5											5
Income (£159 forward)	2											2
Closing	-721	0	0	-300	-174	-500		-515	-781			-748
Fwd #1	-26											-26
68.2% of Fwd #2	-5											-5
31.2% of Fwd #2	-2											-2
Fwd #1 & #2	-34			0	0	0		0	0		0	-34
Check	0	0	0	0	0	0		0	0			0

SITUATION 3B - 1 FORWARD (step-by-step method): designate \$/Euro exposure from Entity C and £/Euro exposure from Entity B as hedged risks

Hedged risk	USD/EUR exposure from C USD 300m	EUR/£ exposure from B GBP341m
Hedged item (in amounts) change in value of net assets at forward rates (as per IE 15 of D22)	-26 Euro	-5 EUR
Hedging instrument	USD300m forward	GBP341m forward
Change in P/L	26 EUR	5 EUR
Hedge effectiveness	100%	100%

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*2 EUR-4=-(GBP515/0.58*0.88-EUR755-EUR23)

*3 GBP-15=GBP159-\$300*0.58
EUR-23=GBP-15/0.58*0.88

The following entries would be recorded for hedging instruments

(P's separate F/S)

Dr) Profit and loss	EUR 26	Cr) Forward	EUR 26
being profit/loss arising from US\$ forward			
Dr) Profit and loss	EUR 5	Cr) Forward	EUR 5
being profit/loss arising from 68.2% of the £/GBP forward			
Dr) Equity (FCTR-Entity C)	EUR 26	Cr) Profit and loss	EUR 26
being the hedge accounting entry for the net investment in Entity C			
Dr) Equity (FCTR-Entity B)	EUR 5	Cr) Profit and loss	EUR 5
being the hedge accounting entry for the net investment in Entity B			

The following entries would be recorded for hedged item

(P's consolidated F/S)

Dr) Other assets	EUR 23	Cr) FCTR(Entity C)	EUR 23
retranslation of exchange difference arising from Entity C			
Dr) Other assets	EUR 4	Cr) FCTR(Entity B)	EUR 4
retranslation of exchange difference arising from Entity B			

Check: Equity (FCTR) EUR 5

<After hedge entry>	Before hedge PABC(EUR)	After hedge ABC(EUR)
Investment in A	0	0
Investment in B	0	0
Investment in C	0	0
Other assets	781	781
	<u>781</u>	<u>781</u>
Opening	-755	-755
FCTR (Entity B)*2	-4	5 1
FCTR (Entity C)*3	-23	26 4
Income (USD forward)	26	-26 0
Income (£341 forward)	5	-5 0
Income (£159 forward)	2	2
Closing	<u>-748</u>	<u>-748</u>
Forward (USD 300m)	-26	-26
Forward (GBP 341m)	-5	-5
Forward (GBP 159m)	-2	-2
Forward	<u>-34</u>	<u>-34</u>
Check	0	0

SITUATION 3B - 2 FORWARD (direct method): designate \$/Euro exposure from Entity C and £/Euro exposure from Entity B as hedged risks

Hedged risk	USD/EUR exposure from C	EUR/£ exposure from B
Hedged item (in amounts)	USD 300m	GBP341m
change in value of net assets at forward rates (as per IE 15 of D22)	-26 Euro	-5 EUR
Hedging instrument	USD300m forward	GBP341m forward
Change in P/L	26 EUR	5 EUR
Hedge effectiveness	100%	100%

*2 EUR-3=EUR515-EUR517

*3 EUR-24=EUR240-EUR300*0.88

The following entries would be recorded for hedging instruments			
(P's separate F/S)			
Dr) Profit and loss	EUR 26	Cr) Forwa	EUR 26
being profit/loss arising from US\$ forward			
Dr) Profit and loss	EUR 5	Cr) Forwa	EUR 5
being profit/loss arising from 68.2% of the €GBP forward			
Dr) Equity (FCTR-Entity C)	EUR 26	Cr) Profit :	EUR 26
being the hedge accounting entry for the net investment in Entity C			
Dr) Equity (FCTR-Entity B)	EUR 5	Cr) Profit :	EUR 5
being the hedge accounting entry for the net investment in Entity B			

The following entries would be recorded for hedged item			
(P's consolidated F/S)			
Dr) Other assets	EUR 24	Cr) FCTR(EntityC)	EUR 24
retranslation of exchange difference arising from Entity C			
Dr) Other assets	EUR 3	Cr) FCTR(EntityB)	EUR 3
retranslation of exchange difference arising from Entity B			

Check: Equity (FCTR) EUR 5

**SITUATION 3B FORWARD
Forward Calculation Sheet**

Forward #1 matures in one year time, ie. 1/1/02		
Buy	€	237,725,118.48
Sell	\$	300,000,000.00

Fair Value @ 31/12/00		Leg	in EUR
Buy €	227,488,151.66		227,488,151.66
Sell \$	284,360,189.57		227,488,151.66
TOTAL			0.00

Fair Value @ 31/12/01		Leg	
Buy €	237,725,118.48		237,725,118.48
Sell \$	300,000,000.00		264,000,000.00
TOTAL			-26,274,881.52

Forward #2 matures in one year time, ie. 1/1/02		
Buy	€	751,123,090.75
Sell	GBP	500,000,000.00

Fair Value @ 31/12/00		Leg	in EUR
Buy €	718,778,077.27		718,778,077.27
Sell GBP	476,190,476.19		718,778,077.27
TOTAL			0.00

Fair Value @ 31/12/01		Leg	
Buy €	751,123,090.75		751,123,090.75
Sell GBP	500,000,000.00		758,620,689.66
TOTAL			-7,497,598.91

Spot rates				
t	€	£	Yen	\$
1		0.8	0.53	118
0		0.88	0.58	125

Interest rates				
t	€	£	Yen	\$
0	4.50%		5.00%	5.50%
1	4.70%			5.70%

Exchange rates		
Period	0	1
\$/Yen	118	125
\$/GBP	0.53	0.58
\$/€	0.8	0.88
Yen/\$	0.008474576	0.008
Yen/GBP	0.004491525	0.00464
Yen/€	0.006779661	0.00704
GBP/\$	1.886792453	1.724137931
GBP/Yen	222.6415094	215.5172414
GBP/€	1.509433962	1.517241379
€/€	1.25	1.136363636
€/Yen	147.5	142.0454545
€/GBP	0.6625	0.659090909

Forward rate (E/\$)
1.26

Forward rate (E/GBP)
0.67

NB: all hedges assume that both the spot and forward component are designated

SITUATION 3B FORWARD

Net assets (\$)	300,000,000.0000
\$/€ spot rate @ 31/12/00	0.8000
\$/€ spot rate @ 31/12/01	0.8800
€/\$1-y forward rate @ 31/12/00	1.2620

Change in hedged item at forward rates* -26,274,881.5166

Net assets (GBP)	341,000,000.0000
GBP/€ spot rate @ 31/12/00	1.5094
GBP/€ spot rate @ 31/12/01	1.5172
€/GBP 1-y forward rate @ 31/12/00	0.6657

Change in hedged item at forward rates* -5,113,362.4562

* this calculation involves retranslating the net assets at the forward rate to 31/12/01 @ 31/12/00 and then again at the forward rate to that date at 31/12/01 itself (ie at the spot rate)
this is consistent with the methodology used in IE 15 of IFRIC D22