

Situation 1 Debt (step by step method):LARGER RATE CHANGES

Hedged risk	USD/EUR exposure from C
Hedged item (in amounts)	USD 300
Change in year 1 *2	-24 Euro
Hedging instrument	USD borrowings
Change in P/L from debt	15 Euro
Change in FCTR*1	9 Euro
	24
Hedge effectiveness	100%

*1 Hedging instrument (FCTR)	
retranslation of income from debt at closing rate (=JPY2100/125*0.88-Euro15)	0
retranslation of opening balance of debt at closing rate (=EUR-240-(JPY-35400/125*0.88))	9
	9

*2 Change in year 1	
Adjusted to Direct method (see Sheet 1-2)	

*3 Formula	
FCTR (Entity A)from assets	EUR2952-JPY435400/125*0.88=EUR-113
FCTR (Entity A)from debt	(EUR-240-(JPY-35400/125*0.88))+(JPY2100/125*0.88-Euro15)=EUR9

*4 Assumption: Entity A deposited US\$ cash into JPY cash account on 1 Jan. 2005

*5 EUR755-EUR864- EUR16=EUR-125	
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*6 GBP9=GBP159-GBP150	
GBP9/0.50*0.88=EUR16	

*7 Difference in FCTR(Entity C) between Sheet 1-1 (step) and Sheet 1-2 (Direct)
ie. Cell N53 in Sheet 1-2

The following entries would be recorded for hedging instrument (USD borrowings)

(A's separate F/S)			
Dr) Profit and loss (debt)	JPY 2100	Cr) Debt	JPY 2100
being the profit/loss arising from the Debt			
(P's consolidated F/S - before hedging)			
Dr) Profit and loss (debt)	EUR 15	Cr) Debt	EUR 15
being translation of Entity A's JPY profit/loss into EUR at the average rate			
Dr) Equity (FCTR-Entity A)	EUR 0	Cr)Debt	EUR 0
being retranslation of Entity A's JPY profit/loss into EUR at the closing rate			
Dr) Equity (FCTR-Entity A)	EUR 9	Cr)Debt	EUR 9
being translation of Entity A's opening balance of debt into EUR at the closing rate			
Dr) Other assets	EUR 113	Cr) Equity (FCTR-Entity A)	EUR 113
being translation of Entity A's opening balance of other assets into EUR at the closing rate			
(P's consolidated F/S - hedging entry)			
Dr) Equity (FCTR-Entity C)	EUR 15	Cr) Profit and loss (debt)	EUR 15
being the hedge accounting entry for the net investment in Entity C			
Dr) Equity (FCTR-Entity C)	EUR 9	Cr) Equity (FCTR-Entity A)	EUR 9
being reclassification entry within Equity (FCTR) for hedging (ie. eliminateing FCTR- Entity C)			

The following entries would be recorded for hedged item

(P's consolidated F/S)			
Dr) Equity(FCTR-Entity C)	EUR 16	Cr) Other assets	EUR 16
being translation of Entity C's USD financial statements (after elimination) into EUR			
Dr) Equity(FCTR-Entity B)	EUR 40	Equity (FCTR-Entity C)	EUR 40
being reclassification within FCTR (from Entity C to Entity B) to adjust to Direct method			

Check: FCTR A debt and FCTR C EUR 0

<After hedge entry>

	Before hedge PABC(EUR)	After hedge PABC(EUR)	DIRECT(1-2) PABC(EUR)	Diff
Investment in A	0	0	0	0
Investment in B	0	0	0	0
Investment in C	0	0	0	0
Other assets*4	3929	3929	3929	0
	3929	3929	3929	0
Opening	-3467	-3467	-3467	0
FCTR (Entity A)from assets**	-113	-113	-113	0
FCTR (Entity A)from debt*3	9	-9	0	0
FCTR (Entity B)	-85	-85	-85	0
FCTR (EntityC)	-24	24	0	0
Income (Debt)	15	-15	0	0
Closing				
Equity	-3666	-3666	-3666	0
Debt	-264	-264	-264	0
Check	0	0		