

29/4/2006

# **Suntory Europe Plc**

## **Report and Financial Statements**

31 December 2005



**Directors**

Kunimasa Himeno (Managing Director)

T Kumakura

Kozo Chiji

**Secretary**

T Kumakura

**Auditors**

Ernst & Young LLP

1 More London Place

London SE1 2AF

**Registered Office**

Buchanan House

3 St. James's Square

London SW1Y 4JU

## Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2005.

### Principal activities

The company is a wholly owned subsidiary of Suntory Limited ("Suntory"). The company's business is principally to assist Suntory's subsidiaries and affiliates in obtaining finance. To that end, the company is authorised to issue public and private notes and similar securities, to borrow funds and to raise finance by variety of other means.

### Payment policy

It is the company's policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier.

### Results and dividends

No dividend is recommended (2004: £Nil) and the retained profit after tax of £1,519,751 (2004 - £440,492) has been transferred to reserves.

### Directors and their interests

The directors of the company during the year are as follows:

Kumimasa Himeno (Managing Director) (Appointed 8 April 2005)

Kozo Chiji (Appointed 8 April 2005)

T Kumakura (Appointed 14 October 2005)

H Tokuda (Resigned 8 April 2005)

J Sakai (Resigned 14 October 2005)

M Yoshida (Resigned 8 April 2005)

During the year, no director had any beneficial interest in the shares of the company or any interest in a contract significant to the company's business.

### Special provisions relating to small companies

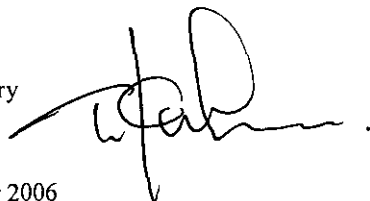
This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

### Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the forthcoming Annual General Meeting.

By order of the board

Secretary



30 May 2006

## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of Suntory Europe Plc**

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 15. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Independent auditors' report

to the members of Suntory Europe Plc (continued)

### Opinion

In our opinion the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
London  
30 May 2006

## Profit and loss account

for the year ended 31 December 2005

|  | Notes | 2005<br>£        | 2004<br>£      |
|--|-------|------------------|----------------|
| <b>Turnover</b>                                      | 2     | 1,609,053        | 1,522,175      |
| Interest payable and similar charges                 | 3     | (1,307,316)      | (1,234,225)    |
| <b>Gross profit</b>                                  |       | <u>301,737</u>   | <u>287,950</u> |
| Other operating income                               | 15    | 1,978,562        | 155,637        |
| Administrative expenses                              |       | (108,992)        | (137,356)      |
| <b>Operating profit</b>                              | 4     | <u>2,171,307</u> | <u>306,231</u> |
| <b>Profit on ordinary activities before taxation</b> |       | <u>2,171,307</u> | <u>306,231</u> |
| Tax on profit on ordinary activities                 | 5     | (651,556)        | 134,261        |
| <b>Profit for the financial year</b>                 |       | <u>1,519,751</u> | <u>440,492</u> |
| Dividends  |       | —                | —              |
| <b>Retained profit for the financial year</b>        |       | <u>1,519,751</u> | <u>440,492</u> |

There were no gains or losses for the year or the previous year other than those stated above in the profit and loss account.

The comparatives have been restated arising from the adoption of FRS 26 as disclosed in Note 11.

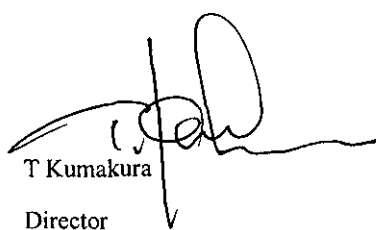
**Balance sheet**

at 31 December 2005

|  | Notes | 2005<br>£         | 2004<br>£         |
|--|-------|-------------------|-------------------|
| <b>Current assets</b>  |       |                   |                   |
| Debtors  | 6     | 39,056            | 62,305            |
| Deferred tax asset   | 7     | 180,000           | 180,000           |
| Cash at bank and in hand                                       |       | 1,526,998         | 1,781,174         |
| Due from group companies - amounts due within one year         |       | 43,611,261        | 39,322,545        |
|  |       | <u>45,357,315</u> | <u>41,346,024</u> |
| <b>Creditors: amounts falling due within one year</b>          | 8     | (14,314,738)      | (17,925,835)      |
| <b>Net current assets</b>                                      |       | <u>31,042,577</u> | <u>23,420,189</u> |
| <b>Total assets less current liabilities</b>                   |       | <u>31,042,577</u> | <u>23,420,189</u> |
| <b>Creditors: amounts falling due after more than one year</b> | 9     | (25,766,584)      | (19,663,947)      |
|  |       | <u>5,275,993</u>  | <u>3,756,242</u>  |
| <b>Equity capital and reserves</b>                             |       |                   |                   |
| Called up share capital  | 10    | 7,000,000         | 7,000,000         |
| Profit and loss account  | 12    | (1,724,007)       | (3,243,758)       |
|  |       | <u>5,275,993</u>  | <u>3,756,242</u>  |

The comparatives have been restated arising from the adoption of FRS 26 as disclosed in Note 11.

Approved by the Board of Directors on 30 May 2006.

  
 T Kumakura  
 Director



## Notes to the financial statements

at 31 December 2005

### 1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, and the preceding year is set out below.

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### **Adoption of new accounting standards during the year**

The company has adopted the following new accounting standards during the year and comparative figures have been amended as required. The changes in equity arising from the adoption of the new accounting standards are disclosed in Note 11. The disclosure requirements of FRS 25 are in Note 15.

- FRS 25, Financial Instruments : Disclosure and Presentation; and
- FRS 26, Financial Instruments : Measurement

#### **Cash flow statement**

The company has taken advantage of the exemption in FRS1 (revised) from preparing a cash flow statement.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

#### **Taxation**

UK corporation tax is provided on taxable profits at the current rate.

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transaction or events that result in an obligation to pay more or right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Notes to the financial statements

at 31 December 2005

### 2. Turnover

|   | 2005             | 2004             |
|---|------------------|------------------|
|   | £                | £                |
| Interest receivable and similar income: |                  |                  |
| Group interest receivable               | 1,560,395        | 1,494,916        |
| Bank deposit                            | 48,658           | 27,259           |
|   | <u>1,609,053</u> | <u>1,522,175</u> |

40% of turnover is attributable to geographical markets outside the UK.

### 3. Interest payable and similar charges

|                        | 2005             | 2004             |
|------------------------|------------------|------------------|
|                        | £                | £                |
| Bank loans             | 133,286          | 185,283          |
| Euro Medium Term Notes | 1,174,030        | 1,048,942        |
|                        | <u>1,307,316</u> | <u>1,234,225</u> |

### 4. Operating profit

This is stated after charging:

|   | 2005    | 2004    |
|---|---------|---------|
|   | £       | £       |
| Directors' remuneration                 | 42,500  | 47,500  |
| Auditors' remuneration - audit services | 7,638   | 7,867   |
| - other services                        | 4,127   | 20,222  |
|   | <u></u> | <u></u> |

### 5. Tax on profit on ordinary activities

|   | 2005             | 2004            |
|---|------------------|-----------------|
|   | £                | £               |
| UK corporation tax on profits for the year          | (651,556)        | (45,596)        |
| Adjustments in respect of previous periods          | -                | -               |
| Total current tax                                   | <u>(651,556)</u> | <u>(45,596)</u> |
| Deferred tax:                                       |                  |                 |
| Origination and reversal of timing differences      | -                | (143)           |
| Credit in respect of fair value loss on derivatives | -                | 180,000         |
| Total deferred tax                                  | <u>-</u>         | <u>179,857</u>  |
| Tax on profit on ordinary activities                | <u>(651,556)</u> | <u>134,261</u>  |

## Notes to the financial statements

at 31 December 2005

### 5. Tax on profit on ordinary activities (continued)

#### Factors affecting the tax charge for the year

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are reconciled below:

|   | 2005<br>£ | 2004<br>£ |
|---|-----------|-----------|
| Profit on ordinary activities before tax  | 2,171,307 | 306,231   |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%) | 651,393   | 91,869    |
| Effect of:  |           |           |
| Disallowed expenses and non-taxable income  | 270       | 560       |
| Capital allowances in excess of depreciation  | (107)     | (143)     |
| Fair value movement not tax effected  | -         | (46,690)  |
| Total current tax   | 651,556   | 45,596    |

Deferred tax on all timing differences is recognised in full, and there are no further factors known that will affect the future tax charge of the company.

### 6. Debtors

|                  | 2005<br>£ | 2004<br>£ |
|------------------|-----------|-----------|
| Accrued interest | 9,938     | 1,364     |
| Prepayments      | 29,118    | 60,941    |
|                  | 39,056    | 62,305    |

Prepayments include fees amortised over three years paid on interest rate CAP's.

### 7. Deferred tax asset

|  | Deferred<br>taxation<br>£ |
|--|---------------------------|
| At 1 January 2005                                  | 180,000                   |
| Credited/ (charged) to the profit and loss account | -                         |
| At 31 December 2005                                | 180,000                   |

The deferred tax asset of £180,000 relates to the tax effect of the transition to FRS 26. The full transitional adjustment is to be deferred and spread over the years from the year ended 31 December 2006 (inclusive). The full deferred tax asset arising at transition is £1,180,304. However, as the loss giving rise to the asset will not be realised for some time, it has been determined that only a small portion should be recognised. (i.e. that are likely to crystallise within the next 4 years)

## Notes to the financial statements

at 31 December 2005

### 8. Creditors: amounts falling due within one year

|   | 2005              | 2004              |
|---|-------------------|-------------------|
|   | £                 | £                 |
| Euro Medium Term Notes payable                | 8,616,180         | 10,567,998        |
| Unrealised mark to market loss on derivatives | 1,955,786         | 3,934,348         |
| Bank loans                                    | 2,750,000         | 3,040,552         |
| Accrued interest payable                      | 369,050           | 358,341           |
| Corporation tax                               | 618,721           | 19,596            |
| Other creditors                               | 5,001             | 5,000             |
|   | <u>14,314,738</u> | <u>17,925,835</u> |

All MTN's are payable in full on their respective maturity dates.

### 9. Creditors: amounts falling due after more than one year

|                                | 2005              | 2004              |
|--------------------------------|-------------------|-------------------|
|                                | £                 | £                 |
| Euro Medium Term Notes payable | <u>25,766,584</u> | <u>19,663,947</u> |

All MTNs are payable in full on their respective maturity rates.

### 10. Share capital

|                            | 2005             | Authorised<br>2004                            |
|----------------------------|------------------|---|
|                            | £                | £   |
| Ordinary shares of £1 each | <u>7,000,000</u> | <u>7,000,000</u>                              |
|                            |                  |   |
|                            |                  | <i>Allotted, called up<br/>and fully paid</i> |
|                            | 2005             | 2004  |
|                            | £                | £   |
| Ordinary shares of £1 each | <u>7,000,000</u> | <u>7,000,000</u>                              |

## Notes to the financial statements

at 31 December 2005

### 11. Prior year adjustments

#### Year ending 31 December 2003

|                            | <i>As previously<br/>stated</i> | <i>Effect of<br/>FRS 26</i> | <i>Restated</i> |
|----------------------------|---------------------------------|-----------------------------|-----------------|
|                            | £                               | £                           | £               |
| Retained profits/ (losses) | 405,735                         | (4,089,985)*                | (3,684,250)     |

#### Year ending 31 December 2004

##### Profit and loss account

|                        |        |              |           |
|------------------------|--------|--------------|-----------|
| Other operating income | -      | 155,637**    | 155,637   |
| Taxation               | 45,739 | (180,000)*** | (134,261) |

##### Balance Sheet

|   |            |            |            |
|---|------------|------------|------------|
| Creditors (amounts falling due within one year) | 13,991,487 | 3,934,348* | 17,925,835 |
| Deferred tax asset                              | -          | 180,000*** | 180,000    |

Following the implementation of FRS 26 in the current financial year, cross currency interest rate swaps (currency swaps) which are used to hedge foreign currency assets and borrowings are treated as trading instruments and are fair valued through the profit and loss account. The changes in fair value are disclosed as other operating income in the profit and loss account while the changes in equity arising from the adoption of FRS 26 are disclosed above. In previous financial years, the company applied hedge accounting to its currency swaps.

\* This represents the fair value loss on derivatives at the balance sheet date.

\*\* This represents the movement in the fair value loss on derivatives during the year.

\*\*\* This relates to the tax effect of the transition to FRS 26. (Note 7)

### 12. Reconciliation of shareholders' funds and movements on reserves

|                                    | <i>Share<br/>capital</i> | <i>Profit and<br/>loss account</i> | <i>Total</i> |
|------------------------------------|--------------------------|------------------------------------|--------------|
|                                    | £                        | £                                  | £            |
| At 31 December 2003                | 7,000,000                | 405,735                            | 7,405,735    |
| Effect of FRS 26 (Note 11)         | -                        | (4,089,985)                        | (4,089,985)  |
| Restated as at 31 December 2003    | 7,000,000                | (3,684,250)                        | 3,315,750    |
| Profit for 2004 before restatement | -                        | 104,855                            | 104,855      |
| Effect of FRS 26 (Note 11)         | -                        | 335,637                            | 335,637      |
| Restated as at 31 December 2004    | 7,000,000                | (3,243,758)                        | 3,756,242    |
| Profit for the year                | -                        | 1,519,751                          | 1,519,751    |
| At 31 December 2005                | 7,000,000                | (1,724,007)                        | 5,275,993    |

## Notes to the financial statements

at 31 December 2005

### 13. Parent and ultimate holding company

Suntory Europe Plc is a wholly owned subsidiary of Suntory Limited, which is incorporated in Japan. The ultimate holding company is Kotobuki Fudosan (Kabushiki Kaisha) Ltd, which is incorporated in Japan.

The largest group in which the results of the company are consolidated is Suntory Limited, and can be obtained from General Affairs Department, 2-1-40 Dojimahama Kita-ku, Osaka Japan. Suntory Limited is also the smallest group of which the company is a member, and which has included the company in its group financial statements.

### 14. Related party transactions

The company has taken advantage of the exemption in FRS8, paragraph 3, from disclosing transactions with related parties that are part of Suntory Limited's group.

### 15. Derivatives and financial instruments

The company's financial instruments, other than short-term bank loans and overdrafts are medium term notes. The main purpose of this financial instrument is to raise and manage finance for group companies.

The company enters into derivative transactions for the following purpose:

To manage the interest rate and currency risks arising from the company's operations and its sources of finance, principally through holding interest rate swaps, currency swaps and interest rate CAP's.

The most significant risks faced by the company are managed as follows:

#### Market risk

Assets and liabilities are stated in the balance sheet at amounts which the company expects to receive or pay at maturity, taking into consideration current exchange rates. The company does not take non-hedged positions in quoted market instruments for trading purposes and as such any market volatility should not affect the carrying values of the company's assets or liabilities. Those asset/liability instruments used as hedging tools give by their very nature a neutral effect to the company on any market change.

#### Interest rate risk

Wherever practicable, interest rate payable profiles are matched with interest rate receivable profiles. Where this is not possible on a direct allocation basis consideration is given, dependent upon market conditions, to taking out Interest Rate Swap and Cap contracts to hedge the interest rate risk. Interest rate trends are constantly monitored, although unexpected interest rate movements cannot be predicted, and interest rate exposures are kept to a minimum.

#### Currency risk

Where borrowings are in one currency and lending in a different currency the currency risk is fully hedged by the use of currency and interest rate swaps.

#### Liquidity risk

Liquidity for the company comes from the Medium Term Note programme. Notes are issued with varying terms to spread the maturity dates. In general these maturing notes will be replaced with new issues of Medium Term Notes.

Financial instruments, in particular interest rate and currency swaps, are used to manage the financial risks arising from the business activities of the company and the financing of those activities. All transactions are fully hedged at inception, the company carries no interest rate or currency risk. There is no trading activity in financial instruments.

## Notes to the financial statements

at 31 December 2005

### 15. Derivatives and financial instruments (continued)

Financial instruments are accounted for as follows:

- Following the implementation of FRS 26 in the current financial year, cross currency interest rate swaps (currency swaps) which are used to hedge foreign currency assets and borrowings are treated as trading instruments and are fair valued through the profit and loss account. The changes in fair value are disclosed as other operating income in the profit and loss account while the changes in equity arising from the adoption of FRS 26 are disclosed in Note 11. In previous financial years, the company applied hedge accounting to its currency swaps. In order to be treated as a hedge, the currency swap must be related to a foreign currency asset or liability that is probable and whose characteristics have been identified; it must involve the same currency as the hedged item; and it must reduce the risk of foreign currency exchange movements on the company's operations. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that on the underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits.

#### Interest rate and currency risk position

The interest rate and currency profile of the financial assets and liabilities of the company as at 31 December was:

|              | <i>Floating rate</i> |                      | <i>Fixed rate</i>    |
|--------------|----------------------|----------------------|----------------------|
|              | <i>financial</i>     |                      | <i>financial</i>     |
|              | <i>assets/</i>       |                      | <i>assets/</i>       |
|              | <i>(liabilities)</i> |                      | <i>(liabilities)</i> |
|              | <i>Total</i>         | <i>(liabilities)</i> | <i>(liabilities)</i> |
|              | <i>£000</i>          | <i>£000</i>          | <i>£000</i>          |
| 2005         |                      |                      |                      |
| GBP – Assets | 25,389               | 18,389               | 7,000                |
| Liabilities  | (17,620)             | (17,620)             | –                    |
| Net          | 7,769                | 769                  | 7,000                |
| Other – Euro |                      |                      |                      |
| Assets       | 19,750               | 19,750               | –                    |
| Liabilities  | (19,513)             | (19,513)             | –                    |
| Net          | 237                  | 237                  | –                    |
| Total        |                      |                      |                      |
| Assets       | 45,139               | 38,139               | 7,000                |
| Liabilities  | (37,133)             | (37,133)             | –                    |
| Net          | 8,006                | 1,006                | 7,000                |

## Notes to the financial statements

at 31 December 2005

### 15. Derivatives and financial instruments (continued)

|              | <i>Total</i> | <i>Floating rate<br/>financial<br/>assets/<br/>(liabilities)</i> | <i>Fixed rate<br/>financial<br/>assets/<br/>(liabilities)</i> |
|--------------|--------------|--|---|
| <i>2004</i>  | <i>£000</i>  | <i>£000</i>  | <i>£000</i>   |
| GBP – Assets | 23,969       | 16,969   | 7,000   |
| Liabilities  | (16,113)     | (16,113)   | –   |
| Net          | 7,856        | 856  | 7,000   |
| Other – Euro |              |  |   |
| Assets       | 17,135       | 17,135   | –   |
| Liabilities  | (17,160)     | (17,160)   | –   |
| Net          | (25)         | (25)   | –   |
| Total        |              |  |   |
| Assets       | 41,104       | 34,104   | 7,000   |
| Liabilities  | (33,273)     | (33,273)   | –   |
| Net          | 7,831        | 831  | 7,000   |

#### Interest rate and currency risk position

The above disclosures include short term debtors and creditors.

The fixed rate assets are fixed throughout the year at 4%. The benchmark rate for determining floating rate assets interest is Libor for £ denominated assets and Euribor for Euro denominated assets.

The fixed rate liabilities are MTN's. These have been hedged via currency interest rate swaps ie swaps fixed for floating. There are no other fixed rate liabilities. The benchmark rate for determining floating rate liabilities interest is Libor for £ denominated liabilities and Euribor for Euro denominated liabilities.

#### Maturity profile of financial liabilities

The profile of the maturity of the financial liabilities included in the company's balance sheet at 31 December is shown in the table below.

|  | <i>Book value<br/>2005<br/>£000</i> | <i>Fair value<br/>2005<br/>£000</i> | <i>Book value<br/>2004<br/>£000</i> | <i>Fair value<br/>2004<br/>£000</i> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Carrying amount of financial liabilities |                                     |                                     |                                     |                                     |
| Due within:                              |                                     |                                     |                                     |                                     |
| 1 year                                   | 11,366                              | 10,145                              | 13,609                              | 12,611                              |
| 1 to 2 years                             | 4,100                               | 3,944                               | 8,811                               | 7,556                               |
| 2 to 5 years                             | 14,692                              | 14,297                              | 4,149                               | 4,030                               |
| More than 5 years                        | 6,975                               | 6,902                               | 6,704                               | 5,037                               |
|  | 37,133                              | 35,287                              | 33,273                              | 29,234                              |



## Notes to the financial statements

at 31 December 2005

### 15. Derivatives and financial instruments (continued)

#### Fair values of financial assets and liabilities

|   | <i>Book value</i> | <i>Fair value</i> | <i>Book value</i> | <i>Fair value</i> |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <i>2005</i>       | <i>2005</i>       | <i>2004</i>       | <i>2004</i>       |
|   | <i>£000</i>       | <i>£000</i>       | <i>£000</i>       | <i>£000</i>       |
| <b>Assets</b>                           |                   |                   |                   |                   |
| Intercompany balances                   | 43,611            | 43,611            | 39,323            | 39,323            |
| Cash                                    | 1,527             | 1,527             | 1,781             | 1,781             |
| <b>Liabilities</b>                      |                   |                   |                   |                   |
| Euro Medium Term Notes                  | (34,383)          | (32,537)          | (30,232)          | (26,193)          |
| Bank loans                              | (2,750)           | (2,750)           | (3,041)           | (3,041)           |
| <b>Derivative financial instruments</b> |                   |                   |                   |                   |
| Currency interest rate swaps            | —                 | (1,956)           | —                 | (3,934)           |

Market values have been used to determine the fair value of interest rate swaps, currency swaps and interest rate CAP's. The valuations of derivatives are derived from well recognised financial models and reasonable estimates about the future market conditions. The valuations take into account the present value of all future cashflows.

Of the unrecognised gains and losses on the hedging instruments, a £1,061 gain (2004 - £6,376 gain) is expected to be recognised in the year from the balance sheet date, these will be offset by corresponding gains and losses on the underlying positions to which they relate.