

**DECO SERIES 2005—UK CONDUIT 1 PLC**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

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**DECO SERIES 2005–UK CONDUIT 1 PLC**  
**FOR THE YEAR ENDED 31 MARCH 2008**

| <b>CONTENTS</b>                          | <b>PAGES</b> |
|--|--------------|
| Company information                      | 1            |
| Directors' report                        | 2 - 3        |
| Statement of directors' responsibilities | 4            |
| Independent auditors' report             | 5            |
| Income statement                         | 6            |
| Balance sheet                            | 7            |
| Statement of changes in equity           | 8            |
| Statement of cash flows                  | 9            |
| Notes to the financial statements        | 10 - 20      |

**DECO SERIES 2005-UK CONDUIT 1 PLC**

**COMPANY INFORMATION**

**The board of directors**

Wilmington Trust SP Services (London) Limited  
Mr M H Filer  
Mr J Traynor

**Company secretary**

Wilmington Trust SP Services (London) Limited

**Registered office**

c/o Wilmington Trust SP Services (London) Limited  
5<sup>th</sup> Floor  
6 Broad Street Place  
London  
EC2M 7JH

**Auditors**

Deloitte & Touche LLP  
London

# **DECO SERIES 2005–UK CONDUIT 1 PLC**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2008**

The directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 March 2008

#### **PRINCIPAL ACTIVITIES AND ENHANCED BUSINESS REVIEW**

The Company is a special purpose company established in order to issue floating rate loan notes due July 2017 ("the Notes"), to acquire the beneficial interest in a mortgage portfolio (the mortgage loans") from Deutsche Bank AG, London Branch, to open accounts, to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 8 July 2005. On 12 July 2005, the Company issued £236,056,634 floating rate loan notes in accordance with the Offering Circular.

#### **BUSINESS REVIEW**

The key performance indicator of the business is considered to be the net interest margin. In the year ended 31 March 2008, the Company achieved a net interest margin of 8.06% (2007: 4.51%). At the year end, the company had net assets of £788,700 (2007: £3,174,515).

#### **RESULTS AND DIVIDENDS**

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements.

The loss after tax for the year ended 31 March 2008 was £2,385,815 (2007: a profit of £4,014,183). The directors have not recommended a dividend.

#### **DIRECTORS**

The directors who served the Company during the year, except as noted, were as follows:

|   |                              |
|---|------------------------------|
| Wilmington Trust SP Services (London) Limited |                              |
| Mr M R G Baker                                | (resigned 28 February 2008)  |
| Mr M H Filer                                  |                              |
| Mr J Traynor                                  | (appointed 28 February 2008) |

#### **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES**

The Company's financial instruments, other than derivatives, comprise the mortgage loans, cash and cash equivalents, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of the interest-bearing borrowings is to acquire the mortgage loans from Deutsche Bank AG, London Branch.

The Company also enters into derivative transactions (principally interest rate swaps and basis swaps). The purpose of such transactions is to manage the interest rate risk arising from the Company's operations and its sources of finance.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments is undertaken.

The main risks arising from the Company's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing these and the other risks arising on the Company's financial instruments and they are summarised below.

Further, the directors acknowledge that the global macro-economic indicators and general business environment have deteriorated during 2007, and have worsened during 2008. Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers with whom the Company has exposure through the deemed loan. Conditions may deteriorate further due to the continued global financial and economic uncertainty.

# DECO SERIES 2005-UK CONDUIT 1 PLC

## DIRECTORS' REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2008

#### FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES (CONTINUED)

##### Currency risk

All of the Company's assets and liabilities are denominated in pound Sterling and therefore there is no foreign currency risk

##### Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar, where this is not possible the Company uses interest rate swaps and basis swaps to mitigate any residual interest rate risk.

##### Credit risk

Credit risk arises where the borrower will not be able to meet their obligations as they fall due. The mortgage loans are secured on a number of UK commercial properties which are geographically diverse and include a diverse tenant portfolio.

The most significant concentration of credit risk is considered to be the mortgage loans. At 31 March 2008, the amount outstanding was £92,056,164 (2007 £150,211,649). The maximum exposure to credit risk is represented by the carrying amount of the mortgage loans. The mortgage loan portfolio consists of 14 loans secured over 28 properties.

##### Liquidity risk

A facility provided by Calyon (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments. The liquidity facility was renewed on 8 July 2008 to 7 July 2009. The Directors expect this facility to be renewed annually.

Further discussion of the Company's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 13.

#### CREDITOR PAYMENT POLICY

The Company's policy concerning payment of its trade creditors is to pay in accordance with its contractual and other legal obligations. Due to the nature of the business, the main creditors are the noteholders. Principal and interest is repaid quarterly in accordance with the agreements in place. The Company does not follow any other code or standard on payment practice.

#### AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

#### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act of 1985.

Signed by order of the directors

For and on behalf of  
  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Company Secretary  
Date 4 November 2008

## **DECO SERIES 2005–UK CONDUIT 1 PLC**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

#### **FOR THE YEAR ENDED 31 MARCH 2008**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 and as regards the financial statements, Article 4 of the IAS Regulation. 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 DECO SERIES 2005-UK CONDUIT 1 PLC**

We have audited the financial statements of Deco Series 2005-UK Conduit 1 PLC for the year ended 31 March 2008 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 16. These financial statements have been prepared under 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 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**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider whether it is consistent with the audited financial statements. We also consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Directors' Report.

### **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 circumstances of the company, 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.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2008 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
4 November 2008

**DECO SERIES 2005–UK CONDUIT 1 PLC**

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2008**

|   |              | <b>Year ended 31<br/>March 2008</b> | <b>Year ended 31<br/>March 2007</b> |
|---|--------------|-------------------------------------|-------------------------------------|
|   | <b>Notes</b> | <b>£</b>                            | <b>£</b>                            |
| <b>Continuing operations</b>  |              |                                     |                                     |
| Interest income   | 2            | 9,770,046                           | 11,160,563                          |
| Interest expense  | 3            | <u>(8,982,905)</u>                  | <u>(10,657,108)</u>                 |
| <b>Net interest income</b>  |              | 787,141                             | 503,455                             |
| Fair value (loss)/gain on derivative financial instruments                        | 14           | (3,055,170)                         | 4,901,872                           |
| Operating expenses  | 4            | <u>(666,135)</u>                    | <u>(449,873)</u>                    |
| <b>(Loss)/profit before tax for the year</b>                                      |              | (2,934,164)                         | 4,955,454                           |
| Tax credit/(charge)   | 5            | <u>548,349</u>                      | <u>(941,271)</u>                    |
| <b>(Loss)/profit after tax for the year/period attributable to equity holders</b> | 10           | <u><u>(2,385,815)</u></u>           | <u><u>4,014,183</u></u>             |

The notes on pages 10 to 20 form part of these financial statements



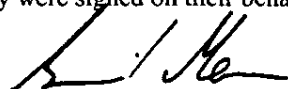
# DECO SERIES 2005-UK CONDUIT 1 PLC

## BALANCE SHEET

AS AT 31 MARCH 2008

|                                      | Notes | 2008<br>£                | 2007<br>£                 |
|--------------------------------------|-------|--------------------------|---------------------------|
| <b>Assets</b>                        |       |                          |                           |
| <b>Non-current assets</b>            |       |                          |                           |
| Mortgage loans                       | 7     | <u>90,855,076</u>        | <u>140,373,280</u>        |
| <b>Current assets</b>                |       |                          |                           |
| Mortgage loan                        | 7     | 1,201,088                | 9,838,369                 |
| Trade and other receivables          | 8     | 1,093,843                | 1,760,268                 |
| Derivative financial instruments     | 14    | 793,242                  | 3,848,412                 |
| Cash and cash equivalents            | 9     | <u>200,403</u>           | <u>67,808</u>             |
|                                      |       | <u>3,288,576</u>         | <u>15,514,857</u>         |
| <b>Total assets</b>                  |       | <u><b>94,143,652</b></u> | <u><b>155,888,137</b></u> |
| <b>Equity</b>                        |       |                          |                           |
| Share capital                        | 10    | 12,502                   | 12,502                    |
| Retained profit                      | 10    | <u>776,198</u>           | <u>3,162,013</u>          |
| <b>Total equity</b>                  | 10    | <u><b>788,700</b></u>    | <u><b>3,174,515</b></u>   |
| <b>Liabilities</b>                   |       |                          |                           |
| <b>Non-current liabilities</b>       |       |                          |                           |
| Interest-bearing loans               | 11    | <u>90,855,076</u>        | <u>140,373,280</u>        |
| <b>Total non-current liabilities</b> |       | <u><b>90,855,076</b></u> | <u><b>140,373,280</b></u> |
| <b>Current liabilities</b>           |       |                          |                           |
| Interest-bearing loans               | 11    | 2,149,381                | 11,333,380                |
| Trade and other payables             | 12    | 157,465                  | 265,583                   |
| Current tax liability                |       | 34,382                   | 10,181                    |
| Deferred tax liability               | 6     | <u>158,648</u>           | <u>731,198</u>            |
| <b>Total current liabilities</b>     |       | <u><b>2,499,876</b></u>  | <u><b>12,340,342</b></u>  |
| <b>Total liabilities</b>             |       | <u><b>93,354,952</b></u> | <u><b>152,713,622</b></u> |
| <b>Total equity and liabilities</b>  |       | <u><b>94,143,652</b></u> | <u><b>155,888,137</b></u> |

The financial statements were approved and authorised for issue by the board of directors on 4 November 2008 and they were signed on their behalf by



For and on behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Director

The notes on pages 10 to 20 form part of these financial statements

**DECO SERIES 2005–UK CONDUIT 1 PLC**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 MARCH 2008**

|                                 | Note | 2008<br>£          | 2007<br>£        |
|---------------------------------|------|--------------------|------------------|
| At 1 April 2007                 |      | 3,174,515          | (839,668)        |
| (Loss)/profit for the year      | 10   | <u>(2,385,815)</u> | <u>4,014,183</u> |
| Closing equity at 31 March 2008 |      | <u>788,700</u>     | <u>3,174,515</u> |

The notes on pages 10 to 20 form part of these financial statements

# DECO SERIES 2005–UK CONDUIT 1 PLC

## CASH FLOW STATEMENT

### FOR THE YEAR ENDED 31 MARCH 2008

|   | Notes  | 2008<br>£           | 2007<br>£           |
|---|--------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                     |        |                     |                     |
| (Loss)/profit before tax for the year/period                    |        | (2,934,164)         | 4,955,454           |
| <i>Adjustments for</i>  |        |                     |                     |
| Fair value movement on derivative financial instruments         |        | 3,055,170           | (4,901,872)         |
| Bank interest receivable  | 2      | (120,182)           | (71,994)            |
| Bank interest payable   | 3      | -                   | 51                  |
| Decrease in trade and other receivables                         | 8      | 666,425             | 470,489             |
| Decrease in trade and other payables                            | 11, 12 | <u>(654,836)</u>    | <u>(551,280)</u>    |
| <b>Net cash generated from / (used in) operating activities</b> |        | <u>12,413</u>       | <u>(99,152)</u>     |
| <b>Investing activities</b>                                     |        |                     |                     |
| Repayments during period  | 7      | 58,169,074          | 65,523,522          |
| Bank interest received  | 2      | <u>120,182</u>      | <u>71,994</u>       |
| <b>Net cash generated from / (used) in investing activities</b> |        | <u>58,289,256</u>   | <u>65,595,516</u>   |
| <b>Financing activities</b>                                     |        |                     |                     |
| Redemption of loan notes during the year                        | 11     | (58,169,074)        | (65,785,407)        |
| Bank interest payable   | 3      | <u>-</u>            | <u>(51)</u>         |
| <b>Net cash used in financing activities</b>                    |        | <u>(58,169,074)</u> | <u>(65,785,458)</u> |
| Net increase/(decrease) in cash and cash equivalents            |        | 132,595             | (289,094)           |
| Cash and cash equivalents at beginning of year                  |        | <u>67,808</u>       | <u>356,902</u>      |
| <b>Cash and cash equivalents at 31 March 2008</b>               | 9      | <u>200,403</u>      | <u>67,808</u>       |

(As explained in the accounting policies on page 10, the cash is not freely available to be used )

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES

Deco Series 2005-UK Conduit 1 PLC is a Company incorporated in the United Kingdom under the Companies Act 1985 and domiciled in England. The address of the registered office is given on page 1.

##### **Statement of compliance**

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The accounting policies set out below have been applied consistently in respect of the financial year ended 31 March 2008, and for the previous financial year.

##### **Basis of preparation**

The Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007.

The financial statements are presented in Pounds Sterling.

The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial instruments under IAS 39 Financial Instruments: Recognition and Measurement.

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use interest income and interest expense rather than turnover and cost of sales in preparing the income statement.

##### **Critical accounting judgements and key sources of estimation and uncertainty**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In particular for the fair value of derivatives, and the recoverability of assets. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements and carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both the current and future years.

##### **Financial instruments**

The Company's financial instruments comprise the mortgage loans, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to acquire a beneficial interest in a mortgage portfolio. These financial instruments are classified in accordance with the principles of IAS 39 Financial Instruments: Recognition and Measurement as described below.

##### **Mortgage loans**

The mortgage loans and interest receivable thereon are classified as loans and receivables. The acquisition in the beneficial interest of the mortgage loans is initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method.

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. All withdrawals from the Company's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes.

##### **Deferred consideration**

A deferred consideration charge is included in interest expense. Deferred consideration is payable to the Originator dependent on the extent to which the surplus income, in excess of the agreed margin, generated by the mortgage loans in which the Company has purchased an interest, exceeds the administration costs of the mortgage loans.

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Derivative financial instruments and hedging activities**

Derivative financial instruments are classified as fair value through profit and loss. The Company uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. Derivatives are accounted for as held for trading.

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the balance sheet. Subsequent to initial recognition, any changes in fair value of the derivatives held are recognised in the income statement.

The fair value of interest rate swaps and basis swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Interest income receivable or interest expense on the interest rate swap is accounted for on an effective interest rate basis within interest income or interest expense in the income statement.

##### **Interest-bearing loans**

Interest-bearing loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and interest payable thereon 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.

##### **Embedded derivatives**

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the host instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the income statement. Depending on the classification of the host instrument, the host is then measured in accordance with IAS 39.

##### **Interest income and expense**

Interest income and expense is accounted for 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 or payments through the expected life of the financial asset or liability to that asset's or liability's net carrying amount.

##### **Value added tax**

Value added tax is not recoverable by the Company and is included with its related cost.

##### **Income tax expense**

Income tax on profit or loss for the year comprises current and deferred tax. Income 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 income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled based on tax rates and laws enacted or substantively enacted at the balance sheet date.

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Income tax expense (continued)**

Under special rules issued by the Inland Revenue for securitisation companies, the Company's charge for taxation is based on its taxable profits calculated on a United Kingdom Generally Accepted Accounting Practice ("UK GAAP") basis but disclosed in accordance with IAS 12

##### **Standards issued but not adopted**

The directors are considering the following standards which are currently in issue but are not yet effective and have not been adopted in the current financial period

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009) The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The new standard is not expected to have any impact on the Company's financial statements

IAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009) IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. IAS 27 revised is not relevant to the Company's operations because the Company does not have controlling or non-controlling interests

IAS 32 (amended) 'Financial Instruments- Presentation' (effective from 1 January 2009) In February 2008, the IASB amended IAS 32 by requiring some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This revision is not relevant to the Company as it does not have any such instruments

IFRS 3 (amended), 'Business combinations' (effective from 1 July 2009) The IASB published a revised IFRS 3, 'Business combinations'. The standard continues to apply the acquisition method to business combinations, with some significant changes. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. IFRS 3 is not relevant to the Company's operations because the Company does not have any business combinations

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008) IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Company's operations because the Company does not provide for public sector services

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008) IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations because the Company does not operate any loyalty programmes

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008) IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to the Company's operations because the Company has no employees and also does not provide pension

Amendment to IFRS 2, 'Share based payments' (effective from 1 January 2009) The IASB has published an amendment to IFRS 2, 'Share-based payment' dealing with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The new standard is not expected to have any impact on the Company's financial statements

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 MARCH 2008

#### 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Segmental reporting

The principal asset of the Company is the beneficial interest in the mortgage portfolio originated in the United Kingdom which is funded by floating rate notes issued in the United Kingdom. The directors do not consider it necessary to provide a further analysis of the results of the Company from those already disclosed in these financial statements.

#### 2. INTEREST INCOME

|   | Year ended 31<br>March 2008 | Year ended 31<br>March 2007 |
|---|-----------------------------|-----------------------------|
|   | £                           | £                           |
| Income from mortgage loans                                    | 8,244,603                   | 10,988,402                  |
| Amortisation of discount on acquisition of mortgage portfolio | 13,589                      | 15,368                      |
| Net swap interest receivable                                  | 1,391,672                   | 84,799                      |
| Bank interest received  | <u>120,182</u>              | <u>71,994</u>               |
|   | <u>9,770,046</u>            | <u>11,160,563</u>           |

All income is derived from the United Kingdom

#### 3 INTEREST EXPENSE

|   | Year ended 31<br>March 2008 | Year ended 31<br>March 2007 |
|---|-----------------------------|-----------------------------|
|   | £                           | £                           |
| Interest on loan notes                          | 8,315,891                   | 9,630,245                   |
| Amortisation of discount on floating rate notes | 13,589                      | 15,368                      |
| Deferred consideration                          | 653,425                     | 1,011,444                   |
| Bank interest paid                              | <u>-</u>                    | <u>51</u>                   |
|   | <u>8,982,905</u>            | <u>10,567,108</u>           |

#### 4. OPERATING EXPENSES

|  | Year ended 31<br>March 2008 | Year ended 31<br>March 2007 |
|--|-----------------------------|-----------------------------|
|  | £                           | £                           |
| Administration and cash management fees            | 615,951                     | 415,016                     |
| Audit fees for the audit of the Company's accounts | 32,313                      | 25,909                      |
| Fee payable to Company's auditors for tax services | 6,051                       | -                           |
| Corporate services fees                            | <u>11,820</u>               | <u>8,948</u>                |
|  | <u>666,135</u>              | <u>449,873</u>              |

Other than the fees received for the provision of corporate services as detailed in note 15, the directors received no emoluments for their services as directors to the Company during the year (2007 none). The directors had no material interest in any contract of significance in relation to the business of the Company. The Company did not have any employees in the current year (2007 nil).

#### 5. INCOME TAX EXPENSE

|   | Year ended 31<br>March 2008 | Year ended 31<br>March 2007 |
|---|-----------------------------|-----------------------------|
|   | £                           | £                           |
| <b>Current tax:</b>   |                             |                             |
| Corporation tax charge for the period at a rate of 20% (2007 19%)     | 24,201                      | 10,181                      |
| Adjustment to prior period charge                                     | -                           | (266)                       |
| <b>Deferred tax:</b>  |                             |                             |
| Deferred tax (credit)/charge for the year at a rate of 20% (2007 19%) | <u>(572,550)</u>            | <u>931,356</u>              |
| Total income tax (credit)/charge in income statement                  | <u>(548,349)</u>            | <u>941,271</u>              |

**DECO SERIES 2005–UK CONDUIT 1 PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

**5. INCOME TAX EXPENSE (CONTINUED)**

|   | 2008               | 2007             |
|---|--------------------|------------------|
|   | £                  | £                |
| <b>Reconciliation of total tax charge</b>   |                    |                  |
| The tax assessed for the period is at the small companies rate of corporation tax in the UK of 20% (2007 19%) |                    |                  |
| (Loss)/profit before tax  | <u>(2,934,164)</u> | <u>4,955,454</u> |
| (Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2007 19%)       | (586,833)          | 941,537          |
| Adjustment on deferred tax due to change in tax rate  | 38,484             |                  |
| Adjustment to prior years' charge   | -                  | <u>(266)</u>     |
| Total income tax (credit)/charge in income statement  | <u>(548,349)</u>   | <u>941,271</u>   |

**6. DEFERRED TAX**

|  | 2008             | 2007             |
|--|------------------|------------------|
|  | £                | £                |
| <b>Deferred tax (liability)/asset</b>                |                  |                  |
| Deferred tax (liability)/asset at 1 April 2007       | (731,198)        | 200,158          |
| Credit/(charge) to the income statement for the year | <u>572,550</u>   | <u>(931,356)</u> |
| Deferred tax liability at 31 March 2008              | <u>(158,648)</u> | <u>(731,198)</u> |

Deferred taxes are provided in full on temporary differences under the liability method using a principal rate of tax of 20% (2007 19%)

|   | 2008           | 2007           |
|---|----------------|----------------|
|   | £              | £              |
| <b>Deferred tax liability</b>             |                |                |
| Fair value of derivative at 31 March 2008 | <u>793,242</u> | 3,848,412      |
| Deferred tax liability at 31 March 2008   | <u>158,648</u> | <u>731,198</u> |

The deferred tax liability of £158,648 represents the amount of deferred tax payable in respect of the fair value on the derivative financial instruments. The fair value of the financial instruments is expected to unwind over time and ultimately the company will pay tax on its accounting profit over the life of the transaction.

**7. MORTGAGE LOANS**

|                          | 2008                | 2007                |
|--------------------------|---------------------|---------------------|
|                          | £                   | £                   |
| At 1 April 2007          | 150,211,649         | 215,719,803         |
| Amortisation of discount | 13,589              | 15,368              |
| Redemptions              | <u>(58,169,074)</u> | <u>(65,523,522)</u> |
| At 31 March 2008         | <u>92,056,164</u>   | <u>150,211,649</u>  |

The balance can be analysed as follows

|                    |                   |                    |
|--------------------|-------------------|--------------------|
| Non-current assets | 90,855,076        | 140,373,280        |
| Current assets     | <u>1,201,088</u>  | <u>9,838,369</u>   |
|                    | <u>92,056,164</u> | <u>150,211,649</u> |

The mortgage loans are due for repayment by October 2012. Interest on the mortgage loans are at fixed rates ranging from 5.39% to 6.42%.

The mortgage loans are secured over commercial properties held by Deutsche Bank AG, London Branch in its capacity of Borrower Security Trustee on behalf of the Company.

The Servicer is responsible for monitoring compliance with the loan to value and coverage covenants in accordance with the servicing agreement dated 4 October 2005. At its sole discretion it has the ability to call for a revaluation of the mortgage property. The Servicer has confirmed that as at the report date the coverage and loan to value covenants have not been breached with the exception of one loan asset, receivable from Kashani Investments Limited which comprises 2.13% of total loan assets. The Kashani Investments Limited LTV covenant was breached during the year however as the company is making regular payments the directors are of the opinion no impairment is required on this loan.



**DECO SERIES 2005–UK CONDUIT 1 PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

**8. TRADE AND OTHER RECEIVABLES**

|                                | 2008             | 2007             |
|--------------------------------|------------------|------------------|
|                                | £                | £                |
| Other debtors                  | 2,108            | -                |
| Prepayments and accrued income | <u>1,091,735</u> | <u>1,760,268</u> |
|                                | <u>1,093,843</u> | <u>1,760,268</u> |

The directors consider that the carrying value of trade and other receivables approximate their fair value

**9. CASH AND CASH EQUIVALENTS**

Withdrawals from the Company's bank account are restricted by the detailed priority of payments set out in the securitisation agreements

|                           | 2008           | 2007          |
|---------------------------|----------------|---------------|
|                           | £              | £             |
| Cash and cash equivalents | <u>200,403</u> | <u>67,808</u> |

The directors consider that the carrying value of cash and cash equivalents approximates their fair value

The Company has deposits in bank accounts held in the Company's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash

**10. TOTAL EQUITY**

|                          | Issued share<br>capital | Retained<br>profit | Total              |
|--------------------------|-------------------------|--------------------|--------------------|
|                          | £                       | £                  | £                  |
| At 1 April 2007          | 12,502                  | 3,162,013          | 3,174,515          |
| Loss for the year        | -                       | <u>(2,385,815)</u> | <u>(2,385,815)</u> |
| Balance at 31 March 2008 | <u>12,502</u>           | <u>776,198</u>     | <u>788,700</u>     |

There are 50,000 authorised ordinary shares of £1 each. The issued share capital comprises two fully paid £1 shares, and 49,998 ordinary shares quarter called up and paid. Wilmington Trust SP Services (London) Limited holds one fully paid £1 share under a declaration of trust for charitable purposes

**11. INTEREST-BEARING LOANS**

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 13

|                          | 2008                | 2007                |
|--------------------------|---------------------|---------------------|
|                          | £                   | £                   |
| At 1 April 2007          | 150,211,649         | 215,981,687         |
| Redemptions in period    | <u>(58,169,074)</u> | <u>(65,785,407)</u> |
| Amortisation of discount | 13,589              | 15,368              |
| At 31 March 2008         | <u>92,056,164</u>   | <u>150,211,649</u>  |

|                         | 2008              | 2007               |
|-------------------------|-------------------|--------------------|
|                         | £                 | £                  |
| <b>Loan notes</b>       |                   |                    |
| Non-current liabilities | 90,855,076        | 140,373,280        |
| Current liabilities     | <u>1,201,088</u>  | <u>9,838,369</u>   |
|                         | <u>92,056,164</u> | <u>150,211,649</u> |

**Current liabilities**

|                                |                  |                   |
|--------------------------------|------------------|-------------------|
| Loan notes                     | 1,201,088        | 9,838,369         |
| Interest payable on loan notes | <u>948,293</u>   | <u>1,495,011</u>  |
|                                | <u>2,149,381</u> | <u>11,333,380</u> |

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled in order of priority in accordance with the Offering Circular

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2008

#### 11. INTEREST-BEARING LOANS (continued)

Interest-bearing loans and borrowings are repayable as follows

##### Year ended 31 March 2008

|                  | Total             | Less than 1<br>year | 1-2 years        | 2-5 years         | More than 5<br>years |
|------------------|-------------------|---------------------|------------------|-------------------|----------------------|
| Liabilities      | £                 | £                   | £                | £                 | £                    |
| Loans notes      | 92,056,164        | 1,201,088           | 5,855,063        | 81,655,433        | 3,344,580            |
| Interest payable | 948,293           | 948,293             | -                | -                 | -                    |
|                  | <u>93,004,457</u> | <u>2,149,381</u>    | <u>5,855,063</u> | <u>81,655,433</u> | <u>3,344,580</u>     |

##### Year ended 31 March 2007

|                  | Total              | Less than 1<br>year | 1-2 years        | 2-5 years         | More than 5<br>years |
|------------------|--------------------|---------------------|------------------|-------------------|----------------------|
| Liabilities      | £                  | £                   | £                | £                 | £                    |
| Loans notes      | 150,211,649        | 9,838,369           | 1,239,369        | 94,963,639        | 44,170,272           |
| Interest payable | 1,495,011          | 1,495,011           | -                | -                 | -                    |
|                  | <u>151,706,660</u> | <u>11,333,380</u>   | <u>1,239,369</u> | <u>94,963,639</u> | <u>44,170,272</u>    |

The loan notes are denominated in the following currency

|          | 2008              | 2007               |
|----------|-------------------|--------------------|
|          | £                 | £                  |
| Sterling | <u>92,056,164</u> | <u>150,211,649</u> |

On 12 July 2005, the Company issued £195,215,000 Class A notes due July 2017, £14,785,000 Class B notes due July 2017, £12,400,000 Class C notes due July 2017, £10,750,000 Class D notes due July 2017 and £2,906,634 Class E notes due July 2017. Interest on the Class A notes is payable at a rate of 3 month LIBOR plus 0.23%. Interest on the Class B notes is payable at a rate of 3 month LIBOR plus 0.40%. Interest on the Class C notes is payable at a rate of 3 month LIBOR plus 0.57%. Interest on the Class D notes is payable at a rate of 3 month LIBOR plus 0.80%. Interest on the Class E notes is payable at a rate of 3 month LIBOR plus 1.25%.

At the balance sheet date principal amount of £52,053,026 (2006 £110,222,099) in respect of the Class A notes was outstanding, £14,489,223 (2006 £14,489,223) in respect of the Class B notes, £12,151,935 (2006 £12,151,935) in respect of the Class C notes, £10,534,944 (2006 £10,534,944) in respect of Class D notes and £2,848,486 (2006 £2,848,486) in respect of the Class E notes was outstanding. The notes are secured by way of a fixed and floating charge over the assets of the Company. The proceeds of the notes were used by the Company to acquire the beneficial interest in the mortgage portfolio from Deutsche Bank AG, London Branch in accordance with the terms of the securitisation documents.

Interest payable on the Notes to maturity at 31 December

|               | Less than one<br>year | 1 year – 5<br>years | Over 5 years     | Total             |
|---------------|-----------------------|---------------------|------------------|-------------------|
|               | £                     | £                   | £                | £                 |
| 31 March 2008 | <u>5,602,619</u>      | <u>13,770,821</u>   | <u>493,014</u>   | <u>19,866,454</u> |
| 31 March 2007 | <u>8,329,480</u>      | <u>18,043,360</u>   | <u>1,823,093</u> | <u>28,195,933</u> |

#### 12. TRADE AND OTHER PAYABLES

|                              | 2007           | 2007           |
|------------------------------|----------------|----------------|
|                              | £              | £              |
| Current liabilities          |                |                |
| Other creditors              | 812            | 812            |
| Accruals and deferred income | <u>156,653</u> | <u>264,771</u> |
|                              | <u>157,465</u> | <u>265,583</u> |

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled, in order of priority in accordance with the Offering Circular.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2008

#### 13. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Directors' Report on page 2

The Company's financial instruments, other than derivatives, comprise mortgage loans, cash and liquid resources, interest-bearing loan notes and various receivables and payables that arise directly from its operations. The Company also enters into derivative transactions (principally interest rate swaps). The purpose of such transactions is to manage the interest rate risks arising from the Company's operations and its sources of finance.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments is undertaken.

The directors have considered the financial risks affecting the Company and have included the relevant disclosures of interest rate, credit, liquidity and currency risks in the Directors' Report.

The table below provides details of the fair value of financial assets and liabilities not carried at fair value through profit and loss.

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

|                                       | Note | Carrying amount<br>2008 | Fair value<br>2008 | Carrying amount<br>2007 | Fair value<br>2007 |
|---------------------------------------|------|-------------------------|--------------------|-------------------------|--------------------|
| <b>Assets</b>                         |      |                         |                    |                         |                    |
| Mortgage loans                        | 7    | 92,056,164              | 92,017,540         | 150,211,649             | 145,270,770        |
| Derivative asset                      | 14   | 793,242                 | 793,242            | 3,848,412               | 3,848,412          |
| Trade and other receivables           | 8    | 1,093,843               | 1,093,843          | 1,760,268               | 1,760,268          |
| Cash and cash equivalents             | 9    | 200,403                 | 200,403            | 67,808                  | 67,808             |
|                                       |      | <u>94,143,652</u>       | <u>94,105,028</u>  | <u>155,888,137</u>      | <u>150,947,258</u> |
| <b>Liabilities</b>                    |      |                         |                    |                         |                    |
| Interest-bearing loans and borrowings | 11   | 92,056,164              | 84,387,315         | 150,211,649             | 150,172,642        |
| Interest payable                      | 11   | 948,293                 | 948,293            | 1,495,011               | 1,495,011          |
| Trade and other payables              | 12   | 157,465                 | 157,465            | 265,583                 | 265,583            |
| Current tax liability                 | 5    | 34,382                  | 34,382             | 10,181                  | 10,181             |
| Deferred tax liability                | 6    | 158,648                 | 158,648            | 731,198                 | 731,198            |
|                                       |      | <u>93,354,952</u>       | <u>85,686,103</u>  | <u>152,713,622</u>      | <u>152,674,615</u> |

#### Interest rate risk profile of financial liabilities

Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Interest rate swaps have been entered into with Deutsche Bank AG to manage the Company's exposure to the interest rate risk associated with the mortgage loan. The swaps reduce interest rate risk as a result of the variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the floating rate loan notes.

#### Interest rate risk

The Company is exposed to movements in interest rates and manages this exposure using interest rate swaps. More specifically, the Company is exposed to basis risk due to the timing difference in interest payment dates on the Notes and the mortgage loan and any variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the floating rate loan notes. This risk exposure is hedged using an interest rate basis' swap that is taken out on inception of the securitisation.

After taking into consideration the Company's derivative instruments, the administered interest rate nature of the Company's mortgage loans, the regular re-pricing of the Company's floating rate notes, together with the nature of the Company's other assets and liabilities, the directors do not believe that the Company has any significant interest rate re-pricing exposure.

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2008

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Prepayment risk

Prepayment risk on the mortgage loans arises when these are voluntarily prepaid by the relevant borrower or borrowers thereof. With respect to all of the loans, such prepayment is contingent upon the payment of a prepayment fee. Any prepayment fees required to be paid by a borrower will be paid to the Originator as part of the deferred consideration and will not form part of available funds. The directors do not believe that the Company has any significant prepayment risk.

##### Currency risk

All of the Company's assets and liabilities are denominated in pounds sterling therefore there is no foreign currency risk.

##### Credit risk

Credit risk on the mortgage loans arises where the mortgage loans are secured on underlying commercial properties. At 31 March 2008, the total amount outstanding on the mortgage loans was £92,056,164 (2007 £150,211,649), which is considered to be most significant. The maximum exposure to credit risk is represented by the carrying amount of the mortgage loans. The directors consider that the Company's beneficial interest in the commercial properties granted as security will be sufficient to recover the full amount of these loans.

|                               | 31 March 2008     | 31 March 2007      |
|-------------------------------|-------------------|--------------------|
|                               | £                 | £                  |
| Neither past due nor impaired | 92,056,164        | 150,211,649        |
| Past due but not impaired     | -                 | -                  |
| Impaired                      | -                 | -                  |
|                               | <u>92,056,164</u> | <u>150,211,649</u> |
| Less allowance for impairment | -                 | -                  |
|                               | <u>92,056,164</u> | <u>150,211,649</u> |

With regards to credit risk on derivatives, the directors monitor the credit rating of the swap provider and in the case of any downgrade may require the swap provider to provide sufficient collaterals or transfer its obligations to another bank of the same credit rating.

##### Liquidity risk

A facility provided by Calyon (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Company being unable, on a temporary basis, to meet its financial commitments.

At 31 March 2008, no amounts were due to Calyon in respect of facility (2007 £nil). During the year, £217,540 was drawn on this facility and was repaid in subsequent quarters. The liquidity facility expires on 7 July 2009. The Directors expect this facility to be renewed annually. The undiscounted contractual cash flows for principal and interest have been disclosed in note 11.

##### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 31 March 2008 and the periods in which they reprice.

| Year ended 31 March 2008     | Effective<br>interest rate | Total             | 1 to 3 months     | Non interest -<br>bearing |
|------------------------------|----------------------------|-------------------|-------------------|---------------------------|
| Assets                       | (%)                        | £                 | £                 | £                         |
| Mortgage loans               | 6.09                       | 92,056,164        | 92,056,164        | -                         |
| Derivative asset             |                            | 793,242           | 793,242           | -                         |
| Trade and other receivables  |                            | 1,093,843         | -                 | 1,093,843                 |
| Cash and cash equivalents    | 4.87                       | 200,403           | 200,403           | -                         |
|                              |                            | <u>94,143,652</u> | <u>93,049,809</u> | <u>1,760,268</u>          |
| <b>Liabilities</b>           |                            |                   |                   |                           |
| Accruals and tax liabilities |                            | 1,298,788         | -                 | 1,298,788                 |
| Interest bearing loan notes  | 6.24                       | 92,056,164        | 92,056,164        | -                         |
| Total liabilities            |                            | <u>93,354,952</u> | <u>92,056,164</u> | <u>1,298,788</u>          |

# DECO SERIES 2005–UK CONDUIT 1 PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2008

#### 13. FINANCIAL RISK MANAGEMENT (CONTINUED)

| Year ended 31 March 2007     | Effective interest rate (%) | Total £            | 1 to 3 months £    | Non interest-bearing £ |
|------------------------------|-----------------------------|--------------------|--------------------|------------------------|
| <b>Assets</b>                |                             |                    |                    |                        |
| Mortgage loans               | 5.96                        | 150,211,649        | 150,211,649        | -                      |
| Derivative asset             |                             | 3,848,412          | 3,848,412          | -                      |
| Trade and other receivables  |                             | 1,760,268          | -                  | 1,760,268              |
| Cash and cash equivalents    | 4.51                        | 67,808             | 67,808             | -                      |
|                              |                             | <u>155,888,137</u> | <u>154,127,869</u> | <u>1,760,268</u>       |
| <b>Liabilities</b>           |                             |                    |                    |                        |
| Accruals and tax liabilities |                             | 2,501,973          | -                  | 2,501,973              |
| Interest bearing loan notes  | 5.14                        | 150,211,649        | 150,211,649        | -                      |
| Total liabilities            |                             | <u>152,713,622</u> | <u>150,211,649</u> | <u>2,501,973</u>       |

#### 14. DERIVATIVE FINANCIAL INSTRUMENTS

The net fair values of derivative financial instruments at the balance sheet date were

|   | 2007 £         | 2007 £           |
|---|----------------|------------------|
| Interest rate swaps and basis swaps liability | <u>793,242</u> | <u>3,848,412</u> |

The interest rate swaps and basis swaps have a notional value of £92,248,904 as at 31 March 2008 (2007 £147,044,032). The interest rate swaps receive a floating rate based on 3 month LIBOR and pay a fixed rate ranging from 4.52% to 5.21%. The basis swaps receive a floating rate based on 3 month LIBOR and pay a fixed rate ranging from 4.65% to 4.99%. The interest rate cap limits 3 month LIBOR to 5.25%.

In accordance with IAS 39 'Financial instruments Recognition and measurement', the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. In relation to the floating rate notes the Company has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the floating rate notes exercisable on certain dates. The option constitutes an embedded derivative, however, as this is closely related to the underlying host contract (the floating rate notes) as set out in IAS 39, the option does not require separation. A similar hybrid instrument arises on the mortgage loan whereby the Company has effectively sold a put option on the mortgage loans exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

In relation to the repayment of the floating rate notes, the Company has identified a hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract. This arises because repayment of the floating rate notes is dependant on repayment of the mortgage loans, which in turn depends upon the lease payments and property sale proceeds arising from the property portfolio held by the chargors. However, the credit derivatives are regarded as closely related to the host contract and therefore do not require separation. A similar hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract arises on the repayment of the mortgage loans and, again, does not require separation.

#### 15. RELATED PARTY TRANSACTIONS

The Company is a special-purpose company controlled by its Board of directors, which comprises three directors, Wilmington Trust SP Services (London) Limited, Mr M H Filer and J Traynor. Mr M H Filer, a director of the Company, is also a director of Wilmington Trust SP Services (London) Limited. The Company pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The fees payable to these directors for their services in the year ended 31 March 2008 amounted to £11,820 (2007 £8,948). At the end of the year, an amount of £2,034 (2007 £2,036) was outstanding and included within current liabilities trade and other payables.

**DECO SERIES 2005–UK CONDUIT 1 PLC**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2008**

**16. ULTIMATE PARENT UNDERTAKING**

Deco Series 2005-UK Conduit 1 PLC is a company incorporated in Great Britain and registered in England and Wales

Deco Series 2005-UK Conduit 1 Holdings Limited holds 49,999 shares in the Company Wilmington Trust SP Services (London) Limited holds one share in Deco Series 2005-UK Conduit 1 PLC and the entire share capital in Deco Series 2005-UK Conduit 1 Holdings Limited under a declaration of trust for charitable purposes

The directors consider that Deco Series 2005-UK Conduit 1 Holdings Limited is the ultimate controlling entity of the Company by virtue of its shareholding in the Company Deco Series 2005-UK Conduit 1 Holdings is also the largest and smallest group that the company is consolidated into