

Eddystone Finance plc

Annual report and financial statements

For the year ended 31 December 2016

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Eddystone Finance plc

Annual report and financial statements for the year ended 31 December 2016

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Eddystone Finance plc

Officers and professional advisers

Directors

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Claudia Wallace

Company secretary and registered office

Intertrust Corporate Services Limited
35 Great St. Helen's
London
EC3A 6AP

Company number

05643091
(England and Wales)

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic report for the year ended 31 December 2016

The directors present the strategic report of Eddystone Finance plc (the "Company") for the year ended 31 December 2016.

Principal activities, business review and future developments

The Company was established as a special purpose company as part of a securitisation transaction to issue £1,203,000,000 secured floating rate notes due April 2021 (the "Notes"). On 24 March 2006 the Company applied the proceeds thereof to acquire loan assets (the "Loans") secured on commercial properties, which Sainsbury Propco A Limited (the "Borrower") has the freehold title of, or the headleases which it acquired from the Sainsbury's Group. The Notes are listed on the Irish Stock Exchange.

During the year ended 31 December 2016 the Company applied the proceeds of scheduled repayments in an amount of £92,033,382 (2015: £84,380,412) to the repayment of the Notes.

The directors do not anticipate any changes to the present level of activity, or the nature of, the Company's business in the foreseeable future.

Results

The Statement of comprehensive income is set out on page 9 and shows the profit (2015: profit) for the financial year.

The directors recognise that the implementation of the Company's accounting policies, as set out in the notes to the financial statements, in respect of derivative contracts, may result in volatility in the Statement of comprehensive income with a consequent impact on the Company's balance sheet. Such contracts have been put in place to hedge the Company's exposure to interest rate and currency exchange risks and to ensure a level of certainty surrounding cash flows. The directors do not consider that the use of such accounting policies will affect the long term commercial integrity of the Company or its expected performance.

Key performance indicators, principal risks and uncertainties

The profit for the financial year ended 31 December 2016 of £19,745,777 (2015: £28,335,796) was principally attributable to the movement in the fair value of the derivative contracts, effective interest rate adjustments and foreign exchange movements during the year.

The Company's investment in Loans decreased to £695,792,329 at 31 December 2016 (2015: £789,464,721) due to proceeds of scheduled repayments. At year end the balance of Notes outstanding amounted to £715,992,383 (2015: £793,719,435).

No impairment losses were recognised during the year (2015: nil).

The Company's activities expose it to a number of risks and uncertainties as summarised below and discussed in more detail in the prospectus under the section risk factors. Risk management is predetermined based on the terms of the prospectus governing the transaction and is also summarised below.

On 23 June 2016, the UK voted to exit the European Union. It is premature to determine the impact of this decision at this stage, however there is a risk of financial instability which may impact upon the risks identified below.

Financial Instruments

The Company's operations are financed primarily by means of the Notes. The Company issued such financial instruments to finance the acquisition of the Loans. The Company uses derivative financial instruments (interest rate swaps and currency swaps) to manage the interest rate and currency exchange risks arising from the Company's sources of income (Loans) and its sources of finance (Notes). It is not the Company's policy to trade in financial instruments.

The primary risks arising from the Company's financial instruments are Credit risk, Liquidity risk, Interest rate risk and Currency risk. The principal nature of such risks are summarised below.

Strategic report for the year ended 31 December 2016 (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's principal business objective rests on the purchase of Loans secured on either the freehold title or head lease of commercial properties in England and Wales acquired by the Borrower from the Sainsbury's Group. Although the Loans are secured by first charges, the Company considered the evaluation of the Borrower's ability to service the Loans according to their terms to be the principal factor in assessing the credit risk and the decision to lend.

As noted above the Loans are secured on a property portfolio which was valued as at 24 March 2016 at a market price of £2,578,200,000 (2015: £2,580,100,000). No impairment has been recognised against the Loans as at 31 December 2016 (2015: £nil).

Liquidity risk

Liquidity risk reflects the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments, should the cash flows from its assets differ from those expected.

The Company's assets are financed principally by the issuance of the Notes. The financing policy substantially reduces the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the assets being funded. The Notes are limited recourse obligations of the Company and the assets of the Company are themselves limited.

The Notes are subject to mandatory redemption on each interest payment date in an amount equal to the principal received or recovered in respect of the Loans. If not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their principal amounts outstanding on the interest payment date falling in April 2021.

The Company has also entered into a liquidity facility agreement to manage any remaining liquidity risk (Note 13).

Interest rate risk

Interest rate risk exists where interest rates on assets and liabilities are set on different bases or 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; and where this is not possible, using derivative financial instruments to mitigate any residual interest rate risk.

At the year end the Company was party to an interest rate swap to hedge against interest rate risk arising from the resetting of interest rates of assets and liabilities on different bases.

Currency risk

Certain of the Company's Notes are denominated in Euros. The Company's policy is to eliminate all exposures arising from movement in exchange rates by the use of cross currency swaps to hedge the Euro payments of interest and principal due on the Notes. All other assets, liabilities and financial transactions are denominated in Sterling.

Capital management

The Company is not subject to any external capital requirements, except for the minimum requirement under the Companies Act 2006. The Company has not breached this minimum requirement.

On behalf of the board



Sue Abrahams
per pro **Intertrust Directors 1 Limited**
as Director
21 June 2017

Directors' report for year ended 31 December 2016

The directors present their report together with the audited financial statements of the Company for the year ended 31 December 2016.

Going concern

The directors consider that the Company will continue to trade for the foreseeable future by meeting its liabilities as they fall due for payment in cash and, accordingly, the financial statements have been prepared on a going concern basis. The negative reserves are a result of fair value movements in derivative financial instruments and are expected to reverse in the future. The entity has continued to meet its liabilities during the year and up to the balance sheet date.

The directors note that should the security trustee exercise its right to wind-up the Company the noteholders would have limited recourse to the assets of the Company in the manner set out in the transaction documents to which the Company is a party.

The directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Future developments

Information on future developments is included in the Principal activities, business review and future developments section of the Strategic report.

Financial risk management

Information on financial risk management is included in the Financial Instruments section of the Strategic report.

Corporate governance

The directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued on the Irish Stock Exchange, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the disclosure requirements of The Irish Corporate Governance Annex and the provisions of the UK Code Corporate Governance.

Share capital

The issued share capital consists of 50,000 ordinary shares of £1 each, 49,998 ordinary shares are a quarter paid and 2 ordinary shares are fully paid.

Directors and their interests

The directors of the Company during the year, and subsequently, were:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
John Paul Nowacki (Resigned 27 January 2017)
Claudia Wallace (Appointed 27 January 2017)

On 9 December 2016, SFM Directors Limited changed its name to Intertrust Directors 1 Limited and SFM Directors (No.2) Limited changed its name to Intertrust Directors 2 Limited.

Directors' report for year ended 31 December 2016 (*continued*)

Directors and their interests (*continued*)

None of the directors has any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest during the year in any material contract or arrangement with the Company.

The directors do not recommend the payment of a dividend (2015: £nil).

Third Party Indemnities

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the annual reports and financial statements.

Company secretary

Intertrust Corporate Services Limited (previously SFM Corporate Services Limited, name changed on 9 December 2016) acted as the company secretary during the year and subsequently.

Statement of disclosure of information to auditors

The directors confirm that:

- a) so far as the directors are aware, there is no relevant information of which the Company's auditors are unaware; and
- b) each director has taken all the steps that they ought to have taken as directors in order to make themselves 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 section 418(2) of the Companies Act 2006.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. Pursuant to Section 489 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board



Sue Abrahams
per pro **Intertrust Directors 1 Limited**
as Director
21 June 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with Companies Act 2006, applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 *"The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)"*.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Report on the financial statements

Our opinion

In our opinion, Eddystone Finance Plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.



Iain Wright (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 June 2017

Statement of comprehensive income for the year ended 31 December 2016

	Note	2016 £	2015 £
Interest receivable and similar income	2	38,109,319	42,633,000
Interest payable and similar charges	3	(39,676,458)	(44,302,643)
Net interest expense		(1,567,139)	(1,669,643)
Other operating income		514,203	581,704
Total operating expense		(1,052,936)	(1,087,939)
Movement in fair value of derivative financial instruments	4	35,619,861	18,943,523
Net foreign exchange (loss)/gain		(14,306,945)	11,061,916
Operating expenses		(514,203)	(581,704)
Profit on ordinary activities before taxation	5	19,745,777	28,335,796
Taxation on profit on ordinary activities	7	-	-
Profit for the financial year	12	19,745,777	28,335,796
Other comprehensive income		-	-
Total comprehensive income		19,745,777	28,335,796

All amounts relate to continuing activities.

There is no material difference between the profit on ordinary activities before taxation stated above and their historical cost equivalents, except where fair value is used, as stated in the accounting policies.

The accompanying notes on pages 13 to 22 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £	Profit and loss account £	Total shareholders' deficit £
Balance as at 1 January 2015	12,502	(79,759,549)	(79,747,047)
Total comprehensive income for the year	-	28,335,796	28,335,796
Balance as at 31 December 2015	12,502	(51,423,753)	(51,411,251)
Total comprehensive income for the year	-	19,745,777	19,745,777
Balance as at 31 December 2016	12,502	(31,677,976)	(31,665,474)

The accompanying notes on pages 13 to 22 are an integral part of these financial statements.

Balance sheet as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Loans	8	595,483,873	697,431,339
Current assets			
Cash at bank and in hand		232,759	232,593
Debtors	9	125,437,401	100,713,044
		125,670,160	100,945,637
Creditors: amount falling due within one year	10	(143,723,250)	(149,741,035)
Net current liabilities		(18,053,090)	(48,795,398)
Total assets less current liabilities		577,430,783	648,635,941
Creditors: amounts falling due after more than one year	10	(609,096,257)	(700,047,192)
Net liabilities		(31,665,474)	(51,411,251)
Capital and reserves			
Called up share capital	11	12,502	12,502
Profit and loss account	12	(31,677,976)	(51,423,753)
Total shareholders' deficit		(31,665,474)	(51,411,251)

The accompanying notes on pages 13 to 22 are an integral part of these financial statements.

The financial statements on pages 9 to 22 were approved and authorised for issue by the board on 21 June 2017.



Sue Abrahams
per pro **Intertrust Directors 1 Limited**
as Director

Statement of cash flows for the year ended 31 December 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Net Cash inflow/(outflow) from operating activities	14	166	(65)
Tax paid		-	-
		166	(65)
Cash flows from investing activities			
Interest received on Loans		40,704,476	45,108,057
Redemption of Loans		92,033,382	84,380,412
		132,737,858	129,488,469
Cash inflow before financing activities		132,738,024	129,488,404
Cash flows from financing activities			
Redemption of Notes		(92,033,382)	(84,380,412)
Interest paid on Notes		(9,081,101)	(10,083,227)
Interest paid on interest rate and cross currency swap contracts		(31,623,375)	(35,024,830)
		(132,737,858)	(129,488,469)
Increase/(decrease) in cash in the year		166	(65)
Cash at bank and in hand at the start of the year		232,593	232,658
Cash at bank and in hand at the end of the year		232,759	232,593

The accompanying notes on pages 13 to 22 are an integral part of these financial statements.

1 Accounting policies

General information

The Company is a public company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is 35 Great St. Helen's, London, EC3A 6AP.

Statement of compliance

The financial statements have been prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102) and Companies Act 2006. The company has not taken advantage of any available exemption for qualifying entities.

Basis of preparation

The accounting policies which have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements are set out below. The directors have adjusted the format of the Statement of comprehensive income as allowed under Companies Act 2006. In the opinion of the directors net interest income is a more appropriate measurement of the Company's performance than turnover and cost of sales.

Basis of preparation- Going Concern

In concluding that the going concern assumption is appropriate, the directors of the Company have a reasonable expectation that the Company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. The net current liability position is attributable to the fair value of the derivative instrument and the impact of the fair value movements are expected to reverse over the life of the swap.

As noted in the Directors' Report, set out on page 4, should the security trustee exercise its right to wind-up the Company, the noteholders would have limited recourse to the assets of the Company in the manner set out in the transaction documents to which the Company is party. Additionally, it is noted that based on the latest available property valuation data, this underlying security significantly over-collateralises the outstanding notes.

Loans

Loan assets (the "Loans") are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. They are classified as loans and receivables. Loans are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised 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. If in a subsequent year the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted on measuring impairment.

Segmental analysis

The Company's operations are carried out in the United Kingdom only. Its results and net assets are derived solely from its acquisition of the Loans, so therefore the directors only report one business and one geographic segment.

Cash at bank and in hand

Cash at bank and in hand comprise cash at bank and short-term money market deposits. Cash at bank and in hand represents cash held in accounts at Bank of New York Mellon.

1 Accounting policies (continued)

Financial instruments

All financial assets and liabilities entered into by the Company have been recognised in the balance sheet.

In accordance with Section 11 of Financial Reporting Standard 102, the provisions of IAS 39 have been adopted in full with respect to the recognition and measurement of financial instruments.

Derivative instruments utilised by the Company are interest rate swaps and currency swaps. Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policy. Derivative financial instruments are classified as held for trading and recorded at fair value, with any gain or loss on re-measurement being recognised in the Statement of comprehensive income. The Company does not enter into speculative derivative contracts. The Company does not apply hedge accounting as per IAS 39. The fair value of interest rate swaps and currency swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, and is calculated by discounting future cash flows using appropriate and observable market data where ever possible.

Offsetting

Cash flows in the year from derivative financial instruments are settled net, therefore the net amount received or paid for interest rate and currency swaps has been shown in either interest receivable and similar income (note 2) or interest payable and similar charges (note 3), whichever is applicable.

Floating rate Notes

Floating rate notes (the "Notes") are classified as other financial liabilities and are initially recognised at fair value on the date of their issuance, and are subsequently measured at amortised cost using the effective interest rate method.

Impairment

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

If there is objective evidence that an impairment loss on a financial asset classified as loans and receivable has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are recognised in the statement of comprehensive income and the carrying amount of the financial asset reduced by establishing an allowance for impairment losses. If in a subsequent year the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted on measuring impairment.

Interest receivable and similar income and interest payable and similar charges

The Company accounts for interest income and expense on an accruals basis. Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

1 Accounting policies (continued)**Foreign currency translation**

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"), which is Sterling.

Foreign currency transactions are translated into functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

Taxation

The Finance Act 2005 (the "Act") provided that corporation tax for a 'securitisation company' within the meaning of the Act would be calculated with reference to UK GAAP as applicable up to 31 December 2004 for accounting periods ending by 1 January 2008.

Under the powers conferred by the Act, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both the Act and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. Deferred tax is therefore not provided for.

Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment losses on the Loan

The level of potential credit losses on the Loan is uncertain and could depend on a number of micro and macro-economic factors that may affect repayment conditions and the value of the underlying collateral. The Company assesses impairment provisions based on historical and incurred loss experience and will calculate and recognise impairment when there is objective evidence of an impairment event having occurred, for example a missed repayment, in line with the stated accounting policy on Impairment.

2 Interest receivable and similar income	2016	2015
	£	£
Loan interest	38,109,319	42,633,000
	38,109,319	42,633,000
3 Interest payable and similar charges	2016	2015
	£	£
Interest expense on Notes	8,655,875	9,950,494
Net amounts payable in respect of interest rate and cross currency swap contracts	31,020,583	34,352,149
	39,676,458	44,302,643
	39,676,458	44,302,643

Notes forming part of the financial statements for the year ended 31 December 2016
(continued)

4 Net derivative fair value	2016	2015
	£	£
Brought forward fair value of interest rate and currency swap contracts	(53,972,638)	(73,588,842)
Fair value movement during the year on swap contracts	35,619,861	18,943,523
Movement in accrued interest on swap contracts	602,793	672,681
Carried forward fair value of interest rate and currency swap contracts	(17,749,984)	(53,972,638)

The fair value movement through profit and loss excludes net interest receipts and accruals under the interest rate and currency swap contracts which are included in interest payable and similar charges. Movement in the fair value is based on anticipated movements in interest rates and foreign exchange rates.

5 Profit on ordinary activities before taxation	2016	2015
	£	£
This has been arrived at after charging:		
Auditors' remuneration -		
- audit of the Company's annual financial statements	27,030	27,030
- audit of the parent Company's annual financial statements	3,435	3,435
	30,465	30,465

The Company pays the audit fees of the parent company Eddystone Finance Holdings Limited.

6 Directors and employees

The Company has no employees (2015: none) and services required are contracted from third parties. The directors received no remuneration from the Company in respect of qualifying services rendered during the year (2015: £nil).

7 Taxation on profit on ordinary activities	2016	2015
	£	£
a) Analysis of the company charge in the year		
UK corporation tax charge on the profit for the year	-	-
	-	-

b) Factors affecting the Company tax charge for the year:

The current tax charge for the year is the same as the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

	2016	2015
	£	£
Profit on ordinary activities before tax	19,745,777	28,335,796
Current tax charge at 20% (2015: 20.25%)	3,949,155	5,737,999
Effects of:		
Accounting profits not taxed in accordance with SI 2006/3296	(3,949,155)	(5,737,999)
Cash retained profit taxed in accordance with SI 2006/3296	-	-
Total tax charge	-	-

Notes forming part of the financial statements for the year ended 31 December 2016
(continued)

7 Taxation on profit on ordinary activities (continued)

The main rate of UK Corporation tax stayed the same at 20% with effect from 1 April 2016 and will reduce to 19% for the financial years 2017-2019 and finally to 17% in 2020.

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)'. Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the transaction.

8 Loans

The Loans are secured by first charges over commercial properties in England and Wales.

	2016	2015
	£	£
Loans valued at amortised cost	695,792,329	789,464,721
The maturity profile of the Loans was as follows:		
In one year or less (see note 9)	100,308,456	92,033,382
In more than one year	595,483,873	697,431,339
	695,792,329	789,464,721

Repayments during the year amounted to £92,033,382 (2015: £84,380,412). The closing principal balance also includes an effective interest rate adjustment of £1,677,023 (2015: £3,316,033).

9 Debtors

	2016	2015
	£	£
Loans due within one year (see note 8)	100,308,456	92,033,382
Accrued interest on Loans	7,535,002	8,491,146
Currency swap contracts	17,420,173	-
Other debtors	12,502	12,502
Prepayments and accrued income	161,268	176,014
	125,437,401	100,713,044

10 Creditors

	2016	2015
	£	£
Amounts falling due within one year:		
Notes	106,896,126	93,672,243
Corporation tax	-	-
Interest rate swap contracts	35,170,160	53,464,640
Currency swap contracts	-	507,998
Accruals and deferred income	1,656,964	2,096,154
	143,723,250	149,741,035
Amounts falling due after one year:		
Notes	609,096,257	700,047,192

The Notes are secured over the Loans and the security related thereto.

Notes forming part of the financial statements for the year ended 31 December 2016
(continued)

11 Called up share capital	2016 £	2015 £
<i>Authorised:</i>		
50,000 ordinary shares of £1 each	50,000	50,000
Called up, allotted and issued		
Ordinary shares of £1 each: 49,998 - quarter paid	12,500	12,500
Ordinary shares of £1 each: 2 fully paid	2	2
	12,502	12,502
12 Profit and loss account	2016 £	2015 £
At 1 January	(51,423,753)	(79,759,549)
Profit for the financial year	19,745,777	28,335,796
At 31 December	(31,677,976)	(51,423,753)

13 Financial instruments

The narrative disclosure required by Financial Reporting Standard 102 in relation to the nature of the financial instruments used during the year to mitigate credit, interest rate, currency and liquidity exposure is shown in the strategic report under the heading 'Financial Instruments'.

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

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined from inception of the securitisation transaction. The Company's activities and the role of each party to the transaction is clearly defined and documented.

In addition, derivative contracts are entered into as part of the securitisation transaction to hedge all interest rate and currency exchange risk arising in the transaction including the obligations under the Notes. The derivative counterparties are selected as credit rated, regulated financial institutions, thereby reducing the risk of default and consequent loss for the Company.

Additional credit protection is afforded by the requirement for the derivative counterparties to post collateral in the event of a downgrade to a counterparty's credit rating.

Following initial set-up, the directors monitor the Company's performance, reviewing quarterly reports on the performance of the Loans. Such review is designed to ensure that the terms of the documentation have been met, that no unforeseen risks have arisen and that the noteholders have been paid on a timely basis.

Credit risk

Credit risk reflects the risk that the counterparties with whom the Company has contractual arrangements will not meet their obligations as they fall due.

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on the extent that such obligations are met.

Credit risk also exists with regard to the derivative contracts into which the Company has entered to manage the interest rate and currency risk arising on the Notes. The swap counterparties are credit rated regulated financial institutions rated between A and A1 by Fitch, Moody's and Standard & Poor's.

Notes forming part of the financial statements for the year ended 31 December 2016
(continued)

13 Financial instruments (continued)

Credit risk (continued)

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below.

	Carrying Value 2016	Maximum Exposure 2016	Carrying Value 2015	Maximum Exposure 2015
	£	£	£	£
Assets:				
Loans	695,792,329	695,792,329	789,464,721	789,464,721
Cash and cash equivalents	232,759	232,759	232,593	232,593
Other receivables	7,708,772	7,708,772	8,679,662	8,679,662
	703,733,860	703,733,860	798,376,976	798,376,976
Derivative assets:				
Currency swap contract	17,420,173	17,420,173	-	-

The Loans are secured by first charges over commercial properties in the UK. The properties are not concentrated in any specific area.

The tables below sets out the carrying amount, the collective impairments and the approximate fair value of collateral held against exposures to customers. The estimate of fair value is based on the valuation performed on 24 March 2016. The valuations were performed by a third party chartered surveyor and determined the fair value was £2,578,200,000.

2016	Carrying Value	Impairment	Fair Value of collateral
	£	£	£
Loans			
Individually impaired	-	-	-
Past due but not impaired	-	-	-
Neither past due nor impaired	695,792,329	-	2,578,200,000
	695,792,329	-	2,578,200,000
2015	Carrying Value	Impairment	Fair Value of collateral
	£	£	£
Loans			
Individually impaired	-	-	-
Past due but not impaired	-	-	-
Neither past due nor impaired	789,464,721	-	2,580,100,000
	789,464,721	-	2,580,100,000

Impairment to date has been nil as there have been no defaults on either the interest or principal repayments of the loans. The underlying assets on which these loans are secured are also in excess of the exposure to these loans.

Market risk

Market risk is defined as the potential loss in value or earnings of an organisation arising from changes in external market factors.

The Company is exposed to market risk in the form of interest rate risk and currency exchange risk.

Notes forming part of the financial statements for the year ended 31 December 2016
(continued)

13 Financial instruments (continued)

Market risk (continued)

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the Loans and the Notes (its principal assets and liabilities) are similar; where this is not possible the Company uses derivative financial instruments to mitigate any residual interest rate risk.

The Notes are due to mature in April 2021, interest on the floating rate liabilities is determined and payable quarterly in arrears at the following rates above the London Interbank Offered Rate ("LIBOR")/Euro Interbank Offered Rate ("EURIBOR") for three-month sterling deposits:

	2016 £	2015 £	Interest rate
Class A1a	19,275,482	24,600,924	LIBOR + 0.475%
Class A1b	116,896,946	128,842,792	EURIBOR + 0.475%
Class A2	218,819,955	279,275,719	LIBOR + 0.525%
Class B	140,000,000	140,000,000	LIBOR + 0.76%
Class C	221,000,000	221,000,000	LIBOR + 1.16%
	715,992,383	793,719,435	
Accrued interest	1,498,696	1,923,141	
	717,491,079	795,642,576	

At 31 December 2016, had three-month Sterling LIBOR been 25 basis points higher or lower, with all other variables held constant, the net effect on the Company's net margin is believed by the directors to be negligible, owing to the financial impact of the swaps in place.

At 31 December 2016 there would, however, have been some movement in the net fair value gains and losses on derivatives. As the entity does not trade in financial instruments and all derivatives are expected to be held to maturity any movement in the net fair value gains and losses on derivatives arising due to movements in interest rates will unwind over the life of the transaction.

Currency risk

The Company has a class of Notes in issue denominated in Euros. The Company's policy is to eliminate all exposures arising from movement in exchange rates by use of cross currency swaps to hedge Euro payments of interest and principal due on the Notes. Therefore the impact of any foreign exchange movements would be nil. All other assets and liabilities and financial transactions are denominated in Sterling.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. The Company's ability to meet payments on the Notes as they fall due is dependent on timely receipt of payments due on the Loans.

The Borrower's ability to repay the amounts loaned to it by the Company is dependent on payments made by the occupational tenant (Sainsbury's Supermarkets Ltd) in respect of the occupational leases.

In the event that the Company has insufficient funds available to pay interest and/or principal on the Notes, the Company, under certain conditions and to the extent funds are available, is obliged to draw on the liquidity facility (see next page) to meet its obligations to the noteholders.

The table below reflects the undiscounted contractual cash flows of financial liabilities at the balance sheet date of both derivative and non-derivative financial instruments.

Notes forming part of the financial statements for the year ended 31 December 2016
(continued)

13 Financial instruments (continued)

Liquidity risk (continued)

As at 31 December 2016	Carrying Value £	Gross cash flows £	In less than 1 month £	After 1 month but within 3 months £	After 3 months but within 1 year £	After 1 year but within 5 years £
Non-derivative Financial instruments:						
Notes	715,992,383	715,992,383	25,681,009	-	81,215,117	609,096,257
Interest payable on Notes	1,498,696	10,556,849	1,888,689	-	5,338,977	3,329,183
Total non-derivative financial instruments	717,491,079	726,549,232	27,569,698	-	86,554,094	612,425,440
Derivative Financial instruments:						
Interest rate swap contracts	35,170,160	35,250,362	6,405,765	-	17,888,961	10,955,636
Total derivative financial instruments	35,170,160	35,250,362	6,405,765	-	17,888,961	10,955,636
Total as at 31 December 2016	752,661,239	761,799,594	33,975,463	-	104,443,055	623,381,076
<hr/>						
As at 31 December 2015	Carrying Value £	Gross cash flows £	In less than 1 month £	After 1 month but within 3 months £	After 3 months but within 1 year £	After 1 year but within 5 years £
Non-derivative Financial instruments:						
Notes	793,719,435	793,719,435	22,493,591	-	71,178,652	700,047,192
Interest payable on Notes	1,923,141	21,622,363	2,423,605	-	6,908,140	12,290,618
Total non-derivative financial instruments	795,642,576	815,341,798	24,917,196	-	78,086,792	712,337,810
Derivative Financial instruments:						
Interest rate swap contracts	53,464,640	59,951,982	6,819,711	-	19,324,974	33,807,297
Total derivative financial instruments	53,464,640	59,951,982	6,819,711	-	19,324,974	33,807,297
Total as at 31 December 2015	849,107,216	875,293,780	31,736,907	-	97,411,766	746,145,107

At year-end the Company had an undrawn committed 364 days revolving liquidity facility of £95 million (2015: £118 million). During the year the Company paid facility fees of £392,687 (2015: £443,519) in respect of this facility.

Fair value of financial assets and liabilities

The Company has interest rate swap contracts with a notional principal value of £599,095,417 (2015: £664,876,623) which are re-priced on a quarterly basis, hedging the differing interest rate reset, dates of the Loans and Notes. The Company also has cross currency swap contracts with a notional principal amount of £95,019,888 (2015: £121,272,064). The fair values of such interest rate swap and cross currency swap contracts are calculated by discounting future cash flows using appropriate and observable market data where available.

Financial Reporting Standard 102 in relation to the nature of the financial instruments that are measured in the balance sheet at fair value requires them to be put into a fair value measurement hierarchy based on fair value measurement as detailed below:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 Price of a recent transaction for an identical asset or liability as long as there has not been a significant change in economic circumstances or time lapse since the transaction date.
- Level 3 Prices estimated using a valuation technique.

**Notes forming part of the financial statements for the year ended 31 December 2016
(continued)**

13 Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The only financial instruments included in the Company's balance sheet that are measured at fair value are derivative transactions. As the fair value of such derivatives is calculated by discounting future cash flows using appropriate and observable market data where available, these fall within Level 3 of the hierarchy as not all the appropriate data is observable (2015: Level 3).

14 Reconciliation of profit on ordinary activities before taxation to net cash inflow/(outflow) from operating activities

	2016 £	2015 £
Profit on ordinary activities before taxation	19,745,777	28,335,796
Less: Interest receivable on Loans	(38,109,319)	(42,633,000)
Interest payable on interest rate swap and currency swap contracts	31,020,582	34,352,149
Fair value movement on interest rate swap and currency swap contracts	(35,619,861)	(18,943,523)
Decrease in debtors	14,746	12,756
Foreign exchange adjustments	14,307,112	(11,061,981)
Add: Interest payable on Notes	8,655,875	9,950,494
Decrease in creditors	(14,746)	(12,756)
Net cash inflow/(outflow) from operating activities	<u>166</u>	<u>(65)</u>

15 Controlling party

The Company's immediate parent company is Eddystone Finance Holdings Limited, a company incorporated in the United Kingdom and registered in England and Wales. It is the only parent undertaking to consolidate these financial statements at 31 December 2016.

The entire share capital of Eddystone Finance Holdings Limited is held on a discretionary trust basis for the benefit of certain charities by the legal parent company, Intertrust Corporate Services Limited, a company incorporated in the United Kingdom and registered in England and Wales.

Copies of the financial statements of Eddystone Finance Holdings Limited and Intertrust Corporate Services Limited, are available from 35 Great St. Helen's, London, EC3A 6AP.

16 Related party transactions

During the year fees of £35,596 (2015: £32,896) were paid to Intertrust Management Limited in respect of corporate services fees provided to the Company, including provision of directors.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited.