

Eddystone Finance plc

Annual report and financial statements

For the year ended 31 December 2014

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Eddystone Finance plc

Annual report and financial statements for the year ended 31 December 2014

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Eddystone Finance plc

Officers and professional advisers

Directors

SFM Directors Limited
SFM Directors (No.2) Limited
John Paul Nowacki

Company secretary and registered office

SFM 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

Eddystone Finance plc

Company Registration Number 05643091

Strategic report for the year ended 31 December 2014

The directors present the strategic report of Eddystone Finance plc (the "Company") for the year ended 31 December 2014.

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 2014 the Company applied the proceeds of scheduled repayments in an amount of £77,072,351 (2013: £63,059,648) 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 profit and loss account is set out on page 9 and shows the profit (2013: 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 profit and loss account 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 2014 of £7,462,352 (2013: £62,149,775) 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 £875,572,373 at 31 December 2014 (2013: £954,424,759) due to proceeds of scheduled repayments. At year end the balance of Notes outstanding amounted to £889,147,617 (2013: £981,703,498).

No impairment losses were recognised during the year (2013: 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.

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 is summarised below.

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.

No impairment has been recognised against the Loans as at 31 December 2014 (2013: 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 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 14).

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 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.

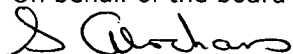
Currency risk

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 **SFM Directors Limited**
as Director
9 June 2015

Eddystone Finance plc

Company Registration Number 05643091

Directors' report for year ended 31 December 2014

The directors present their report together with the audited financial statements of the Company for the year ended 31 December 2014.

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 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.

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:

SFM Directors Limited
SFM Directors (No.2) Limited
John Paul Nowacki

Eddystone Finance plc

Company Registration Number 05643091

Directors' report for year ended 31 December 2014 (*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 (2013: 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

SFM Corporate Services Limited 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 **SFM Directors Limited**
as Director

9 June 2015

Statement of directors' responsibilities

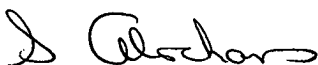
The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

On behalf of the board



Sue Abrahams
per pro **SFM Directors Limited**
as Director

9 June 2015

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 2014 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

Eddystone Finance Plc's financial statements comprise:

the Balance sheet as at 31 December 2014;

the Profit and loss account for the year then ended;

the Cash flow statement for the year then ended; and

the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (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, 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.

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.

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 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.



Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

9 June 2015

Eddystone Finance plc**Profit and loss account for the year ended 31 December 2014**

	Notes	2014 £	2013 £
Interest receivable and similar income	2	46,812,591	51,015,587
Interest payable and similar charges	3	(48,754,248)	(51,282,929)
Net interest expense		(1,941,657)	(267,342)
Other operating income		598,379	655,842
Total operating (expense)/income		(1,343,278)	388,500
Movement in fair value of derivative financial instruments	4	(6,105,727)	62,326,297
Net foreign exchange gain		15,509,766	65,322
Operating expenses		(598,409)	(631,726)
Profit on ordinary activities before taxation	5	7,462,352	62,148,393
Taxation on profit on ordinary activities	7	-	1,382
Profit for the financial year	13	7,462,352	62,149,775

All amounts relate to continuing activities.

There are no recognised gains or losses other than the profit for the financial year as presented above. Accordingly a statement of total recognised gains and losses is not presented.

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. A reconciliation between profit on ordinary activities before taxation and their historical cost equivalents is not prepared because the Company has taken advantage of the exemption in paragraph 26 of FRS3.

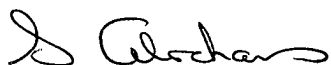
The notes on pages 12 to 25 are an integral part of these financial statements.

Eddystone Finance plc**Company Registration Number 05643091****Balance sheet at 31 December 2014**

	Note	2014 £	2013 £
Fixed assets			
Loans	8	791,191,961	877,352,408
Current assets			
Debtors	9	98,199,928	105,296,287
Cash at bank and in hand		232,658	232,763
		98,432,586	105,529,050
Creditors: amounts falling due within one year	10	(167,687,699)	(169,940,304)
Net current liabilities		(69,255,113)	(64,411,254)
Total assets less current liabilities		721,936,848	812,941,154
Creditors: amounts falling due after more than one year	10	(801,683,895)	(900,150,553)
Net liabilities		(79,747,047)	(87,209,399)
Capital and reserves			
Called up share capital	11	12,502	12,502
Profit and loss account	12	(79,759,549)	(87,221,901)
Total shareholders' deficit	13	(79,747,047)	(87,209,399)

The notes on pages 12 to 25 are an integral part of these financial statements.

The financial statements on pages 9 to 25 were approved and authorised for issue by the board on 9 June 2015.



Sue Abrahams
per pro **SFM Directors Limited**
as Director

Eddystone Finance plc**Cash flow statement for the year ended 31 December 2014**

	Note	2014 £	2013 £
Net cash (outflow)/inflow from operating activities	15	(105)	24,134
Tax paid		-	(24,091)
Returns on investments and servicing of finance			
Interest received on Loans		49,242,637	51,458,415
Interest paid on Notes		(10,896,695)	(9,558,572)
Net interest paid on interest rate and cross currency swap contracts		<u>(38,345,942)</u>	<u>(41,899,843)</u>
		-	-
Capital expenditure and financial investment			
Redemption of Loans		<u>77,072,351</u>	<u>63,059,648</u>
		77,072,351	63,059,648
Cash inflow before financing		77,072,246	63,059,691
Financing			
Redemption of Notes		<u>(77,072,351)</u>	<u>(63,059,642)</u>
		(77,072,351)	(63,059,642)
(Decrease)/increase in cash in the year	16	<u>(105)</u>	<u>49</u>

The accompanying notes on pages 12 to 25 are an integral part of these financial statements.

1 Accounting policies

The financial statements are prepared on a going concern basis under the historical cost convention as modified by revaluation of certain financial instruments in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. 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. 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 profit and loss account 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.

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 profit and loss account 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.

Financial instruments

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

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 profit and loss account. The Company does not enter into speculative derivative contracts. The Company does not apply hedge accounting as per FRS 26. 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.

1 Accounting policies (Continued)

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 profit or loss 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.

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.

1 Accounting policies (Continued)

Foreign currency translation (Continued)

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 profit and loss account.

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.

2 Interest receivable and similar income	2014	2013
	£	£
Loan interest	46,812,591	51,015,587

3 Interest payable and similar charges	2014	2013
	£	£
Interest expense on Notes	10,799,832	10,125,701
Net amounts payable in respect of interest rate and cross currency swap contracts	37,954,416	41,157,228
	48,754,248	51,282,929

Notes forming part of the financial statements for the year ended 31 December 2014
(Continued)

4 Net derivative fair value	2014	2013
	£	£
Brought forward fair value of interest rate and currency swap contracts	(67,874,642)	(130,943,554)
Fair value movement during the year on swap contracts	(6,105,727)	62,326,297
Movement in accrued interest on swap contracts	391,527	742,615
Carried forward fair value of interest rate and currency swap contracts	(73,588,842)	(67,874,642)

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	2014	2013
	£	£
This has been arrived at after charging:		
Auditors' remuneration -		
- audit of the Company's annual financial statements	25,700	24,500
- audit of the parent Company's annual financial statements	3,265	3,200
	28,965	27,700

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

6 Directors and employees

The Company has no employees (2013: 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 (2013: £nil).

7 Taxation on profit on ordinary activities	2014	2013
	£	£
a) Analysis of the Company charge/(credit) in the year		
UK corporation tax charge on the profit for the year	-	-
Prior year adjustment	-	(1,382)
	-	(1,382)

7 Taxation of profit on ordinary activities (Continued)

b) Factors affecting the Company current tax charge/(credit) for the year:

The current tax charge/(credit) for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%).

The differences are explained below:

	2014 £	2013 £
Profit on ordinary activities before taxation	<u>7,462,352</u>	<u>62,148,393</u>
Current tax charge at 21.50% (2013: 23.25%)	1,604,406	14,449,501
Effects of:		
Prior year adjustment	-	(1,382)
Accounting profits not taxed in accordance with SI 2006/3296	(1,604,406)	(14,449,501)
Total current tax charge/(credit)	<u>-</u>	<u>(1,382)</u>

The main rate of UK Corporation tax will reduce to 20% with effect from 1 April 2015.

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.

	2014 £	2013 £
Loans valued at amortised cost	<u>875,572,373</u>	<u>954,424,759</u>
The maturity profile of the Loans was as follows:		
In one year or less (see note 9)	84,380,412	77,072,351
In more than one year	791,191,961	877,352,408
	<u>875,572,373</u>	<u>954,424,759</u>

Repayments during the year amounted to £77,072,351 (2013: £63,059,648)

Eddystone Finance plc

Notes forming part of the financial statements for the year ended 31 December 2014
(Continued)

9 Debtors	2014	2013
	£	£
Loans due within one year (see note 8)	84,380,412	77,072,351
Accrued interest on Loans	9,238,964	9,888,975
Currency swap contracts	4,379,280	18,127,388
Other debtors	12,502	12,502
Prepayments and accrued income	188,770	195,071
	98,199,928	105,296,287

10 Creditors	2014	2013
	£	£
Amounts falling due within one year:		
Notes	87,463,722	81,552,945
Interest rate swap contracts	77,968,122	86,002,030
Accruals and deferred income	2,255,855	2,385,329
	167,687,699	169,940,304
Amounts falling due after more than one year:		
Notes	801,683,895	900,150,553

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

11 Called up share capital	2014	2013
	£	£
<i>Authorised:</i>		
50,000 ordinary shares of £1 each	50,000	50,000
<i>Called up, allotted and issued</i>		
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	2014	2013
	£	£
At 1 January 2014	(87,221,901)	(149,371,676)
Profit for the financial year	7,462,352	62,149,775
At 31 December 2014	(79,759,549)	(87,221,901)

13 Reconciliation of movements in shareholders' deficit

	2014	2013
	£	£
Opening shareholders' deficit	(87,209,399)	(149,359,174)
Profit for the financial year	7,462,352	62,149,775
Closing shareholders' deficit	<u>(79,747,047)</u>	<u>(87,209,399)</u>

14 Financial instruments

The narrative disclosure required by Financial Reporting Standard 29 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. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and as such is required by the rating agencies to establish the appropriate rating levels for the Notes.

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 A3 by Fitch, Moody's and Standard & Poor's.

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

14 Financial instruments (Continued)

Credit risk (Continued)

	Carrying Value 2014 £	Maximum Exposure 2014 £	Carrying Value 2013 £	Maximum Exposure 2013 £
Assets:				
Loans	875,572,373	875,572,373	954,424,759	954,424,759
Cash at bank and in hand	232,658	232,658	232,763	232,763
Debtors	9,440,236	9,440,236	10,096,548	10,096,548
	885,245,267	885,245,267	964,754,070	964,754,070
Derivative assets:				
Currency swap contract	4,379,280	4,379,280	18,127,388	18,127,388

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 2014. The valuations were performed by a third party chartered surveyor. On 24 March 2015 the collateral was valued again and the fair value was £2,580,100,100.

2014	Carrying Value £	Impairment £	Fair Value of collateral £
Loans			
Individually impaired	-	-	-
Past due but not impaired	-	-	-
Neither past due nor impaired	875,572,373	-	2,632,000,000
	875,572,373	-	2,632,000,000

2013	Carrying Value £	Impairment £	Fair Value of collateral £
Loans			
Individually impaired	-	-	-
Past due but not impaired	-	-	-
Neither past due nor impaired	954,424,759	-	2,442,800,000
	954,424,759	-	2,442,800,000

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.

14 Financial instruments (Continued)

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.

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:

	2014 £	2013 £	Interest rate (after step up in April 2013)
Class A1a	29,483,532	33,943,265	LIBOR + 0.475%
Class A1b	163,959,758	201,427,887	EURIBOR + 0.475%
Class A2	334,704,327	385,332,346	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%
	<u>889,147,617</u>	<u>981,703,498</u>	
Accrued interest	<u>2,070,084</u>	<u>2,193,257</u>	
	<u>891,217,701</u>	<u>983,896,755</u>	

At 31 December 2014, 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 would have been nil owing to the financial impact of the swaps in place.

At 31 December 2014 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.

**Notes forming part of the financial statements for the year ended 31 December 2014
(Continued)**

14 Financial instruments (Continued)

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.

As at 31 December 2014	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	889,147,617	889,147,617	21,035,048	-	66,428,675	801,683,894
Interest payable on Notes	2,070,084	31,626,307	2,630,807	-	7,506,538	21,488,962
Total non derivative	891,217,701	920,773,924	23,665,855	-	73,935,213	823,172,856
Derivative						
financial instruments:						
Interest rate swap contracts	77,968,122	89,919,900	7,553,298	-	21,498,166	60,868,436
Total derivative	77,968,122	89,919,900	7,553,298	-	21,498,166	60,868,436
Total as 31	969,185,823	1,010,693,824	31,219,153	-	95,433,379	884,041,292
December 2014						

Notes forming part of the financial statements for the year ended 31 December 2014
(Continued)

14 Financial instruments (Continued)

Liquidity risk (Continued)

As at 31 December 2013	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	981,703,498	981,703,498	19,588,572	-	61,964,373	900,150,553
Interest payable on Notes	2,193,257	42,818,754	2,841,885	-	8,155,134	31,821,735
Total non derivative financial instruments	983,896,755	1,024,522,252	22,430,457	-	70,119,507	931,972,288
Derivative						
financial instruments:						
Interest rate swap contracts	86,002,030	121,333,071	8,128,156	-	23,285,014	89,919,901
Total derivative financial instruments	86,002,030	121,333,071	8,128,156	-	23,285,014	89,919,901
Total as 31 December 2013	1,069,898,785	1,145,855,323	30,558,613	-	93,404,521	1,021,892,189

At year-end the Company had an undrawn committed 364 days revolving liquidity facility of £133 million (2013: £143 million). During the year the Company paid facility fees of £484,880 (2013: £522,809) in respect of this facility.

Fair value of financial assets and liabilities

The following table shows the book value and fair value of the Company's financial assets and liabilities:

	Book value 2014 £	Fair value 2014 £	Book value 2013 £	Fair value 2013 £
Assets:				
Loans	875,572,373	943,525,713	954,424,759	1,014,124,296
Currency swap contract	4,379,280	4,379,280	18,127,388	18,127,388
Cash at bank and in hand	232,658	232,658	232,763	232,763
	880,184,311	948,137,651	972,784,910	1,032,484,447
Liabilities:				
Notes	889,147,617	869,936,871	981,703,498	946,249,654
Interest rate swap contract	77,968,122	77,968,122	86,002,030	86,002,030
	967,115,739	947,904,993	1,067,705,528	1,032,251,684

14 Financial instruments (Continued)

Fair value of financial assets and liabilities (Continued)

The Notes are listed on the Irish Stock Exchange. The fair value of the Notes is based upon available market prices. Market prices of the Notes depend on how the Loans are performing, therefore the fair value of the Loans has been calculated as being in line with the total fair value of the Notes, after allowing for the impact of the derivatives.

The Company does not trade in financial instruments and therefore does not intend to dispose of the financial instruments until maturity.

Due to the short term nature of prepayments and accrued income, other debtors, accruals and deferred income and corporation tax, their fair value is approximate to their carrying value.

The Company has interest rate swap contracts with a notional principal value of £725,187,840 (2013: £780,275,592) 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 £145,341,260 (2013: £167,325,858). 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.

Amendments to Financial Reporting Standard 29 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 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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 (2013: Level 3).

Notes forming part of the financial statements for the year ended 31 December 2014
(Continued)

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

	2014 £	2013 £
Profit on ordinary activities before taxation	7,462,352	62,148,393
Less: Interest receivable on Loans	(46,812,591)	(51,015,587)
Interest payable on interest rate swap and currency swap contracts	37,954,416	41,157,228
Fair value movement on interest rate swap and currency swap contracts	6,105,727	(62,326,297)
Decrease in debtors	6,302	11,031
Foreign exchange adjustments	(15,509,841)	(65,304)
Add: Interest payable on Notes	10,799,832	10,125,701
Decrease in creditors	(6,302)	(11,031)
Net cash (outflow)/inflow from operating activities	(105)	24,134

16 Reconciliation of net cash flow to movement in net debt

	2014 £	2013 £
(Decrease)/increase in cash for the year	(105)	49
Amount redeemed on Notes	77,072,351	63,059,642
Change in net debt resulting from cash flows	77,072,246	63,059,691
Foreign exchange adjustments	15,483,530	84,789
Net debt at 1 January 2014	(981,470,735)	(1,044,615,215)
Net debt at 31 December 2014	(888,914,959)	(981,470,735)

17 Analysis of net changes in net debt

	At 1 January 2014 £	Cash flow £	FX Movement £	At 31 December 2014 £
Cash at bank and in hand	232,763	(105)	-	232,658
Notes (excluding accrued interest)	(981,703,498)	77,072,351	15,483,530	(889,147,617)
	(981,470,735)	77,072,246	15,483,530	(888,914,959)

18 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 2014. 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, SFM 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 SFM Corporate Services Limited, are available from 35 Great St Helen's, London, EC3A 6AP.

19 Related party transactions

During the year fees of £37,802 (2013: £33,241) were paid to Structured Finance Management Limited in respect of corporate services fees provided to the Company, including provision of directors.

SFM Corporate Services Limited is a wholly owned subsidiary of Structured Finance Management Limited.