Annington Funding plc today announces its financial results for the year ended 31 March 2022.

A copy is available from Annington's website and are available for viewing. To view the full document, please see below or paste the following URL into the address bar of your browser:

https://www.annington.co.uk/investor-relations/announcements

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Company Registration No. 10765119

ANNINGTON FUNDING PLC

Annual Report and Financial Statements

For the year ended 31 March 2022

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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ANNINGTON FUNDING PLC

STRATEGIC REPORT

The principal activity of Annington Funding plc ("the Company") is the financing of the Annington Limited group ("the Group") via an intercompany loan to Annington Homes Limited ("AHL"). During the year it issued two tranches of fixed rate notes of £400.0 million each under its £4 billion Euro Medium Term Note Programme and subscribed to redeemable preference shares in Annington Property Limited ("APL"), a fellow subsidiary of the Group.

BUSINESS REVIEW

The Company holds seven tranches of corporate, unsecured bonds, totalling c.£3.8 billion, including the issue of two new tranches referred to above, and a term loan of £400 million, also unsecured, maturing in March 2025. A revolving credit facility of £100 million is also available to the Company, which has never been drawn against.

The majority of the funding c.£3.4 billion, has been lent to AHL, its immediate parent, which in turn provides this funding to the rest of the Group.

In October 2021, the Company, issued two tranches of fixed rate notes of £400.0 million each under its £4 billion Euro Medium Term Note Programme. The notes mature in 2032 and 2051 and carry coupon rates of 2.308% and 2.924% respectively.

The Company used the cash raised as part of this financing to subscribe for new redeemable preference shares in APL.

The terms of the preference shares mirror the terms of the bonds in order to provide income to Annington Funding plc to service the interest payable on the bonds. Similarly, the Company recovers its costs through interest received on the intercompany loan, at an interest rate that is mutually agreed. It also charges an administration fee for its services.

The Company recognised £0.1 million of finance income (2021: £0.1 million) and £0.1 million of finance costs (2021: £0.1 million) during the year, and ended the year with total assets of £4.2 billion (2021: £3.4 billion) and total liabilities of £4.2 billion (2021: £3.4 billion). Its result for the year after taxation is a profit of £0.05 million (2021: £0.01 million), in line with expectations. The increase in gross assets and liabilities is the result of the issue of the bonds and the purchase of redeemable preference shares as stated above. Other Comprehensive Income includes a fair value gain on swaps of £4.0 million (2021: loss of £23.3 million) with foreign exchange gains on bonds amounting to £4.2 million (2021: gain of £19.5 million). Further information on financial risk management can be found in Note 14 to the Financial Statements. The directors consider finance income in relation to finance costs as a key indicator, as well as total assets in relation to total liabilities. This is considered on a cumulative basis.

PRINCIPAL RISKS AND UNCERTAINTIES

The areas of potential risks and uncertainty which face the business are mainly related to its financial risks (credit risk, liquidity risk, currency risk and interest rate risk). For details of financial instruments, their related risks and the policies and actions put in place to manage them, please refer to Note 14 to the financial statements.

The Company also has a number of covenants to be complied with under the terms of the debt issued. These are discussed in more detail in Note 11 to the financial statements, as well as Note 2, under "Going concern".

STATEMENT ON S172 OF THE COMPANIES ACT 2006

The directors consider section 172(1) factors, including the Company's business relationships with finance providers, credit rating agencies and with AHL, APL and the Group. The directors believe that maintaining strong relationships with lenders, including bondholders and banks, and with ratings agencies to be essential to the effective running of the Company. This can be illustrated by the successful issue of a further two tranches under the Euro Medium Term Note programme, which involved collaboration across ratings agencies, banks and various other parties. The debt issue and purchase of preference shares was approved with due consideration of sufficient covenant headroom within the current and forecast period, and the ability to meet obligations under the existing debt. The Company achieves strong relationships with its stakeholders though transparent reporting and provision of information to all stakeholders. Beyond regular financial reporting, the Company, in association with the Group, provide conference calls on at least an annual basis to update stakeholders. To maintain the relationship with ratings agencies, the directors meet with these bodies to enable the provision of ratings services. The directors are also directors of AHL and Annington Limited, enabling good relationships to be maintained. The Group considers wider groups of stakeholders and a broader section 172(1) statement is disclosed in the financial statements of Annington Limited for the year ended 31 March 2022.

STRATEGIC REPORT

FUTURE DEVELOPMENTS

The Company has considered the economic impact of current events such as the war in Ukraine, rising interest rates and continuing uncertainty regarding Britain's exit from the European Union. The Company has on issue fixed interest bonds and has hedged its exposure to currency fluctuations on its foreign currency bonds, leading to highly predictable future cash flows on the listed debt. These factors serve to mitigate any further risks arising from the aforementioned factors. Interest rate and foreign exchange sensitivities are provided in Note 14 to the financial statements to illustrate possible effects.

The impact of COVID-19 has not had and is not likely to have any significant effect on the Company in the future, given the nature of its operations, however, the fuller impact on the economy as a whole could impact the Company in terms of interest rate fluctuations and hence cash flows.

Future developments and other factors not under the control of the Company may impact the ongoing operations of the business, however, the directors expect the business to continue, for the foreseeable future, in a manner consistent with its historical operations.

Approved by the Board of Directors and signed on behalf of the Board

S Leung
Director

30 June 2022

REGISTERED OFFICE
1 James Street
London, United Kingdom,
W1U 1DR

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2022.

Directors

The directors who served throughout the year and to the date of this report were:

Stephen Leung (Appointed 1 April 2021)
Ian Rylatt (Appointed 7 May 2021)
Nick Vaughan (Resigned effective 8 March 2022)
Andrew Chadd (Resigned effective 1 April 2021)
James Hopkins (Resigned effective 7 May 2021)

Audit Committee

The function of the Audit Committee of the Company is carried out by the Audit Committee of the Annington Limited Group. The Audit Committee includes at least two independent, non-executive directors and one non-executive director appointed by Terra Firma Capital Partners Limited. Alongside other responsibilities, the Committee considers the ongoing effectiveness of controls and procedures operated by management and has oversight of the financial reporting and audit process.

Dividends

No dividends have been paid or proposed during the year (2021: £nil).

Going concern

After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis are to be found in Note 2 to the financial statements.

Financial instruments and risk management policies

Financial instruments and risk management policies are addressed in Note 14.

Internal control and risk management systems over financial reporting

The Company has put in place systems and controls to ensure that data integrity is maintained throughout the financial reporting process. These include data access controls and backups and reviews of financial data and reports by suitably qualified individuals.

Strategic report

The areas of potential risks and uncertainty which face the business, details of its financing and its future outlook are addressed in the Strategic Report, as well as an indication of likely future developments and activities in the business.

Directors' indemnities

Qualifying third party indemnity provisions are in place for all directors of the Company for the current and preceding year.

Greenhouse gas reporting

The Company, as a member of the Annington Limited Group, is included within the Group's reporting of greenhouse gas data, as disclosed within Annington Limited's Directors' Report for 31 March 2022.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

BDO LLP has expressed their willingness to continue in office as auditor and arrangements have been put in place for them to be re-appointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

S Leung
Director
30 June 2022

REGISTERED OFFICE
1 James Street
London, United Kingdom
W1U 1DR

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Company financial statements in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. 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 year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with relevant accounting standards in conformity with UK adopted international accounting standards, 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; and
- prepare a Directors' report and a Strategic report which comply with the requirements of the Companies Act 2006.

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.

The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON FUNDING PLC

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Annington Funding plc (the 'Company') for the year ended 31 March 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the board of Directors on 26 April 2021 to audit the financial statements for the year ended 31 March 2021 and subsequent financial periods. This is our second year of appointment. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. No non-audit services were provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

We have reviewed and challenged the Directors over the forecasts that support the Going Concern assessment. Our work included agreeing the Company's available borrowing facilities and the related covenants to supporting documentation and calculations, reviewing and re-performing the sensitivities applied by the Directors to the Company's financial forecasts and covenants and assessing the accuracy of the forecasted cash flows and covenant compliance with reference to budgeted and historic performance and our knowledge of the Company and wider group gained from our audit work. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON FUNDING PLC (continued)

Overview

		2022	2021
Key audit matters	Recoverability of intercompany receivables and redeemable preference shares	X	X
Materiality	Company Financial statements as a whole £42m (2021 - £34m) based on 1% (2021 – 1%) of Total Assets		

An overview of the scope of our audit

The audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter .

Key audit matter		**How the scope of our audit addressed the key audit matter**
Recoverability of intercompany receivables and redeemable preference shares Refer to note 8 for accounting policy and disclosure.	The principal asset on the balance sheet is the loan receivable from Annington Homes Limited and the redeemable preference shares in Annington Property Limited. At each reporting date, the Directors are required to assess the recoverability of the intercompany loan receivable and redeemable preference shares. In respect of the expected credit loss model there is a risk that management may influence the significant judgements and estimates, being the borrowers expected future activities and financial condition, in order to achieve an increased total asset position and therefore we considered this to be a key audit matter.	We assessed the recoverability of the loan receivable and redeemable preference shares held at amortised cost derived using the Effective Interest Rate (EIR) by performing the following audit procedures: We challenged management's expected credit loss assessment, specifically the assumptions and judgements made in relation to the borrower's balance sheet and expected future activities. We considered the financial condition of the underlying borrower based on the most recent relevant draft annual financial statements for the year ended 31 March 2022. We also obtained and assessed, with reference to available market data, the independent expert's valuation reports as at 31 March 2022 for the borrower's property portfolio. We examined post balance sheet events to consider whether the impairment assessment assumptions remained valid. In addition, we obtained management's confirmation that no significant post balance sheet events had occurred which would impact the valuation. **Key observations:** Based on the procedures performed we consider that the judgements and estimates made by management in determining the expected credit loss on the loan receivable and redeemable preference shares are reasonable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON FUNDING PLC (continued)

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2022	2021
Materiality	£42m	£34m
Basis for determining materiality	1% of total assets	1% of total assets
Rationale for the benchmark applied	The company's principal activity is the provision of financing to group entities and therefore we considered total assets to be the most relevant benchmark for users of the financial statements.	The company's principal activity is the provision of financing to group entities and therefore we considered total assets to be the most relevant benchmark for users of the financial statements.
Performance materiality	£29.4m	£20.4m
Basis for determining performance materiality	70% of materiality which reflects our risk assessment and the impact of the 31 March 2022 being our second year as auditors.	60% of materiality which reflects the fact that this is BDO's first year as auditors.

Specific materiality

We also determined that for testing interest payable and interest receivable, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality to be £2.3m (2021 - £2.15m) for these items based on 2% (2021 – 2%) of finance income. We further applied a performance materiality level of 70% (2021 - 60%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £0.84m (2021 - £0.68m). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANNINGTON FUNDING PLC (continued)

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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 the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements to be audited are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements..

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF ANNINGTON FUNDING PLC (continued)

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in respect of the recoverability of intercompany receivables and posting inappropriate journal entries to manipulate the fair value of the derivative financial instrument. We performed the following audit procedures:

- We obtained an understanding of the control environment in monitoring compliance with laws and regulations and performing our own checks of compliance with relevant requirements including the Companies Act 2006 and the UK Listing Rules;
- We agreed the financial statement disclosures to underlying supporting documentation to assess compliance with those laws and regulations having an impact on the financial statements;
- We enquired of management, the Directors and the Audit Committee as to their identification of any non-compliance with laws or regulations, or any actual or potential claims as well as known, suspected or alleged frauds;
- We reviewed minutes f Board meetings throughout the period for any evidence of irregularities, including fraud:
- In relation to the risk of management override of internal controls we performed procedures to review journal entries processed during and subsequent to the year end and evaluating whether there was a risk of material misstatement due to fraud;
- We identified specific fraud risks with respect to the recoverability of the intercompany receivable, which has been included as a key audit matter and our audit response is set out in that section of our audit report; and
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it. A further description of our responsibilities is available on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of our report

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Young (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK
30 June 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT
For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Finance income	6	**118,721**	107,640
Finance costs	6	**(118,675)**	(107,631)
Profit before taxation		**46**	9
Taxation	7	**-**	-
Profit for the year		**46**	9
Profit attributable to shareholder		**46**	9

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Profit for the year		**46**	9
Items that may subsequently be recycled through the income statement			
Cash flow hedge:			
Fair value gains/(losses) on cash flow hedge	13	**4,006**	(23,252)
Reclassification of fair value gains included in profit and loss	6	**4,218**	19,509
Total other comprehensive profit/(loss)		**8,224**	(3,743)
Total comprehensive profit/(loss) for the year		**8,270**	(3,734)
Total comprehensive profit/(loss) attributable to shareholder		**8,270**	(3,734)

BALANCE SHEET
At 31 March 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Financial assets at amortised cost	8	**4,163,738**	3,383,023
		4,163,738	3,383,023
Current assets			
Financial assets at amortised cost	8	**46,879**	25,954
Other receivables		**6**	6
Cash and cash equivalents	9	**5,607**	33
		52,492	25,993
Total assets		**4,216,230**	3,409,016
Current liabilities			
Payables	10	**(36,529)**	(25,954)
Net current assets		**15,963**	39
Total assets less current liabilities		**4,179,701**	3,383,062
Non-current liabilities			
Loans and borrowings	11	**(4,160,229)**	(3,367,854)
Derivative financial instruments	13	**(14,623)**	(18,629)
Total liabilities		**(4,211,381)**	(3,412,437)
Net assets/(liabilities)		**4,849**	(3,421)
Capital and reserves			
Share capital	12	**50**	50
Hedging reserve		**1,250**	(6,974)
Retained earnings		**3,549**	3,503
Total equity		**4,849**	(3,421)

The accompanying Notes (1 to 18) should be read in conjunction with these financial statements. The annual financial statements of Annington Funding plc, registered number 10765119, were authorised for issue on 30 June 2022.

Signed on behalf of the Board of Directors

S Leung

Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2022

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2020	50	(3,231)	3,494	313
Profit for the year	-	-	9	9
Other comprehensive loss for the year	-	(3,743)	-	(3,743)
Balance at 31 March 2021	50	(6,974)	3,503	(3,421)
Profit for the year	**-**	**-**	**46**	**46**
Other comprehensive profit for the year	**-**	**8,224**	**-**	**8,224**
Balance at 31 March 2022	**50**	**1,250**	**3,549**	**4,849**

CASH FLOW STATEMENT
For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Cash generated from operations	15	**(125)**	-
Interest received from group undertakings		**110,757**	100,264
Interest paid		**(104,960)**	(108,032)
Net cash inflow/(outflow) from operating activities		**5,672**	(7,768)
Investing activities			
Purchase of preference shares		**(793,600)**	-
Loans to group undertakings		**-**	(800)
Net cash outflow from investing activities		**(793,600)**	(800)
Financing activities			
Proceeds from new borrowings		**800,000**	-
Debt issue costs		**(6,415)**	-
Net cash inflow from financing activities		**793,585**	-
Net increase/(decrease) in cash and cash equivalents		**5,657**	(8,568)
Cash and cash equivalents at the beginning of the year		**33**	8,546
Effect of exchange differences on cash and cash equivalents		**(83)**	55
Cash and cash equivalents at the end of the year	9	**5,607**	33

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. CORPORATE INFORMATION

Annington Funding plc ("the Company") is a company incorporated in the United Kingdom under the Companies Act 2006.

The Company is a private company limited by shares and is registered in England and Wales. The address of its registered office is 1 James Street, London W1U 1DR. Information on the Company's ultimate parent is presented in Note 18.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations as adopted by the United Kingdom. They have also been prepared in accordance with the Companies Act 2006.

The financial statements are presented in pound sterling, which is the functional currency of the Company. All values are rounded to the nearest thousand (£'000), except where otherwise indicated. They have been prepared on the historical cost basis, except for derivative financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policy below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the Directors' Report, which describe the financial position of the Company. The Company's objectives, policies and process for managing its capital; its financial risk management objectives and details of its financial instruments can be found in Note 14.

The Company holds seven tranches of corporate, unsecured bonds, totalling c.£3.8 billion, including the issue of two new tranches referred to below, and a term loan of £400 million, also unsecured. A revolving credit facility of £100 million is also available to the Company, which has never been drawn against and expires in 2025.

On 6 October 2021, the Company, issued two tranches of fixed rate notes of £400.0 million each under its £4 billion Euro Medium Term Note Programme. These mature in October 2032 and October 2051 and carry coupon rates of 2.308% and 2.924% respectively.

Critical to the Company's future as a going concern is the ability to service and repay this debt. For the foreseeable future, at least until the maturity of the Fixed Rate EUR Bonds in 2024, the Company only needs to pay the interest on the debt. The debt imposes a number of covenants that must be complied with, on a Group basis, under both the bonds and loan facility. The covenants attaching to the debt are:

Covenant	Test	Limit for Bonds	Limit for Loans	31 March 2022	31 March 2021
Limitation on Debt	Total debt / Total assets	<65%	<65%	46.7%	39.1%
Limitation on Secured Debt	Secured debt / Total assets	<40%	<40%	-	-
Interest Cover Ratio	EBITDA / Interest	1.0x (dividend lockup at 1.3x)	1.15x (dividend lockup at 1.3x)	1.54x	1.69x
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%	212.4%	253.8%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

As part of the debt raise during the year, the Company used the cash raised to subscribe for new redeemable preference shares in Annington Property Limited. The terms of the preference shares mirror the terms of the bonds in order to provide income to Annington Funding plc to service the interest payable on the bonds.

The Company also receives income on its loan from Annington Homes Limited, which is sufficient to meet the Company's debt obligations and the covenants as set out above. Additionally, this income is guaranteed by Annington Limited and Annington Property Limited. The Annington Limited group's forecasts do not indicate any of the above covenants will be breached in the foreseeable future. Further, the Group's forecasts do indicate that sufficient cash flow will be generated to cover payments of interest on its debt and generate significant additional free cash flows to allow for reinvestment or potential dividends to shareholders. Further, were this not possible, the undrawn revolving credit facility of £100 million provides additional liquidity to the Group to allow for its continued operation for the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they adopt the going concern basis in preparing the Annual Report and financial statements.

Significant judgements and key estimates

The preparation of the financial statements requires management to make judgements, 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 experience and other factors that are considered relevant. Actual results may differ from these estimates.

Further details regarding key sources of estimation uncertainty for the Company can be found at Note 8 regarding Loans receivable.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

New Standards, interpretations and amendments adopted as at 1 April 2021

The Company has adopted the new accounting standards, amendments or interpretations which have become effective as at 1 April 2021. Those that have impacted the Company's current accounting policies are described below:

Amendment to IFRS 9 *Financial instruments; Interest Rate Benchmark ("IBOR") Reform Phase 2*

Phase 2 amendments address any issues that arise once the existing Interest Rate Benchmarks have been replaced with an alternative rate. The Company has adopted the amendments relating to the IBOR reform from 1 April 2021 and transitioned from GBP LIBOR to SONIA (Sterling Overnight Index Average) during the year using the available practical expedients within the Phase 2 amendments. No adjustments were therefore required within the financial statements relating to this reform.

New Standards, interpretations and amendments issued not yet effective

At the date of authorisation of these financial statements, the following new and revised IFRSs have been issued and adopted by the UK Endorsement Board ('UKEB') but are not yet effective:

New/Amended Standards and Interpretations		**Effective date (annual periods beginning on or after)**
IFRS Improvements	2018-2020 Annual Improvements Cycle	1 January 2022
IAS 37 Amendments	Amendments to Costs of Fulfilling a Contract	1 January 2022
IFRS 9 Amendments	Amendment to Fees in the '10 per cent'Test for Derecognition of Financial Liabilities	1 January 2022

The following new and revised IFRSs have been issued, but not yet endorsed by the UKEB:

IAS 1 and IFRS Practice Statement 2	Amendments to Disclosure of Accounting Policies	1 January 2023
IAS 1 Amendments	Amendments to the Classification of Liabilities as current or Non-current	1 January 2023
IAS 8 Amendments	Amendments to Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Amendments to Deferred Tax from Single Transactions	1 January 2023

These standards and interpretations have not been early adopted by the Company and are not expected to have a material impact on its financial statements in future periods.

4. OPERATING PROFIT

The auditor's remuneration was £44,800 (2021: £42,500) for the audit of the Company's annual financial statements. No other services were provided by the auditor to the Company.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Company had no employees of its own during the year (2021: none). The directors of the Company are also directors of other Annington Limited group companies and were remunerated on a group-wide basis. The disclosures for directors' emoluments for the Group can be found in the Annington Limited financial statements. No amount has been allocated to the Company in both the current and preceding years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

6. FINANCE INCOME AND COSTS

ACCOUNTING POLICY

Interest income and dividends on redeemable preference shares are recognised over time, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs, including any transaction costs, are charged to the income statement using the effective interest rate method.

	2022 £'000	2021 £'000
Finance income		
Interest receivable on intercompany balances	**108,372**	107,640
Preference dividends	**10,349**	-
Total finance income	**118,721**	107,640
Finance costs		
Interest payable on unsecured fixed rate bonds	**107,988**	97,652
Amortisation of issue costs	**2,936**	2,438
Interest payable on term loan	**7,117**	7,214
Foreign exchange gain on financing	**(4,146)**	(19,564)
Transfer from equity for cash flow hedge	**4,218**	19,509
Other finance expenses	**562**	382
Total finance costs	**118,675**	107,631

7. TAXATION

ACCOUNTING POLICY

The taxation expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except when they relate to items that are recognised in other comprehensive income, in which case, they are also recognised in other comprehensive income.

Current tax

Current tax is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Taxable profit differs from profit before tax as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

7. TAXATION (continued)

A deferred tax asset of £3.7 million (2021: deferred tax asset £3.5 million) relating to losses arising on the fair value of derivative financial instruments of £14.6 million (2021: £18.6 million) has not been recognised as it is not probable that the Company will have sufficient future taxable income against which this deferred tax asset can be recovered. Deferred tax has been calculated at 25% (2021: 19%).

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2021: 19%). The charge for the year can be reconciled to profit before tax as follows:

	2022 £'000	**2021 £'000**
Profit before tax	**46**	9
Tax charge at the standard rate	**(9)**	(2)
Factors affecting the current tax for the year:		
Group relief surrendered	**(1,957)**	2
Income not assessed for tax	**1,966**	-
Taxation for the year	**-**	-

The rate of Corporation Tax for the UK remains at 19% for the year ended 31 March 2022. The 25% UK Corporation Tax Rate is substantively enacted with effective from 1 April 2023.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

8. FINANCIAL ASSETS AT AMORTISED COST

ACCOUNTING POLICY

Financial assets are initially recognised at fair value plus transaction costs. If the receivables fall within a "held to collect" business model and its contractual terms give rise to cash flows that are solely payments of principal and interest on that principal, they are subsequently measured at amortised cost using the effective interest method, less any impairment.

Key source of estimation uncertainty

In assessing the recoverability of loans receivable, assumptions and estimates are required to be made regarding the future activities and earnings of the counterparty. If these assumptions and estimates are not accurate, this could have a significant effect on the recoverability of the loan receivables presented below.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The loss allowance is measured at an amount equal to the lifetime expected credit losses.

	2022 £'000	2021 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	**33,650**	23,025
Dividends receivable on preference shares – group undertakings	**10,349**	-
Interest receivable on swaps	**2,880**	2,929
	46,879	25,954
Amounts falling due after more than one year		
Amounts owed by group undertakings	**3,370,138**	3,383,023
Redeemable preference shares – group undertakings	**793,600**	-
	4,163,738	3,383,023
Total financial assets at amortised cost	**4,210,617**	3,408,977
Amounts owed by group undertakings include:		
Unsecured, interest-bearing and no fixed date of repayment	**3,403,663**	3,406,048
Short-term receivable	**125**	-
	3,403,788	3,406,048

The recoverable amount of loans receivable from related parties are reviewed annually by reference to the borrower's balance sheet and expected future activities, with a provision recorded to the extent the loan is not considered recoverable. There has been no change in the estimation techniques used or increase in the lifetime expected credit losses of the financial asset in the current period. In assessing the expected credit loss the directors have considered, amongst other things, the potential impact of future interest rates and inflation within the economy and the impact of these on the borrower as well as the fact that there is no history of default. Interest is charged on the loan at a rate of 3.2322% (2021: 3.2123%). This rate is mutually agreed upon periodically. Unpaid interest balances are accrued within amounts owed by group undertakings; balances expected to be received in the next 12 months are shown separately. Short-term receivables relate to charges paid by the Company and recoverable from the counterparty. There are no balances past due and no impairment has been deemed necessary and the carrying value approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

8. FINANCIAL ASSETS AT AMORTISED COST (continued)

The Company holds 793,600,000 preference shares of £1 each in Annington Property Limited, a fellow subsidiary of the Annington group. These were issued in October 2021 in two tranches as set out below. Preference dividends are cumulative and are accrued at the dividend rate as shown within the table below.

Par value (£)	Final Maturity	Dividend
397,560,000	6-Oct-32	2.378%
396,040,000	6-Oct-51	2.987%

Unpaid dividends are expected to be received within the next 12 months and are accrued within current financial assets. The investment was reviewed by reference to the issuer's balance sheet and expected future activities, with a provision only recorded to the extent the loan is not considered recoverable. No impairment has been deemed necessary.

The fair value of the redeemable preference shares has been calculated at £716.1 million by applying the risk adjusted market yield for the corresponding external debt to the expected cash flows of the instruments. This falls constitutes a Level 3 valuation within the fair value hierarchy as described in note 11. Discount rates of 3.239% and 3.649% were applied to the 2032 and 2051 tranches, respectively. A 1% increase/decrease in discount rates applied would have resulted in the fair value decreasing by £89.9 /increasing by £109.9 million, respectively.

9. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash at bank. Cash and cash equivalents are limited to instruments with a maturity of less than three months.

	2022 £'000	2021 £'000
Cash at bank	**5,607**	33

10. PAYABLES

ACCOUNTING POLICY

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2022 £'000	2021 £'000
Amounts falling due within one year		
Accrued interest	**36,370**	25,799
Other accruals	**159**	155
	36,529	25,954

The carrying value of payables approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

11. LOANS AND BORROWINGS

ACCOUNTING POLICY

Loans and borrowings are initially recognised at fair value less the transaction costs directly attributable to their issue. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method, such that discounts and costs are charged to the income statement over the term of the borrowing at a constant return on the carrying amount of the liability. The debt is classified as current and non-current based on the contractual payments required within 12 months of the balance sheet date.

	2022 £'000	2021 £'000
Amounts falling due between one and five years		
Unsecured bonds	**1,128,943**	1,132,065
Unsecured term loan	**397,564**	396,414
	1,526,507	1,528,479
Amounts falling due after five years		
Unsecured bonds	**2,633,722**	1,839,375
Total loans and borrowings	**4,160,229**	3,367,854

The Company holds seven tranches of corporate, unsecured bonds, totalling c.£3.8 billion, including the issue of two new tranches referred to below, and a term loan of £400 million, also unsecured. A revolving credit facility is also available to the Company, which has never been drawn against.

On 6 October 2021, the Company, issued two tranches of fixed rate notes of £400.0 million each under its £4 billion Euro Medium Term Note Programme. These mature in October 2032 and October 2051 and carry coupon rates of 2.308% and 2.924% respectively.

The Company had issued the bonds in the following denominations, maturities and fixed interest rates:

Principal Amount	Currency	Final Maturity	Coupon
600m	EUR (€)	12-Jul-24	1.650%*
625m	GBP (£)	12-Jul-25	2.646%
600m	GBP (£)	12-Jul-29	3.184%
400m	GBP (£)	06-Oct-32	2.308%
625m	GBP (£)	12-Jul-34	3.685%
625m	GBP (£)	12-Jul-47	3.935%
400m	GBP (£)	06-Oct-51	2.924%

Cross currency swaps are in place for the €600 million bond, converting the nominal balance to £526.26 million. These swaps also mitigate volatility of foreign currency movements in future interest and capital repayments. The function of these swaps increases the effective interest rate of the Euro Tranche debt to 2.764%, fixed for the life of the bond.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

11. LOANS AND BORROWINGS (continued)

The debt imposes a number of covenants that must be complied with under both the bonds and loan facility and are calculated based on the results and financial position of the wider Annington group. The covenants attaching to the debt are:

Covenant	Test	Limit for Bonds	Limit for Loans	31 March 2022	31 March 2021
Limitation on Debt	Total debt / Total assets	<65%	<65%	46.7%	39.1%
Limitation on Secured Debt	Secured debt / Total assets	<40%	<40%	-	-
Interest Cover Ratio	EBITDA / Interest	1.0x (dividend lockup at 1.3x)	1.15x (dividend lockup at 1.3x)	1.54x	1.69x
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%	212.4%	253.8%

The Company's forecasts do not indicate any of these covenants will be breached in the foreseeable future.

Reconciliation of movement

	31 March 2022 £'000	Amortisation of debt issue costs £'000	Foreign Exchange Revaluation adjustment £'000	Cost of new debt £'000	31 March 2021 £'000
Fixed Rate EUR Bonds 2024	**505,868**	**471**	**(4,146)**	**-**	509,543
Fixed Rate GBP Bonds 2025	**623,075**	**553**	**-**	**-**	622,522
Fixed Rate GBP Bonds 2029	**597,299**	**324**	**-**	**-**	596,975
Fixed Rate GBP Bonds 2032	**397,649**	**96**	**-**	**397,553**	-
Fixed Rate GBP Bonds 2034	**621,625**	**213**	**-**	**-**	621,412
Fixed Rate GBP Bonds 2047	**621,077**	**89**	**-**	**-**	620,988
Fixed Rate GBP Bonds 2051	**396,072**	**40**	**-**	**396,032**	-
Term Loan 2025	**397,564**	**1,150**	**-**	**-**	396,414
	4,160,229	**2,936**	**(4,146)**	**793,585**	3,367,854

Fair values

The fair values of the Company's borrowings and interest rate swaps are determined by a Level 2 valuation technique.

This fair value measurement hierarchy level is specified in accordance with IFRS 13 'Fair Value Measurement'. The levels are defined 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 (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

11. LOANS AND BORROWINGS (continued)

	2022 Par value £'000	2022 Balance sheet value £'000	2022 Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	**(3,801,260)**	**(3,762,665)**	**(3,717,708)**
Unsecured term loan	**(400,000)**	**(397,564)**	**(400,000)**
	(4,201,260)	**(4,160,229)**	**(4,117,708)**
Derivative financial liability			
Cross currency swap	**-**	**(14,623)**	**(14,623)**
Total financial liabilities	**(4,201,260)**	**(4,174,852)**	**(4,132,331)**

	2021 Par value £'000	2021 Balance sheet value £'000	2021 Fair value £'000
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	(3,001,260)	(2,971,440)	(3,305,205)
Unsecured term loan	(400,000)	(396,414)	(400,000)
	(3,401,260)	(3,367,854)	(3,705,205)
Derivative financial assets			
Cross currency swaps	-	(18,629)	(18,629)
Total financial liabilities	(3,401,260)	(3,386,483)	(3,723,834)

Unsecured bonds
The volume of market trades of the Company's bonds is not considered sufficient to be an active market. Therefore, listed bonds have been fair valued by a third party valuer using a spread to a reference gilt curve. The reference gilt curve is based upon observable market data. The spread is determined with reference to comparable sector bond pricing. This represents a Level 2 fair value measurement.

Unsecured term loan
This loan relates to a £400 million unsecured bank loan, maturing in March 2025. The loan is based on a variable market-based rate and book value therefore approximates fair value.

Cross currency swaps
The fair value of derivative financial instruments is based on valuations by an independent valuer using the present value of estimated future cash flows, which are discounted using the applicable yield curves derived from quoted interest rates as at 31 March 2022.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

12. SHARE CAPITAL

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

Upon incorporation, 50,000 ordinary shares of £1 each were allotted.

13. DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

The Company uses derivative financial instruments to reduce exposure to foreign exchange rate risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Changes in the fair value are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting

Hedges of foreign currency exchange risk on firm commitments are accounted for as cash flow hedges. The relationship between the hedging instrument and the hedged item, along with its risk management objective and its strategy for undertaking hedge transactions is documented at the inception of the hedge relationship.

Additionally, on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributed to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income ("OCI") and accumulated in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the year when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

The Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria.

The Company holds cross currency swaps of €600 million, converting the nominal balance to £526.26 million. These swaps mitigate the volatility of foreign currency movements in future interest and capital payments on its Euro denominated bonds. The hedge is considered highly effective as per the currency risk assessment in Note 14 and the Company continues to apply hedge accounting with respect to these swaps.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2022 £'000	2021 £'000
Financial liability measured at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	**(14,623)**	(18,629)

Reconciliation of movements

	2022 £'000	Revaluation adjustment £'000	2021 £'000
Cross currency swap liability	**(14,623)**	**4,006**	(18,629)
Total derivative financial instruments	**(14,623)**	**4,006**	(18,629)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

ACCOUNTING POLICY

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value and net of directly attributable transaction costs as appropriate.

The Company has the following financial instruments:

	Note	2022 £'000	2021 £'000
Financial assets			
Financial assets at amortised cost	8	**4,210,617**	3,408,977
Cash and cash equivalents	9	**5,607**	33
Total financial assets		**4,216,224**	3,409,010
Financial liabilities			
Liabilities measured at amortised cost:			
Payables	10	**36,529**	25,954
Loans and borrowings	11	**4,160,229**	3,367,854
Liabilities measured at fair value through OCI:			
Cross currency swaps	13	**14,623**	18,629
Total financial liabilities		**4,211,381**	3,412,437

Exposure to credit, liquidity, and interest rate risks arise in the normal course of the Company's business activities. Derivative financial instruments are in place to manage exposure to fluctuations in exchange rates but are not employed for speculative purposes.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit Risk

The Company's principal financial assets are cash and cash equivalents and amounts due from group undertakings.

The Company’s exposure to credit risk is assessed as low as this is primarily attributed to its receivables, which consists principally of an intercompany loan to AHL and redeemable preference shares in APL. AHL indirectly holds a portfolio of c.40,000 homes, the majority of which form part of the Retained Estate. These are homes that were originally acquired from the Ministry of Defence of the United Kingdom (“MoD”) via 999-year leases and subsequently leased back to them on a 200 year under lease. The rent is paid in advance and the MoD does not have a history of payment default.

Credit risk on cash and deposits is managed in accordance with Group Treasury Policy and risk is minimised by using banks identified as low risk according to Credit Agency ratings. The maximum amount of funds that can be placed with any one institution is also limited. The banks and criteria are reviewed and updated periodically to ensure they reflect the prevailing market conditions. Counterparty credit risk with respect to cash and deposits is assessed as low, as cash balances are held with banks with at least an upper medium grade rating.

The Company also holds cross currency swaps with Barclays Bank plc, JP Morgan Securities plc, Goldman Sachs Bank USA and Banco Santander SA (London Branch). The Company’s exposure to counterparty credit risk with respect to these derivatives is assessed as low, as each of the counterparties holds at least an upper medium grade rating.

The carrying amount of financial assets recorded in the financial statements represents the Company’s maximum exposure to credit risk.

Debt Management

The Company's borrowings are through the issue of various classes of unsecured corporate bonds as well as an unsecured term loan.

There is a £100 million five year revolving borrowing facility in place to ensure that there is no default in the repayment of the borrowing and interest to the bondholders.

Capital Risk Management

The capital is managed at a Group level to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt and equity. Net debt includes loans and borrowings (Note 11) and cash, cash equivalents, and equity comprises equity attributable to equity holders of the Company, being issued share capital, reserves and retained earnings (Note 12).

The debt has a number of covenants to comply with under both the bonds and loan facility. Refer to Note 11 for the covenants attaching to the debt.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Currency risk

The Company holds a 7 year unsecured euro bond of €600 million expiring July 2024. To hedge against fluctuations in the Euro to Pound Sterling exchange rate, the Company entered into a cross currency swap of €600 million, converting the nominal balance to £526.26 million. These swaps mitigate the volatility of foreign currency movements in future interest and capital payments. The function of this swap increases the effective interest rate of Euro Tranche debt to 2.764%. The hedge is in line with the Group Treasury Policy whereby the Company should look to put in place hedges covering 50-100% of the FX risk arising from foreign currency debt, to the extent that foreign currency debt exceeds £50 million in aggregate.

Currency risk sensitivity analysis

The impact of a hypothetical strengthening/weakening of pound sterling against the Euro for both derivatives and non-derivatives, with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown below:

	Strengthening 5%		**Weakening 5%**	
	Gains/(losses) in income statement	**Gains/(losses) included in equity**	**Gains/(losses) in income statement**	**Gains/(losses) included in equity**
	£'000	**£'000**	**£'000**	**£'000**
2022	**-**	**(2,382)**	**-**	**(159)**

	Strengthening 10%		Weakening 10%	
	Gains/(losses) in income statement	Gains/(losses) included in equity	Gains/(losses) in income statement	Gains/(losses) included in equity
	£'000	£'000	£'000	£'000
2021	-	(9,317)	-	2,950

Interest rate risk management

Annington Funding plc has a relatively low interest rate risk as the majority of the Company's borrowings are at fixed interest rates. The term loan is the only instrument that has a floating interest rate (LIBOR + 1.6% up to December 2021 and spread adjusted SONIA + 1.6% from January 2022). The term loan is for a value of £400 million, maturing in 2025.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest Rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The impact of a hypothetical increase/decrease in interest rates with all other variables constant, would have increased/(decreased) equity and profit by the amounts shown below:

	100 bps increase		**100 bps decrease**	
	Gains/(losses) in income statement	**Gains/(losses) included in equity**	**Gains/(losses) in income statement**	**Gains/(losses) included in equity**
	£'000	**£'000**	**£'000**	**£'000**
2022	**(3,987)**	**(420)**	**763**	**(17)**

	50 bps increase		50 bps decrease	
	Gains/(losses) in income statement	Gains/(losses) included in equity	Gains/(losses) in income statement	Gains/(losses) included in equity
	£'000	£'000	£'000	£'000
2021	(2,008)	(197)	719	222

The bps decrease in interest rate is subject to a floor of 0% + 1.6% margin.

Cash Management and Liquidity

Cash levels are monitored at a group level to ensure sufficient resources are available to meet the individual entities and Group's current and projected operational commitments. Annington Funding plc provides funding to Annington Homes Limited which in turn provides intercompany loans at fixed interest rates to other entities in the Group.

The company holds a £100 million liquidity facility that was undrawn as at 31 March 2022 (2021: £100 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk and financial maturity analysis

In respect of the net non-derivative financial liabilities, the following table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay or receive monies. The table includes both interest and principal cash flows.

		2022		
	Total £'000	**Less than one year £'000**	**One to five years £'000**	**More than five years £'000**
Non-derivative financial liabilities				
Payables	**159**	**159**	**-**	**-**
Loans and borrowings	**5,806,450**	**121,830**	**1,962,162**	**3,722,458**
Total non-derivative financial liabilities	**5,806,609**	**121,989**	**1,962,162**	**3,722,458**
Net payments for derivative financial instruments				
Cross currency swaps	**30,494**	**6,179**	**24,315**	**-**
Total derivative financial instruments	**30,494**	**6,179**	**24,315**	**-**

		2021		
	Total £'000	**Less than one year £'000**	**One to five years £'000**	**More than five years £'000**
Non-derivative financial liabilities				
Payables	155	155	-	-
Loans and borrowings	4,646,806	98,191	1,907,220	2,641,395
Total non-derivative financial liabilities	4,646,961	98,346	1,907,220	2,641,395
Net payments for derivative financial instruments				
Cross currency swaps	32,254	6,111	26,143	-
Total derivative financial instruments	32,254	6,111	26,143	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

15. NOTES TO CASH FLOW STATEMENT

	2022 £'000	2021 £'000
Profit after taxation	**46**	9
Adjustment for:		
Finance costs	**118,675**	107,631
Finance income	**(118,721)**	(107,640)
Movements in working capital:		
Increase in receivables	**(125)**	-
Cash generated from operations	**(125)**	-

16. ANALYSIS OF CHANGES IN NET DEBT

	2022 £'000	Cash flow £'000	Other non-cash changes £'000	2021 £'000
Cash and cash equivalents	**5,607**	**5,657**	**(83)**	**33**
Unsecured notes	**(3,762,665)**	**(793,585)**	**2,360**	**(2,971,440)**
Unsecured term loan	**(397,564)**	**-**	**(1,150)**	**(396,414)**
Net debt	**(4,154,622)**	**(787,928)**	**1,127**	**(3,367,821)**

	2021 £'000	Cash flow £'000	Other non-cash changes £'000	2020 £'000
Cash and cash equivalents	33	(8,556)	43	8,546
Unsecured notes	(2,971,440)	-	17,971	(2,989,411)
Unsecured term loan	(396,414)	-	(704)	(395,710)
Net debt	(3,367,821)	(8,556)	17,310	(3,376,575)

Non-cash changes include amortisation of issue costs relating to debt issuance and foreign exchange gains and losses on translation of Euro denominated debt (see Note 11).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

17. RELATED PARTY DISCLOSURES

During the year, the Company had amounts due to and owed by group undertakings and recognised finance income related to these balances under the terms detailed in Note 8 and 10.

The following transactions with related parties where entered into during the year:

	2022 £'000	2021 £'000
Immediate Parent		
Annington Homes Limited – finance income	**108,372**	107,640
Fellow subsidiary		
Annington Property Limited – preference share dividend	**10,349**	-
	118,721	107,640

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2022

17. RELATED PARTY DISCLOSURES (continued)

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties	
	2022	**2021**
	£'000	**£'000**
Immediate Parent		
Annington Homes Limited – intercompany loan	**3,403,663**	3,406,048
Annington Homes Limited – short-term receivable	**125**	-
Fellow subsidiary		
Annington Property Limited – redeemable preference shares	**793,600**	-
Annington Property Limited – redeemable preference dividend	**10,349**	-
	4,207,737	3,406,048

The intercompany loan balance outstanding from Annington Homes Limited relates to a loan provided by Annington Funding plc with no set redemption date and at an interest rate of 3.232% (2021: 3.2123%) per annum. An annual fee of £10,000 (2021: £10,000) is payable to Annington Funding plc by Annington Homes Limited for administration services. The short-term receivable relates to costs paid on Annington Homes Limited's behalf.

The Company holds 793,600,000 preference shares of £1 each in Annington Property Limited, a fellow subsidiary of the Annington group. These were issued in October 2021 in two tranches maturing in 2032 and 2051 and preference dividends are cumulative and are accrued at rates of 2.378% and 2.987% on par value respectively.

18. ENTITY INFORMATION AND CONTROLLING PARTY

The Company is incorporated in the United Kingdom and the address of its registered office is 1 James Street, London W1U 1DR.

Annington Homes Limited, a company incorporated in the United Kingdom, is the immediate parent company.

The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.

Annington Limited is the parent company of the largest and smallest group of which the Company is a member and for which Group financial statements are drawn up. The Annual Report and Financial Statements for Annington Limited are available on request from the registered office at 1 James Street, London W1U 1DR.

REGISTERED OFFICE

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