Company Registration No. 10765119

ANNINGTON FUNDING PLC

Annual Report and Financial Statements

For the year ended 31 March 2021

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

CONTENTS

STRATEGIC REPORT

The principal activity of Annington Funding plc ("the Company") during the year was the financing of the Annington Limited group ("the Group") via an intercompany loan to Annington Homes Limited ("AHL").

BUSINESS REVIEW

The Company was incorporated on 11 May 2017. In July 2017 the Company issued c.£3.0 billion of corporate, unsecured bonds, in both euros and pound sterling. In addition, a term loan totalling £400 million was drawn down. The Company then entered into an agreement to lend £3.4 billion to AHL, which in turn provides this funding to the rest of the Group.

On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility was thereby extended to March 2025, from July 2022, whilst the undrawn revolving credit facility was reduced to £100 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date.

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's result for the year after taxation is a profit of £0.01 million (2020: £0.01 million), in line with expectations, and had net liabilities of £3.4 million at 31 March 2021 (2020: net assets of £0.3 million). The variation in net assets/liabilities is a result of the fluctuation in the fair values of the cross currency swaps, which are held to hedge foreign currency risk on Euro denominated bonds. Other Comprehensive Income includes the fair value loss on swaps of £23.3 million (2020: gain of £9.3 million) with the foreign exchange gain on bonds of £19.5 million (2020: loss of £13.6 million) partially offsetting this amount. Further information on financial risk management can be found in Note 14 to the Financial Statements. The directors consider profit after tax and net assets as key indicators of the Company's performance.

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 that need 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 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 amendment and extension of the term loan, which extended the maturity of the £400 million unsecured term loan from July 2022 to March 2025. 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 2021.

ANNINGTON FUNDING PLC

STRATEGIC REPORT

FUTURE DEVELOPMENTS

The economic impact of Britain exiting the European Union is still subject to some degree of uncertainty. 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 risks arising from Brexit.

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. Interest rate sensitivities are provided in Note 14 to the financial statements to illustrate possible effects.

The Company and its loan issuers will be replacing GBP LIBOR with SONIA (Sterling Overnight Index Average). The parties are in discussions regarding the timing and mechanics of replacing GBP LIBOR with SONIA with respect to its loan agreements. The impact of this transition has not yet been determined and the Group will continue to review new information as it becomes available from the reform project.

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

27 August 2021

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 2021.

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
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 two non-executive directors 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 (2020: £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 2021.

DIRECTORS' REPORT (continued)

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.

KPMG LLP resigned from its role as statutory auditor, effective 28 January 2021. The resignation flows from the Directors of the Company wishing to be able to engage KPMG in other non-audit services. BDO LLP was appointed as auditor for the year ending 31 March 2021.

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

S Leung
Director
27 August 2021

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 international accounting standards in conformity with the requirements of the Companies Act 2006 as adopted by the United Kingdom. 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 the requirements of the Companies Act 2006, 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;
- 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 2021 and of the Company's profit for the year then ended;
- the Company's financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the financial statements 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 2021, 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

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 ending 31 March 2021 and subsequent financial periods. This is our first 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 management 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 management to the Company's financial forecasts and covenants and assessing the accuracy of the forecasted cash flows with reference to budgeted and historic performance and our knowledge of the client 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

Key audit matters	KAM 1	2021 Recoverability of intercompany receivables
Materiality	Company Financial statements as a whole £34m based on 1% of Gross 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. These matters were 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 these matters.

Key audit matter		How the scope of our audit addressed the key audit matter
Recoverability of intercompany receivables Refer to note 8 for accounting policy and disclosure.	The principal asset on the balance sheet is the loan receivable from Annington Homes Limited. At each reporting date, the Directors are required to assess the recoverability of the intercompany loan receivable. There is a risk that management may influence the significant judgements and estimates in respect of the expected credit loss model in order to achieve an increased gross asset position and we considered this to be a key audit matter.	We assessed the valuation and impairment of the loan receivable held at amortised cost derived using the Effective Interest Rate (EIR). We audited the year end disclosed value by reperforming the amortised cost calculation. We challenged management's expected credit loss assessment, specifically the assumptions and judgements made, by carrying out an impairment assessment with reference to the financial condition of the underlying borrower based on the most recent relevant audited annual financial statements for the December 2019 financial period, unaudited financial information for the December 2020 financial period and property valuations, including assessing the impact of Covid-19 on their operations by verification of valuations to available market data on similar assets. Furthermore, we validated the completeness, accuracy and integrity of the amortisation schedule by agreeing inputs to third party documentation such as financial information of the counterparty as well as independent property valuation reports. 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: Our testing indicated no material issues noted over the recoverability of intercompany financial assets.

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:

	2021
Materiality	£34m
Basis for determining materiality	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.
Performance materiality	£20.4m
Basis for determining performance materiality	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 £2.15m for these items based on 2% of interest receivable. We further applied a performance materiality level of 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 £0.68m. 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

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 Company 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

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 and the Audit Committee as to their identification of any non-compliance with laws or regulations, or any actual or potential claims;
- 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 assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. 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
27 August 2021

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

INCOME STATEMENT
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Finance income	6	107,640	110,919
Finance costs	6	(107,631)	(110,909)
Profit before taxation		9	10
Taxation	7	-	-
Profit for the year		9	10
Profit attributable to shareholder		9	10

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Profit for the year		9	10
Items that may subsequently be recycled through the income statement			
Cash flow hedge:			
Fair value (losses)/gains on cash flow hedge	13	(23,252)	9,270
Reclassification of fair value gains/(losses) included in profit and loss	6	19,509	(13,628)
Total other comprehensive loss		(3,743)	(4,358)
Total comprehensive loss for the year		(3,734)	(4,348)
Total comprehensive loss attributable to shareholder		(3,734)	(4,348)

BALANCE SHEET
At 31 March 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Receivables	8	3,383,023	3,374,690
Derivative financial instruments	13	-	4,623
		3,383,023	3,379,313
Current assets			
Receivables	8	25,960	26,335
Cash and cash equivalents	9	33	8,546
		25,993	34,881
Total assets		3,409,016	3,414,194
Current liabilities			
Payables	10	(25,954)	(28,760)
Net current assets		39	6,121
Total assets less current liabilities		3,383,062	3,385,434
Non-current liabilities			
Loans and borrowings	11	(3,367,854)	(3,385,121)
Derivative financial instruments	13	(18,629)	-
Total liabilities		(3,412,437)	(3,413,881)
Net (liabilities)/assets		(3,421)	313
Capital and reserves			
Share capital	12	50	50
Hedging reserve		(6,974)	(3,231)
Retained earnings		3,503	3,494
Total equity		(3,421)	313

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 27 August 2021.

Signed on behalf of the Board of Directors

S Leung
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2021

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	50	1,127	3,484	4,661
Profit for the year	-	-	10	10
Other comprehensive loss for the year	-	(4,358)	-	(4,358)
Balance at 31 March 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)

CASH FLOW STATEMENT
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Cash generated from operations	15	-	9
Interest received from group undertakings		100,264	116,798
Interest paid		(108,032)	(108,329)
Net cash (outflow)/inflow from operating activities		(7,768)	8,478
Investing activities			
Loans to group undertakings		(800)	-
Net cash outflow from investing activities		(800)	-
Net (decrease)/increase in cash and cash equivalents		(8,568)	8,478
Cash and cash equivalents at the beginning of the year		8,546	113
Effect of exchange differences on cash and cash equivalents		55	(45)
Cash and cash equivalents at the end of the year	9	33	8,546

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2021

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 the international accounting standards in conformity with the requirements of the Companies Act 2006 as adopted by the United Kingdom. They have been prepared in accordance with the wider requirements of 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 five tranches of corporate, unsecured bonds, totalling c.£3.0 billion 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 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility was extended to March 2025, from July 2022, whilst the undrawn revolving credit facility was reduced to £100 million from £300 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date.

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
Limitation on Debt	Total debt / Total assets	<65%	<65%
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)
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

The Company 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 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.

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

New Standards, interpretations and amendments adopted as at 1 April 2020

The Company has adopted the new accounting standards, amendments or interpretations which have become effective as at 1 April 2020. 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 1*

The Phase 1 amendments provide relief to specific hedge accounting requirements for hedging relationships that are affected by the IBOR reform. The Company's £400 million unsecured term loan incurs interest at a floating interest rate of LIBOR + 1.6%. However, the Company has not entered into any interest rate hedging relationships, therefore no new or additional disclosures are required as a result of the reliefs provided under Phase 1 of the reform. Phase 2 of the project will address any issues that arise once the existing Interest Rate Benchmarks have been replaced with an alternative rate. Phase 2 comes into effect on periods beginning on or after 1 January 2021.

The Company and its loan issuers will be replacing GBP LIBOR with SONIA (Sterling Overnight Index Average). The Company is in discussions with its loan issuers regarding the timing and mechanics of replacing GBP LIBOR with SONIA with respect to its loan agreements. The impact of this transition has not yet been determined and the Group will continue to review new information as it becomes available from the reform project.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS (continued)

New Standards, interpretations and amendments issued not yet effective

At the date of authorisation of these financial statements, a number of new and revised standards and amendments have been issued and adopted by the UKEB but are not yet effective, these include:

New/Amended Standards and Interpretations		**Effective date (annual periods beginning on or after)**
IFRS 9, IAS 39, IFRS 14, IFRS 16, and IFRS 7 Amendments	Interest Rate Benchmark Reform Phase 2 Amendments	1 January 2021
IFRS Improvements	2018-2020 Annual Improvements Cycle	1 January 2022
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 £42,500 (2020: £38,625) for the audit of the Company's annual financial statements. No other services were provided by the auditor to the Company. During the year, BDO LLP was appointed as auditor of the Company. Previously this position was held by KPMG LLP.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Company had no employees of its own during the year (2020: 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 2021

6. FINANCE INCOME AND COSTS

ACCOUNTING POLICY

Interest income is 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.

	2021 £'000	2020 £'000
Finance income		
Interest receivable on intercompany balances	107,640	110,919
Finance costs		
Interest payable on unsecured fixed rate bonds	97,652	97,958
Amortisation of issue costs	2,438	2,483
Interest payable on term loan	7,214	9,179
Foreign exchange (gain)/loss on financing	(19,564)	13,673
Transfer from/(to) equity for cash flow hedge	19,509	(13,628)
Other finance expenses	382	1,244
Total finance costs	107,631	110,909

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 2021

7. TAXATION (continued)

A deferred tax asset of £3.5 million (2020: £nil) relating to losses arising on the fair value of derivative financial instruments of £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. These losses do not expire. Deferred tax has been calculated at 19%.

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2020: 19%). The charge for the year can be reconciled to profit before tax as follows:

	2021 £'000	**2020 £'000**
Profit before tax	9	10
Tax charge at the standard rate	(2)	(2)
Factors affecting the current tax for the year:		
Group relief claimed	2	2
Taxation for the year		-

The rate of Corporation Tax for the UK remains at 19% for the year ended 31 March 2021. The new 25% UK Corporation Tax Rate from April 2023 onwards was published on 11 March 2021 and completed its scrutiny in the House of Commons on 24 May 2021, and then the Finance Act 2021 received Royal Assent on 10 June 2021. The March 2021 calculation of current and deferred tax continues to use the 19% rate as a result of the new 25% Corporation Tax Rate not being substantively enacted at 31 March 2021.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

8. RECEIVABLES

ACCOUNTING POLICY

Receivables are initially recognised at fair value. 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.

	2021 £'000	2020 £'000
Amounts falling due within one year		
Amounts owed by group undertakings	23,025	23,181
Interest receivable on swaps	2,929	3,148
Prepayments	6	6
	25,960	26,335
Amounts falling due after more than one year		
Amounts owed by group undertakings	3,383,023	3,374,690
Total receivables	3,408,983	3,401,025

Amounts due to the Company by group undertakings include:		
Unsecured, interest-bearing and no fixed date of repayment	3,406,048	3,397,871

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. Interest is charged on the loan at a rate of 3.2123% (2020: 3.3035%). Unpaid interest balances are accrued within amounts owed by group undertakings; balances expected to be received in the next 12 months are shown separately. There are no balances past due and no impairment has been deemed necessary.

The carrying value of receivables approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

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.

	2021 £'000	2020 £'000
Cash at bank	33	8,546

10. PAYABLES

ACCOUNTING POLICY

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

	2021 £'000	2020 £'000
Amounts falling due within one year		
Accrued interest	25,799	26,330
Other accruals	155	2,430
	25,954	28,760

The carrying value of payables approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

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.

Loan modifications are subject to a 10% test to determine whether modifications are substantial. If the present values of cash flows under the modified terms are at least 10% different to the remaining cash flows of the liability prior to modification, both discounted at the original effective interest rate, this is a substantial modification and the original liability would be derecognised, alongside the recognition of a new loan. Should the difference be less than 10%, this is classified as a non-substantial modification. A gain or loss on modification is recognised in the income statement, equal to the difference between the present values of the cash flows as previously calculated, and adjusted for fees paid to the lender. The carrying value of the loan is revised to reflect the new cash flows, directly attributable transaction costs and any cash paid or received from the counterparty, and discounted at the original effective interest rate.

	2021 £'000	2020 £'000
Amounts falling due between one and five years		
Unsecured bonds	1,132,065	528,656
Unsecured term loan	396,414	395,710
	1,528,479	924,366
Amounts falling due after five years		
Unsecured bonds	1,839,375	2,460,755
Total loans and borrowings	3,367,854	3,385,121

The Company holds five tranches of corporate, unsecured bonds, totalling c.£3.0 billion 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 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into. The maturity of the term loan and the revolving credit facility was extended to March 2025, from July 2022, whilst the undrawn revolving credit facility was reduced to £100 million from £300 million. This agreement became effective on 1 April 2020, with the modifications applicable from that date. The additional issue costs relating to that transaction, totalling £2.1 million, were capitalised in the previous financial year in advance of the effective date as these were incurred prior to the 31 March 2020 year end. A gain on modification of £0.1 million has been recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

11. LOANS AND BORROWINGS (continued)

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

Currency	**Sterling (£)**				**Euro (€)**
Principal Amount	625m	600m	625m	625m	600m
Final Maturity	12-Jul-25	12-Jul-29	12-Jul-34	12-Jul-47	12-Jul-24
Coupon	2.646%	3.184%	3.685%	3.935%	1.650%

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.

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
Limitation on Debt	Total debt / total assets	<65%	<65%
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)
Unencumbered Assets	Unencumbered assets / unsecured debt	>125%	>125%

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

Reconciliation of movement

	31 March 2021 £'000	Amortisation of debt issue costs £'000	Foreign Exchange Revaluation adjustment £'000	Gain on debt modification £'000	31 March 2020 £'000
Fixed Rate EUR Bonds 2024	509,543	462	(19,575)	-	528,656
Fixed Rate GBP Bonds 2025	622,522	538	-	-	621,984
Fixed Rate GBP Bonds 2029	596,975	313	-	-	596,662
Fixed Rate GBP Bonds 2034	621,412	205	-	-	621,207
Fixed Rate GBP Bonds 2047	620,988	86	-	-	620,902
Term Loan 2025	396,414	834	-	(130)	395,710
	3,367,854	2,438	(19,575)	(130)	3,385,121

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

12. SHARE CAPITAL

	2021 £'000	2020 £'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 2021

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2021 £'000	2020 £'000
Financial asset measured at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	-	4,623
Financial liability measured at fair value through OCI		
Cross currency swaps that are in designated hedge accounting relationships	(18,629)	-

Reconciliation of movements

	2021 £'000	Revaluation adjustment £'000	2020 £'000
Cross currency swap (liability)/asset	(18,629)	(23,252)	4,623
Total derivative financial instruments	(18,629)	(23,252)	4,623

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.

Financial assets

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.

Financial liabilities

The Company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Company has the following financial instruments:

	Note	2021 £'000	2020 £'000
Financial assets			
Cash and receivables at amortised cost:			
Receivables	8	3,408,977	3,401,019
Cash and cash equivalents	9	33	8,546
Assets measured at fair value through OCI:			
Cross currency swaps	13	-	4,623
Total financial assets		3,409,010	3,414,188
Financial liabilities			
Liabilities measured at amortised cost:			
Payables	10	25,954	28,760
Loans and borrowings	11	3,367,854	3,385,121
Liabilities measured at fair value through OCI:			
Cross currency swaps	13	18,629	-
Total financial liabilities		3,412,437	3,413,881

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.

Credit Risk

The Company's principal financial assets are cash and cash equivalents and trade and other receivables.

The Company's exposure to credit risk is assessed as low as this is primarily attributed to its trade and other receivables, which consists principally of an intercompany loan to AHL. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Debt Management

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

Effective 1 April 2020, there is a £100 million (reduced from £300 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.

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 10%		Weakening 10%	
	Gains/(losses) in consolidated income statement (£‘000)	Gains/(losses) included in equity (£‘000)	Gains/(losses) in consolidated income statement (£‘000)	Gains/(losses) included in equity (£‘000)
2021	-	(9,317)	-	2,950
2020	-	(7,074)	-	6,141

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 of LIBOR + 1.6%. The term loan is for a value of £400 million, originally maturing in 2022, but has been extended to 2025, effective 1 April 2020.

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:

	50 bps increase		50 bps decrease	
	Gains/(losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)	Gains/(losses) in consolidated income statement (£'000)	Gains/(losses) included in equity (£'000)
2021	(2,008)	(197)	719	222
2020	(696)	(346)	706	345

The 50bps 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 2021 (2020: £300 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

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.

	2021			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other 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	-

	2020			
	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
Non-derivative financial liabilities				
Trade and other payables	2,431	2,431	-	-
Loans and borrowings	4,753,991	100,807	1,311,791	3,341,393
Total non-derivative financial liabilities	4,756,422	103,238	1,311,791	3,341,393
Net payments for derivative financial instruments				
Cross currency swaps	17,175	5,788	11,387	-
Total derivative financial instruments	17,175	5,788	11,387	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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).

	2021		
	Par value of debt £'000	**Balance sheet value £'000**	**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 liability			
Cross currency swap	-	18,629	18,629
	3,401,260	3,386,483	3,723,834

	2020		
	Par value of debt £'000	**Balance sheet value £'000**	**Fair value £'000**
Level 2			
Non-derivative financial liabilities			
Unsecured bonds	3,001,260	2,989,411	2,979,678
Unsecured term loan	400,000	395,710	400,000
	3,401,260	3,385,121	3,379,678
Derivative financial assets			
Cross currency swaps	-	(4,623)	(4,623)
	3,401,260	3,380,498	3,375,055

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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. Further details, including covenant information is included in Note 11.

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 2021.

Unsecured term loan

This loan relates to a £400 million unsecured bank loan, originally maturing in July 2022. On 26 March 2020, an agreement to amend the terms of the £400 million unsecured term loan was entered into to extend the maturity of the term loan to March 2025. This agreement became effective on 1 April 2020, with the modifications applicable from that date. Further details, including covenant information is included in Note 11.

15. NOTES TO CASH FLOW STATEMENT

	2021 £'000	2020 £'000
Profit after taxation	9	10
Adjustment for:		
Finance costs	107,631	110,909
Finance income	(107,640)	(110,919)
Movements in working capital:		
Decrease in receivables	-	9
Cash generated from operations	-	9

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2021

16. ANALYSIS OF CHANGES IN NET DEBT

	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).

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:

	2021 £'000	2020 £'000
Immediate Parent – Finance income		
Annington Homes Limited	107,640	110,919

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties	
	2021 £'000	2020 £'000
Immediate Parent		
Annington Homes Limited	3,406,048	3,397,871

The balance outstanding from Annington Homes Limited relates to an intercompany loan provided by Annington Funding plc with no set redemption date and at an interest rate of 3.2123% (2020: 3.3035%) per annum. An annual fee of £10,000 (2020: £10,000) is payable to Annington Funding plc by Annington Homes Limited for administration services.

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

1 James Street
London, United Kingdom
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