

NS Final Results

## **ANNINGTON FUNDING PLC - ANNUAL FINANCIAL REPORT**

[ANNINGTON FUNDING PLC](#)

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7 July 2023

### **ANNINGTON FUNDING PLC**

*(incorporated with limited liability in England and Wales)*

#### **Publication of Full Year Financial Statements**

Annington Funding plc today announces its financial results for the year ended 31 March 2023.

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>

For further information please contact:

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Chief Financial Officer

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Company Registration No. 10765119

**ANNINGTON FUNDING PLC**

**Annual Report and Financial Statements**

**For the year ended 31 March 2023**

### **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 undertook a refinancing of shorter-dated bonds, which were replaced by a new issue of £400 million fixed rate notes maturing in 2033 and a tap issue of existing 2047 bonds. The £400 million unsecured term loan was also extended to 2028 in the year.

**BUSINESS REVIEW**

The Company holds eight tranches of corporate, unsecured bonds, totalling c.£3.8 billion as well as a term loan of £400 million, also unsecured, maturing in February 2028. 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.£3.8 billion, has been lent to AHL, its immediate parent, which in turn provides this funding to the rest of the Group.

In August 2022, the Company refinanced €426.7 million 2024 Euro bonds and £143.5 million 2025 Sterling bonds, funded by a new £400 million 11 year issue maturing in 2033 with a coupon rate of 4.75% and a £135 million tap issue of the existing 2047 bonds.

The Company also successfully extended its term loan and revolving credit facilities from March 2025 to February 2028. The terms are largely unchanged from the previous facilities and carry a headline margin of 185bp.

The Company holds an investment of redeemable preference shares in Annington Property Limited ("APL"), in order to provide income to Annington Funding plc to service the interest payable on certain of its fixed rate 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 £145.9 million of finance income (2022: £118.7 million) and £148.7 million of finance costs (2022: £118.7 million) during the year and ended the year with total assets of £4,212.1 million (2022: £4,216.2 million) and total liabilities of £4,211.8 million (2022: £4,211.4 million). Its result for the year after taxation is a loss of £2.9 million (2022: profit of £0.05 million). The loss incurred during the current year reflects the difference between interest earned on intergroup balances and the Company's costs incurred. Other Comprehensive Income includes a fair value gain on swaps of £6.1 million (2022: gain of £4.0 million) with foreign exchange losses on bonds amounting to £4.6 million (2022: gain of £4.2 million). An amount of £3.1 million (2022: £nil) was recycled from the hedging reserve to profit and loss as a result of the termination of certain of the cross-currency swaps held to hedge interest and capital payments of the Euro-denominated bonds. This recycled amount has been within finance income on the face of the income statement. Further information on financial risk management can be found in Note 15 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 15 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 refinancing of two tranches under the Euro Medium Term Note programme and the extension of the term loan and revolving credit facilities, which involved collaboration across ratings agencies, banks and various other parties. These financing transactions were 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 through 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 2023.

#### **FUTURE DEVELOPMENTS**

The Company has considered the economic impact of current events such as the war in Ukraine, rising inflation and 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 15 to the financial statements to illustrate possible effects.

The Company has also considered the impact of the Notices of Enfranchisement received by APL and the subsequent judgment handed down by the High Court of Justice on the Group's ability to service and repay debt as it becomes due. This is discussed in more detail in the Going Concern section set out in Note 2 to the financial statements.

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

5 July 2023

**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 2023.

**Directors**

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

Stephen Leung  
Ian Rylatt  
David Tudor-Morgan (Appointed 2 May 2023)

**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 (2022: £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 15.

**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 2023.

**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.

Deloitte 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  
5 July 2023

## **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 MEMBER OF ANNINGTON FUNDING PLC**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Annington Funding PLC (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related Notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

#### **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 are 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 Financial Reporting Council's (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. The non-audit services provided to the company for the year are disclosed in note 4 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Summary of our audit approach

<b>Key audit matters</b>	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"> <li>Recoverability of receivables from group undertakings and carrying value of investment in redeemable preference shares.</li> </ul>
<b>Materiality</b>	The materiality that we used in the current year was £42m which was determined on the basis of 1% of total assets.  We also apply a lower materiality of £2.8m based on 2% of the finance income. This lower materiality has been applied to transactions reported in the Income Statement relating to finance income and finance cost and interest receivable and payable
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	This is the first year we are performing the audit of the financial statements of the Company. There have been no significant changes to our approach in the current year compared to the predecessor auditor.

#### 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:

- Challenging of the judgements and assumptions applied in the going concern assessment and associated forecasts of financial performance and financial position, assessing the reasonableness of assumptions regarding uncertain cash inflows and the timing and quantum of cash outflows;
  - Testing of the mechanical accuracy of the model utilised;
  - Assessing the appropriateness of the sensitivities in the downside scenario;
  - Reviewing loan documentation to understand the principal terms, including financial covenants, and assessment review of the Company's existing and forecast compliance with these (including testing of the mechanical accuracy of management's covenant calculations and consistency with the contractual definitions);
  - Assessing the level of headroom available on covenants under the base case and downside scenario; and
- Evaluating the appropriateness of the disclosures in the financial statements around going concern and the clarity of the process undertaken by management in concluding on the appropriateness of the assessment.

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 company'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.

#### 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. These matters included 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.

#### *Recoverability of receivables from group undertakings and carrying value of investment in redeemable preference shares*

<b>Key audit matter description</b>	Receivables from group undertakings are stated in the balance sheet at £3,406m (2022: £3,403m) and investment in preference shares are stated in the balance sheet at £793m (2022: £793m). They are initially recognised at fair value and if they fall within a held to collect business model and its contractual terms give rise to cash flows that are solely
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	<p>payments of principal and interest on the principal, they are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method, less any loss allowance for Expected Credit Losses (ECL).</p> <p>There is a significant level of judgement involved in determining the recoverability of these receivables from group undertakings and investment in preference shares based on the financial position and future prospects of the group undertakings. In considering recoverability and potential impairment under IFRS 9 "Financial Instruments", the directors of the company must assess the respective credit quality and liquidity of each group undertaking.</p> <p>Further details are included within note 8 to the financial statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>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 procedures:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of relevant controls over the valuation and recoverability of receivables from group undertakings and investment in redeemable preference shares.</li> <li>• We have challenged the director's judgements regarding the appropriateness of the carrying value through a detailed assessment of the credit and liquidity position of each group undertaking and by assessing the ability of the group undertakings to repay these amounts.</li> <li>• We have assessed whether the ECL model used by Management is appropriate, considering the changes to the credit risk since origination of the financial assets.</li> <li>• We have examined post balance sheet events to consider whether the impairment assessment assumptions remain valid. In addition, we obtained management's confirmation that post balance sheet events would not impact the valuation.</li> </ul>
<b>Key observations</b>	<p>Based on the work performed we concluded that receivables from group undertakings and investments in redeemable preference shares are appropriately stated.</p>

## Our application of materiality

### Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

<b>Materiality</b>	<p>£42m (2022: £42m)</p> <p>£2.8m (2022: £2.3m) for transactions reported on the Income Statement relating to finance income and finance cost and Interest receivable and payable.</p>
<b>Basis for determining materiality</b>	<p>1% of total assets (2022: 1% of total assets)</p> <p>The lower materiality was determined with reference to 2% of the finance income (2022: 2% of the finance income)</p>
<b>Rationale for the benchmark applied</b>	<p>We determined materiality based on total assets as the key metric for the users of financial statements as the company's principal activity is raising debt and the provision of financing to group entities.</p> <p>Finance income is deemed an appropriate benchmark for items impacting the finance income and finance cost as these are more sensitive to the users of the financial statements.</p>

### Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- the low number of corrected and uncorrected identified in prior periods identified by the predecessor auditor
- the quality of the control environment
- the absence of material changes in the business.

### Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.1m (2022 £0.84m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also

report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### **An overview of the scope of our audit**

#### *Scoping*

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

#### *Our consideration of the control environment*

From our understanding of the company and after assessing relevant controls, we tested controls in relation to our key audit matter. Whilst we did not take controls reliance, we obtained an understanding of the relevant controls relating to the borrowings process given the significance to the company. In addition, we have obtained an understanding of the relevant controls such as those relating to the financial reporting cycle. With the involvement of our IT specialists, we obtained an understanding of the IT environment. We did not test the general IT controls and we did not place reliance on IT controls.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered 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.

#### *Identifying and assessing potential risks related to irregularities*

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

*Audit response to risks identified*

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

*Adequacy of explanations received and accounting records*

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

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

We have nothing to report in respect of these matters.

*Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

**Other matters which we are required to address**

*Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the directors on 24 March 2023 to audit the financial statements for the year ending 31 March 2023 and subsequent financial periods. The period of total uninterrupted engagement



including previous renewals and reappointments of the firm is 1 year, covering the year ending 31 March 2023.

*Consistency of the audit report with the additional report to the audit committee*

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

**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.

Jonathan Dodworth (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
5 July 2023

**INCOME STATEMENT**

**For the year ended 31 March 2023**

	Note	2023 £'000	2022 £'000
Finance income	6	145,944	118,721
Finance costs	6	(148,652)	(118,675)
Administrative expenses		(204)	-
<b>(Loss)/profit before taxation</b>		<b>(2,912)</b>	<b>46</b>
Taxation	7	-	-
<b>(Loss)/profit for the year</b>		<b>(2,912)</b>	<b>46</b>
<b>(Loss)/profit attributable to shareholder</b>		<b>(2,912)</b>	<b>46</b>

**STATEMENT OF COMPREHENSIVE INCOME**

**For the year ended 31 March 2023**

	Note	2023 £'000	2022 £'000
(Loss)/profit for the year		(2,912)	46
<b>Items that may subsequently be recycled through the income statement</b>			
Cash flow hedge:			
Fair value gains on cash flow hedge	14	6,121	4,006
Reclassification of fair value (losses)/gains included in profit and loss	6	(4,570)	4,218
Recycling of hedge reserve on termination of swaps		(3,120)	-
<b>Total other comprehensive (loss)/profit</b>		<b>(1,569)</b>	<b>8,224</b>
<b>Total comprehensive (loss)/profit for the year</b>		<b>(4,481)</b>	<b>8,270</b>
<b>Total comprehensive (loss)/profit attributable to shareholder</b>		<b>(4,481)</b>	<b>8,270</b>

**BALANCE SHEET**

**At 31 March 2022**

	Note	2023 £'000	2022 £'000
<b>Non-current assets</b>			

Financial assets at amortised cost	8	4,167,081	4,163,738
Derivative financial instruments	14	475	-
		<u>4,167,556</u>	<u>4,163,738</u>
<b>Current assets</b>			
Financial assets at amortised cost	8	44,415	46,879
Other receivables		11	6
Cash and cash equivalents	9	146	5,607
		<u>44,572</u>	<u>52,492</u>
<b>Total assets</b>		<u>4,212,128</u>	<u>4,216,230</u>
<b>Current liabilities</b>			
Payables	10	(34,066)	(36,529)
<b>Net current assets</b>		<u>10,506</u>	<u>15,963</u>
<b>Total assets less current liabilities</b>		<u>4,178,062</u>	<u>4,179,701</u>
<b>Non-current liabilities</b>			
Loans and borrowings	11	(4,177,694)	(4,160,229)
Derivative financial instruments	14	-	(14,623)
<b>Total liabilities</b>		<u>(4,211,760)</u>	<u>(4,211,381)</u>
<b>Net assets</b>		<u>368</u>	<u>4,849</u>
<b>Capital and reserves</b>			
Share capital	12	50	50
Hedging reserve	13	(319)	1,250
Retained earnings		637	3,549
<b>Total equity</b>		<u>368</u>	<u>4,849</u>

The accompanying Notes (1 to 19) 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 5 July 2023.

Signed on behalf of the Board of Directors

S Leung

Director

#### STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2023

	Share capital £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2021	50	(6,974)	3,503	(3,421)
Profit for the year	-	-	46	46
Other comprehensive profit for the year	-	8,224	-	8,224
<b>Balance at 31 March 2022</b>	<u>50</u>	<u>1,250</u>	<u>3,549</u>	<u>4,849</u>
Loss for the year	-	-	(2,912)	(2,912)
Other comprehensive loss for the year	-	(1,569)	-	(1,569)
<b>Balance at 31 March 2023</b>	<u>50</u>	<u>(319)</u>	<u>637</u>	<u>368</u>

#### CASH FLOW STATEMENT

For the year ended 31 March 2023

	2023 £'000	2022 £'000
Note		

<b>Cash utilised in operations</b>	16	<b>(28)</b>	(125)
Finance income received from group undertakings		<b>136,483</b>	110,757
Finance costs paid		<b>(142,035)</b>	(104,960)
		<hr/>	<hr/>
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(5,580)</b>	5,672
		<hr/>	<hr/>
<b>Investing activities</b>			
Purchase of preference shares		-	(793,600)
		<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>		-	(793,600)
		<hr/>	<hr/>
<b>Financing activities</b>			
Proceeds from new borrowings		<b>515,104</b>	800,000
Repayment of borrowings		<b>(496,935)</b>	-
Cash received on settlement of swap principal		<b>359,275</b>	-
Cash paid on settlement of swap principal		<b>(369,415)</b>	-
Debt issuance costs and refinancing fees		<b>(7,919)</b>	(6,415)
		<hr/>	<hr/>
<b>Net cash inflow from financing activities</b>		<b>110</b>	793,585
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,470)</b>	5,657
Cash and cash equivalents at the beginning of the year		<b>5,607</b>	33
Effect of exchange differences on cash and cash equivalents		<b>9</b>	(83)
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	9	<b>146</b>	5,607
		<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2023

#### 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 19.

#### 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 15.

The Company holds eight tranches of corporate, unsecured bonds, totalling c.£3.8 billion, including the issue of a new tranche 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 2028.

On 8 August 2022, the Company refinanced €426.7 million 2024 Euro bonds and £143.5 million 2025 Sterling bonds, funded by a new £400 million 11 year issue maturing in 2033 with a coupon rate of 4.75%, and a £135 million tap issue of the 2047 bonds.

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 2023	31 March 2022
Limitation on Debt	Total debt / Total assets	<65%	<65%	51.2%	46.7%
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)	1.37x	1.54x
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%	193.6%	212.4%

The Company receives preference share dividends on the redeemable preference shares issued by APL. It additionally receives finance 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, the loan 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 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 repurchasing debt, reinvestment or potential dividends to shareholders. Were this not possible, cash reserves and the undrawn revolving credit facility provides additional liquidity to the Group to allow the continued operation for the foreseeable future. The Group is satisfied that sufficient actions are available to mitigate any potential adverse impact on covenant compliance. The Board has taken into account the effects of current market conditions, including rising inflation and interest rates, a depressed UK residential sales market and the war in Ukraine. Possible downside effects considered included falling house prices, falling rental values and increased arrears from tenants. In all circumstances, cash reserves and rental receipts from the MoD were sufficient to fund the ongoing operations of the Group.

Subsequent to the financial year end, on 15 May 2023, the High Court of Justice handed down its judgment in the Judicial Review and Chancery proceedings commenced against the Ministry of Defence by Annington Property Limited. The Judge ruled in favour of the Ministry of Defence. The Group considers this to be a matter of significant public importance and has sought permission to appeal the decision. Should this appeal be granted, the legal processes are expected to take some time to resolve. Were the appeal not to be granted, the compensation that the MoD would have to pay is determined by section 9 of the Leasehold Reform Act 1967. This provides that the amount payable should be the "amount which the property, if sold in the open market by a willing seller might be expected to realise" but on the assumptions that the property is not capable of enfranchisement and is otherwise broadly subject to the same rights and obligations as the lease. If the parties cannot agree the price, it would be determined by an independent tribunal. No negative impacts to the Group's financial covenants are forecast in 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 2022

The Company has adopted the new accounting standards, amendments or interpretations which have become effective for the year ending 31 March 2023. The application of these has had no material impact on the Group's financial statements.

#### New Standards, interpretations and amendments issued not yet effective

At the date of authorisation of these financial statements, the following new and revised IFRSs relevant to the Company 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)
IAS 1 Amendments	Amendments to the Classification of Liabilities as Current or Non-current	1 January 2023
IAS 1 and IFRS Practice Statement 2	Amendments to Disclosure of Accounting Policies	1 January 2023
IAS 8 Amendments	Amendments to the Definition of Accounting Estimates	1 January 2023
IAS 12 Amendments	Amendments to Deferred Tax from Single Transactions	1 January 2023
IAS 1 Amendments Effective Date	Amendments to the Classification of Liabilities as Current or Non-current	1 January 2024

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 £45,000 (2022: £44,800) for the audit of the Company's annual financial statements. During the year, Deloitte LLP was appointed as auditor of the Company. Previously this position was held by BDO LLP.

##### *Other services*

An amount of £75,000 (2022: £100,000) was paid to Deloitte LLP for non-audit assurance services in relation to transaction related services.

#### 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Company had no employees of its own during the year (2022: 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.

#### 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.

	2023	2022
	£'000	£'000
<b>Finance income</b>		
Interest receivable on intercompany balances	118,179	108,372
Gain on bond refinance	3,362	-
Recycle of hedge reserve on termination of swaps	3,120	-
Preference dividends	21,283	10,349
	<hr/>	<hr/>
Total finance income	145,944	118,721
	<hr/>	<hr/>
<b>Finance costs</b>		
Interest payable on unsecured fixed rate bonds	125,222	107,988
Loss on debt modification	3,735	-
Amortisation of issue costs	2,874	2,936
Interest payable on term loan	15,665	7,117
Foreign exchange loss/(gain) on financing	5,091	(4,146)
Transfer to equity for cash flow hedge	(4,570)	4,218
Other finance expenses	635	562
	<hr/>	<hr/>
Total finance costs	148,652	118,675
	<hr/>	<hr/>

## 7. TAXATION

### ACCOUNTING POLICY

The taxation expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except where it is required to be 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.

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 19% (2022: 19%). The charge for the year can be reconciled to profit before tax as follows:

	2023	2022
	£'000	£'000
(Loss)/ profit before tax	(2,912)	46
Tax credit/(charge) at the standard rate	<u>553</u>	<u>(9)</u>
Factors affecting the current tax for the year:		
Group relief surrendered	(4,597)	(1,957)
Income not assessed for tax	4,044	1,966
<b>Taxation for the year</b>	<u>-</u>	<u>-</u>

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

## 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.

The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. Should there be a significant increase in credit risk since origination of the loan, the loss allowance is measured at an amount equal to the lifetime expected credit losses, otherwise it is measured at the expected credit losses over the next 12 months.

#### *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.

	2023	2022
	£'000	£'000
<b>Amounts falling due within one year</b>		
Amounts owed by group undertakings	33,161	33,650
Dividends receivable on preference shares - group undertakings	10,349	10,349
Interest receivable on swaps	905	2,880
	<u>44,415</u>	<u>46,879</u>
<b>Amounts falling due after more than one year</b>		
Amounts owed by group undertakings	3,373,481	3,370,138
Redeemable preference shares - group undertakings	793,600	793,600

	<b>4,167,081</b>	4,163,738
<b>Total financial assets at amortised cost</b>	<b>4,211,496</b>	4,210,617
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts owed by group undertakings include:</b>		
Loan receivable - unsecured, interest-bearing and no fixed date of repayment	<b>3,406,642</b>	3,403,663
Short-term receivable	-	125
Redeemable preference shares	<b>793,600</b>	793,600
Dividends receivable on preference shares	<b>10,349</b>	10,349
	<b>4,210,591</b>	4,207,737

#### *Loan Receivable*

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 3.523% (2022: 3.232%). 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 Receivable*

The short-term receivable in the prior year related to charges paid by the Company and recoverable from the counterparty. This balance was not past due and was fully recovered in the current year. The carrying value approximated fair value.

#### *Redeemable Preference Shares and related dividends*

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 £515.1 million (2022: £716.1 million) by applying the risk adjusted market yield for the corresponding external debt to the expected cash flows of the instruments. This constitutes a Level 3 valuation within the fair value hierarchy as described in Note 11. Discount rates of 6.080% and 6.314% (2022: 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 £55.6 million/ increasing by £63.6 million, respectively (2022: decreasing by £89.9 million/ increasing by £109.9 million).

## 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.

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	<b>146</b>	5,607

## 10. PAYABLES

## ACCOUNTING POLICY

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

	2023	2022
	£'000	£'000
<b>Amounts falling due within one year</b>		
Accrued interest	33,899	36,370
Other accruals	167	159
	<u>34,066</u>	<u>36,529</u>

The carrying value of payables approximates fair value.

## 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.

	2023	2022
	£'000	£'000
<b>Amounts falling due between one and five years</b>		
Unsecured bonds	632,688	1,128,943
Unsecured term loan	398,833	397,564
	<u>1,031,521</u>	<u>1,526,507</u>
<b>Amounts falling due after five years</b>		
Unsecured bonds	3,146,173	2,633,722
	<u>4,177,694</u>	<u>4,160,229</u>

The Company holds eight tranches of corporate, unsecured bonds, totalling c.£3.8 billion, including the issue of a new tranche referred to below, and the tap issue of the 2047 bonds. It also holds an unsecured term loan of £400 million. A revolving credit facility is also available to the Company, which has never been drawn against.

On 8 August 2022, the Company refinanced €426.7 million 2024 Euro bonds and £143.5 million 2025 Sterling bonds, funded by a new £400 million 11 year issue maturing in 2033 with a coupon rate of 4.75%, and a £135 million tap issue of the 2047 bonds.

In February 2023, the term loan and revolving credit facilities were extended from March 2025 to February 2028. The terms are largely unchanged from the previous facilities and carry a headline margin of 185bp.

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

Principal Amount	Currency	Final Maturity	Coupon
173m	EUR (€)	12-Jul-24	1.650%
482m	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%
760m	GBP (£)	12-Jul-47	3.935%
400m	GBP (£)	06-Oct-51	2.924%
400m	GBP (£)	08-Aug-33	4.750%

Cross currency swaps are in place for the remaining €173.3 million bond, converting the nominal balance to £152.0 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 2.755% (2022: 2.764%), fixed for the remaining 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	31 March 2023	31 March 2022
----------	------	-----------------	-----------------	---------------	---------------



Limitation on Debt	Total debt / Total assets	<65%	<65%	51.2%	46.7%
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)	1.37x	1.54x
Unencumbered Assets	Unencumbered assets / Unsecured Debt	>125%	>125%	193.6%	212.4%

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

#### Reconciliation of movement

	31 March 2023	Amortisation of debt issue costs	Derecognised on repurchase	FX Revaluation adjustment	Debt issued net of costs	Loss on debt Modification	31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Rate EUR Bonds 2024	152,194	260	(359,066)	5,132	-	-	505,868
Fixed Rate GBP Bonds 2025	480,494	493	(143,074)	-	-	-	623,075
Fixed Rate GBP Bonds 2029	597,633	334	-	-	-	-	597,299
Fixed Rate GBP Bonds 2032	397,848	199	-	-	-	-	397,649
Fixed Rate GBP Bonds 2033	397,152	135	-	-	397,017	-	-
Fixed Rate GBP Bonds 2034	621,846	221	-	-	-	-	621,625
Fixed Rate GBP Bonds 2047	735,537	377	-	-	114,083	-	621,077
Fixed Rate GBP Bonds 2051	396,157	85	-	-	-	-	396,072
Term Loan 2025	398,833	770	-	-	(2,950)	3,449	397,564
	<b>4,177,694</b>	<b>2,874</b>	<b>(502,140)</b>	<b>5,132</b>	<b>508,150</b>	<b>3,449</b>	<b>4,160,229</b>

#### 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).

	2023		
	Par value	Balance sheet value	Fair value
	£'000	£'000	£'000
<b>Level 2</b>			
<b>Non-derivative financial liabilities</b>			
Unsecured bonds	(3,818,552)	(3,778,861)	(2,996,211)
Unsecured term loan	(400,000)	(398,833)	(400,000)
<b>Derivative financial assets</b>			
Cross currency swaps	-	475	475
<b>Total financial liabilities</b>	<b>(4,218,552)</b>	<b>(4,177,219)</b>	<b>(3,395,736)</b>

2022

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

#### 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 February 2028. 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 2023.

## 12. SHARE CAPITAL

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Allotted, called up and fully paid</b>		
50,000 ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

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

## 13. HEDGING RESERVE

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April	1,250	(6,974)
Fair value gains on cash flow hedge	6,121	4,006
Reclassification of fair value (losses)/gains included in the income statement	(4,570)	4,218
Recycling of hedge reserve on termination of swaps	(3,120)	-
	<u>(319)</u>	<u>1,250</u>
At 31 March	<u>(319)</u>	<u>1,250</u>

## 14. 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 €173.3 million, converting the nominal balance to £152.0 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 15 and the Company continues to apply hedge accounting with respect to these swaps.

	2023	2022
	£'000	£'000
<b>Financial asset measured at fair value through OCI</b>		
Cross currency swaps that are in designated hedge accounting relationships	475	-
	<u>475</u>	<u>-</u>

#### Financial liability measured at fair value through OCI

Cross currency swaps that are in designated hedge accounting relationships	-	(14,623)
	<u>-</u>	<u>(14,623)</u>

#### Reconciliation of movements

	2023	Revaluation adjustment	Terminated	2022
	£'000	£'000	£'000	£'000
Cross currency swap asset/(liability)	475	6,121	8,977	(14,623)
<b>Total derivative financial instruments</b>	<u>475</u>	<u>6,121</u>	<u>8,977</u>	<u>(14,623)</u>

## 15. 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	2023 £'000	2022 £'000
<b>Financial assets</b>			
Financial assets at amortised cost	8	4,211,496	4,210,617
Cash and cash equivalents	9	146	5,607
Assets measured at fair value through OCI:			
Cross currency swaps	14	475	-

<b>Total financial assets</b>		<b>4,212,117</b>	4,216,224
<b>Financial liabilities</b>			
Liabilities measured at amortised cost:			
Payables	10	<b>34,066</b>	36,529
Loans and borrowings	11	<b>4,177,694</b>	4,160,229
Liabilities measured at fair value through OCI:			
Cross currency swaps	14	-	14,623
<b>Total financial liabilities</b>		<b>4,211,760</b>	4,211,381

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 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 and JP Morgan Securities plc. 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 holds eight tranches of corporate, unsecured bonds, totalling c.£3.8 billion and a term loan of £400 million, also unsecured.

A £100 million five year revolving credit facility is in place to ensure that there is no default in the repayment of the borrowing and interest to the bondholders. This facility has never been drawn against.

Options for the extension, refinancing or repayment of debt are considered well in advance of maturity so that the Company is able to take steps to manage its debt levels and maturity profile of its debt.

The partial refinancing of the bonds and the extension of the term loan and revolving credit facility is discussed in Note 11.

#### **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) offset by cash and cash equivalents, while equity comprises that attributable to equity holders of the Company, being issued share capital, reserves and retained earnings (Note 12).

The debt imposes a number of covenants that must be complied with under both the bonds and loan facility. Refer to Note 11 for the covenants attaching to the debt.

#### **Currency risk**

In 2017, the Company issued 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. During the current year, €426.7 million of the euro bonds were repurchased and a corresponding amount relating to the swaps were terminated at the same time to ensure that the remaining euro exposure is appropriately matched to the swaps in place. The function of this swap increases the effective interest rate of Euro Tranche debt to 2.755% (2022: 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 £'000	Gains/(losses) included in equity £'000	Gains/(losses) in income statement £'000	Gains/(losses) included in equity £'000	
	2023	529	(475)	529	(590)

	Strengthening 10%		Weakening 10%		
	Gains/(losses) in income statement £'000	Gains/(losses) included in equity £'000	Gains/(losses) in income statement £'000	Gains/(losses) included in equity £'000	
	2022	-	(2,382)	-	(159)

### 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 (spread adjusted SONIA + 1.6% up to 20 February 2023, whereupon the loan was extended and the margin increased to 1.85%). The term loan is for a value of £400 million, maturing in 2028.

### 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 income statement £'000	Gains/(losses) included in equity £'000	Gains/(losses) in income statement £'000	Gains/(losses) included in equity £'000	
	2023	(1,919)	-	1,999	-

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

For the year ended 31 March 2022, the bps decrease in interest rate is subject to a floor of 0% + 1.6% margin. This floor is not applicable for the current year, as rates were above the sensitivity factor of 0.5% for the full year.

### 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 2023 (2022: £100 million).

### 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.

	Total £'000	Less than one year £'000	One to five years £'000	More than five years £'000
<b>Non-derivative financial liabilities</b>				
Payables	167	167	-	-
Loans and borrowings	6,127,940	151,380	1,598,670	4,377,890
<b>Total non-derivative financial liabilities</b>	<b>6,128,107</b>	<b>151,547</b>	<b>1,598,670</b>	<b>4,377,890</b>
<b>Net payments for derivative financial instruments</b>				
Cross currency swaps	888	1,675	(787)	-
<b>Total derivative financial instruments</b>	<b>888</b>	<b>1,675</b>	<b>(787)</b>	<b>-</b>

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

## 16. NOTES TO CASH FLOW STATEMENT

	2023 £'000	2022 £'000
<b>(Loss)/profit after taxation</b>	<b>(2,912)</b>	<b>46</b>
<i>Adjustment for:</i>		
Finance costs	148,652	118,675
Finance income	(145,944)	(118,721)
<i>Movements in working capital:</i>		
Decrease/(increase) in receivables	125	(125)
Increase in payables	51	-
<b>Cash generated from operations</b>	<b>(28)</b>	<b>(125)</b>

## 17. ANALYSIS OF CHANGES IN NET DEBT

	2023 £'000	Cash flow £'000	Non-cash items			2022 £'000
			Amortisation of bond issue costs and interest accrued £'000	Fair value adjustments and exchange movements £'000	Profits/ (losses) on refinancing £'000	
Cash and cash equivalents	146	(5,470)	-	9	-	5,607
Unsecured notes	(3,778,861)	(13,533)	(2,104)	(5,132)	4,573	(3,762,665)
Unsecured term loan	(398,833)	2,950	(770)	-	(3,449)	(397,564)

<b>Net debt</b>	<b>(4,177,548)</b>	(16,053)	(2,874)	(5,123)	1,124	(4,154,622)
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## 18. 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 were entered into during the year:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Immediate Parent</b>		
Annington Homes Limited - finance income	118,179	108,372
<b>Fellow subsidiary</b>		
Annington Property Limited - preference share dividend	21,283	10,349
	<u>139,462</u>	<u>118,721</u>

The following amounts were outstanding at the balance sheet date:

	<b>Amounts owed by related parties</b>	
	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Immediate Parent</b>		
Annington Homes Limited - intercompany loan	3,406,642	3,403,663
Annington Homes Limited - short-term receivable	-	125
<b>Fellow subsidiary</b>		
Annington Property Limited - redeemable preference shares	793,600	793,600
Annington Property Limited - redeemable preference dividend	10,349	10,349
	<u>4,210,591</u>	<u>4,207,737</u>

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 3.523% (2022: 3.232%) per annum. An annual fee of £10,000 (2022: £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.

## 19. 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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Registered in England and Wales No 10765119

This notice is released by Annington Funding plc and contains information that qualified or may have qualified as inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended ("EUWA")("UK MAR"). For the purposes of UK MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055 as it forms part of domestic law by virtue of the EUWA, this announcement is made by Stephen Leung, Chief Financial Officer of Annington Limited.

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