Company number 07495083

PEABODY CAPITAL PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2021

CONTENTS

DIRECTORS AND ADVISORS

DIRECTORS	Lord Robert Kerslake (Chair) Eamonn Hughes Ian Peters Brendan Sarsfield
SECRETARY	Sarah Cameron
COMPANY NUMBER	07495083 (Registered in England and Wales)
REGISTERED OFFICE	45 Westminster Bridge Road London SE1 7JB
BANKER	Coutts & Co. St Martins Office 440 Strand London WC2R 0QS
AUDITOR	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
SOLICITOR	Trowers & Hamlins 3 Bunhill Row London EC1Y 8YZ

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 March 2021.

Business review

The principal activity of Peabody Capital Plc (the “Company”) is to provide finance for the growth and development activities of Peabody Trust (“Peabody”) and its subsidiaries (“the Group”). The Company historically provided finance for development undertaken by The Governors of the Peabody Trust, now renamed The George Peabody Donation Fund (“GPDF”), and its subsidiaries prior to a Group restructure which was completed in November 2016.

On 17 March 2011, the Company issued a fixed rate secured bond, denominated in sterling and maturing on 17 March 2043 (“2043 Bond”), of £200,000,000 to the Debt Capital Markets paying a fixed coupon of 5.25% payable in bi-annual instalments.

All funds raised have been on-lent initially to GPDF and then Peabody under a facility agreement (“the Bond Loan Agreement”) in place between the Company (the lender) and GPDF, subsequently Peabody (as borrower).

The Bond Loan Agreement contains a provision for the Company to recover from Peabody the difference between the interest payable to Bond investors and the interest receivable from amounts under the Bond Loan Agreement and investment income accrued during the year from permitted investments and bank deposits. This represents an embedded derivative which is not closely related to the host loan agreement, though the value of the embedded derivative is not material.

Peabody Capital Plc was rated as A3 (stable outlook) by Moody’s and A (stable outlook) by S&P Global Ratings throughout the year.

The Company has not carried on any business or activities other than those that are incidental to the financing of Peabody since incorporation.

The Company is a subsidiary of Peabody which exercises control over the affairs of the Company through the right to appoint and dismiss Board members.

Summary of key performance indicators

The Board of Directors (the “Board”) monitors the progress of the overall strategy and the individual strategic elements by reference to the non-financial indicators described below.

The Board monitors the Company's fulfilment of its obligations under the Bond Trust Deed which in turn ensures it is compliant with the Listing Rules, its commitments to Bond investors and its obligations under the Bond Loan Agreement.

Principal risks and uncertainties

The principal risks facing the Company are its inability to meet its obligations under the 2043 Bond Trust Deed and the inability of the Group to service the debt and repay the lender as the debt falls due.

Various security and contractual arrangements, as described in Notes 10 and 11 to these financial statements, are in place to mitigate this risk.

STRATEGIC REPORT (CONTINUED)

Management of this risk is controlled by:

- Monitoring the operating surplus of Peabody and how Peabody has performed against its business plan including stress testing and mitigation strategies and security headroom for future financing;
- Regular review of factors that may impact operating surplus(es) and taking corrective action to ensure there is no impact on Peabody's covenants; and
- Monitoring performance against Peabody's covenants.

The Covid-19 pandemic continues to have an impact on the operations of the Group and the Group continues to adapt to the situation. The Covid-19 pandemic began to impact the Group's operations on 26 March 2020 when the Health Protection (Coronavirus Restrictions) (England) Regulations 2020 came into force. Subsequently, the Regulations have been amended and the restrictions have resulted in a number of impacts on the Group and its customers:

- Operational issues such as the need to implement steps to protect residents and staff from the risk of infection, necessary disruption to the delivery of repairs and planned maintenance;
- Developments on site were largely paused for a period, although all are now operational;
- Sales of new homes were impacted, although Peabody continued with virtual viewings and reservations and have continued to see sales progress from reservation to completion;
- Collection of residential and commercial rents have been affected, but arrears remain at manageable levels; and
- During the year the Peabody Board and Committees met more frequently by videoconference, and will do so again if required.

In response to the uncertainty, the Group increased the level of cash held to ensure an appropriate level of immediately available liquidity and continues to maintain communications with funders on this. During the year prudent steps were taken to reduce costs, where this could be achieved without impacting on service delivery. The impact on the Group's finances continues to be carefully monitored and considered, and is referred to in note 1.3 - going concern. Whilst the effect of the pandemic will have an adverse impact on 2021/22 financial performance, the Peabody Board is confident it can meet its responsibilities to residents whilst also meeting Peabody's financial obligations.

The Directors' Report provides further information on Long Term Viability at page 12.

Further analysis of the key strategic risks faced by Peabody and its subsidiaries and associated risk mitigation are provided in the Peabody Annual Report and Accounts which can be found at www.peabody.org.uk.

Financial risk management objectives

The approach of the Board to financial risk management objectives and exposures has been set out in Notes 10 and 11 of these financial statements.

Sustainability Statement

Peabody is committed to the best environmental, social and governance ("ESG") practice, and has played an important role in developing a new set of robust ESG criteria for the sector, working with other leading housing associations, service providers, investors and other organisations to help publish the ESG and Social Housing

STRATEGIC REPORT (CONTINUED)

White Paper and the Sustainability Reporting Standard for Social Housing. The Company will continue to develop its reporting criteria to best demonstrate Peabody's positive impact on its communities.

Further information about Peabody's sustainability practices can be found in the Group Annual Report and Accounts, available online at the Peabody Group's website (www.peabody.org.uk) and will shortly be published in Peabody's first Sustainability Reporting Standard document.

Section 172 Statement

The Directors are aware of and acknowledge their responsibilities to promote the success of the Company in accordance with s172 of the Companies Act 2006. When fulfilling responsibilities in accordance with s172 the Directors have regard to what is in the best interests of the Company and what is in the best interests of the Group, including the matters set out in section 172(1)(a) to (f).

The Directors have engaged with investors, regulatory bodies and other partners as the key stakeholders of the Company when acting in a way they consider to be most likely to promote the success of the Company for the benefit of its sole member, Peabody. The Directors manage the principal risks facing the Company by engaging with and fostering a successful business relationship with these key stakeholders. This engagement has affected decision making by:

<u>Investors</u> - The Company reports regularly on its credit rating and on the performance of Peabody's financial performance on which it is wholly reliant, issuing RNS statements, holding an annual investor roadshow and updating the investor section on the Peabody website. Peabody is an early adopter of the Sustainability Reporting Standard for Social Housing.

Engagement outcomes on Peabody's strategic, financial and non-financial plans are a key driver for decision making. The Group Investment Strategy and Treasury Management Policy are shaped and applied, further to investor and lender engagement. Financial reporting, management and controls are operated in accordance with standard practice and stakeholder expectations. The regular review of the Group's governance structure by the Peabody Board ensures a robust governance framework.

<u>Regulatory bodies</u> - In addition to Peabody's regular meetings with regulatory bodies, Peabody provides returns, surveys and notifications that reflect its plans and performance, covering areas such as projected development activity and financial health. Legal and regulatory compliance is viewed by the Directors as a key enabler of trust with the Company's stakeholders and informs the decision making process.

<u>Other partners</u> – As an early adopter of the Sustainability Reporting Standard for Social Housing, Peabody worked with other leading housing associations, service providers and other organisations (as well as investors) to help publish the ESG and Social Housing White Paper and the Sustainability Reporting Standard for Social Housing. Peabody continues to work with these partners to develop reporting criteria. The Directors view sustainable practices and the ability to report on these practices as an essential tool in the decision making process and to demonstrate Peabody's positive impact on its communities, which is key to the long term success of the Company and the Group.

The Directors consider the likely consequence of any decision in the long term in accordance with the Strategic objectives of the Group and the Directors adopt the Group's approach to ESG matters, consistent with the Sustainability Reporting Standard for Social Housing.

STRATEGIC REPORT (CONTINUED)

By adopting the values and culture of the Group in the decision making process the Directors are confident that the Company demonstrates positive engagement with stakeholders, a reputation for high standards of business conduct and its commitment to long term, sustainable success and accordingly Directors' compliance with s172.

Further information about how the Company as a wholly owned subsidiary in the Group engages with partners and stakeholders can found in the Group Annual Report and Accounts, available online at the Peabody Group's website (www.peabody.org.uk).

This report was approved by the Board on 29 July 2021 and signed on its behalf by

Lord Robert Kerslake
Chair

Date: 29 July 2021

CORPORATE GOVERNANCE STATEMENT

The Company has a listed security in issue and complies with the applicable sections of the Disclosure and Transparency Rules, DTR 7.1 and DTR 7.2, of the Financial Conduct Authority ("FCA") handbook.

The Company does not have a Premium Listing and is not required to comply with the UK Corporate Governance Code (the "Code"). The Company's corporate governance arrangements are reported by reference to relevant good practice including the National Housing Federation ("NHF") Code of Governance - Promoting board excellence for housing associations (2015 edition) (the "NHF Code") and the new NHF Code of Governance published in November 2020 (the "NHF 2020 Code"). During the year to 31 March 2021, Peabody and its principal subsidiaries (including the Company) applied the principles and provisions of the NHF Code and complied with its provisions. Peabody and the Company have also committed to meet the principles of the NHF Code of Conduct (2012 edition) through adherence to the Peabody Code of Conduct.

Peabody has adopted the NHF 2020 Code with effect from 1 April 2021. Peabody and the Company already comply with most of the requirements underlying the principles based NHF 2020 Code and have identified areas where this is currently not the case. The NHF 2020 Code compliance plan was considered by the Peabody Board in early May 2021 and the Group will work towards compliance over the current financial year. This will include revisions to the Peabody Code of Conduct which will be aligned to the new NHF Code of Conduct to be published this autumn.

In fulfilling its obligations under the NHF Code and the NHF 2020 Code (the 'NHF Codes'), the Company follows good practice drawn from supporting guidance. A number of the provisions of the NHF Codes mirror the equivalent provisions of the UK Corporate Governance Code.

Companies within the Group do not have external shareholders. All companies in the Group (including the Company) comply with equivalent provisions in the NHF Codes which relate to communications with stakeholders. The remuneration arrangements for housing associations differ from those of listed public companies (for example, the absence of share based incentives). However, the Group complies with the provisions of the NHF Codes on board and executive pay.

The Board and its Directors

The Company is led by the Board. The appointment of the Directors is made pursuant to the Company's Articles of Association adopted on 11 November 2016.

Each Director is of equal standing. Owing to the size and nature of the Company, there is no appointed Chief Executive. There is also no distinction drawn between executive and non-executive Directors.

As the Board all have considerable experience within the social housing sector, and are either a board member or executive officer of Peabody, the Company does not arrange any separate formal induction or training for new Company directors. This arrangement is reviewed on an ongoing basis to consider its appropriateness when new directors are appointed.

The directors have the benefit of the Group's directors' and officers' indemnity insurance policy.

The Board acknowledges that it is collectively responsible for the success of the Company by providing leadership, setting the Company's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance. In order to discharge these responsibilities, the Board met as required during the year. At these meetings consideration is given to the activities of the Company.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Board meetings are also attended, as appropriate, by key members of Peabody's management team. There were three meetings during the year, and each director attended every meeting.

All directors receive appropriate and timely information and briefing papers in advance of the Board meetings. Day-to-day management of the business of the Company is delegated to the Finance Services team in Peabody with appropriate oversight by the Board.

Peabody has a Nominations and Remuneration Committee that provides oversight on the appointment and remuneration of directors and senior executives for the Group including the Company. The Company does not have a separate and dedicated Nominations and Remuneration Committee due to the size and nature of the Company.

The board of Peabody Trust ("the Peabody Board") undertakes a formal annual evaluation of its performance and directors are requested to comment on the operation and effectiveness of any committees and subsidiary boards (including the Company) of which they are members. The directors ensure that the Board is structured in such a way that each member of the Board is able to bring different experiences and skills to the operation of the Company and encourages and supports each director to regularly update and refresh his/her skills and knowledge. This is reviewed by the Group Nominations and Remuneration Committee.

Internal control and risk management systems

The Board is responsible for the Company's system of risk management and internal control framework and for reviewing their effectiveness. The system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group's arrangements in respect of the system of risk management and internal control cover the Company. The Group Audit and Risk Committee (the "Committee") provides oversight of the Group's system of risk management and the internal control framework on behalf of the Peabody Board and Peabody's subsidiary boards including the Company and regularly reviews their effectiveness. The system of risk management and internal control exists to give reasonable assurance about the reliability of financial and operational information and the safeguarding of the Group's assets. The membership of the Committee is set out in the Annual Report and Accounts of Peabody and on Peabody's website, www.peabody.org.uk.

The Committee carries out the following functions required by DTR7.1.3R on behalf of the Board by:

- Monitoring the effectiveness of the Group's and the Company's internal controls, (including financial, operational and compliance controls), internal audit and risk management;
- Considering the financial and operational reports from management and reports from internal audit, to assess whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied or indicate a need for more extensive monitoring;
- Monitoring the financial reporting process and the statutory audit of the Group's and the Company's Annual Report and Accounts; and
- Reviewing and monitoring the independence of the statutory auditor, considering the relationship with Peabody and its subsidiaries as part of its assessment.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Risk Review process

During the year, the Peabody Board and the Committee focused on ensuring that a robust risk management framework was in place across the Group. The Group Risk Register has received quarterly review and scrutiny by the Committee and bi-annual review and scrutiny by the Peabody Board. As well as reviewing and agreeing improvements to the Group Risk Register during the year, the Peabody Board also approved the updated Risk Appetite Statements and positions.

There is a programme to keep all risks and the mitigating controls under regular review via cyclical reports to the Committee and reports at least twice yearly to the Peabody Board. The Group has 10 key risks outlined in its risk register which was approved by the Peabody Board on 20 May 2021. These risks are set out in the Risk and Uncertainties section of the Strategic Report in the Group's Annual Report and Accounts 2021.

Internal Audit

The Group's internal audit function is outsourced to PricewaterhouseCoopers ("PWC"), which has been the outsourced provider for Peabody since 1 April 2015.

The annual programme of internal audit work approved by the Committee seeks to address the key risks identified across the Group on a three-year cycle, and includes a continuous auditing programme of core processes (e.g. payroll, treasury).

PwC completed the annual programme of work and presented the Committee with its annual conclusion in respect of the system of internal control for the year ended 31 March 2021 at its 7 May 2021 meeting. PwC's annual conclusion highlighted low, medium and high risk findings during the year and management's intent to improve compliance with controls, and included the following statement:

"Based on the scope and findings of our work carried out there has been a reduction in the level of high/critical risk findings and this, alongside improving results from our CAM work and significant improvement the implementation rate of recommendations, suggests an improving control environment."

Monitoring, control environment and control procedures

Managers are aware of the requirement to promptly report any suspected breach or weakness of controls via line management or in accordance with the whistleblowing policy, if necessary. The Group, including the Company, also operates a formal process of regular self-assessment of controls, designed to ensure potential risks and weaknesses in the control environment are escalated. The Chief Executive provides an annual assurance report, based in part on this self-assessment process, to the Committee and the Peabody Board.

The Peabody Code of Conduct sets out Peabody's expectation of employees with regard to business practices, honesty and integrity. It is supported by a framework of policies and procedures which cover issues such as delegated authority, treasury management, and health and safety and these are kept under review.

Key health and safety issues are reported to the Executive led Health and Safety Committee, and reports on health and safety (including the outcome of specialist audits) are provided quarterly to the Audit and Risk Committee and annually to the Peabody Board.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Information and financial reporting systems

The Group's long-term financial plan, financial performance and Key Performance Indicators ("KPIs") linked to the Group's Strategy are monitored regularly by management and the Peabody Board to ensure that the business remains financially sound and that financial and non-financial targets are met. The Committee received regular reports during the year on the Group's information risks and data quality, and on progress of compliance with the General Data Protection Regulation.

Fraud, Anti-Money Laundering, Anti Bribery and Whistleblowing

Peabody has a Fraud Policy that covers the prevention, detection, investigation, and reporting of fraud, including remedial action if a fraud has occurred, to learn lessons and prevent a recurrence, and provides training to staff. The completion of bi-annual counter-fraud eLearning training is mandatory for all employees. The Committee receives regular updates in relation to fraud or attempted fraud, and the Peabody Board receives information at least annually. Peabody also has a Tenancy Fraud Strategy along with a dedicated tenancy fraud team, which provides reports to the Committee.

The Group has an Anti-Money Laundering Policy and staff appointed to Anti-Money Laundering roles. The completion of annual anti-money laundering training is mandatory for all employees and for staff working in regulated activities additional training is arranged periodically. Peabody values its reputation and is committed to maintaining the highest possible ethical standards in all its business activities. Peabody has a Whistleblowing Policy that encourages employees, volunteers and others to express any serious concerns regarding suspected misconduct or malpractice within the organisation.

The Peabody Code of Conduct makes it clear that the group has zero tolerance for any form of bribery, and anti-bribery training is provided to all staff.

Key strategic risks

The key risks for the Company relate to its inability to meet its obligations under the 2043 Bond Trust Deed and the inability of Peabody to meet its obligations to the Company under the Bond Loan Agreement. These risks are highlighted in the Strategic Report and details of how they are managed are set out in Notes 10 and 11.

The risks are kept under review by the Committee as part of its oversight of the Group's funding and financing risks.

Internal Control Assurance Statement

The Company Board acknowledges its ultimate responsibility for ensuring that the Company has in place a system of internal control that is appropriate to the business environment in which it operates. This is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide the Company with reasonable and not absolute assurance against material misstatement or loss.

The processes in place for identifying, evaluating, and managing the significant risks faced by the Company are on-going and have been in place throughout the period commencing 1 April 2020 up to the date of approval of the financial statements.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Key elements of the Group's system of risk management and internal control throughout the period included:

- Peabody Board approved terms of reference and delegated authorities for the Group's Committees;
- Review of legal and regulatory compliance at least twice a year to the Peabody Board;
- Clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- Robust strategic and business planning processes, with detailed financial budgets and forecasts;
- Formal recruitment, retention, training and development policies for all staff;
- Formal board evaluation and appraisal procedures;
- An annual review of compliance with the NHF Codes;
- Established authorisation and appraisal procedures for significant new initiatives and commitments;
- Committee approved internal audit plan and internal audit reporting at Committee meetings;
- Approval by the appropriate committee or board of key policies;
- Regular reporting to the Committee and Peabody Board of risk information;
- Health and safety key issues reporting to the Health and Safety Committee and to the Committee;
- A detailed Group approach to treasury management;
- Regular updates and reporting by external auditors;
- Regular reporting to the appropriate committee on key business issues, objectives, targets and outcomes;
- Regular monitoring of loan covenants and requirements for loan facilities;
- Bi-annual self-assessment by Executive management of the effectiveness of key controls, with exceptions raised and actions identified for any controls deemed not fully effective;
- Chief Executive's assurance to the Committee and the Peabody Board;
- Policies and arrangements to reduce the risk of fraud, bribery and money laundering;
- Reporting to the Committee of instances of fraud, whistleblowing, bribery and money laundering;
- Regular updates of key legislation changes to senior managers;
- Periodic review and assessment of compliance with the Regulator of Social Housing ("RSH") regulatory standards; and
- Clearly defined responsibilities for compliance with the RSH regulatory standards.

The Peabody Board has delegated to the Committee the regular review of the effectiveness of the Group's system of internal control, whilst maintaining ultimate responsibility for the system of internal control.

The Committee reviewed the effectiveness of the system of internal control in existence across the Group (including the Company) for the period commencing 1 April 2020 up to the date of approval of the financial statements and the annual report of the internal auditor. No significant weaknesses in the system of internal control have been identified.

THE DIRECTORS' REPORT

The Directors present their annual report and the financial statements for the Company for the year ended 31 March 2021.

The results for the year are set out in detail on pages 21 to 33.

Future developments

The Directors do not anticipate any change in the Company's principal activity.

Statement of going concern

The Company's business activities, its principal risks and uncertainties and factors likely to affect its future position are set out within the Strategic Report.

Notwithstanding the impact of the Covid-19 pandemic on the Group, the support available to the Company from the Peabody Group (the "Group") gives reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In addition, the Company and Peabody have a Moody's credit rating of A3 (stable outlook) and A (stable outlook) from S&P Global Ratings as at 31 March 2021.

Accordingly, the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements and have identified no material uncertainties to the Company's ability to do so over a period of at least 12 months from the date of approval of the financial statements.

Long-term viability

Taking account of the Company's current position and principal risks as set out in the Strategic Report, the Directors consider that the Company will be able to continue in operation and meet its liabilities as they fall due over the longer-term, up to five years.

This assessment of the Company only takes account of:

- The long-term nature of the Company's activity. The Company was established only to hold fixed rate secured debt and on-lend within the Group, with repayment due in 22 years; and
- The business plan for the Group which demonstrates the ability of Peabody to service the debt.

Directors and their interests

The directors who have been appointed to serve the Company and held office throughout the year and up to the date of this report are stated on page 2.

None of the directors received any remuneration in their capacity as directors of the Company. Eamonn Hughes and Brendan Sarsfield are both senior executives of Peabody. Their remuneration is in respect of their roles as Peabody Executives and is included in information provided in Peabody's financial statements.

In accordance with the Company's Articles of Association, none of its directors are required to retire. None of the directors held any beneficial interest in the shares of the Company or its parent undertaking.

The directors are covered by the Peabody Group's directors' and officers' indemnity insurance policy.

THE DIRECTORS' REPORT (CONTINUED)

Directors' responsibilities

As explained more fully in their statement set out on page 14 – Statement of Directors' Responsibilities – the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Their objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities, or error, and to issue their opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Dividends

No dividends have been proposed during the year (2020: £nil).

Auditor

Pursuant to section 487 of the Companies Act 2006 KPMG LLP was appointed as auditor of the Company for the financial year 2020/2021.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, in so far as each of the directors is aware:

- There is no relevant audit information of which the Company's auditor is unaware; and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

By Order of the Board

Lord Robert Kerslake
Chair
Date: 29 July 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.
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.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS (CONTINUED)

- The strategic report and the directors' report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

This report was approved by the Board on 29 July 2021 and was signed on its behalf by:

Lord Robert Kerslake
Chair

Date: 29 July 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEABODY CAPITAL PLC

1 Our opinion is unmodified

We have audited the financial statements of Peabody Capital Plc ("the Company") for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

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 its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ; and
- have been prepared in accordance 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 30 April 2015. The period of total uninterrupted engagement is for the seven financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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.

We summarise below the key audit matter (unchanged from 2020), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Recoverability of fixed asset investments

Long Term Debtors (amounts falling due in more than one year) £206,775k (2020: £206,985k).

Refer to page 25 (accounting policy) and pages 27 to 28 (financial disclosures).

<u>The risk – low risk high value</u>

The Company's primary activity is to issue bonds, source investor financing and on-lend to the Parent. It therefore has long term liabilities which relate to the bonds issued and long-term intercompany debtors which relate to the loans provided to the Parent.

The carrying amount of the long term intercompany debtor balance represents 99% of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement.

However, due to their materiality in the context of the Company financial statements, this is considered to be the area that had the greatest effect on our overall Company audit.

Whilst financial income and financial expenses are recognised during the loan period, the risk mainly stems from the expectation of the ability of the Parent to repay the loan in 22 years.

Our response

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Our procedures included:

i. **Tests of detail:** Assessing 100% of intercompany long term debtors owed by the Parent (2020: 100%) to identify, with reference to the Parent's draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed.
ii. **Assessment of Parent:** Assessing the work performed by the Group audit team, and considering the results of that work, on those net assets. This included assessment of the fair value headroom available on those net assets, and therefore the ability of the Parent to fund repayment of the receivable. We critically assessed the directors' going concern assessment, including the reasonableness of the key assumptions used by the Group in its cash flow forecasts and the level of downside sensitivities applied using our knowledge of Covid-19 scenarios being applied by other entities.

Our results

We found the Company's assessment of the recoverability of the long term debtor balance to be acceptable (2020: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £2,075k (2020: £2,075k), determined with reference to a benchmark of total assets, of which it represents 1% (2020: 1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £1,560k (2020: £1,560k).

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £100k (2020: £100k), in addition to other identified misstatements that warranted reporting on qualitatve grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was:

- Recoverability of fixed asset investments

We considered whether this risk could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from this risk.

Our procedures are also inherently linked with our key audit matter in relation to the recoverability of the long term debtor as the parent's inability to meet its obligation to the Company would result in the inability of the Company to meet its own obligations as they fall due. Consequently, our procedures noted above took into account the financial forecasts of the Parent. We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management personnel as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company does not generate revenue as part of its activities.

We did not identify any additional fraud risks.

We performed procedures including the identification of journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. Due to the limited number of journal entries, we reviewed all entries recorded.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards) and from inspection of the Company's regulatory and legal correspondence; and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.
We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.
The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the Annual Report

The directors are responsible for the Annual Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Annual Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in that report;
- in our opinion the information given in the Annual Report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Corporate governance disclosures

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

We are also required to report to you if a corporate governance statement has not been prepared by the Company. We have nothing to report in these respects.

7 We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report.

Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

9 The purpose of our audit work and to whom we owe our responsibilities

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.

Emma Larcombe

Emma Larcombe (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR

29 July 2021

STATEMENT OF COMPREHENSIVE INCOME

	Note	2021 £'000	2020 £'000
Administrative expenses	2	-	-
Interest receivable and similar income	3	10,290	10,324
Operating income before financing costs		10,290	10,324
Interest payable and similar charges	4	(10,290)	(10,324)
Profit before taxation		-	-
Taxation (on profit)	5	-	-
Total Comprehensive Income		-	-

The above relates wholly to continuing operations.

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	2021 £'000	2020 £'000
Fixed asset investment	6	**206,775**	206,985
Current assets			
Debtors – amounts falling due within one year	7	**390**	390
Cash at bank and in hand		**50**	50
Creditors – amounts falling due within one year	8	**(390)**	(390)
Net current assets		**50**	50
Total assets less current liabilities		**206,825**	207,035
Creditors – amounts falling due after more than one year	9	**(206,775)**	(206,985)
Net assets		**50**	50
Capital and reserves			
Called-up share capital	12	**50**	50
Equity shareholder's funds		**50**	50

The accompanying notes form part of these financial statements.

These financial statements were approved and authorised by the directors for issue at a meeting of the Board on 29 July 2021 and were signed on its behalf by:

R W Kerslake

Lord Robert Kerslake
Chair
Date: 29 July 2021

STATEMENT OF CHANGES IN EQUITY

	Called-up share capital £'000	**Profit and loss account £'000**	**Total equity £'000**
Balance at 1 April 2020	**50**	**-**	**50**
Total comprehensive income	**-**	**-**	**-**
Total other comprehensive income / (loss)	**-**	**-**	**-**
Total contributions by and distributions to owners	**-**	**-**	**-**
Balance as at 31 March 2021	**50**	**-**	**50**

	Called-up share capital £'000	**Profit and loss account £'000**	**Total equity £'000**
Balance at 1 April 2019	50	-	50
Total comprehensive income	-	-	-
Total other comprehensive income / (loss)	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance as at 31 March 2020	50	-	50

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying accounting policies and notes form part of these financial statements.

1. ACCOUNTING POLICIES

1.1 Accounting Policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102").

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company.

1.2 Basis of preparation

The principal accounting policies adopted in the preparation off these financial statements are set out in the relevant notes to these financial statements. Accounting policies not specifically attributed to a note are set out below.

The financial statements are prepared on an accruals basis and under the historic cost convention.

1.3 Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts covering a period of 12 months from the date of approval of these financial statements (the going concern assessment period) which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on the parent entity, Peabody Trust, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on Peabody Trust having adequate resources to continue in business over the going concern assessment period.

In making this assessment the directors have considered the impact of the Covid-19 pandemic has had on the Group's business plan. As well as considering the impact of a number of scenarios on the business plan the Group adopted a stress-testing framework to use four main types of sensitivity testing against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Since the outbreak of Covid-19 the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The directors, after reviewing the group and company budgets for 2021/22 and the group's medium term financial position as detailed in the 30-year business plan, including changes arising from the Covid-19 pandemic, is of the opinion that, taking account of severe but plausible downsides, the company will have sufficient funds to meet its liabilities as they fall due over the going concern assessment period. In order to reach this conclusion, the directors have considered the following factors:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

1.3 Going Concern

- The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes;
- Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;
- Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;
- Liquidity – the group has maintained strong liquidity, with cash balances and unutilised loan facilities similar to the 31 March 2021 level, which gives significant headroom for any cash flows that arise;
- The group's ability to withstand other adverse scenarios such as higher interest rates and increases in the number of void properties.

The directors believe the group has sufficient funding in place and expect the group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.4 Cash flow statement

The Company is exempt from the requirements of FRS102 to prepare a cash flow statement as its results are included in the consolidated financial statements of Peabody.

1.5 Segmental Reporting

In accordance with the requirements of International Financial Reporting Standard 8, the Company is required to consider reporting on the basis of operating segments. The Chief Operating Decision Maker (the Board) manages the business on the basis of a single segment. This is appropriate, as the range of the Company's activities is limited, so that only a single segment is meaningful.

2. ADMINSTRATIVE EXPENSES

None of the directors received any remuneration as directors from the Company during the period (2020: £nil). The Company has no directly employed personnel (2020: nil). Remuneration paid to Peabody's executive officers is disclosed in the Peabody financial statements.

Audit fees of £6,100 (2020: £6,083) and other administrative expenses are borne by Peabody, the ultimate parent undertaking.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable is recognised as interest accrues, using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. INTEREST RECEIVABLE AND SIMILAR INCOME (CONTINUED)

	2021	2020
	£'000	£'000
Interest receivable from ultimate parent entity	**10,290**	10,324

4. INTEREST PAYABLE AND SIMILAR CHARGES

Interest payable is charged to the Statement of Comprehensive Income together with any related amortisation charges.

	2021	2020
	£'000	£'000
Interest payable on the 2043 Bond	**10,290**	10,324

All funds raised have been on-lent to Peabody under the Bond Loan Agreement.

5. TAXATION

The Company is liable for corporation tax. The charge for taxation is based on the surplus for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Where possible, the Company will make donations under Gift Aid to mitigate corporation tax.

Deferred tax liabilities are recognised, without discounting, in respect of all timing differences which have arisen but not reversed by the reporting date. A deferred tax asset if only recognised on losses arising if management believe they will crystallise in the foreseeable future.

The results for the year do not give rise to a tax charge (2020: £nil).

6. FIXED ASSET INVESTMENT

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value adjusted by transaction costs. Amounts classed by the Company as financial assets are loans and receivables and cash.

A financial asset not carried at fair value through the Statement of Comprehensive Income is assessed at each reporting date to determine whether there is evidence that it is impaired. A financial asset is impaired if a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FIXED ASSET INVESTMENT (CONTINUED)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in the Statement of Comprehensive Income. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Comprehensive Income.

	2021	2020
	£'000	£'000
Loans due from ultimate parent entity	**206,775**	206,985

On 17 March 2011, the Company issued a fixed rate secured bond, denominated in Sterling, maturing on 17 March 2043 ("2043 Bond") of £200,000,000 to the Debt Capital Markets paying a fixed coupon bi-annually of 5.25%.

Of the £200,000,000 raised, £150,000,000 was issued to external investors. The remaining £50,000,000 was initially issued to the Company's external treasury advisors for £nil consideration.

On 2 May 2013 the remaining £50,000,000 of 2043 Bond was sold to external investors. All funds raised have been on-lent to Peabody under the Bond Loan Agreement.

Loans to Peabody are considered to be fixed asset investments as they are intended for use on a continuing basis in the Company's activities. The directors consider such loans to be held for the long-term over the life of the related debt.

The amounts stated above are all due in more than one year.

7. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Loans receivable, including concessionary loans, are measured initially at fair value net of transaction costs, and are measured subsequently at amortised cost using the effective interest method less any impairment. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

	2021	2020
	£'000	£'000
Interest receivable from ultimate parent entity	**390**	390

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs.

	Note	2021 £'000	2020 £'000
Amounts due to 2043 Bond investors	10	390	390

Amounts owed to the 2043 Bond investors include accrued interest.

9. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Note	2021 £'000	2020 £'000
Amounts due to 2043 Bond investors	10	206,775	206,985

Under the terms of the Bond Loan Agreement Peabody is committed to repay the 2043 Bond in full at maturity to enable the Company to reimburse the 2043 Bond investors.

Amounts owed to the 2043 Bond investors include accrued interest.

All amounts are due for repayment in more than 5 years.

10. FINANCIAL INSTRUMENTS

Borrowing

Interest-bearing borrowings, investments and short term deposits are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Bank loans are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Where loans and other financial instruments are redeemed during the year, any redemption penalty is recognised in the Statement of Comprehensive Income in the year in which redemption takes place.

The initial costs relating to raising finance are amortised over the period of the loan.

Where loans are linked to inflation, this is classified as a non-basic financial instrument and accounted for at fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (CONTINUED)

Non-utilisation fee

The Bond Loan Agreement exists between Peabody (as borrower) and Peabody Capital Plc and (as lender) in relation to the 2043 issue to facilitate the lending of proceeds from the bond into the Group. These arrangements contain a provision ("Non-utilisation fee") for the lender to recover from the borrower the difference between the interest payable to the 2043 Bond investors and the income realised by the lender Statement of Comprehensive Income. This income comprises the interest receivable from amounts on-lent to Peabody and investment income earned from permitted investments and bank deposits.

The Company's financial instruments comprise borrowings, loans receivable and cash and cash equivalents. The sole purpose of these financial instruments is to raise finance for the growth and development activities of Peabody.

The Company does not actively engage in the trading of financial assets for speculative purposes. The Company has not entered into any derivative contracts.

The Company's financial instruments are summarised as follows:

	2021	2020
	£'000	£'000
Financial assets:		
Classed as loans and receivables (amortised cost)		
Loans to ultimate parent undertaking	**206,775**	206,985
Debtors	**390**	390
Cash and cash equivalents	**50**	50
	207,215	207,425

	2021	2020
	£'000	£'000
Financial liabilities:		
Classed as other financial liabilities (amortised cost)		
Other creditors (accrued 2043 bond coupon – see Note 8)	**390**	390
Other liabilities	**206,775**	206,985
	207,165	207,375

The most significant financial risks to which the Company is exposed are credit risk and liquidity risk. The Board's policy for managing the risks is summarised below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

The Company is dependent on receipt of funds from Peabody in order to meet its contractual obligations to the 2043 Bond investors. The credit risk is that Peabody, as the main counterparty, fails to reimburse the Company. The directors consider the credit risk to be very low as Peabody is a business with a strong asset base that consistently generates a surplus and is supported by a regulator that has strong oversight and monitors the financial viability of the business. In addition the Company and Peabody were rated as A3 (stable outlook) by Moody's and A (stable outlook) by S&P Global Ratings throughout the year.

The credit risk for bank deposits and money market funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The maximum credit risk currently faced by the Company is £206,985,000 being the total amount of funds raised from external investors by the 2043 Bond issuance, and on lent to Peabody.

No impairment loss has been recorded in relation to the fixed asset investment.

Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations. Expected cash flows from financial assets, in particular its cash resources and trade receivables, are used by the directors in assessing and managing liquidity risk. The risk is managed via the Bond Loan Agreement into which the Company has entered with Peabody.

The repayment profile of the Company's gross undiscounted liabilities including interest is as follows:

	On demand £'000	**Less than 12 months £'000**	**1 to 5 years £'000**	**More than 5 years £'000**	**Total £'000**
2021					
Amounts due to 2043 Bond investors	**-**	**10,500**	**42,000**	**378,500**	**431,000**

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2020					
Amounts due to 2043 Bond investors	-	10,500	42,000	389,000	441,500

Amounts due to 2043 Bond investors reflects the gross payments due on the amount of 2043 Bond that was issued to external investors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Company has no exposure to interest rate risk as all amounts owed to the external 2043 Bond investors are at a fixed rate of interest, as are the interest receivable amounts due from Peabody lent under the Bond Loan Agreement.

There are no other interest bearing assets or liabilities.

The interest rate profile of the Company's financial liabilities is as follows:

	2021 £'000	2020 £'000
Fixed rate borrowings	**206,775**	206,985

The 2043 Bond pays a fixed rate of interest at 5.25%. The entire £200,000,000 2043 Bond has been issued therefore the Company has no available but undrawn facilities.

Fair values

Set out below is a comparison of book values and fair values of the Company's financial instruments:

	At Fair Value 2021 £'000	**Book Value 2021 £'000**	At Fair Value 2020 £'000	Book Value 2020 £'000
Financial asset				
Loans to ultimate parent undertaking	**299,936**	**206,775**	290,270	206,985
Loans and receivables	**390**	**390**	390	390
Cash and cash equivalents	**50**	**50**	50	50
	300,376	**207,215**	290,710	207,425

	At Fair Value 2021 £'000	**Book Value 2021 £'000**	At Fair Value 2020 £'000	Book Value 2020 £'000
Financial liabilities				
Other creditors	**390**	**390**	390	390
Fixed rate secured Bonds	**299,936**	**200,000**	290,270	200,000
Accrued interest on bond	**6,775**	**6,775**	6,985	6,985
	307,101	**207,165**	297,645	207,375

The fair value of the loans to Peabody is based on the market value of similar debt instruments at 31 March 2020. The terms of the loan to Peabody are fixed and it is intended that the loan will be in place until maturity. Therefore, no adjustment has been made to align the book value to fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (CONTINUED)

The fair value of the fixed rate secured 2043 Bond is based on market value at 31 March 2021. The terms of the 2043 Bond are fixed and it is intended that the 2043 Bond will be in place until maturity. Therefore, no adjustment has been made to align the book value to fair value.

Foreign currency risk

The Company has no foreign currency transactions. All of the Company's borrowings and coupon payments are denominated in Sterling.

11. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for the 2043 Bond investors and benefits for other stakeholders. The risk of interruption of cash inflows to the Company (which are required to service and repay the debt) is low as these are ultimately receivable from Peabody which continues to generate a positive cash flow.

In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the carrying amount of equity, fixed asset investments plus its cash and cash equivalents as presented on the face of the Statement of Financial Position. Capital for the reporting period under review is summarised as follows:

	2021	2020
	£'000	£'000
Fixed asset investment	**206,775**	206,985
Cash and cash equivalents	**50**	50
Equity	**50**	50
Total capital	**206,875**	207,085
Gearing ratio	**100%**	100%

The gearing ratio is calculated by dividing total debt by total capital in the Company.

The Company has honoured all its covenant obligations since the 2043 Bond issuance to the Debt Capital Markets on 17 March 2011. The Company's covenants are outlined in the Bond Loan Agreement and relate to the permitted business activities of the Company and Peabody and asset cover. Failure to comply with any covenant would lead to a default and security for the loan becoming immediately enforceable and the loan becoming immediately due and repayable.

The Company has complied with all externally imposed capital requirements during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. CALLED-UP SHARE CAPITAL

	2021	2020
	£'000	£'000
Authorised allocated and issued		
50,000 ordinary shares of £1 each	**50**	50

	2021	2020
	£'000	£'000
Fully paid		
50,000 ordinary shares of £1 each	**50**	50

All shares rank pari passu in all regards.

13. RELATED PARTY TRANSACTIONS

Related party transactions in the Group include transactions with subsidiaries, associates, joint ventures and compensation paid to key management personnel. Key management personnel are senior management team, board members and their close family. Compensation includes all employee benefits in exchange for services and consideration paid on behalf of Peabody in respect of goods or services provided to the entity.

The Company has taken advantage of the exemption permitted by FRS 102 – 'Related Party Disclosures' and does not disclose transactions with other wholly owned entities within the Group that are eliminated on consolidation.

14. ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary of Peabody Trust ("Peabody"), which is the ultimate parent and ultimate controlling entity. Peabody is the only entity in the Group that produces Consolidated Financial Statements. Peabody is a charitable Community Benefit Society formed under the Co-operative and Community Benefit Societies Act 2014. Consolidated financial statements of Peabody can be obtained from the Company Secretary at 45 Westminster Bridge Road, London, SE1 7JB.