Company number 07495083

PEABODY CAPITAL PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2019

CONTENTS

DIRECTORS AND ADVISORS

DIRECTORS	Lord Robert Kerslake (Chair) Susan Hickey Brendan Sarsfield Ian Peters
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 2019.

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).

Peabody Capital Plc was rated as A3 (stable outlook) by Moody's throughout the year and A (stable outlook) by Standard & Poor's from 8 July 2019.

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 that the Company fulfils 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.

The Company is primarily a conduit for Peabody to access the debt capital markets. Therefore, the Board monitors the availability of cash flows to and from Peabody as the financial key performance indicators.

During the financial year all cash flow was readily available to and from Peabody and therefore showed a favourable performance against this objective.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties
The principal risk facing the Company is the inability of the Group to service the debt and repay the debtor as it falls due.

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

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 covenants; and
- monitoring performance against the covenants.

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

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

This report was approved by the Board on 31 July 2019 and signed on its behalf by

Lord Robert Kerslake
Chair

31 July 2019

CORPORATE GOVERNANCE STATEMENT

Peabody Capital Plc ("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"), which has been adopted and complied with by the Peabody Group (the "Group"). In fulfilling its obligations under the NHF Code, the Company follows good practice drawn from supporting guidance. A number of the provisions of the NHF Code mirror the equivalent provisions of the UK Corporate Governance Code. The NHF Code is available on the NHF website: www.housing.org.uk.

Companies within the Group do not have external shareholders. All companies in the Group (including the Company) comply with equivalent provisions in the NHF Code 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 Code provisions 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 17 January 2011.

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. The Board meetings are also attended, as appropriate, by key members of Peabody's management team. The table below indicates the number of meetings held and the number of meetings attended by each director.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Number of meetings held in the year - 5	
Lord Robert Kerslake	4
Susan Hickey	5
Brendan Sarsfield	4
Ian Peters	3

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 as the size and nature of the Company does not warrant a dedicated committee.

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 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 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 Board and the Committee focused on ensuring that a robust risk management framework was in place across the Group. The Peabody Board approved a revised Group Risk Management Policy and Group Risk Register in February 2019 and in May 2019 the Peabody Board approved further revisions regarding the risk map, risk scoring, risk controls and risk appetite.

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 Board. The Group has 9 key risks outlined in its risk register which was approved by the Board of Peabody on 6 February 2019. These risks are set out in the Risk and Uncertainties section of the Strategic Report in the Group's Financial Statements as at 31 March 2019.

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 and was selected to be the internal auditor for the organisation post-merger.

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 2019 at its 30 April 2019 meeting. PwC's annual conclusion highlighted low, medium and high risk findings during the year and managements' intent to improve compliance with controls and included the following statement:

> 'When taken in aggregate, we do not believe that these risks identified are pervasive to the system of internal control as a whole. The high risk findings, in conjunction with the medium risk findings identified across all other reviews, have a moderate impact upon the effectiveness of the system of internal control during the year'.

The Committee also met with PwC in a private session at its 24 July 2019 meeting.

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 whistle-blowing 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 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)

The work of the external auditors provides further independent assurance on the control environment. The external auditors advise the Committee in writing of any weaknesses in internal control identified through the course of their work, along with recommendations for improvement. No significant weaknesses have been noted.

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 Board to ensure that the business remains financially sound and that financial and non-financial targets are met. The Committee received reports on the Group's information risks and data quality, and on progress with 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 Committee receives regular updates in relation to fraud or attempted fraud, and the 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 appointed staff to Anti-Money Laundering roles and issued a revised Anti-Money Laundering Policy, as required by recent legislation, and is rolling out training and revised procedures. Peabody values its reputation and is committed to maintaining the highest possible ethical standards in all its business activities. Peabody has a Whistle Blowing Policy that encourages employees 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 Audit and Risk Committee as part of its oversight of the Group's funding and financing risks.

Internal Controls 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 2018 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:

- 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 Code of Governance;
- 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 Audit and Risk Committee and Peabody Board of risk information;
- health and safety key issues reporting to the Health and Safety Committee and to the Audit and Risk 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;
- twice yearly self-assessment by management, of effectiveness of controls tailored to evidence key control status;
- 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 Audit and Risk 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 RSH regulatory standards; and
- clearly defined responsibilities for compliance with the RSH regulatory standards.

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

The Audit and Risk Committee reviewed the effectiveness of the system of internal control in existence across the Group (including the Company) for the period commencing 1 April 2018 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 Peabody Capital Plc (the "Company") for the year ended 31 March 2019.

The results for the year are set out in detail on pages 19 to 30.

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.

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) as at 31 March 2019, and A (stable outlook) from Standard & Poor's from 8 July 2019.

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 24 years;
- the business plan for the Group which demonstrates the ability of Peabody to service the debt.

Group structure
On 9 May 2019, Town and Country Housing Group ("TCHG") joined the Group as a distinct wholly owned subsidiary. TCHG was renamed Town and Country Housing ("TCH") and is to remain as a separate landlord. Peabody and TCH will remain focused on local priorities for their residents. The two organisations share a great deal in common with shared values and a strong social purpose.

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 were as follows:

THE DIRECTORS' REPORT (CONTINUED)

Lord Robert Kerslake (Chair)
Susan Hickey
Brendan Sarsfield
Ian Peters

None of the directors received any remuneration in their capacity as directors of the Company. Susan Hickey 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.

Directors' responsibilities
As explained more fully in their statement set out on page 13 – 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 (2018: £nil).

Auditor
Pursuant to section 487 of the Companies Act 2006 KPMG LLP was appointed as auditor of the Company for the financial year 2018/2019.

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.

THE DIRECTORS' REPORT (CONTINUED)

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
31 July 2019

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.

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

- 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.

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

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This report was approved by the Board on 31 July 2019 and was signed on its behalf by:

Lord Robert Kerslake
Chair
31 July 2019

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 2019 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 2019 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 5 financial years ended 31 March 2019. 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 judgment, 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 matters (unchanged from 2018), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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 these matters.

Recoverability of Long Term Debtors

Long Term Debtors (amounts falling due in more than one year) £207m (2018: £207m).
Refer to pages 5 to 9 (corporate governance statement), page 22 (accounting policy) and pages 23 to 30 (financial disclosures)

The risk – low risk high value

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 99.8% 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 there are small amounts of financial income and financial expense during the loan period, the risk mainly stems from the expectation of the ability of the Parent to repay the loan in 24 years.

Our response
Our procedures included:

- Assessment of Recoverability: Assessing 100% of intercompany long term debtors owed by the Parent (2018: 100%) to identify, with reference to the Parent's financial draft balance sheet, whether they have a positive net asset value and sufficient headroom to cover the debt owed, and that future cash flow plans include repayment of the debt.
- Test of detail: Assessing the creditor recognised by the Parent and comparing it to the debtor recognised by the company.
- Test of detail: Assessing the balance on-loaned to the group with reference to the bond issue funds and the onward loan document between the Company and the Parent.
- Confirmation of value: Obtained a confirmation letter from the counterparty to assess the gross, net and repayment date of the loan to the Parent.

Our results
We found the Company's assessment of the recoverability of the long term debtor balance to be acceptable (2018 result: acceptable).

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

Peabody Capital Plc is part of a Group headed by Peabody Trust. Materiality of £2.1m (2018: £2.1m), as communicated by the Group audit team, has been applied to the audit of the Company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in London.

4. We have nothing to report on 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.
Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 the other information.

Strategic report and directors' report
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. 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.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 13, 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 other irregularities (see below), 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, 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.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities .

Irregularities – ability to detect

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 (as required by auditing standards) and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those 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.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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.

CSewell

Victoria Sewell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
31 July 2019

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 £'000	2018 £'000
Administrative expenses	2	-	-
Interest receivable and similar income	3	10,303	10,310
Operating income before financing costs		10,303	10,310
Interest payable and similar charges	4	(10,303)	(10,310)
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	2019 £'000	2018 £'000
Fixed asset investment	6	**207,161**	207,358
Current assets			
Debtors – amounts falling due within one year	7	**390**	391
Cash at bank and in hand		**50**	50
Creditors – amounts falling due within one year	8	**(390)**	(391)
Net current assets		**50**	50
Total assets less current liabilities		**207,211**	207,408
Creditors – amounts falling due after more than one year	9	**(207,161)**	(207,358)
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 31 July 2019 and were signed on its behalf by:

Lord Robert Kerslake
Chair
31 July 2019

STATEMENT OF CHANGES IN EQUITY

	Called-up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 April 2018	**50**	**-**	**50**
Total comprehensive income	-	-	-
Total other comprehensive income / (loss)	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance as at 31 March 2019	**50**	**-**	**50**

	Called-up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance at 1 April 2017	50	-	50
Total comprehensive income	-	-	-
Total other comprehensive income / (loss)	-	-	-
Total contributions by and distributions to owners	-	-	-
Balance as at 31 March 2018	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 Peabody Capital Plc.

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 Group's business activities, together with factors likely to affect its future development and position, are set out in the Strategic report of the Board.

The board have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

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.

2. ADMINSTRATIVE EXPENSES

None of the directors received any remuneration as directors from the Company during the period (2018: £nil). The Company has no directly employed personnel (2018: £nil). Remuneration paid to Peabody's executive officers is disclosed in the Peabody financial statements.

Audit fees of £4,866 (2018: £4,747) and other administrative expenses are borne by Peabody, the ultimate parent undertaking.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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).

	2019 £'000	2018 £'000
Interest receivable from ultimate parent entity	**10,303**	10,310

4. INTEREST PAYABLE AND SIMILAR CHARGES

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

	2019 £'000	2018 £'000
Interest payable on the 2043 Bond	**10,303**	10,310

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 (2018: £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.

	2019	2018
	£'000	£'000
Loans due from ultimate parent entity	**207,161**	207,358

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.

	2019	2018
	£'000	£'000
Interest receivable from ultimate parent entity	**390**	391

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.

	2019 £'000	2018 £'000
Amounts due to 2043 Bond investors	**390**	391

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

	2019 £'000	2018 £'000
Amounts due to 2043 Bond investors	**207,161**	207,358

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

Lending arrangements (the "Bond Loan Agreements") exist between Peabody (as borrower) and Peabody Capital Plc and Peabody Capital No 2 Plc (as lenders) in relation to the 2043 and 2053 bond issues to facilitate the lending of proceeds from the bonds into the Group. These arrangements contain a provision ("Non-utilisation fee") for the lenders to recover from the borrower the difference between the interest payable to the 2043 and 2053 Bond investors and the income realised by the lenders. 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:

	2019	2018
	£'000	£'000
Financial assets:		
Classed as loans and receivables (amortised cost)		
Loans to ultimate parent undertaking	**207,161**	207,358
Debtors	**390**	391
Cash and cash equivalents	**50**	50
	207,601	207,799

	2019	2018
	£'000	£'000
Financial liabilities:		
Classed as other financial liabilities (amortised cost)		
Other creditors (accrued 2043 bond coupon – see Note 8)	**390**	391
Other liabilities	**207,161**	207,358
	207,551	207,749

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.

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. The Company and Peabody also have a Moody's credit rating of A3 (stable outlook) at 31 March 2019, and A (stable outlook) by Standard & Poor's from 8 July 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (CONTINUED)

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 £207,161,000 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**
2019					
Amounts due to 2043 Bond investors	-	10,500	42,000	399,500	452,000

	On demand £'000	Less than 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
2018					
Amounts due to 2043 Bond investors	-	10,500	42,000	410,000	462,500

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

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:

	2019 £'000	2018 £'000
Fixed rate borrowings	**207,161**	207,358

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (CONTINUED)

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 2019 £'000	**Book Value 2019 £'000**	At Fair Value 2018 £'000	Book Value 2018 £'000
Financial asset				
Loans to ultimate parent undertaking	**237,020**	**207,161**	223,881	207,358
Loans and receivables	**390**	**390**	391	391
Cash and cash equivalents	**50**	**50**	50	50
	237,460	**207,601**	224,322	207,799

	At Fair Value 2019 £'000	**Book Value 2019 £'000**	At Fair Value 2018 £'000	Book Value 2018 £'000
Financial liabilities				
Other creditors	**390**	**390**	391	391
Fixed rate secured Bonds	**237,020**	**200,000**	223,881	200,000
Accrued interest on bond	**7,161**	**7,161**	7,358	7,358
	244,571	**207,551**	231,630	207,749

The fair value of the loans to Peabody is based on the market value of similar debt instruments at 31 March 2019. 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.

The fair value of the fixed rate secured 2043 Bond is based on market value at 31 March 2019. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	2019	2018
	£'000	£'000
Fixed asset investment	**207,161**	207,358
Cash and cash equivalents	**50**	50
Equity	**50**	50
Total capital	**207,261**	207,458
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

	2019	2018
	£'000	£'000
Authorised allocated and issued		
50,000 ordinary shares of £1 each	**50**	50

	2019	2018
	£'000	£'000
Fully paid		
50,000 ordinary shares of £1 each	**50**	50

Upon incorporation the Company issued 50,000 shares to provide working capital to establish the business and received £12,500 in part payment for the shares. On 17 March 2016, the remaining £37,500 was received for share capital.

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

Peabody Capital Plc 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.