

**Company Number: 03214426**

**IMPERIAL BRANDS FINANCE PLC**  
**Annual Report and Financial Statements 2018**

## STRATEGIC REPORT

For the year ended 30 September 2018

The Directors present their Strategic Report together with the audited financial statements of Imperial Brands Finance PLC ("the Company") for the year ended 30 September 2018.

### Principal activity and principal risks and uncertainties of the Company

The principal activity of the Company is to provide treasury services to Imperial Brands PLC and its subsidiaries ("the Group").

The Company, as the main financing and financial risk management company for the Group, undertakes transactions to manage the Group's financial risks, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. A summary of the Company's policies in respect of foreign exchange, interest, credit and liquidity risks is included in note 14.

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC, which is the ultimate parent company within the Group, and the Directors of the Group manage operations at a Group level. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the treasury operations of the Group, which includes the Company, are discussed in note 19 of the Group's Annual Report which does not form part of this report, but is available at [www.imperialbrandsplc.com](http://www.imperialbrandsplc.com). Financial risk management disclosures can be found at note 14.

### Review of the business

The performance of the Company is dependent on external borrowings and intragroup loans payable and receivable and interest thereon, together with fair value gains and losses on derivative financial instruments.

The profit for the financial year was £159 million (2017: £324 million).

Total equity as at 30 September 2018 was £2,299 million (2017: £2,490 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amount to £350 million (2017: £600 million).

On behalf of the Board

T R Tildesley

Director

6 December 2018

## REPORT OF THE DIRECTORS

For the year ended 30 September 2018

The Directors submit their report together with the Strategic Report and the audited financial statements of the Company for the year ended 30 September 2018.

### Principal activity and financial risk management

As set out in the Strategic Report, the principal activity of the Company is to provide treasury services to the Group. The principal risks and uncertainties facing the Company are outlined in the Strategic Report with the management of those risks discussed in note 14 to the financial statements.

### Financial results and dividends

The financial results of the Company for the year are outlined in the Strategic Report.

The Directors recommend the payment of a final dividend for the year of £nil (2017: £350 million).

### Responsibility statements under the Disclosure and Transparency Rules

Each of the directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practise), including Financial Reporting Standards 101 'Reduced Disclosure Framework', give a true and fair view of the assets, liabilities, financial position and profit of the company, and
- The Strategic Report and Report of the Directors report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

### Corporate governance

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC and the Directors of the Group manage corporate governance at a Group level. The Group's statement on corporate governance can be found in the corporate governance report of the Group's Annual Report, which does not form part of this report, but is available at [www.imperialbrandspc.com](http://www.imperialbrandspc.com). A description of the internal control framework is provided in the Strategic Report with consideration given to the risk management policies of the Company included in note 14 to the financial statements. For this reason, the Company's Directors consider further detail of corporate governance in this report not necessary.

### Financial reporting

The company has in place internal control and risk management systems in relation to the Company's financial reporting process and the process for the preparation of financial statements. These systems include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparation of monthly management accounts, review of the disclosures within the accounts report and accounts from directors to ensure that the disclosures made appropriately reflect the developments within the entity in the year and meet the requirement of being fair, balanced and understandable.

The above disclosures are made in accordance with Disclosure and Transparency Rules 7.2.5

### Insurance

Imperial Brands PLC has purchased Directors' and Officers' liability insurance that has been in force throughout the financial year and is currently in force. The Directors of the Company have the benefit of this insurance, which is a qualifying third party indemnity provision as defined by the Companies Act 2006.

### Future outlook

The business activity is expected to continue at levels similar to the current level. The Company will continue to manage the financing, liquidity and financial risk management requirements of the Group as they change over time.

### Board of Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are:

- J M Jones
- D I Resnekov (resigned 28 February 2018)
- T R W Tildesley (appointed 28 February 2018)
- O R Tant
- M A Wall

### Going concern

The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements.

- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent Auditors and disclosure of information to Auditors**

Each of the Directors in office as of the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- they have each taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

In the absence of a notice proposing that the appointment of PricewaterhouseCoopers LLP as independent auditors to the Company should be brought to an end, the Auditors will be deemed to be re-appointed for the next financial year.

On behalf of the Board

T R W Tildesley

Director

6 December 2018

## FINANCIAL STATEMENTS

For the year ended 30 September 2018

### Income Statement

(In £ million)	Notes	2018	2017
Administrative expenses		(1)	(17)
Other operating income		1	1
<b>Operating loss</b>	4	-	(16)
Investment income	5	1,504	1,752
Finance costs	6	(1,327)	(1,404)
<b>Profit before taxation</b>		177	332
Tax on profit	8	(18)	(8)
<b>Profit for the financial year</b>		159	324

The Company has no other comprehensive income other than that included above and, therefore, a separate statement of comprehensive income has not been presented.

**Balance Sheet**

As at 30 September 2018

(In £ million)	Notes	2018	2017
<b>Non-current assets</b>			
Trade and other receivables	10	30	324
Derivative financial instruments	15	462	583
		492	907
<b>Current assets</b>			
Trade and other receivables	10	33,337	33,797
Current tax assets	8	-	50
Deferred tax assets	11	-	18
Cash and cash equivalents		28	1
Derivative financial instruments	15	37	60
		33,402	33,926
<b>Total assets</b>		<b>34,894</b>	<b>34,833</b>
<b>Current liabilities</b>			
Borrowings	13	(2,369)	(2,305)
Derivative financial instruments	15	(105)	(42)
Trade and other payables	12	(18,450)	(18,634)
		(20,924)	(20,981)
<b>Non-current liabilities</b>			
Borrowings	13	(9,598)	(10,196)
Derivative financial instruments	15	(1,073)	(1,166)
		(10,671)	(11,362)
<b>Total liabilities</b>		<b>(31,595)</b>	<b>(32,343)</b>
<b>Net assets</b>		<b>2,299</b>	<b>2,490</b>
<b>Equity</b>			
Share capital	16	2,100	2,100
Retained earnings		199	390
<b>Total equity</b>		<b>2,299</b>	<b>2,490</b>

The financial statements were approved by the Board of Directors on 6 December 2018 and signed on its behalf by:

T R W Tildesley \_\_\_\_\_  
Director

J M Jones \_\_\_\_\_  
Director

Company Number: 03214426

**Statement of Changes in Equity**  
For the year ended 30 September 2018

(In £ million)	Share capital	Retained earnings	Total equity
<b>At 1 October 2017</b>	<b>2,100</b>	<b>390</b>	<b>2,490</b>
Total comprehensive income			
Profit for the financial year	-	159	159
<b>Total comprehensive income for the year</b>	-	159	159
Transactions with owners			
Dividends paid	-	(350)	(350)
<b>At 31 September 2018</b>	<b>2,100</b>	<b>199</b>	<b>2,299</b>

(In £ million)	Share capital	Retained earnings	Total equity
<b>At 1 October 2016</b>	<b>2,100</b>	<b>666</b>	<b>2,766</b>
Total comprehensive income			
Profit for the financial year	-	324	324
<b>Total comprehensive income for the year</b>	-	324	324
Transactions with owners			
Dividends paid	-	(600)	(600)
<b>At 31 September 2017</b>	<b>2,100</b>	<b>390</b>	<b>2,490</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

### 1. Authorisation of financial statements and statement of compliance with FRS101

The principal activity of the Company is to provide treasury services to Imperial Brands PLC and its subsidiaries ("the Group"). The Company is incorporated and domiciled in England and Wales. The Company is classified as a financial institution as defined by FRS 101.

The financial statements of the Company for the year ended 30 September 2018 were authorised for issue by the Board of Directors on 6 December 2018, and the balance sheet was signed on the Board's behalf by J M Jones and T R W Tildesley.

These financial statements have been prepared on the going concern basis and in accordance with the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in pounds sterling, its functional currency, and all values are rounded to the nearest million pounds (£ million) except when otherwise indicated.

The principal accounting policies adopted by the Company are set out in note 2.

### 2. Accounting policies

#### Basis of preparation of financial statements

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available in relation to business combinations, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective and related party transactions.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates and judgements in applying to the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payments
- b) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- c) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - i. paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements
  - ii. paragraph 73(e) of IAS 16 Property, Plant and Equipment
  - iii. paragraph 118(e) of IAS 38 Intangible Assets
- d) the requirements of paragraphs 10(d) and 10(f) of IAS 1 Presentation of Financial Statements.
- e) the requirements of IAS 7 Statement of Cash Flows
- f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- i) the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

The financial statements have been prepared on the historical cost basis, except as described in the accounting policies on financial instruments below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

#### New accounting standards and interpretations

There are no new accounting standards, or amendments to accounting standards, or IFRS Interpretation Committee ("IFRS IC") interpretations that are effective for the year ended 30 September 2018, that have had a material impact on the Company. The principal accounting policies have been applied consistently, other than where new policies have been adopted. The following Standards which have not been adopted in these financial statements that are in issue but not yet effective for the 2018 year end are: IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. These will be adopted in the financial year commencing 1 October 2018. IFRS 16 'Leases' will be adopted in the year commencing 1 October 2019.



## **2. Accounting policies (continued)**

### **New accounting standards and interpretations (continued)**

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

**Classification and measurement:** Financial assets will be classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss, depending on the entity's business model and the contractual cash flow characteristics of the instruments. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables, the Group does not currently hold any significant financial assets. The application of this requirement is not expected to materially impact the financial statements.

**Impairment of financial assets:** Impairment provisions will be calculated using a forward looking expected credit loss approach for financial assets, rather than the incurred loss approach applicable under IAS 39. The expected credit loss model requires the recognition of a provision which reflects future impairment risk. Provision levels will be calculated on the residual credit risk after consideration of any credit protection which is used by the Group.

Receivables which have already become overdue will continue to be provided in line with the current provisioning policy. With the exception of Palmer and Harvey debt write-off, the Group has historically experienced low levels of credit default. Given this, we do not expect the level of the additional expected credit loss provision to be significant.

**Hedge Accounting:** Adoption of aspects of IFRS 9 relating to hedge accounting are currently optional as organisations are allowed to continue to apply the IAS 39 requirements. IFRS 9 aligns the accounting approach with an entity's risk management strategies and risk management objectives. The Group will adopt the hedge accounting aspects of IFRS 9 from 1 October 2019. However, it is expected that the hedging approach will continue to be limited to the use of net investment hedging. Consequently, the adoption of this area of IFRS 9 is not expected to materially impact the financial statements.

IFRS 15 'Revenue from Contracts with Customers' will be effective for the period beginning 1 October 2018. IFRS 15 introduces an amended framework for revenue recognition and replaces the existing guidance in IAS 18 'Revenue'. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers. We do not expect the application of this new standard to have a significant impact on the Company's financial results.

IFRIC 23 'Uncertainty over income tax treatments' will be effective, subject to EU endorsement, for the period beginning 1 October 2019. The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Work is ongoing to assess the impact of the Interpretation.

### **Interest**

Interest payable and receivable is recognised in the income statement using the effective interest method.

The principal activity of the business is to provide treasury services to the Group. However, the Company has chosen to present interest receivable and payable below operating profit, including foreign exchange gains and losses on financing activities, in order to have a consistent treatment with the format of the consolidated financial statements of the Group. This is considered appropriate since the Company undertakes transactions on behalf of the Group.

### **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into pound sterling at the rates of exchange ruling at the balance sheet date.

Transactions in currencies other than pound sterling are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are taken to the income statement.

### **Taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in the shareholders' funds, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is measured on a non-discounted basis.

## 2. Accounting policies (continued)

### Dividends

Final dividends are recognised as a liability in the period in which the dividends are approved by shareholders, whereas interim dividends are recognised in the period in which the dividends are paid.

### Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument. Financial assets are de-recognised when the rights to receive benefits have expired or been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is extinguished.

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the profit and loss account. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Company transacts both intragroup and external derivative financial instruments to manage the Company's and the Group's underlying exposure to foreign exchange and interest rate risks. The Company does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the balance sheet at fair value, and include accrued interest receivable and payable where relevant. The Company has decided (as permitted under FRS 101) not to hedge account for its derivative financial instruments and so changes in fair values are recognised in the income statement in the period in which they arise.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association ("ISDA") agreements in respect of certain derivatives are net settled and are, therefore, netted off the carrying value of those derivatives in the balance sheet.

## 3. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### Derivatives

The fair value of derivatives is determined based on quoted market prices, where available, or on estimates using present values. Those techniques are significantly affected by the assumptions used, including discount rates, estimates of future cash flows, exchange rates and interest rates. The valuation of derivatives is subject to changes in the underlying assumptions used by financial markets in valuing financial instruments. The impact of changes in these assumptions can be significant resulting in volatility in valuations. Further information as to the sensitivity of valuations is disclosed in note 14.

The categorisation within the fair value hierarchy (i.e. level 1, 2 or 3) of the inputs to the fair value measurements of derivatives carried at fair value is set out in note 14.

## 4. Operating loss

The operating loss for 2017 is stated after recognition of £16 million expense relating to the impairment of amounts due from Group undertakings. There is a £nil result for 2018.

Auditors' fees of £42,024 (2017: £40,800) were met by Imperial Tobacco Limited, a wholly owned subsidiary of Imperial Brands PLC, the ultimate parent company. There were no non-audit fees in either 2018 or 2017.

## 5. Investment income

(In £ million)	2018	2017
Interest receivable from Group undertakings	874	881
Interest on bank deposits	1	1
Fair value gains on external derivative financial instruments	492	744
Fair value gains on intragroup derivative financial instruments	137	126
	1,504	1,752

## 6. Finance costs

(In £ million)	2018	2017
Interest payable to Group undertakings	127	69
Interest on bank loans and other loans	481	535
Exchange losses on monetary assets and liabilities	151	121
Fair value losses on external derivative financial instruments	567	679
	1,327	1,404

## 7. Directors' emoluments and pensions

The Company has no employees other than the Directors, who did not receive any emoluments from the Company in respect of the year under review, or the prior year.

The emoluments of the Directors are paid by Imperial Tobacco Limited ("ITL") a wholly owned indirect subsidiary of Imperial Brands PLC, the ultimate parent company. The Directors' services to the Company and to a number of fellow subsidiaries below the ultimate parent company are of a non-executive nature and their emoluments and retirement benefits are deemed to be wholly attributable to their services to ITL and the ultimate parent company. Accordingly, no emoluments or retirement benefits are disclosed in these financial statements.

## 8. Tax on profit

Analysis of charge in the year:

(In £ million)	2018	2017
Adjustments in respect of prior years	(1)	-
Withholding tax	1	1
<b>Current tax</b>	-	1
Origination and reversal of timing differences	18	7
<b>Deferred tax</b>	18	8
<b>Total tax charge</b>	18	8

### Factors affecting the tax charge for the year

Tax for the year is lower (2017: lower) than the standard rate of corporation tax in the UK for the year of 19.0 per cent (2017: 19.5 per cent). The differences are explained as follows:

(In £ million)	2018	2017
Profit before taxation	177	332
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.0% (2017: 19.5%)	33	65
Effects of:		
Non-deductible loan waiver	-	3
Adjustments to tax charge in respect of prior years (current tax)	(1)	-
Adjustments to tax charge in respect of prior years (deferred tax)	18	(2)
Foreign tax paid	1	1
UK-UK transfer pricing adjustment	(36)	(59)
Group relief surrendered	3	-
<b>Total tax charge</b>	18	8

An adjustment for UK-UK transfer pricing has been included in accordance with the Taxation (International and Other Provisions) Act 2010, Part 4. The corporation tax charge for the year has been adjusted by £3 million (2017: £nil) due to the claim of group relief for nil consideration to (2017: to) other Imperial Brands PLC group subsidiaries.

### Movement on current tax account

(In £ million)	2018	2017
At 1 October	50	50
Credit to the income statement – prior year adjustment	1	-
Charged to the income statement – current year	(1)	(1)
Cash paid	(50)	1
At 30 September	-	50

### Factors that may affect future tax charges

There is no guarantee that the surrender of group tax losses by other Group subsidiaries will occur in the future.

The current year tax rate of 19.0 per cent arises from profits being taxed at 19.0 per cent until 30 September 2018.

The prior period tax rate of 19.5 per cent arises from profits being taxed at 20.0 per cent until 31 March 2017 and 19.0 per cent thereafter. The rate of corporation tax was reduced by 1.0 per cent from 20.0 per cent to 19.0 per cent from 1 April 2017. A further reduction to 17.0 per cent on 1 April 2020 was enacted at the balance sheet date. The effect of these reductions, if applied to the deferred tax balance at 30 September 2018 would be immaterial.

## 9. Dividends

### Dividend per share in respect of financial year

(In pence)	2018	2017
Final	-	17

### Amounts recognised as distributions to ordinary equity holders in the year

(In £ million)	2018	2017
Final dividend paid in the year in respect of the previous financial year	350	600
	350	600

## 10. Trade and other receivables

(In £ million)	2018 Current	2018 Non-Current	2017 Current	2017 Non-Current
Amounts owed by Group undertakings	33,335	30	33,795	292
Other receivables and prepayments	2	-	2	32
	33,337	30	33,797	324

Amounts owed by Group undertakings are unsecured, both interest bearing and non-interest bearing and can be either repayable on demand or have fixed repayment dates.

## 11. Deferred tax assets

(In £ million)	2018	2017
Deferred tax assets	-	18

The amount regarding deferred tax consists of the following:

(In £ million)	2018	2017
Deferred tax assets due within 12 months	-	18

### Deferred tax assets

(In £ million)	Carried forward losses	Total
At 1 October 2016	25	25
Charged to the income statement	(7)	(7)
At 30 September 2017	18	18
Charged to the income statement	(18)	(18)
As at 30 September 2018	-	-

## 12. Trade and other payables

(In £ million)	2018	2017
Amounts owed to Group undertakings	18,450	18,634

Amounts owed to Group undertakings are unsecured, both interest bearing and non-interest bearing and repayable on demand.

Amounts owed to Group undertakings are not included in the borrowings analysis in note 13 of the financial statements which only includes borrowings with external counterparties.

### 13. Borrowings

The Company's borrowings are held at amortised cost as follows:

(In £ million)	2018	2017
<b>Current borrowings</b>		
Bank loans and overdrafts	119	237
Capital market issuance:		
European commercial paper	1,530	-
£200m 6.25% notes due December 2018	210	-
£500m 7.75% notes due June 2019	510	-
\$1,250m 2.05% notes due February 2018	-	936
€850m 4.5% notes due July 2018	-	757
\$500m 2.05% notes due July 2018	-	375
<b>Total current borrowings</b>	<b>2,369</b>	<b>2,305</b>
<b>Non-current borrowings</b>		
Capital market issuance:		
£200m 6.25% notes due December 2018	-	210
£500m 7.75% notes due June 2019	-	510
€750m 5.0% notes due December 2019	693	689
\$1,250m 2.95% notes due July 2020	963	937
€1,000m 2.25% notes due February 2021	898	892
€500m 0.5% notes due July 2021	443	440
£1,000m 9.0% notes due February 2022	1,055	1,055
\$1,250m 3.75% notes due July 2022	963	938
\$1,000m 3.5% notes due February 2023	768	749
£600m 8.125% notes due March 2024	626	626
€500m 1.375% notes due January 2025	447	444
\$1,500m 4.25% notes due July 2025	1,151	1,120
€650m 3.375% notes due February 2026	588	584
£500m 5.5% notes due September 2026	499	499
£500m 4.875% notes due June 2032	504	503
<b>Total non-current borrowings</b>	<b>9,598</b>	<b>10,196</b>
<b>Total borrowings</b>	<b>11,967</b>	<b>12,501</b>
Analysed as:		
Capital market issuance	11,848	12,264
Bank loans and overdrafts	119	237

Current and non-current borrowings include interest payable of £21 million (2017: £12 million) and £172 million (2017: £192 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest.

On 12 February 2018, \$1,250 million 2.05 per cent notes were repaid. On 5 July 2018, €850 million 4.5 per cent notes were repaid. On 20 July 2018, \$500 million 2.05 per cent notes were repaid.

All borrowings are unsecured and the Company has not defaulted on any during the year (2017: no defaults).

#### Non-current financial liabilities

The maturity profile of non-current liabilities outstanding as at 30 September 2018 (including the impact of derivative financial instruments detailed in note 15) is as follows:

(In £ million)	2018			2017		
	Borrowings and overdrafts	Net derivative financial liabilities	Total	Borrowings and overdrafts	Net derivative financial (assets) / liabilities	Total
Amounts expiring:						
Between one and two years	1,656	4	1,660	721	47	768
Between two and five years	4,129	123	4,252	4,951	196	5,147
In five years or more	3,813	485	4,298	4,524	340	4,864
	<b>9,598</b>	<b>612</b>	<b>10,210</b>	<b>10,196</b>	<b>583</b>	<b>10,779</b>

### Fair value of borrowings

The fair value of borrowings as at 30 September 2018 is estimated to be £12,456 million (2017: £13,482 million). £12,337 million (2017: £13,245 million) relates to capital market issuance and has been determined by reference to market prices as at the balance sheet date. A comparison of the carrying amount and fair value of capital market issuance by currency is provided below. The fair value of all other borrowings is considered to equal their carrying amount.

(In £ million)	2018		2017	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	3,404	3,861	3,403	4,085
EUR	4,598	4,681	3,806	3,984
USD	3,846	3,795	5,055	5,176
<b>Total bonds</b>	<b>11,848</b>	<b>12,337</b>	<b>12,264</b>	<b>13,245</b>

### Undrawn borrowing facilities

At 30 September the Company had the following undrawn committed facilities:

(In £ million)	2018	2017
Amounts expiring:		
Between one and two years	1,040	-
Between two and five years	3,016	3,000
	<b>4,056</b>	<b>3,000</b>

During the year four new bilateral facilities for a total £1,041 million were arranged.

## 14. Financial risk management

### Overview

The Company, as the main financing and financial risk management company for the Group, undertakes transactions to manage the Group's financial risks, together with its financing and liquidity requirements. As a result, the Company is exposed to risks including, but not limited to, market, credit and liquidity risk. This note explains the Company's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them, including those related to the management of capital.

The Group's treasury activities are overseen by the Treasury Committee, which meets when needed and comprises the Chief Financial Officer of Imperial Brands PLC, the Company Secretary of Imperial Brands PLC, the Deputy Chief Financial Officer of Imperial Brands PLC and other senior management from finance and treasury. The Treasury Committee operates in accordance with the terms of reference set out by the Board of Directors of Imperial Brands PLC and a framework ("the Treasury Committee framework") which sets out the expectations and boundaries to assist in the effective oversight of treasury activities. The Director of Treasury reports on a regular basis to the Treasury Committee.

The Board of Directors of Imperial Brands PLC reviews and approves all major treasury decisions. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Company's management of financial risks cover the following:

#### (a) Market risk

##### Price risk

The Company is not exposed to equity securities price risk or financial instrument price risk.

##### Foreign exchange risk

The Company is exposed to movements in foreign exchange rates due to the translation of balance sheet items held in non-functional currencies. The Company's financial results are principally exposed to fluctuations in euro and US dollar exchange rates.

Management of the Company's foreign exchange translation risk is addressed below.

##### Translation risk

The Company has translation risk on cash, borrowings, derivatives and intra-group loans held in non-functional currencies. The Company enters into intra-group derivative contracts to manage some of the Company's exposure to exchange rate movements.

The Company issues debt in the most appropriate market or markets at the time of raising new finance and has a policy of using derivative financial instruments, cross currency swaps, to change the currency of debt as required.

### Foreign exchange sensitivity analysis

The Company's sensitivity to foreign exchange rate movements, which impacts the translation of monetary items held by the Company in currencies other than its functional currency, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that the proportion of cash, borrowings, derivatives and intra-group loans held in non-functional currencies remains constant.

The Company manages its sensitivity to foreign exchange rates through the use of intra-group derivative contracts to minimise foreign exchange gains or losses on the translation of financial instruments. The sensitivity analysis does not reflect any change to non-finance costs that may result from changing exchange rates and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments. In February 2018 the Group completed a subsidiary simplification exercise which resulted in a decrease in the foreign currency income statement sensitivity of the Company.

(In £ million)	2018	2017
	Increase in income	Increase in income
Income Statement impact on non-functional currency foreign exchange exposures:		
10% appreciation of euro (2017: 10%)	(42)	1,402
10% appreciation of US dollar (2017: 10%)	(29)	583

An equivalent depreciation in the above currencies would cause an increase in income of £51 million and £35 million for euro and US dollar exchange rates respectively (2017: decreases of £1,713 million and £713 million).

There is no direct net impact on equity (2017: £nil).

### Interest rate risk

The Company's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro, and US dollar interest rates. Borrowings at variable rates expose the Company to cash flow interest rate risk. Borrowings at fixed rates expose the Company to fair value interest rate risk.

The Company manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework and Treasury Committee discussions.

As at 30 September 2018, after adjusting for the effect of derivative financial instruments detailed in note 15, approximately 66 per cent (2017: 71 per cent) of the Company's borrowings were at fixed rates of interest.

### Interest rate sensitivity analysis

The Company's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Company's Income Statement reflects the effect on net finance costs in respect of the Company's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2018, ignoring any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

The sensitivity analysis has been prepared on the basis that net debt and the derivatives portfolio remain constant and that there is no direct net impact on equity (2017: £nil).

The movement in interest rates is considered reasonable for the purposes of this analysis and the estimated effect assumes a lower limit of zero for interest rates where relevant.

(In £ million)	2018	2017
	Change in income	Change in income
Income Statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2017: 1%)	26	17
+/- 1% increase in US dollar interest rates (2017: 1%)	15	20

### (b) Credit risk

The Company is primarily exposed to credit risk arising from cash deposits and amounts due from external financial counterparties arising on other financial instruments. The maximum aggregate credit risk to these sources was considered to be £527 million at 30 September 2018 (2017: £644 million).

### Financial instruments

In order to manage its credit risk to any one counterparty, the Company places cash deposits and enters into derivative financial instruments with a diversified group of financial institutions carrying suitable credit ratings in line with the Treasury Committee framework. Utilisation of counterparty credit limits is regularly monitored by treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In a few historical cases, collateral has been deposited against derivative financial liabilities and supported by an ISDA Credit Support Annex.

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2018. At the balance sheet date, management does not expect these counterparties to default on their current obligations. The impact of the Company's own credit risk on the fair value of derivatives and other obligations held at fair value is not considered to be material.

	2018		2017	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A+	6	A-	17
2 <sup>nd</sup> highest	BBB+	5	AA-	8
3 <sup>rd</sup> highest	A	3	A-	7
4 <sup>th</sup> highest	A	3	A+	6
5 <sup>th</sup> highest	-	-	A	4

### (c) Liquidity risk

The Company is exposed to liquidity risk, which represents the risk of having insufficient funds to meet its financing needs. To manage this risk the Company has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are structured to ensure that the Company has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2018, the Company held liquid assets of £28 million (2017: £1 million).

The table below summarises the Company's non derivative financial liabilities by maturity based on their remaining contractual cash flows as at 30 September 2018. The amounts disclosed are undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Company's derivative financial instruments are detailed in note 15.

#### At 30 September 2018

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
<b>Non-derivative financial liabilities</b>						
Bank loans	119	119	119	-	-	-
Capital market issuance	11,848	13,745	2,670	2,002	4,843	4,230
Amounts owed to group undertakings	18,450	18,450	18,450	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>30,417</b>	<b>32,314</b>	<b>212,239</b>	<b>2,002</b>	<b>4,843</b>	<b>4,230</b>

#### At 30 September 2017

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
<b>Non-derivative financial liabilities</b>						
Bank loans	237	239	239	-	-	-
Capital market issuance	12,264	14,637	2,554	1,138	5,823	5,122
Amounts owed to group undertakings	18,634	18,634	18,634	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>31,135</b>	<b>33,510</b>	<b>21,427</b>	<b>1,138</b>	<b>5,823</b>	<b>5,122</b>

Amounts owed to the Company by Group undertakings of £33,365 million (2017: £34,087 million) are excluded from the above tables, as disclosure of contractual cashflows is only required for liabilities.

### Capital management

The management of the Company's capital structure forms part of the Group's capital risk management, details of which can be found in note 19 of the Group's Annual Report which does not form part of this report, but is available at [www.imperialbrandspc.com](http://www.imperialbrandspc.com).

### Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per IFRS 13) as detailed in note 15. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 13.



## Netting arrangements of financial instruments

The following tables set out the Company's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Company's balance sheet primarily relate to collateral in respect of derivative financial instruments under ISDA Credit Support Annexes. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

(In £ million)	2018				
	Gross financial assets / liabilities	Gross financial assets / liabilities set off	Net financial assets / liabilities per balance sheet	Related amounts not set off in the balance sheet	Net
<b>Assets</b>					
Derivative financial instruments	581	(82)	499	(481)	18
	581	(82)	499	(481)	18
<b>Liabilities</b>					
Derivative financial instruments	(1,260)	82	(1,178)	481	(697)
	(1,260)	82	(1,178)	481	(697)

(In £ million)	2017				
	Gross financial assets / liabilities	Gross financial assets / liabilities set off	Net financial assets / liabilities per balance sheet	Related amounts not set off in the balance sheet	Net
<b>Assets</b>					
Derivative financial instruments	718	(75)	643	(603)	40
	718	(75)	643	(603)	40
<b>Liabilities</b>					
Derivative financial instruments	(1,283)	75	(1,208)	603	(605)
	(1,283)	75	(1,208)	603	(605)

## 15. Derivative financial instruments

The Company's derivative financial instruments are held at fair value as follows:

Current derivative financial instruments (In £ million)	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	28	(24)	47	(33)
Foreign exchange contracts	6	(7)	12	(9)
Cross currency swaps	3	(127)	1	-
Collateral <sup>1</sup>	-	53	-	-
Total current derivatives	37	(105)	60	(42)
<b>Non-current derivative financial instruments</b>				
(In £ million)	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	462	(700)	583	(734)
Cross currency swaps	-	(402)	-	(507)
Collateral <sup>1</sup>	-	29	-	75
Total non-current derivatives	462	(1,073)	583	(1,166)
Total carrying value of derivative financial instruments	499	(1,178)	643	(1,208)
Net liability		(679)		(565)
<b>Analysed as:</b>				
Interest rate swaps	490	(724)	630	(767)
Foreign exchange contracts	6	(7)	12	(9)
Cross currency swaps	3	(529)	1	(507)
Collateral <sup>1</sup>	-	82	-	75
Total carrying value of derivative financial instruments	499	(1,178)	643	(1,208)
Net liability		(679)		(565)

<sup>1</sup> Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex

Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. The classification of these derivative assets and liabilities under FRS 101 fair value hierarchy is provided in note 14.

#### Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified in the balance sheet as current or non-current on an undiscounted contractual basis based on spot rates as at the balance sheet date. Some of the Company's derivative financial instruments contain early termination options. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of an option being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2018. Any collateral transferred to counterparties in respect of derivative financial liabilities has been classified consistently with the related underlying derivative.

The table below summarises the Company's derivative financial instruments by maturity based on their remaining contractual cash flows as at 30 September 2018. The amounts disclosed are the undiscounted cash flows calculated using spot rates of exchange prevailing at the relevant balance sheet date. Contractual cash flows in respect of the Company's non derivative financial instruments are detailed in note 14.

##### At 30 September 2018

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	(205)	(508)	(13)	(38)	(183)	(274)
Gross settled derivatives	(474)	-	-	-	-	-
Receipts	-	5,364	2,249	102	1,228	1,785
Payments	-	(5,610)	(2,349)	(79)	(1,234)	(1,948)
	(679)	(754)	(113)	(15)	(189)	(437)

##### At 30 September 2017

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	(107)	(353)	12	(9)	(172)	(184)
Gross settled derivatives	(458)	-	-	-	-	-
Receipts	-	5,449	1,548	818	1,273	2,810
Payments	-	(5,712)	(1,525)	(923)	(1,288)	(1,976)
	(565)	(616)	35	114	(187)	(350)

#### Derivatives as hedging instruments

As outlined in note 14, the Company hedges its underlying interest rate exposure and foreign currency translation exposure in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Foreign exchange contracts are used to manage the Company's short term liquidity requirements in line with short term cash flow forecasts as appropriate. The Company does not apply cash flow or fair value hedge accounting as permitted under FRS 101, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs

##### Interest rate swaps

To manage interest rate risk on its borrowings, the Company issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination and duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Company's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework and Treasury Committee discussions. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2018, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £10,353 million equivalent (2017: £12,393 million equivalent) with a fair value of £240 million asset (2017: £579 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2017: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2018, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £10,285 million equivalent (2017: £11,049 million equivalent) with a fair value of £445 million liability (2017: £686 million liability). The fixed interest rates vary from 0.8 per cent to 4.4 per cent (2017: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £1,476 million equivalent (2017: £1,452 million equivalent) with tenors extending for 5 years, starting between October 2020 and May 2022.

##### Cross currency swaps

The Company enters into cross currency swaps to change the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2018, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £3,300 million (2017: £3,300 million) and the fair value of these swaps was £473 million net liability (2017: £461 million net liability).

#### Foreign exchange contracts

The Group enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2018, the notional amount of these contracts was £1,430 million equivalent (2017: £1,482 million equivalent) and the fair value of these contracts was a net liability of £1 million (2017: £3 million net asset).

### 16. Share capital

(In £ million)	2018	2017
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2017: 2,100,000,000)	2,100	2,100

### 17. Related party transactions

The Company has taken advantage of the Group exemption under the terms of IAS 24 from disclosing related party transactions with entities that are part of the Group since the Company is a wholly owned indirect subsidiary of Imperial Brands PLC and is included in the consolidated financial statements of the Group, which are publicly available.

### 18. Guarantees

The Company is party to a cross guarantee of its bank accounts held at HSBC Bank plc against accounts of its ultimate parent, Imperial Brands PLC, and some of its subsidiary companies. At 30 September 2018, the amount drawn under this cross guarantee was £22 million (2017: £nil). Together with other Group undertakings, the Company guarantees various borrowings and liabilities of other UK subsidiary companies under this arrangement with HSBC Bank plc.

The Company is party to a seven deeds of counter-indemnity, each dated July 2017, made on substantially the same terms under which certain insurance companies (the Sureties) have made available to Imperial Brands PLC, Imperial Tobacco Limited and the Company, a surety bond. In each case issued on a standalone basis but in aggregate forming an amount of £600 million, until January 2023. These surety bonds provide support to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

At 30 September 2018, the contingent liability totalled £622 million (2017: £nil).

The Directors have assessed the fair value of the above guarantees and do not consider them to be material. They have, therefore, not been recognised on the balance sheet.

### 19. Number of employees

The average number of employees during the year was nil (2017: nil).

### 20. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2018 was Imperial Brands PLC, a company incorporated in Great Britain and registered in England and Wales. The smallest and largest group in which the results of the Company are consolidated is that headed by Imperial Brands PLC, whose consolidated financial statements may be obtained from The Company Secretary, Imperial Brands PLC, 121 Winterstoke Road, Bristol, BS3 2LL.

The immediate parent undertaking of the Company at 30 September 2018 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.