

Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC

Annual Report and Financial Statements 2020

Imperial Brands Finance PLC

Board of Directors

J M Jones
O R Tant
T R W Tildesley
M A Wall

Company Secretary

J M Downing

Registered Office

121 Winterstoke Road
Bristol
BS3 2LL

Independent Auditors

Ernst & Young
1 More London Place
London
SE1 2AF

Imperial Brands Finance PLC

Strategic Report

For the year ended 30 September 2020

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 2020.

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, market, credit and liquidity risk. A summary of the Company's policies in respect of foreign exchange, interest, credit and liquidity risks is included in note 13.

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 21 of the Imperial Brands PLC Annual Report ("Imperial Brands Annual Report") which does not form part of this report, but is available at www.imperialbrandsplc.com. Financial risk management disclosures can be found in note 13.

COVID-19

Imperial Brands Group continues to be impacted by the global Coronavirus (COVID-19) pandemic, which resulted in unprecedented government restrictions on the normal operations of the Group across many countries. The restrictions put in place initially resulted in a number of office and factory closures. The Group has responded by adapting working practices through activities such as strengthening our IT infrastructure and accelerating the roll-out of software to facilitate remote team-working, as well as encouraging a more flexible approach. There have been modifications to working practices including changing shift patterns to ensure appropriate infection controls and social distancing for employees in manufacturing facilities. As a result of this, manufacturing plants have continued to operate and the Group is able to both produce and distribute product to customers to meet demand, while complying with all necessary safety precautions to protect staff and business partners from the risks arising from the pandemic.

To date, the observable impacts on the Group's activities have been limited to low level changes in credit risk in the duty free and travel retail operations area. However there are ongoing risks arising from the COVID-19 pandemic that may impact the Company including:

- Requirements put in place by regulators to manage COVID-19 impacts resulting in increased complexity and cost in relation to the continued operation of the Company's operations.
- Additional costs associated with the decision to ensure our people work in an environment that maintains their safety over and above regulatory requirements have been incurred during the current pandemic and these will continue until the risk has resolved.
- The need to raise public finances following the cost of the COVID-19 pandemic may increase the likelihood of changes in tax legislation, and/or an increased propensity for regulators to investigate large companies in the hope of achieving additional tax revenues and fines. These challenges may result from differences of opinion or changes in regulator interpretation of tax legislation in place with which the Company considers itself to be compliant.
- There is an increased risk that failure to maintain cash flows could impact the Group's ability to pay down debt, impacting covenants, credit ratings, bank, bond, and investor confidence. In addition a fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt. However, the Company has a strong focus on cash generation supported by Group guidance and governance processes. Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance and expectations to manage future financing needs and optimise cost and availability. The Group has investment grade credit ratings from the main credit rating agencies, which supports it to access financing in the global debt capital markets.

BREXIT

The UK formally exited from the European Union (EU) on 31 January 2020, and entered into a transition trading arrangement until 31 December 2020. On 30 December 2020, after the end of the accounting period, a trade deal was agreed between the UK and EU. The Company has considered the potential impacts of the trade deal and does not expect any material adverse consequences from the UK's exit from the EU.

LIBOR

In response to the planned cessation of LIBOR at the end of 2021, the Company is reviewing recently published ISDA Fallback Protocols. The Company is considering how it will proactively restructure to the new basis for its floating rate debt and derivative positions maturing after that date.

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 loss for the financial year was £150 million (2019: profit of £109 million). The reason for the loss was due to a charge arising on recognition of an expected credit loss provision of £294 million against the carrying value of certain of its loans made to entities within the Imperial Brands Group. The expected loss provision arises due to increases in the assessment of credit risk associated with the future repayment of the loans. The charge arising is not tax deductible and therefore there is no associated tax credit.

Total equity as at 30 September 2020 was £2,258 million (2019: £2,408 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amount to £nil million (2019: £nil million).

Imperial Brands Finance PLC

UK Companies Act: Section 172 (1) statement

The Company is part of the Imperial Brands Group and is ultimately owned by Imperial Brands PLC. As set out above the Company's principal activities comprise undertaking transactions to manage the Group's financial risks, together with its financing and liquidity requirements. Under Section 172 (1) of the UK Companies Act 2006 and as part of the Directors' duty to the Company's shareholders to act as they consider most likely to promote the success of the Company, the Directors must have regard to the long term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. The Directors must also have regard for business relationships with the Company's wider stakeholders, and the impact of the Company's operations on the environment and communities in which it operates. Consideration of these factors and other relevant matters is embedded into board decision making and risk assessments throughout the year.

The Company's key stakeholders are financial institutions in which it engages with in relation to the Company's financial activities and those members of the Imperial Brands Group to which it provides finance-related services. Primary ways in which the Company engages with financial institutions are through meetings, ongoing dialogue and relationship management conducted by the Imperial Brands Group Treasury and Finance teams. There is regular engagement with Imperial Brands PLC on finance related matters, which is taken into account in the Company's decision making. Primary ways in which the Company engages directly or indirectly, as part of the Imperial Brands Group, with its key stakeholders are summarised at pages 14 to 15 of the Imperial Brands Annual Report. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision making. During the decision making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

In accordance with the Imperial Brands Group's overall governance and internal control framework and in support of the Company's purpose as part of the Imperial Brands Group, the Company applies and the Directors have regard to all applicable Imperial Brands Group policies and procedures, including the Group Statement of Delegated Authorities, standards of business conduct, health and safety and environmental policies. Where authority for decision making is delegated to management under the Group delegated authority rules, appropriate regard is given to the likely long term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with wider stakeholders, the impact of business operations on the environment and communities, and other relevant factors. The Imperial Brands Group Statement of Delegated Authorities is part of the Imperial Brands Group's governance and internal control framework through which good corporate governance, risk management and internal control is promoted within the Imperial Brands Group and does not derogate from any requirement for Board review, oversight or approval in relation to the Company's activities.

On behalf of the Board



Tom Tildesley (Mar 30, 2021 08:23 GMT+1)

T R W Tildesley
Director
30 March 2021

Imperial Brands Finance PLC

Report of the Directors

For the year ended 30 September 2020

Company Number: 03214426

The Directors submit their report together with the Strategic Report (on page 2) and the audited financial statements of the Company for the year ended 30 September 2020.

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 13 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 do not recommend the payment of a final dividend for the year (2019: £nil 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 Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"), 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 in the Imperial Brands Annual Report, which does not form part of this report, but is available at www.imperialbrandsplc.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 13 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 report and accounts to ensure that the disclosures made appropriately reflect the developments within the Company in the year and meet the requirement of being fair, balanced and understandable.

The above disclosures are made in accordance with the United Kingdom Listing Authority Disclosure and Transparency Rules Section 7.2.5, requiring disclosure of internal control and risk compliance systems.

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 overall liquidity and financial risk management requirements of the Group as they change over time. The Company will manage the Group's financing requirement in combination with other Group entities where it is beneficial to the Group as a whole.

Board of Directors

J M Jones
O R Tant
T R W Tildesley
M A Wall

Imperial Brands Finance PLC

Report of the Directors (continued)

For the year ended 30 September 2020

Company Number: 03214426

Going concern

The Company has been issued a letter of comfort from its parent company, Imperial Brands PLC, confirming ongoing financial support in meeting liabilities as they fall due for a period of 12 months from the date of approval of the financial statements. Imperial Brands PLC has undertaken its own assessment of going concern, which it has confirmed and this is disclosed on page 140 of the Imperial Brands Annual Report for the year ended 30 September 2020. The Directors are satisfied that no events took place after the release of the Imperial Brands PLC Annual Report that give rise to any uncertainties relating to going concern, and accordingly the Directors considered it appropriate to rely upon this support in making their going concern assessment for these financial statements. The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future which is at least 12 months from the date of signing the financial statements and accordingly they continue to adopt the going concern basis in preparing the financial statements.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and applying them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

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.

On behalf of the Board



Tom Tildesley (Mar 30, 2021 08:23 GMT+1)

T R W Tildesley
Director
30 March 2021

Imperial Brands Finance PLC

Independent auditor's report to the members of Imperial Brands Finance PLC

Opinion

We have audited the financial statements of Imperial Brands Finance PLC for the year ended 30 September 2020 which comprise Income Statement, the Balance Sheet, the statement of changes in equity and the related notes 1 to 20 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">Valuation of derivative financial instrumentsValuation of ECL provision for intercompany loan receivables
Materiality	<ul style="list-style-type: none">Overall materiality of £23m which represents 1% of net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the directors
Valuation of derivative financial instruments (£ 816m net liabilities, 2019: £622m) Refer to the Strategic Report (page 1); Accounting policies (page 14); and Note 14 of the Financial Statements (page 18) The company has a portfolio of derivatives including a range of instruments with differing maturity dates, some of which are over 5 years. The derivatives are reported at their fair value in accordance with IFRS 9 requirements. The 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.	<p>In order to assess the valuation of derivative financial instruments, our audit procedures included:</p> <ul style="list-style-type: none">Understanding the methodology applied by management for derivatives valuation and walking through the controls over the process.Reading agreements between the company and derivative counterparties.Obtaining confirmations from all derivative counterparties confirming the existence of derivative instruments outstanding at the balance sheet date.Involving specialists to perform:	We concluded that the valuation of derivative financial instruments as at 30 September 2020 is materially correct.

Imperial Brands Finance PLC

Risk	Our response to the risk	Key observations communicated to the directors
<p>We identified a risk relating to the judgments used in fair value measurement, leading to a heightened risk of error in the valuation of the derivative financial instruments.</p>	<p>a) an independent valuation of all derivative instruments, b) a review of the classification of the derivatives, c) an audit of the credit risk adjustment and its movement throughout the period, and d) an assessment of the accounting treatment under IFRS with derivatives being treated at fair value through profit and loss</p>	
<p>Valuation of ECL provision for intercompany loan receivables (£ 294m, 2019: Nil)</p> <p><i>Refer to the Strategic Report (page 1); Accounting policies (page 14); and Note 10 of the Financial Statements (page 16)</i></p> <p>Under IFRS 9 management is required at each reporting date to assess whether the financial instruments are credit impaired using the expected credit loss ("ECL") model, involving the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred.</p> <p>Given the subjectivity involved in estimating potential future impairments, there is a risk that the provision for expected credit loss is misstated.</p>	<p>In order to assess the recoverability of intercompany loan receivables, our audit procedures included, among others:</p> <ul style="list-style-type: none"> Understanding the process undertaken by management to perform the ECL provision assessment, including the evaluation of operational factors impacting the assumptions used by management to determine the probability of default and loss given default in case of default of each of the loans' counterparties. We tested the clerical accuracy of the model used to assess the recoverability of loan receivables. We assessed the risk of counterparty default, by reference to, among other things, the nature of the entity (Tobacco or NGP) and its operating performance. For loans where there were indicators of impairment, we critically assessed management's assertions and key input assumptions by: <ul style="list-style-type: none"> Assessing management's estimation of probability of default on the basis of the counterparties' operational performance Comparing the net asset/liability position of the counterparties as at 30 September 2020 to the loss given default used in the calculation 	<p>We concluded that the expected credit loss provision is fairly stated at 30 September 2020</p>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £22.6million (2019: £80 million), which is 1% of net assets (2019: 0.5% of total external liabilities as determined by the predecessor auditor). We believe that net assets provides us with an appropriate basis for determining the nature and extent of our audit procedures. The assessed materiality is less than the prior year's materiality mainly due to the change of the basis of materiality. We believe that net assets is reflective of the Company's position and would be the measure of most interest to the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £11.3m. We have set performance materiality at this percentage due to a combination of risk factors, including this being our first year audit.

Imperial Brands Finance PLC

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the directors that we would report to them all uncorrected audit differences in excess of £1.13m (2019: £4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Imperial Brands Finance PLC

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those the directors and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are
 - Companies Act 2006
 - Financial reporting Council (FRC)
 - Tax legislation (Governed by HM Revenue and Customs)
- We understood how Imperial Brands Finance PLC is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of the directors. We made enquiries of the Company's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the tax and treasury committee and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management. We planned our audit to identify risks of management overstatement, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Financial Statements with the requirements of the relevant accounting standards and UK legislation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 5 June 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the years ending 30 September 2020.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the directors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



*Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 March 2021*

Imperial Brands Finance PLC

Income Statement

For the year ended 30 September 2020

(In £ million)	Notes	2020	2019
Administrative expenses	(4)	(4)	(3)
Impairment losses	(294)	-	-
Other operating income	1	1	1
Operating loss	4	(297)	(2)
Investment income	5	1,554	1,903
Finance costs	6	(1,373)	(1,766)
(Loss)/profit before tax		(116)	135
Tax on (loss)/profit	8	(34)	(26)
(Loss)/profit for the financial year		(150)	109

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

Imperial Brands Finance PLC

Balance Sheet

as at 30 September 2020

(In £ million)	Notes	2020	2019
Non-current assets			
Other receivables	10	109	110
Derivative financial instruments	14	784	677
		893	787
Current assets			
Other receivables	10	31,983	33,238
Cash and cash equivalents		911	1,505
Derivative financial instruments	14	51	137
		32,945	34,880
Total assets		33,838	35,667
Current liabilities			
Borrowings	12	(1,381)	(1,892)
Derivative financial instruments	14	(37)	(28)
Other payables	11	(18,334)	(18,234)
		(19,752)	(20,154)
Non-current liabilities			
Borrowings	12	(10,209)	(11,697)
Derivative financial instruments	14	(1,619)	(1,408)
		(11,828)	(13,105)
Total liabilities		(31,580)	(33,259)
Net assets		2,258	2,408
Equity			
Share capital	15	2,100	2,100
Retained earnings		158	308
Total equity		2,258	2,408

The financial statements on pages 10 to 24 were approved by the Board of Directors on 30 March 2021 and signed on its behalf by:

T R W Tildesley
Director


Tom Tildesley (30 Mar 2021 08:23 GMT+1)

O R Tant
Director



Company Number: 03214426

Imperial Brands Finance PLC

Statement of Changes in Equity

For the year ended 30 September 2020

(In £ million)	Notes	Share capital	Retained earnings	Total equity
At 1 October 2019		2,100	308	2,408
<u>Total comprehensive income</u>				
Loss for the financial year	-		(150)	(150)
Total comprehensive income for the year	-		(150)	(150)
At 30 September 2020		2,100	158	2,258

(In £ million)	Notes	Share capital	Retained earnings	Total equity
At 1 October 2018		2,100	199	2,299
<u>Total comprehensive income</u>				
Profit for the financial year	-		109	109
Total comprehensive income for the year	-		109	109
At 30 September 2019		2,100	308	2,408

Imperial Brands Finance PLC

Notes to the Financial Statements

For the year ended 30 September 2020

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

The principal activity of the Company is to provide treasury services to the Group. The Company is a public limited company incorporated and domiciled in England and Wales. The registered address is 121 Winterstoke Road, Bristol, BS3 2LL. 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 2020 were authorised for issue by the Board of Directors on 30 March 2021, and the balance sheet was signed on the Board's behalf by and T R W Tildesley and O R Tant.

These financial statements have been prepared on the going concern basis and in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including the Companies Act 2006 and FRS 101. The Company has been issued a letter of comfort from its parent company, Imperial Brands Plc, confirming ongoing financial support in meeting liabilities as they fall due for a period of 12 months from the date of approval of the financial statements. Imperial Brands PLC has undertaken its own assessment of going concern, which it has confirmed and this is disclosed on page 140 of the Imperial Brands Annual Report for the year ended 30 September 2020. The Directors rely upon this support in making their going concern assessment for these financial statements. The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future which is at least 12 months from the date of signing the financial statements and accordingly they continue to adopt the going concern basis in preparing the financial statements.

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

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates and judgements in applying 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 on the basis that the disclosures are available within the consolidated financial statements of the ultimate parent company, which is Imperial Brands Plc. The disclosures may be found via the investor relations section of the Imperial Brands PLC website at www.imperialbrandsplc.com/investors.

- a) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements.
- b) the requirements of paragraphs 10(d) and 10(f) of IAS 1 Presentation of Financial Statements.
- c) the requirements of IAS 7 Statement of Cash Flows.
- d) the requirements of paragraph 17 of IAS 24 Related Party Disclosures.
- e) 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.

The financial statements have been prepared on an amortised cost or fair value basis as described in the accounting policies on financial instruments below.

New accounting standards and interpretations

There are no new accounting standards that are expected to have any impact on the financial results of the Company.

Interest

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

The principal activity of the Company 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.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

2. Accounting policies (continued)

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 provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

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.

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

Receivables held under a hold to collect business model are stated at amortised cost.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates (where applicable) and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

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 liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method under a hold to collect business model. 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 a credit support annex document under an International Swaps and Derivatives Association ("ISDA") agreement in respect of one derivative is net settled and is, therefore, netted off the carrying value of the derivative in the balance sheet.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

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. There were no critical judgements involved in the preparation of these financial statements.

Expected credit loss on other receivables

An expected credit loss provision has been recognised against the carrying value of certain trade and other receivables. The provision is a reduction in the carrying value of the asset involved reflecting an assessment of the level of risk that future repayment may default. The loans receivable involved are all loans made to entities within the Imperial Brands Group. The provision has been calculated based on the size of the loan, the probability of default (measured through credit default rates or expected future cashflows) and the loss estimated to arise if a default occurred (considered with regard to the value of the realisable assets of the counterparty). The probability of default rates used vary from 1% up to 75%. The loss given default rates ranged from nil up to 100% for certain entities where the counterparty has insufficient assets that could be realised to repay the loan. All intergroup loans continue to perform at present.

Derivatives

The fair value of derivatives are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. 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 13.

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 13.

4. Operating loss

The operating loss includes an expected credit loss charge on loans receivable of £294 million (2019: £nil million). It is stated after charging auditors' fees of £44,716 (2019: £43,285) which were met by Imperial Tobacco Limited ("ITL"), a wholly owned indirect subsidiary of Imperial Brands PLC. There were no non-audit fees paid during the year (2019: £nil). During the year the Company's auditors changed from PricewaterhouseCoopers to Ernst&Young. The Company has also been recharged office rental costs from another Group company of £30,960 (2019: £15,480).

5. Investment income

(In £ million)	2020	2019
Interest receivable from Group undertakings	836	905
Interest on bank deposits	2	4
Fair value gains on external derivative financial instruments	660	671
Fair value gains on intragroup derivative financial instruments	56	323
	1,554	1,903

6. Finance costs

(In £ million)	2020	2019
Interest payable to Group undertakings	141	200
Interest on bank loans and other loans	414	442
Exchange losses on monetary assets and liabilities	233	279
Fair value losses on external derivative financial instruments	585	845
	1,373	1,766

7. Directors and employees

Employment costs

Employment costs, which do not include pension costs, are paid by ITL and subsequently recharged to the Company. The total salary costs recharged in the year was £933,467 (2019: £645,314) and social security costs of £106,539 (2019: £78,626). The average monthly number of employees during the year was 8 (2019: 10).

The emoluments of the Directors are paid by ITL. 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 Group. Accordingly, no emoluments or retirement benefits are disclosed in these financial statements.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

8. Tax on profit

Analysis of charge in the year:

(In £ million)	2020	2019
UK Corporation tax on (loss)/profits for the year	34	26
Withholding tax	1	1
Double taxation relief	(1)	(1)
Current tax	34	26
Total tax charge	34	26

Tax for the year is higher than (2019: equal to) the standard rate of corporation tax in the UK for the year of 19% (2019: 19%).

The differences are explained as follows:

(In £ million)	2020	2019
(Loss)/profit before taxation	(116)	135
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	(22)	26
Effects of:		
Non-deductible expected credit loss provision charge	56	-
Total tax charge	34	26
Movement on current tax account		
(In £ million)	2020	2019
At 1 October	25	-
Charged to the income statement - current year	34	26
Cash paid	(26)	(1)
At 30 September	33	25

Factors that may affect future tax charges

The current year tax rate of 19% arises from profits being taxed at 19% for the year to 30 September 2020.

As announced in the Chancellor's Budget on 3 March 2021, the UK corporation tax rate is expected to increase to 25% from 1 April 2023.

9. Dividends

No dividend is proposed for the current year (2019: no dividend)

10. Other receivables

(In £ million)	2020		2019	
	Current	Non-current	Current	Non-current
Amounts owed by Group undertakings	31,980	109	33,234	110
Other receivables and prepayments	3	-	4	-
	31,983	109	33,238	110

Amounts owed by Group undertakings are unsecured, both interest bearing and non-interest bearing and can be either repayable on a future date to be mutually agreed between the Company and the counterparty borrower or have fixed repayment dates. At 30 September 2020 £28,652 million (2019: £29,737 million) of the amounts owed by Group undertakings is repayable on a mutually agreed future date (treated as a current receivable) and £3,437 million (2019: £3,607 million) were term loans. Within 2019 current receivables there was a euro denominated loan due and as it was to have been repaid on or before 1 October 2022 it was classified as a current receivable; the loan was repaid during 2020. There were £31,195 million (2019: £29,467 million) of interest bearing loans and £894 million (2019: £4,017 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.125% to 5.750% (2019: 0.125% to 12.000%).

The Directors have assessed the extent to which amounts owed by the group companies are impaired. For those balances that are neither overdue nor impaired the Directors have concluded that the expected credit losses (ECL) that are possible from default events over the next twelve months are immaterial and consequently no allowance for impairment has been recognised. For those balances assessed to be impaired, an expected credit loss adjustment of £294 million (2019: £nil) has been recognised to reflect the credit risk inherent within a number of the current intercompany loans receivable, as follows:

	2020		
	Gross amount	ECL allowance	Net balance
Loan receivable balances that are not impaired	31,465	-	31,465
Loan receivable balances that are impaired	918	294	624
	32,383	294	32,089
2019			
	Gross amount	ECL allowance	Net balance
	33,344	-	33,344
Loan receivable balances that are not impaired	-	-	-
Loan receivable balances that are impaired	33,344	0	33,344

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

11. Other payables

(In £ million)	2020	2019
Amounts owed to Group undertakings	18,301	18,209
Corporation tax payable	33	25
	18,334	18,234

Amounts owed to Group undertakings are unsecured, both interest bearing and non-interest bearing and repayable on a future date to be mutually agreed between the Company and the counterparty lender (treated as a current liability). At 30 September 2020 all these loans were recognised as current liabilities (2019: current liabilities). There were £11,747 million (2019: £14,378 million) of interest bearing loans and £6,552 million (2019: £3,831 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.13% to 4.36% (2019: 0.24% to 4.36%).

Amounts owed to Group undertakings are not included in the borrowings analysis in note 12 of the financial statements which only includes borrowings with external counterparties.

12. Borrowings

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

(In £ million)	2020	2019
Current borrowings		
Bank loans and overdrafts	-	1
Capital market issuance:		
European commercial paper	-	
€750m 5.0% notes due December 2019	-	177
€1,250m 2.95% notes due July 2020	-	692
€1,000m 2.25% notes due February 2021	-	1,022
€500m 0.50% notes due July 2021	925	-
	456	-
Total current borrowings	1,381	1,892
Non-current borrowings		
Capital market issuance:		
€1,000m 2.25% notes due February 2021	-	897
€500m 0.5% notes due July 2021	-	443
£1,000m 9.0% notes due February 2022	1,056	1,055
\$1,250m 3.75% notes due July 2022	980	1,023
\$1,000m 3.5% notes due February 2023	782	815
€750m 1.25% notes due August 2023	684	664
£600m 8.125% notes due March 2024	626	626
\$1,000m 3.125% notes due July 2024	782	816
€500m 1.375% notes due January 2025	460	446
\$1,500m 4.25% notes due July 2025	1,172	1,222
€650m 3.375% notes due February 2026	604	587
\$750m 3.5% notes due July 2026	586	612
£500m 5.5% notes due September 2026	500	500
€750m 2.125% notes due February 2027	692	671
\$1,000m 3.875% notes due July 2029	781	816
£500m 4.875% notes due June 2032	504	504
Total non-current borrowings	10,209	11,697
Total borrowings	11,590	13,589
Analysed as:		
Capital market issuance	11,590	13,588
Bank loans and overdrafts	-	1

Current and non-current borrowings include interest payable of £13 million (2019: £33 million) and £151 million (2019: £164 million) respectively as at 30 September.

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 2 December 2019, €750 million 5.0% notes were repaid. On 21 July 2020, \$1,250 million 2.95% notes were repaid.

All borrowings are unsecured and the Company has not defaulted on any during the year (2019: no defaults).

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

12. Borrowings (continued)

Non-current financial liabilities

The maturity profile of non-current financial liabilities outstanding as at 30 September 2020 (including the impact of derivative financial instruments detailed in note 14) is as follows:

(In £ million)	2020			2019		
	Borrowings and overdrafts	Net derivative financial (assets)/liabilities	Total	Borrowings and overdrafts	Net derivative financial (assets)/liabilities	Total
Amounts expiring:						
Between one and two years	2,036	24	2,059	1,340	(16)	1,324
Between two and five years	4,506	(31)	4,475	4,999	14	5,013
In five years or more	3,667	842	4,510	5,358	733	6,091
	10,209	835	11,044	11,697	731	12,428

Fair value of borrowings

The fair value of borrowings as at 30 September 2020 is estimated to be £12,434 million (2019: £14,275 million). £12,434 million (2019: £14,274 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)	2020		2019	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	2,686	3,054	2,685	3,168
EUR	3,821	3,943	4,577	4,681
USD	5,083	5,437	6,326	6,425
Total capital market issuance	11,590	12,434	13,588	14,274

Undrawn borrowing facilities

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

(In £ million)	2020		2019	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
Amounts expiring:				
In less than one year			-	266
Between one and two years			1,551	3,011
Between two and five years			3,193	-
In five years or more			-	-
	4,744		4,744	3,277

During the year syndicated borrowing facilities for €2,835 million and £500 million were cancelled and a new syndicated multicurrency facility for €3,500 million was arranged.

During the year one bilateral facility for €300 million was cancelled and six new bilateral facilities for a total €1,700 million were arranged.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

13. 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 required and comprises the Chief Financial Officer, the Company Secretary and the Director of Treasury of Imperial Brands PLC. 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.

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 intragroup loans held in non-functional currencies. The Company enters into intragroup 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 intragroup loans held in non-functional currencies remains constant.

The Company manages its sensitivity to foreign exchange rates through the use of intragroup derivative contracts to reduce 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 £ million)		2020	2019
		Increase/ (decrease) in income	Increase/ (decrease) of in income
	Income Statement impact on non-functional currency foreign exchange exposures:		
10% appreciation of euro (2019: 10%)		337	13
10% appreciation of US dollar (2019: 10%)		(138)	(48)

An equivalent depreciation in the above currencies would cause a decrease in income of £411 million and increase of £169 million for euro and US dollar exchange rates respectively (2019: decrease of £16 million and increase of £59 million respectively).

There is no direct net impact on equity (2019: £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 decisions.

As at 30 September 2020, after adjusting for the effect of derivative financial instruments detailed in note 14, approximately 69% (2019: 57%) of the Company's borrowings were at fixed rates of interest.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

13. Financial risk management (continued)

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 2020, 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 (2019: £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)	2020 Change in income	2019 Change in income
Income Statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2019: 1%)	30	35
+/- 1% increase in US dollar interest rates (2019: 1%)	8	14

(b) Credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The ECL model requires the Company to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Company is exposed to credit risk arising from loans to entities within the Imperial Brands Group, cash deposits, derivatives and other amounts due from external financial counterparties arising on other financial instruments. The maximum credit risk relating to intergroup loans was £32,089 million (2019: £33,344 million). The maximum aggregate credit risk to parties external to the Imperial Brands Group was considered to be £1,777 million at 30 September 2020 (2019: £2,319 million). Intragroup counterparty credit risk may be mitigated where there is control of a counterparty within the Group, allowing the Group to facilitate repayment through realising counterparty assets or through refinancing. At 30 September 2020 an ECL provision of £294 million was recognised relating to the risk of intergroup loans not being repaid (2019: £nil).

Trade and other receivables

Policies are in place to manage the risk associated with the extension of credit to third parties, including companies within the Group, to ensure that commercial intent is balanced effectively with credit risk management. Credit is extended with consideration to financial risk and creditworthiness. Analysis of trade and other receivables is provided in note 10.

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 connection with one ISDA Credit Support Annex the Company had placed £47 million as at 30 September 2020 (2019: £38 million) as collateral with a third party in order to manage their counterparty risk on the Group under derivative financial instruments.

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2020. At the balance sheet date management does not expect these counterparties to default on their current obligations.

Counterparty Exposure	2020		2019	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A+	14	A+	20
2nd highest	A	11	AA-	19
3rd highest	A+	5	A	12
4th highest	A+	2	A	8
5th highest	-	-	A	8

(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 bilateral agreements, bank revolving credit facilities and European commercial paper.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

13. Financial risk management (continued)

There are no financial covenants in the Company's material short and long-term borrowings. Certain of these borrowings contain cross default provisions and negative pledges. The core committed bank facilities are subject to two financial covenants, these being minimum interest cover ratio of four times and maximum gearing of four times (per the definition within the agreement) and are subject to pari passu ranking and negative pledge covenants. Any non-compliance with covenants underlying the Company's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities.

We remain fully compliant with all our banking covenants (2019: fully compliant).

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiaries in the Group to ensure their liquidity needs are met. Subsidiaries in the Group 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 in the Group 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 2020, the Company held liquid assets of £911 million (2019: £1,505 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 2020. 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 14.

At 30 September 2020 (In £ million)	Balance sheet amount	Contractual cash flows		Between 1 and 2 years	Between 2 and 5 years	Between 5 years
		Total	<1 year			
Non-derivative financial liabilities:						
Bank loans	-	-	-	-	-	-
Capital market issuance	11,590	13,302	1,806	2,339	5,165	3,992
Amounts owed to Group undertakings	18,301	18,301	18,301	-	-	-
Total non-derivative financial liabilities	29,891	31,603	20,107	2,339	5,165	3,992
 At 30 September 2019 (In £ million)						
	Balance sheet amount	Contractual cash flows		Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	1	1	1	-	-	-
Capital market issuance	13,588	15,787	2,345	1,773	5,806	5,863
Amounts owed to Group undertakings	18,209	18,209	18,209	-	-	-
Total non-derivative financial liabilities	31,798	33,997	20,555	1,773	5,806	5,863

Amounts owed to the Company by Group undertakings of £32,089 million (2019: £33,344 million) are excluded from the above tables, as disclosure of contractual cash flows 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 21 of the Imperial Brands Annual Report which does not form part of this report, but is available at www.imperialbrandsplc.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, foreign exchange rates and credit default swap prices for the Imperial Brands PLC Group as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 14. 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 14.

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 one derivative financial instrument under an ISDA credit support annex. 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)	2020			
		Gross financial assets/ liabilities	Gross collateral assets/ liabilities set off	Net financial assets/ liabilities per balance sheet	Related amounts not set off in the balance sheet
Assets					
Derivative financial instruments		882	(47)	835	(828)
		882	(47)	835	(828)
Liabilities					
Derivative financial instruments		(1,703)	47	(1,657)	828
		(1,703)	47	(1,657)	828
					(828)

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

13. Financial risk management (continued)

	Gross financial assets/ liabilities	Gross financial assets/ liabilities set off	Net financial assets/ liabilities per balance sheet	2019	
				Related amounts not set off in the balance sheet	Net
(In £ million)					
Assets					
Derivative financial instruments	852	(38)	814	(740)	74
	852	(38)	814	(740)	74
Liabilities					
Derivative financial instruments	(1,474)	38	(1,436)	740	(696)
	(1,474)	38	(1,436)	740	(696)

Classification of financial instruments

The following table sets out the Company's accounting classification of each class of financial assets and liabilities:

	Fair value through income statement	Assets and liabilities at amortised cost	2020		
			Total	Current	Non-current
Trade and other receivables	-	32,092	32,092	31,983	109
Cash and cash equivalents	-	911	911	911	-
Derivatives	835	-	835	51	784
Total financial assets	835	33,003	33,838	32,945	893
Borrowings	-	(11,590)	(11,590)	(1,381)	(10,209)
Trade and other payables	-	(18,334)	(18,334)	(18,334)	-
Derivatives	(1,656)	-	(1,656)	(37)	(1,619)
Total financial liabilities	(1,656)	(29,924)	(31,580)	(19,752)	(11,828)
Total net financial assets/(liabilities)	(821)	3,079	2,258	13,193	(10,935)
2019					
	Fair value	Assets and	Total	Current	Non-current
Trade and other receivables	-	33,348	33,348	33,238	110
Cash and cash equivalents	-	1,505	1,505	1,505	-
Derivatives	814	-	814	137	677
Total financial assets	814	34,853	35,667	34,880	787
Borrowings	-	(13,589)	(13,589)	(1,892)	(11,697)
Trade and other payables	-	(18,234)	(18,234)	(18,234)	-
Derivatives	(1,436)	-	(1,436)	(28)	(1,408)
Total financial liabilities	(1,436)	(31,823)	(33,259)	(20,154)	(13,105)
Total net financial assets/(liabilities)	(622)	3,030	2,408	14,726	(12,318)

14. Derivative financial instruments

The Company has the following derivative financial instruments measured at fair value through profit and loss:

Current derivative financial instruments (In £ million)	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	39	(27)	24	(26)
Foreign exchange contracts	9	(10)	104	(2)
Cross currency swaps	3	(0)	9	-
Collateral ¹	-	-	-	-
Total current derivatives	51	(37)	137	(28)
Non-current derivative financial instruments				
(In £ million)	Assets		Assets	
	Liabilities	Assets	Liabilities	Assets
Interest rate swaps	784	(1,183)	645	(1,079)
Cross currency swaps	-	(483)	32	(367)
Collateral ¹	-	47	-	38
Total non-current derivatives	784	(1,619)	677	(1,408)
Total carrying value of derivatives financial instruments	835	(1,656)	814	(1,436)
Net liability		(821)		(622)
Analysed as:				
Interest rate swaps	823	(1,210)	669	(1,105)
Foreign exchange contracts	9	(10)	104	(2)
Cross currency swaps	3	(483)	41	(367)
Collateral ¹	-	47	-	38
Net liability	835	(1,656)	814	(1,436)
		(821)		(622)

¹ Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA credit support annex.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

14. Derivative financial instruments (continued)

Fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date. Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £27m and would have been a £76m reduction without considering the early termination options. The classification of these derivative assets and liabilities under FRS 101 fair value hierarchy is provided in note 13.

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. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2020. 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 2020. 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 13.

At 30 September 2020	Balance sheet amount	Contractual cash flows total	Between 1 and 2 years	Between 2 and 5 years	Between > 5 years
(In £ million)					
Net settled derivatives	(340)	(479)	62	19	(104)
Gross settled derivatives	(481)	-	-	-	(456)
Receipts	-	6,530	2,240	1,084	1,528
Payments	-	(6,858)	(2,221)	(1,153)	(1,633)
	(821)	(807)	81	(50)	(209)
					(629)
At 30 September 2019	Balance sheet amount	Contractual cash flows total	Between 1 and 2 years	Between 2 and 5 years	Between > 5 years
(In £ million)					
Net settled derivatives	(398)	(616)	(30)	(37)	(210)
Gross settled derivatives	(224)	-	-	-	(339)
Receipts	-	6,852	2,151	165	2,738
Payments	-	(6,833)	(2,199)	(100)	(2,701)
	(622)	(597)	(78)	28	(173)
					(374)

Derivatives as hedging instruments

As outlined in note 13, 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 IFRS 9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs.

The Company has considered the impending requirements to re-base LIBOR based interest rates to new risk-free based rates. The Company will be undertaking an exercise, over the course of the 2021 fiscal year, to re-base to risk-free rates all its debt and interest rate derivative contracts that mature after the end of September 2021. At present, it is not anticipated that these changes will impact the Company's commercial hedging strategy, nor should they have a material financial impact.

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 and/or cross currency 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 decisions. Fair value movements are recognised in investment income and finance costs in the relevant reporting period.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2020

14. Derivative financial instruments (continued)

As at 30 September 2020, 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 £11,656 million (2019: £13,448 million) with a fair value of £822 million asset (2019: £657 million asset). The fixed interest rates vary from 0.5% to 8.7% (2019: 0.5% to 8.7%), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR.

As at 30 September 2020, 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 £10,311 million (2019: £10,024 million) with a fair value of £1,163 million liability (2019: £1,1055 million liability). The fixed interest rates vary from 0.5% to 4.4% (2019: 0.8% to 4.4%), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,519 million equivalent (2019: £2,412 million equivalent) with tenors between 4 and 12 years, starting between October 2020 and October 2024.

Cross currency swaps

The Company enters into cross currency swaps to convert 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 investment income and finance costs in the relevant reporting period.

As at 30 September 2020, 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 £2,600 million (2019: £2,600 million) and the fair value of these swaps was £409 million net liability (2019: £364 million net liability); the notional amount of cross currency swaps entered into to convert floating rate US Dollar debt into the desired currency at floating rates of interest was \$1,750 million (2019: \$1,750 million) and the fair value of these swaps was £71 million net liability (2019: £38 million net asset).

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 2020, the notional amount of these contracts was £2,126 million (2019: £1,087 million) and the fair value of these contracts was a net liability of £0.7 million (2019: £6 million net asset).

15. Share capital

(In £ million)	2020	2019
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2019: 2,100,000,000)	2,100	2,100

16. Related party transactions

The Company has taken advantage of the Group exemption under the terms of FRS 101 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.

17. Guarantees

The Company is party to a cross guarantee of its bank accounts held at HSBC Bank plc against accounts of Imperial Brands PLC and some of its subsidiary companies. At 30 September 2020, the amount drawn under this cross guarantee was £10 million (2019: £nil). Together with other Group undertakings, the Company guarantees various borrowings and liabilities of other subsidiary companies under this arrangement with HSBC Bank plc.

The Company is party to five counter-indemnity deeds, each dated July 2020, made on substantially the same terms under which certain insurance companies 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 £225 million, until January 2026. These surety bonds provide support to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

At 30 September 2020, the contingent liability totalled £235 million (2019: £600 million).

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.

18. Number of employees

The average monthly number of employees during the year was 8 (2019: 10).

19. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2020 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 and are also available in the investors section of the Company website at www.imperialbrandsplc.com.

The immediate parent undertaking of the Company at 30 September 2020 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.