Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC

Annual Report and Financial Statements 2017

Imperial Brands Finance PLC

Board of Directors

J M Jones
N J Keveth (resigned 31 March 2017)
D I Resnekov
O R Tant
M A Wall (appointed 31 March 2017)

Company Secretary

J M Downing

Registered Office

121 Winterstoke Road
Bristol
BS3 2LL

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Strategic Report

For the year ended 30 September 2017

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 2017.

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.

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 £324 million (2016: £142 million).

Total equity as at 30 September 2017 was £2,490 million (2016: £2,766 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amount to £600 million (2016: £5,500 million).

On behalf of the Board

D I Resnekov
Director
23 November 2017

Report of the Directors

Company Number: 03214426

For the year ended 30 September 2017

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 2017.

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 £350 million (2016: £600 million).

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.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 14 to the financial statements. For this reason, the Company's Directors consider further detail of corporate governance in this report not necessary.

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 shown on page 1.

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.

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;
- 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
- 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.

Report of the Directors (continued)

Company Number: 03214426

For the year ended 30 September 2017

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

D I Resnekov
Director
23 November 2017

Independent auditors' report to the members of Imperial Brands Finance PLC

Report on the audit of the financial statements

Opinion

In our opinion, Imperial Brands Finance PLC's financial statements:

• give a true and fair view of the state of the Company's affairs as at 30 September 2017 and of its profit for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
• have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 30 September 2017; the Income Statement, The Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the company in the period from 1 October 2016 to 30 September 2017.

Our audit approach

Overview

• Overall materiality: £80 million (2016: £80 million), based on approximately 1% of total external liabilities.

• The audit was undertaken in line with ISAs (UK) and applicable UK law.

• Valuation of derivative financial instruments.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Imperial Brands Finance PLC

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments (see note 15)	
The company balance sheet includes derivative financial instruments held at fair value, derivative assets of £643m and derivative financial liabilities of £1,208m. The derivative portfolio includes a range of instruments with varying maturity dates some of which are over 5 years.	We agreed a sample of derivatives to third party confirmation. We independently re-priced a sample of derivative instruments as at year end. We agreed our independent prices to those reported by management.
The derivatives are required to be stated at their fair values which is determined based on quoted market prices, where available or on estimates using present value or other valuation techniques. The valuations are significantly affected by various assumptions used, including discount rates and estimates of future cash flows.	We noted no material exceptions in our procedures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall materiality	£80 million (2016: £80 million).
How we determined it	We use approximately 1% of total external liabilities
Rationale for benchmark applied	This is the treasury entity for the Imperial Brands group. The key driver of the business is the level of external liabilities in issue, which are then used to finance other entities in the group via intercompany loans. The results of the entity are therefore primarily driven by the value of liabilities in issue.

We agreed with the Directors that we would report to them misstatements identified during our audit above £4 million (2016: £4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

• 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Report of the Directors and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Imperial Brands Finance PLC

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other reporting required

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 6 August 1996 to audit the financial statements for the year ended 27 September 1997 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 27 September 1997 to 30 September 2017.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
23 November 2017

Imperial Brands Finance PLC

Income Statement

For the year ended 30 September 2017

(In £ million)	Notes	**2017**	2016
Administrative expenses		**(17)**	(4)
Other operating income		**1**	1
Operating loss	*4*	**(16)**	(3)
Investment income	*5*	**1,752**	4,688
Finance costs	*6*	**(1,404)**	(4,566)
Profit before taxation		**332**	119
Tax on profit	*8*	**(8)**	23
Profit for the financial year		**324**	142

All activities derive from continuing operations.

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 2017

(In £ million)	Notes	2017	2016
Non-current assets			
Trade and other receivables	*10*	**324**	192
Derivative financial instruments	*15*	**583**	1,063
		907	1,255
Current assets			
Trade and other receivables	*10*	**33,797**	34,598
Current tax assets	*8*	**50**	50
Deferred tax assets	*11*	**18**	25
Cash and cash equivalents		**1**	784
Derivative financial instruments	*15*	**60**	46
		33,926	35,503
Total assets		**34,833**	36,758
Current liabilities			
Borrowings	*13*	**(2,305)**	(1,846)
Derivative financial instruments	*15*	**(42)**	(118)
Trade and other payables	*12*	**(18,634)**	(17,988)
		(20,981)	(19,952)
Non-current liabilities			
Borrowings	*13*	**(10,196)**	(12,394)
Derivative financial instruments	*15*	**(1,166)**	(1,646)
		(11,362)	(14,040)
Total liabilities		**(32,343)**	(33,992)
Net assets		**2,490**	2,766
Equity			
Share capital	*16*	**2,100**	2,100
Retained earnings		**390**	666
Total equity		**2,490**	2,766

The financial statements on pages 8 to 21 were approved by the Board of Directors on 23 November 2017 and signed on its behalf by:

D I Resnekov ____________________________
Director

J M Jones ____________________________
Director

Company Number: 03214426

Imperial Brands Finance PLC

Statement of Changes in Equity

For the year ended 30 September 2017

(In £ million)	Share capital	Retained earnings	Total equity
At 1 October 2016	**2,100**	**666**	**2,766**
Profit for the financial year	**-**	**324**	**324**
Total comprehensive income for the year	**-**	**324**	**324**
Dividends paid	**-**	**(600)**	**(600)**
At 30 September 2017	**2,100**	**390**	**2,490**

(In £ million)	Share capital	Retained earnings	Total equity
At 1 October 2015	2,100	6,024	8,124
Profit for the financial year	-	142	142
Total comprehensive income for the year	-	142	142
Dividends paid	-	(5,500)	(5,500)
At 30 September 2016	2,100	666	2,766

Notes to the Financial Statements

For the year ended 30 September 2017

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 financial statements of the Company for the year ended 30 September 2017 were authorised for issue by the Board of Directors on 23 November 2017, and the balance sheet was signed on the Board's behalf by J M Jones and D I Resnekov.

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 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 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 2017, 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.

Interest

Interest payable and receivable is recognised in the income statement on an accruals basis.

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.

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

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 or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates, estimates of future cash flows, exchange rates and interest rates.

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 15.

4. Operating loss

Operating loss is stated after recognition of £16 million (2016: £nil) expense relating to the impairment of amounts due from group undertakings.

Auditors' fees of £40,800 were met by Imperial Tobacco Limited, a wholly owned subsidiary of Imperial Brands PLC, the ultimate parent company. The Company paid fees in respect of audit services totalling £36,000 during 2016. There were no non-audit fees in either 2017 or 2016.

5. Investment income

(In £ million)	**2017**	2016
Interest receivable from Group undertakings	**881**	1,045
Interest on bank deposits	**1**	1
Fair value gains on external derivative financial instruments	**744**	484
Fair value gains on intragroup derivative financial instruments	**126**	3,158
	1,752	4,688

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

6. Finance costs

(In £ million)	2017	2016
Interest payable to Group undertakings	69	77
Interest on bank loans and other loans	535	512
Exchange losses on monetary assets and liabilities	121	3,152
Fair value losses on external derivative financial instruments	679	825
	1,404	4,566

7. Directors' emoluments and pensions

The Company has no employees (2016: £nil) other than the Directors, who did not receive any emoluments from the Company in respect of the year under review.

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)	2017	2016
Withholding tax	1	1
Current tax	1	1
Origination and reversal of timing differences	7	(25)
Impact of change in tax rate	-	1
Deferred tax	7	(24)
Total tax charge/(credit)	8	(23)

Factors affecting the tax charge for the year

Tax for the year is lower (2016: lower) than the standard rate of corporation tax in the UK for the year of 19.5 per cent (2016: 20.0 per cent). The differences are explained as follows:

(In £ million)	2017	2016
Profit before taxation	332	119
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.5% (2016: 20.0%)	65	24
Effects of:		
Non-deductible loan waiver	3	-
Remeasurement of deferred tax - change in UK tax rate	-	1
Adjustments to tax charge in respect of prior years (current tax)	-	57
Adjustments to tax charge in respect of prior years (deferred tax)	(2)	-
Foreign tax paid	1	1
UK-UK transfer pricing adjustment	(59)	(192)
Group relief surrendered	-	86
Total tax charge/(credit)	8	(23)

The corporation tax charge for the year has been adjusted by nil (2016: £86 million) due to the claim of group relief for nil consideration from (2016: nil consideration to) other Imperial Brands PLC group subsidiaries.

Movement on current tax account

(In £ million)	2017	2016
At 1 October	50	-
Charged to the income statement - prior year adjustment	-	(57)
Credited to the income statement - current year	(1)	56
Cash paid	1	51
At 30 September	50	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 19.5 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 as at the balance sheet date.

Finance Bill 2017-19 was substantively enacted on 31 October 2017. As the substantive enactment is after the balance sheet date the proposed changes have not been reflected in the financial statements. If the proposed changes were to be included the tax charge would increase by £18 million.

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

9. Dividends

Dividend per share in respect of financial year

(In pence)	2017	2016
Final	**17**	29
	17	29

Amounts recognised as distributions to ordinary equity holders in the year

(In £ million)	2017	2016
Final dividend paid in the year in respect of the previous financial year	**600**	5,500
	600	5,500

10. Trade and other receivables

	2017		2016	
(In £ million)	**Current**	**Non-current**	Current	Non-current
Amounts owed by Group undertakings	**33,795**	**292**	34,596	192
Other receivables and prepayments	**2**	**32**	2	-
	33,797	**324**	34,598	192

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)	2017	2016
Deferred tax assets	**18**	25

The amount regarding deferred tax consists of the following:

(In £ million)	2017	2016
Deferred tax assets due within 12 months	**18**	25

Deferred tax assets

(In £ Millions)	Carried forward losses	Fair value losses	Total
At 1 October 2015	-	1	1
Credited / (charged) to the income statement	25	(1)	24
At 30 September 2016	25	-	25
Charged to the income statement	(7)	-	(7)
As at 30 September 2017	**18**	**-**	**18**

12. Trade and other payables

(In £ million)	2017	2016
Amounts owed to Group undertakings	**18,634**	17,988

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.

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

13. Borrowings

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

(In £ million)	**2017**	2016
Current borrowings		
Bank loans and overdrafts	**237**	397
Capital market issuance:		
European commercial paper	**-**	978
£450m 5.5% notes due November 2016	**-**	471
$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**	-
Total current borrowings	**2,305**	1,846
Non-current borrowings		
Bank loans	**-**	925
Capital market issuance:		
$1,250m 2.05% notes due February 2018	**-**	966
€850m 4.5% notes due July 2018	**-**	739
$500m 2.05% notes due July 2018	**-**	387
£200m 6.25% notes due December 2018	**210**	210
£500m 7.75% notes due June 2019	**510**	510
€750m 5.0% notes due December 2019	**689**	672
$1,250m 2.95% notes due July 2020	**937**	968
€1,000m 2.25% notes due February 2021	**892**	869
€500m 0.5% notes due July 2021	**440**	-
£1,000m 9.0% notes due February 2022	**1,055**	1,055
$1,250m 3.75% notes due July 2022	**938**	968
$1,000m 3.5% notes due February 2023	**749**	773
£600m 8.125% notes due March 2024	**626**	626
€500m 1.375% notes due January 2025	**444**	-
$1,500m 4.25% notes due July 2025	**1,120**	1,155
€650m 3.375% notes due February 2026	**584**	569
£500m 5.5% notes due September 2026	**499**	499
£500m 4.875% notes due June 2032	**503**	503
Total non-current borrowings	**10,196**	12,394
Total borrowings	**12,501**	14,240
Analysed as:		
Capital market issuance	**12,264**	12,918
Bank loans and overdrafts	**237**	1,322

Current and non-current borrowings include interest payable of £12 million (2016: £20 million) and £192 million (2016: £199 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 22 November 2016 £450 million 5.5 per cent notes were repaid. On 27 January 2017 €500 million 0.5 per cent notes and €500 million 1.375 per cent notes were issued, with maturities of 4.5 years and 8 years respectively.

On 27 January 2017, $900 million bank term loans were repaid and cancelled.

All borrowings are unsecured and the Company has not defaulted on any during the year (2016: no defaults).

Non-current financial liabilities

The maturity profile of non-current financial liabilities outstanding as at 30 September 2017 (including the impact of derivative financial instruments detailed in note 15) is as follows:

	2017			2016		
(In £ million)	**Borrowings and overdrafts**	**Net derivative financial liabilities**	**Total**	Borrowings and overdrafts	Net derivative financial (assets)/ liabilities	Total
Amounts expiring:						
Between one and two years	**721**	**47**	**768**	3,017	(39)	2,978
Between two and five years	**4,951**	**196**	**5,147**	3,229	9	3,238
In five years or more	**4,524**	**340**	**4,864**	6,148	613	6,761
	10,196	**583**	**10,779**	12,394	583	12,977

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

13. Borrowings (continued)

Fair value of borrowings

The fair value of borrowings as at 30 September 2017 is estimated to be £13,482 million (2016: £15,741 million). £13,245 million (2016: £14,419 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)	**2017** Balance sheet amount	**2017** Fair value	2016 Balance sheet amount	2016 Fair value
GBP	**3,403**	**4,085**	3,874	4,835
EUR	**3,806**	**3,984**	3,827	4,122
USD	**5,055**	**5,176**	5,217	5,462
Total bonds	**12,264**	**13,245**	12,918	14,419

Undrawn borrowing facilities

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

(In £ million)	**2017**	2016
Amounts expiring:		
In less than one year	**-**	301
Between two and five years	**3,000**	2,941
	3,000	3,242

On 15 January 2017 a €350 million bank revolving credit facility was not extended and matured.

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 regularly throughout the year 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.

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

14. Financial risk management (continued)

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 £ million)	**2017** **Increase in income**	2016 Increase in income
Income Statement impact on non-functional currency foreign exchange exposures:		
10% appreciation of euro (2016: 10%)	**1,402**	1,358
10% appreciation of US dollar (2016: 10%)	**583**	603

An equivalent depreciation in the above currencies would cause a decrease in income of £1,713 million and £713 million for euro and US dollar exchange rates respectively (2016: £1,660 million and £737 million).

There is no direct net impact on equity (2016: £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 2017, after adjusting for the effect of derivative financial instruments detailed in note 15, approximately 71 per cent (2016: 65 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 2017, 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 (2016: £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)	**2017** **Change in income**	2016 Change in income
Income Statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2016: 1%)	**17**	82
+/- 1% increase in US dollar interest rates (2016: 1%)	**20**	57

(b) Credit risk

The Company is primarily exposed to credit risk arising from cash deposits and other amounts due from external financial counterparties arising on other financial instruments. The maximum aggregate credit risk to these sources was considered to be £644 million at 30 September 2017 (2016: £1,893 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.

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

14. Financial risk management (continued)

Financial instruments

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2017. 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.

Counterparty Exposure	2017 S&P credit rating	2017 Maximum exposure to credit risk £ million	2016 S&P credit rating	2016 Maximum exposure to credit risk £ million
Highest	**A-**	**17**	AA-	150
2nd highest	**AA-**	**8**	AA-	125
3rd highest	**A-**	**7**	A	87
4th highest	**A+**	**6**	A+	85
5th highest	**A**	**4**	BBB+	52

(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 2017, the Company held liquid assets of £1 million (2016: £784 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 2017. 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 2017 (In £ million)	**Balance sheet amount**	**Contractual cash flows Total**	**<1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**> 5 years**
Non-derivative financial liabilities:						
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**	**-**	**-**	**-**
Total non-derivative financial liabilities	**31,135**	**33,510**	**21,427**	**1,138**	**5,823**	**5,122**

At 30 September 2016 (In £ million)	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	1,322	1,341	408	933	-	-
Capital market issuance	12,918	15,767	1,947	2,576	4,303	6,941
Amounts owed to Group undertakings	17,988	17,988	17,988	-	-	-
Total non-derivative financial liabilities	32,228	35,096	20,343	3,509	4,303	6,941

Amounts owed to the Company by Group undertakings of £34,087 million (2016: £34,788 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 19 of the Group’s 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 and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per FRS 101) 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.

Notes to the Financial Statements (continued)
For the year ended 30 September 2017

14. Financial risk management (continued)

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.

	2017				
(In £ million)	**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**
Assets					
Derivative financial instruments	**718**	**(75)**	**643**	**(603)**	**40**
	718	**(75)**	**643**	**(603)**	**40**
Liabilities					
Derivative financial instruments	**(1,283)**	**75**	**(1,208)**	**603**	**(605)**
	(1,283)	**75**	**(1,208)**	**603**	**(605)**

	2016				
(In £ million)	Gross financial assets/ liabilities	Gross financial assets/ liabilities set off	Net financial assets/ liabilities per balance sheet	amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	1,243	(134)	1,109	(1,069)	40
	1,243	(134)	1,109	(1,069)	40
Liabilities					
Derivative financial instruments	(1,898)	134	(1,764)	1,069	(695)
	(1,898)	134	(1,764)	1,069	(695)

15. Derivative Financial Instruments

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

Current derivative financial instruments	**2017**		2016	
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**47**	**(33)**	32	(60)
Foreign exchange contracts	**12**	**(9)**	9	(11)
Cross currency swaps	**1**	**-**	5	(121)
Collateral[1]	**-**	**-**	-	74
Total current derivatives	**60**	**(42)**	46	(118)

Non-current derivative financial instruments				
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**583**	**(734)**	1,063	(1,279)
Cross currency swaps	**-**	**(507)**	-	(427)
Collateral[1]	**-**	**75**	-	60
Total non-current derivatives	**583**	**(1,166)**	1,063	(1,646)
Total carrying value of derivatives financial instruments	**643**	**(1,208)**	1,109	(1,764)
Net liability		**(565)**		(655)

Analysed as:				
Interest rate swaps	**630**	**(767)**	1,095	(1,339)
Foreign exchange contracts	**12**	**(9)**	9	(11)
Cross currency swaps	**1**	**(507)**	5	(548)
Collateral[1]	**-**	**75**	-	134
	643	**(1,208)**	1,109	(1,764)
Net liability		**(565)**		(655)

[1] Collateral deposited against derivative financial liabilities under the terms and conditions of an ISDA Credit Support Annex.

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

15. Derivative Financial Instruments (continued)

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 2017. 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 2017. 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 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**	**1,810**
Payments		**(5,712)**	**(1,525)**	**(923)**	**(1,288)**	**(1,976)**
	(565)	**(616)**	**35**	**(114)**	**(187)**	**(350)**

At 30 September 2016 (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)	(374)	(23)	(6)	(136)	(209)
Gross settled derivatives	(450)					
Receipts		6,048	2,018	132	1,017	2,881
Payments		(6,317)	(2,117)	(107)	(1,076)	(3,017)
	(655)	(643)	(122)	19	(195)	(345)

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 2017, 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 £12,393 million equivalent (2016: £11,676 million equivalent) with a fair value of £579 million asset (2016: £1,093 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2016: 2.0 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2017, the notional amount of interest rate swaps outstanding that were entered into to convert floating rate debt into fixed rates of interest to manage and re-profile the Company's interest rate risk were £11,049 million equivalent (2016: £12,462 million equivalent) with a fair value of £686 million liability (2016: £1,298 million liability). The fixed interest rates vary from 0.8 per cent to 4.4 per cent (2016: 0.8 per cent to 5.2 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 £1,452 million equivalent (2016: £2,459 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 2017, the notional amount of cross currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was £nil (2016: £650 million) and the fair value liability of these swaps was £nil (2016: £56 million net liability).

Notes to the Financial Statements (continued)

For the year ended 30 September 2017

15. Derivative Financial Instruments (continued)

Cross currency swaps

As at 30 September 2017, 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 (2016: £3,100 million) and the fair value of these swaps was £461 million net liability (2016: £392 million net asset).

Foreign exchange contracts

The Company enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2017 the notional amount of these contracts was £1,482 million equivalent (2016: £1,531 million equivalent) and the fair value of these contracts was a net asset of £3 million (2016: £2 million net liability).

16. Share capital

(In £ million)	**2017**	2016
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2016: 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 2017, the amount drawn under this cross guarantee was £nil (2016: £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.

At 30 September 2017, the contingent liability totalled £nil (2016: £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 (2016: nil).

20. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2017 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 2017 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.