Company Number: 03214426

IMPERIAL TOBACCO FINANCE PLC

Annual Report and Financial Statements 2015

Imperial Tobacco Finance PLC

Board of Directors

J M Jones
N J Keveth
D I Resnekov
O R Tant

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

Imperial Tobacco Finance PLC

Strategic Report

For the year ended 30 September 2015

The Directors present their Strategic Report together with the audited financial statements of Imperial Tobacco Finance PLC ("the Company") for the year ended 30 September 2015.

Principal activity and principal risks and uncertainties of the Company

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

The Company is a wholly owned indirect subsidiary of Imperial Tobacco Group 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.imperial-tobacco.com.

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. The Group operates a centralised treasury function which is responsible for managing external and internal funding requirements and financial risks in support of the Group's strategic objectives, specifically its exposure to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The Group operates on a global basis and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity.

Group Treasury activities are monitored by the Group Treasury Committee ("GTC") which meets regularly throughout the year and comprises the Chief Financial Officer of Imperial Tobacco Group PLC, the Company Secretary of Imperial Tobacco Group PLC and other senior management from Group Finance, Manufacturing and Group Treasury. The GTC operates in accordance with the terms of reference set out by the Board of Directors of Imperial Tobacco Group PLC ("the Board") and a framework ("the GTC framework") which sets out the expectations and boundaries to assist in the effective oversight of Group Treasury activities. The Group Treasurer reports on a regular basis to the Board, and to the GTC on a monthly basis. The Board reviews and approves all major treasury decisions and Group Treasury does not operate as a profit centre, nor does it enter into speculative transactions.

In the normal course of business, the Company is exposed to market, credit and liquidity risk. These are discussed in Note 11 to the financial statements. A summary of the Group's policies in respect of foreign exchange, interest, credit and liquidity risks, as required by Financial Reporting Standard 29, is also included in Note 11.

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 providing commercial hedges.

The profit for the financial year was £1,638 million (2014: £1,524 million).

Total shareholders' funds as at 30 September 2015 were £8,124 million (2014: £6,486 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amount to £nil (2014: £nil).

By order of the Board

D I Resnekov
Director
9 December 2015

Imperial Tobacco Finance PLC

Report of the Directors

Company Number: 03214426

For the year ended 30 September 2015

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 2015.

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 11 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 £5,500 million (2014: £nil).

Corporate Governance

The Company is a wholly owned indirect subsidiary of Imperial Tobacco Group 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.imperial-tobacco.com. A description of the internal control framework is provided in the Strategic Report with consideration given to the risk management systems of the Company included in Note 11 to the financial statements. For this reason, the Company's Directors consider further detail of corporate governance in this report is not necessary.

Insurance

Imperial Tobacco Group 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 present Board of Directors is shown on page 1.

There were no changes of Director in the period under review.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

Imperial Tobacco Finance PLC

Report of the Directors

Company Number: 03214426

For the year ended 30 September 2015

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.

By order of the Board

D I Resnekov
Director
9 December 2015

Imperial Tobacco Finance PLC

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

Report on the financial statements

Our opinion

In our opinion, Imperial Tobacco Finance Plc's financial statements (the "financial statements"):
• give a true and fair view of the state of the Company's affairs as at 30 September 2015 and of its profit 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:
• Balance Sheet as at 30 September 2015;
• Profit and Loss Account for the year then ended; and
• the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, 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.
We have no exceptions to report arising from this responsibility.

Director's remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
• whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
• the reasonableness of significant accounting estimates made by the Directors; and
• the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 December 2015

Imperial Tobacco Finance PLC

Profit and loss account

For the year ended 30 September 2015

(In £ million)	Notes	2015	2014
Other operating income		**1**	1
Administrative expenses		**(2)**	(2)
Operating loss	*2*	**(1)**	(1)
Interest receivable and similar income	*3*	**3,666**	3,766
Interest payable and similar charges	*4*	**(2,026)**	(2,220)
Profit on ordinary activities before taxation		**1,639**	1,545
Tax on profit on ordinary activities	*6*	**(1)**	(21)
Profit for the financial year		**1,638**	1,524

All activities derive from continuing operations.

The Company has no recognised gains or losses other than those included above and, therefore, no separate statement of total recognised gains and losses has been presented.

There are no material differences between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

Imperial Tobacco Finance PLC

Balance sheet

at 30 September 2015

(In £ million)	Notes	2015	2014
Fixed assets			
Derivative financial instruments	*12*	**901**	605
Current assets			
Debtors	*7*	**34,446**	33,381
Cash at bank		**2,707**	1,502
Derivative financial instruments	*12*	**74**	38
Total current assets		**37,227**	34,921
Creditors: amounts falling due within one year	*9*	**(17,019)**	(19,327)
Net current assets		**20,208**	15,594
Total assets less current liabilities		**21,109**	16,199
Creditors: amounts falling due after more than one year	*9*	**(12,985)**	(9,713)
Net assets		**8,124**	6,486

Capital and reserves			
Called up share capital	*13*	**2,100**	2,100
Profit and loss account	*14*	**6,024**	4,386
Total shareholders' funds	*15*	**8,124**	6,486

The financial statements on pages 7 to 18 were approved by the Board of Directors on 9 December 2015 and signed on its behalf by:

D I Resnekov
Director

J M Jones
Director

Company Number: 03214426

Notes to the Financial Statements

For the year ended 30 September 2015

1. Accounting policies

The financial statements have been prepared on the going concern basis and in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Principles. The principal accounting policies, which have been applied consistently, are set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, except as detailed in the accounting policies on financial instruments.

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.

Cash flow statement

The Company is a wholly owned indirect subsidiary of Imperial Tobacco Group PLC and is included in the consolidated financial statements of Imperial Tobacco Group PLC. Consequently, the Company has taken advantage of the exemption conferred by FRS1 (revised 1996) and not presented a cash flow statement.

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 (including cash at bank and in hand). 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.

Cash includes cash in hand together with other short-term liquid investments.

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.

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 assets and liabilities are included in the balance sheet at fair value, which includes accrued interest receivable and payable where relevant. The Company has decided (as permitted under FRS 26) not to hedge account for its derivative financial instruments and so changes in fair values are recognised in the profit and loss account 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 on the balance sheet.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date and any exchange differences are taken to the profit and loss account.

Interest

Interest payable and receivable is recognised in the profit and loss account on an accruals basis.

Deferred taxation

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 considered as recoverable and, therefore, recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Imperial Tobacco Finance PLC

Notes to the Financial Statements

For the year ended 30 September 2015

2. Operating loss

The Company paid fees in respect of audit services of £36,000 (2014: £35,669).

3. Interest receivable and similar income

(In £ million)	2015	2014
Interest receivable from Group undertakings	**2,173**	2,305
Other interest receivable	**1**	2
Exchange gains on monetary assets and liabilities	**801**	1,188
Fair value gains on external derivative financial instruments	**691**	271
	3,666	3,766

4. Interest payable and similar charges

(In £ million)	2015	2014
Interest payable to Group undertakings	**209**	244
Interest payable on other loans	**440**	483
Fair value losses on external derivative financial instruments	**578**	358
Fair value losses on intragroup derivative financial instruments	**799**	1,135
	2,026	2,220

5. Directors' emoluments and pensions

None of the Directors received any emoluments from the Company in respect of the year under review (2014: £nil).

The emoluments of the Directors are paid by Imperial Tobacco Limited ("ITL") a wholly owned indirect subsidiary of Imperial Tobacco Group 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.

6. Tax on profit on ordinary activities

Analysis of charge in the year

(In £ million)	2015	2014
Corporation tax at 20.5% (2014: 22%)	**-**	-
Withholding tax	**1**	1
Current tax	**1**	1
Origination and reversal of timing differences	**-**	20
Effect of change in future tax rate	**-**	-
Deferred tax	**-**	20
Tax on profit on ordinary activities	**1**	21

Factors affecting the current tax charge for the year

The tax assessed for the year is lower (2014: lower) than the standard rate of corporation tax in the UK. A reconciliation between the current tax charge at the standard UK rate and the actual current tax is shown below.

(In £ million)	2015	2014
Profit on ordinary activities before taxation	**1,639**	1,545
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.5% (2014: 22%)	**336**	340
Effects of:		
Group relief claimed	**(154)**	(114)
Current year deferred tax	**-**	(7)
UK-UK transfer pricing adjustment	**(181)**	(217)
Other permanent and disallowable items	**-**	(1)
Current tax charge	**1**	1

The corporation tax charge for the year has been reduced by £154 million (2014: charge reduced by £114 million) due to the surrender of group relief for nil consideration from (2014: nil consideration from) other Group companies.

Notes to the Financial Statements

For the year ended 30 September 2015

6. Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

There is no guarantee that the surrender of group tax losses by other Group companies will occur in the future.
The current year tax rate of 20.5 per cent arises from profits being taxed at 21 per cent until 31 March 2015 and 20 per cent thereafter.

The rate of corporation tax was reduced by 1 per cent from 21 per cent to 20 per cent from 1 April 2015. No further reductions had been enacted at the balance sheet date. However, as announced in the Chancellor's Budget on 8 July 2015, the UK corporation tax rate is expected to reduce to 19 per cent from 1 April 2017 and to 18 per cent from April 2020.

The effect of these reductions, if applied to the deferred tax balance at 30 September 2015 would be immaterial.

7. Debtors

(In £ million)	2015	2014
Amounts owed by Group undertakings	**34,433**	33,374
Deferred tax assets (Note 8)	**1**	1
Other debtors and prepayments	**12**	6
	34,446	33,381

Amounts owed by Group undertakings include £95 million (2014: £101 million) falling due after more than one year which is unsecured, interest bearing and has a fixed repayment date of 1 February 2019.

Other amounts owed by Group undertakings are unsecured, both interest bearing and non interest bearing and repayable on demand.

8. Deferred tax assets

(In £ million)	2015	2014
As at 1 October	**1**	21
Current year movements	**-**	(7)
Prior year adjustments	**-**	(13)
As at 30 September	**1**	1

The amounts provided for deferred tax are as follows:

	Amounts provided		Total potential assets	
(In £ million)	2015	2014	2015	2014
Fair value losses	**1**	1	**1**	1
Carried forward losses	**-**	-	**-**	-
	1	1	**1**	1

9. Creditors

(In £ million)	2015	2014
Creditors: amounts falling due within one year		
Bank loans and overdrafts (Note 10)	**4**	1,409
Capital market issuance (Note 10)	**1,524**	321
Derivative financial instruments (Note 12)	**25**	46
Amounts owed to Group undertakings	**15,466**	17,551
	17,019	19,327
Creditors: amounts falling due after more than one year		
Bank loans (Note 10)	**1,479**	-
Capital market issuance (Note 10)	**10,771**	9,068
Derivative financial instruments (Note 12)	**735**	645
	12,985	9,713

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 10 of the financial statements which only includes borrowings with external counterparties.

Notes to the Financial Statements
For the year ended 30 September 2015

10. Borrowings

The Company's borrowings are held at amortised cost. Current and non-current borrowings include interest payable of £57 million (2014: £nil) and £208 million (2014: £257 million) respectively as at the balance sheet date. Interest payable on capital market issuances are at fixed rates of interest outlined below and interest payable on bank loans and overdrafts are at floating rates of interest.

(In £ million)	2015	2014
Current borrowings		
Bank loans and overdrafts	**4**	1,409
Capital market issuance:		
European commercial paper	**359**	321
€1,500m 8.375% notes due February 2016	**1,165**	-
Total current borrowings	**1,528**	1,730
Non-current borrowings		
Bank loans	**1,479**	-
Capital market issuance:		
€1,500m 8.375% notes due February 2016	**-**	1,226
£450m 5.5% notes due November 2016	**471**	471
$1,250m 2.05% notes due February 2018	**825**	773
€850m 4.5% notes due July 2018	**634**	667
$500m 2.05% notes due July 2018	**330**	-
£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	**576**	606
$1,250m 2.95% notes due July 2020	**826**	-
€1,000m 2.25% notes due February 2021	**745**	785
£1,000m 9.0% notes due February 2022	**1,054**	1,054
$1,250m 3.75% notes due July 2022	**827**	-
$1,000m 3.5% notes due February 2023	**660**	618
£600m 8.125% notes due March 2024	**626**	626
$1,500m 4.25% notes due July 2025	**986**	-
€650m 3.375% notes due February 2026	**488**	514
£500m 5.5% notes due September 2026	**499**	499
£500m 4.875% notes due June 2032	**504**	509
Total non-current borrowings	**12,250**	9,068
Total borrowings	**13,778**	10,798
Analysed as:		
Capital market issuance	**12,295**	9,389
Bank loans and overdrafts	**1,483**	1,409

Non-current bank loans contain committed USD term loan facilities with maturities expiring between 1 and 4 years, with interest payable at floating rates.

In June 2015 the Company utilised $7,056 million of committed bank facilities to finance the Group purchase of certain US brands and assets from Reynolds American Inc. subsequent to its acquisition of Lorillard Inc. $4,500 million was subsequently refinanced in the US debt capital markets in tranches of $500 million, $1,500 million and two tranches of $1,250 million, with maturities between three and ten years.

All borrowings are unsecured and the Company has not defaulted on any borrowing during the year (2014: no defaults).

Non-current financial liabilities

The maturity profile of non-current liabilities outstanding as at 30 September 2015 (including the impact of derivative financial instruments detailed in note 12) is as follows:

	2015			2014		
(In £ million)	**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	**1,457**	**67**	**1,524**	1,226	(47)	1,179
Between two and five years	**4,405**	**(127)**	**4,278**	2,631	26	2,657
In five years or more	**6,388**	**(106)**	**6,282**	5,211	61	5,272
	12,250	**(166)**	**12,084**	9,068	40	9,108

Notes to the Financial Statements

For the year ended 30 September 2015

10. Borrowings (continued)

Fair value of borrowings

The fair value of borrowings as at 30 September 2015 is estimated to be £14,584 million (2014: £11,783 million). £13,101 million (2014: £10,374 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)	2015 Balance sheet amount	2015 Fair value	2014 Balance sheet amount	2014 Fair value
GBP	**3,874**	**4,518**	3,879	4,576
EUR	**3,967**	**4,122**	4,119	4,421
USD	**4,454**	**4,461**	1,391	1,377
Total bonds	**12,295**	**13,101**	9,389	10,374

Undrawn borrowing facilities

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

(In £ million)	2015	2014
Amounts expiring:		
Between one and two years	**739**	3,310
Between two and five years	**2,594**	3,631
In five years or more	**-**	927
	3,333	7,868

11. Financial risk management

Overview

In the normal course of business, the Company is exposed to financial risks including 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.

Financial risk is managed at the Group level. 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. The Group operates a centralised treasury function which is responsible for managing external and internal funding requirements and financial risks in support of the Group's strategic objectives, specifically its exposure to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The Group operates on a global basis and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity.

The Group's treasury activities are monitored by the GTC, which meets regularly throughout the year and comprises the Chief Financial Officer of Imperial Tobacco Group PLC, the Company Secretary of Imperial Tobacco Group PLC and other senior management from Group Finance, Manufacturing and Group Treasury. The GTC operates in accordance with the terms of reference set out by the Board and a framework which sets out the expectations and boundaries to assist in the effective oversight of Group Treasury activities. The Group Treasurer reports on a regular basis to the Board and to GTC on a monthly basis.

The Board reviews and approves all major treasury decisions and Group Treasury does not operate as a profit centre, nor does it enter into speculative transactions.

The Company's management of market, credit and liquidity risk is as follows:

(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 cash investments, borrowings, derivatives and intra-group loans 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 transaction and translation risk is as follows.

Notes to the Financial Statements

For the year ended 30 September 2015

11. Financial risk management (continued)

Translation risk

The Company has translation risk on cash investments, borrowings, derivatives and intra-group 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 has a policy of issuing debt in the most appropriate market or markets at the time of raising new finance and to subsequently enter into derivative financial instruments, primarily cross currency swaps, to change the currency of debt as required.

Foreign currency sensitivity analysis

FRS 29 requires a sensitivity analysis showing the impact of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities on the Company's profit and loss account.

The table below illustrates on an indicative basis, the Company's sensitivity to foreign exchange rates attributable to the translation of monetary items held by the Company in currencies other than its functional currency. The movements in foreign exchange rates are considered to represent reasonably possible changes. The sensitivity analysis has been prepared on the basis that net debt and the proportion of financial instruments in foreign currencies remain constant.

The Company manages its exposure through the use of foreign currency contracts with other Group companies in order to minimise foreign exchange gains or losses on the retranslation on 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)	**2015** Increase in income	2014 Increase in income
Profit and loss account impact on non-functional currency foreign exchange exposures:		
10% appreciation of euro (2014: 10%)	**1,147**	1,336
10% appreciation of US dollar (2014: 10%)	**520**	115

An equivalent depreciation in the above currencies would cause a decrease in income of £1,402m and £635m for euro and US dollar exchange rates respectively (2014: £1,632m and £140m).

There are no direct net impacts on equity (2014: £nil).

Interest rate risk

The Company's interest rate risk arises from borrowings net of cash and cash equivalents. 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's financial results are primarily exposed to gains or losses arising from fluctuations in euro and US dollar interest rates. As at 30 September 2015, after adjusting for the effect of derivative financial instruments detailed in Note 12, approximately 48 per cent (2014: 48 per cent) of the Company's borrowings were at fixed rates of interest.

The Company manages the interest rate risk on its borrowings by issuing debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency and interest denomination and subsequently entering into derivative financial instruments, primarily cross-currency and interest rate swaps, to change the currency and interest rate mix to the desired position and in line with the GTC framework. The Company's debt maturity profile is detailed in the contractual cash flows table below.

Interest rate sensitivity analysis

FRS 29 requires a sensitivity analysis showing the impact of hypothetical changes of interest rates in respect of financial assets and liabilities on the Company's profit and loss account.

The table below illustrates on an indicative basis, the Company's sensitivity to interest rates on its euro, US dollar and sterling monetary items which are primarily external borrowings, cash and cash equivalents. The impact in the Company's profit and loss account 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 2015, and ignores 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 the net debt and derivatives portfolio remain constant and that there is no direct net impact on equity (2014: £nil).

The movement in interest rates are 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)	**2015** Change in income	2014 Change in income
Profit and loss account impact of interest rate movements:		
+/- 1% increase in euro interest rates (2014: 1%)	**69**	20
+/- 1% increase in US dollar interest rates (2014: 1%)	**54**	13
+/- 1% increase in sterling interest rates (2014: 1%)	**16**	17

11. Financial risk management (continued)

(b) Credit risk

The Company is primarily exposed to credit risk arising from cash deposits and financial instruments held with external financial counterparties. The maximum aggregate credit risk to these sources was considered to be £3,682 million at 30 September 2015 (2014: £2,145 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 GTC framework. Utilisation of counterparty credit limits is regularly monitored by Group Treasury and ISDA agreements are in place to permit the net settlement of assets and liabilities in certain circumstances. In very limited cases, collateral is deposited against derivative financial liabilities and supported by an ISDA Credit Support Annex.

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2015. Management does not expect these counterparties to default on their current obligations at the balance sheet date. 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.

	2015		2014	
Counterparty Exposure	**S&P credit rating**	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**AA-**	**153**	A	179
2nd highest	**AA-**	**131**	A	134
3rd highest	**AA-**	**114**	A+	129
4th highest	**A**	**114**	A	112
5th highest	**A+**	**112**	A+	111

(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 Group has a policy of actively maintaining a mixture of short, medium and long-term committed facilities that are designed 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 by a range of instruments including capital market issuance, bank loans and European commercial paper.

The Group borrows centrally in order to meet forecast funding requirements, and Group Treasury is in regular dialogue with subsidiaries to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, loans from Group companies, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries in order to minimise external borrowing requirements and interest costs. Group Treasury invests surplus cash in bank deposits and uses forward currency contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2015, the Company held liquid assets of £2,707 million (2014: £1,502 million).

The table below summarises the Company's financial liabilities by maturity based on their remaining contractual cash flows as at 30 September 2015. 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 12.

At 30 September 2015 (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	**1,483**	**1,515**	**13**	**1,000**	**502**	**-**
Capital market issuance	**12,295**	**15,525**	**2,002**	**1,022**	**5,061**	**7,440**
Amounts owed to Group undertakings	**15,466**	**15,466**	**15,466**	**-**	**-**	**-**
Total non-derivative financial liabilities	**29,244**	**32,506**	**17,481**	**2,022**	**5,563**	**7,440**

At 30 September 2014 (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	1,409	1,409	1,409	-	-	-
Capital market issuance	9,389	12,271	818	1,603	3,621	6,229
Amounts owed to Group undertakings	17,551	17,551	17,551	-	-	-
Total non-derivative financial liabilities	28,349	31,231	19,778	1,603	3,621	6,229

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11. Financial risk management (continued)

Amounts owed to the Company by Group undertakings of £34,433 million (2014: £33,374 million) are excluded from the above tables, as disclosure of contractual cashflows is only required for liabilities.

Capital management

The management of the Company's capital structure forms part of the Group's capital risk management, details of which can be found in Note 19 of the Group's Annual Report which does not form part of this report, but is available at www.imperial-tobacco.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 29) as detailed in note 12. 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 10.

12. Derivative Financial Instruments

The Company's derivative financial instruments are held at fair value, which was estimated to be £215 million net asset at 30 September 2015 (2014: £48 million net liability). 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 29 fair value hierarchy is provided in note 11.

Current derivative financial instruments	2015		2014	
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**55**	**(20)**	27	(41)
Forward foreign currency contracts	**13**	**(5)**	7	(7)
Cross currency swaps	**6**	**-**	4	-
Collateral[1]	**-**	**-**	-	2
Total current derivatives	**74**	**(25)**	38	(46)
Non-current derivative financial instruments				
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**666**	**(753)**	521	(692)
Cross currency swaps	**235**	**(23)**	84	(53)
Collateral[1]	**-**	**41**	-	100
Total non-current derivatives	**901**	**(735)**	605	(645)
Total carrying value of derivatives financial instruments	**975**	**(760)**	643	(691)
Net asset/(liability)		**215**		(48)
Analysed as:				
Interest rate swaps	**721**	**(773)**	548	(733)
Forward foreign currency contracts	**13**	**(5)**	7	(7)
Cross currency swaps	**241**	**(23)**	88	(53)
Collateral[1]	**-**	**41**	-	102
	975	**(760)**	643	(691)
Net asset/(liability)		**215**		(48)

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

Maturity of obligations under derivative financial instruments

Derivative financial instruments have been classified 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 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 2015. 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 2015. 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 11.

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For the year ended 30 September 2015

12. Derivative Financial Instruments (continued)

At 30 September 2015 (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	**(20)**	**(183)**	**18**	**(7)**	**(13)**	**(181)**
Gross settled derivatives	**235**					
Receipts		**4,660**	**921**	**528**	**752**	**2,459**
Payments		**(5,405)**	**(976)**	**(550)**	**(974)**	**(2,905)**
	215	**(928)**	**(37)**	**(29)**	**(235)**	**(627)**

At 30 September 2014 (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	(149)	271	51	24	25	171
Gross settled derivatives	101					
Receipts		4,036	1,194	48	812	1,982
Payments		(4,507)	(1,222)	(76)	(866)	(2,343)
	(48)	(200)	23	(4)	(29)	(190)

Derivatives as hedging instruments

The Company hedges its underlying interest rate and foreign currency translation exposures in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Forward currency contracts are used to manage the Company's short term liquidity requirements in line with cash flow forecasts as appropriate. Given that the Company does not apply cash flow or fair value hedge accounting as permitted under FRS 26, fair value gains and losses attributable to derivative financial instruments are recognised in net finance costs.

Interest rate swaps

Interest rate risk on the Company's borrowings is managed by issuing debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency and interest denomination, and then using derivative financial instruments, primarily interest rate swaps, to change the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage the Company's interest rate risk over the short, medium and long term in accordance with the GTC framework. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2015, the notional amount of interest rate swaps outstanding that were entered into to change fixed rate borrowings into floating rates of interest at the time of raising new finance were £11,667 million equivalent (2014: £9,141 million equivalent) with a fair value of £721 million asset (2014: £524 million asset). The fixed interest rates vary from 2.0% to 8.7% (2014: 2.0% to 8.7%), and the floating rates are EURIBOR, LIBOR and US LIBOR.

The notional amount of interest rate swaps outstanding at the balance sheet date that were entered into to change the Company's debt into the appropriate proportion of fixed and floating rates to manage the Company's interest rate risk over the short, medium and long term in accordance with the GTC framework were £10,692 million equivalent (2014: £7,942 million equivalent) with a fair value of £741 million liability (2014: £672 million liability). The fixed interest rates vary from 0.8% to 5.2% (2014: 0.8% to 5.2%), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £4,990 million equivalent (2014: £2,729 million equivalent) with tenors extending between 3 and 12 years, starting between October 2015 and October 2020.

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 2015, 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 £650 million (2014: £650 million) and the fair value liability of these swaps was £5 million net liability (2014: £30 million net liability).

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 £3,100 million (2014: £2,000 million) and the fair value of these swaps was £232 million net asset (2014: £71 million net asset).

Forward foreign currency contracts

The Company enters into forward currency contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2015 the notional amount of these contracts was £867 million equivalent (2014: £1,146 million equivalent) and the fair value of these contracts was a net asset of £8 million (2014: £nil).

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13. Called up share capital

(In £ million)	2015	2014
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2014: 2,100,000,000)	**2,100**	2,100

14. Profit and loss account

(In £ million)	2015	2014
Opening balance	**4,386**	2,862
Profit for the financial year	**1,638**	1,524
Closing balance	**6,024**	4,386

15. Reconciliation of movements in shareholders' funds

(In £ million)	2015	2014
Profit for the financial year	**1,638**	1,524
Net increase in shareholders' funds	**1,638**	1,524
Opening shareholders' funds	**6,486**	4,962
Closing shareholders' funds	**8,124**	6,486

16. Related party transactions

The Company has taken advantage of the Group dispensation permitted under FRS 8 Related Party Disclosures for 100% owned Group subsidiaries, not to disclose intra-group transactions undertaken during the period.

17. 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 Tobacco Group PLC, and some of its subsidiary companies. At 30 September 2015, the amount drawn under this cross guarantee was £nil (2014: £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 2015, the contingent liability totalled £nil (2014: £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.

18. Number of employees

The average number of employees during the year was nil (2014: nil).

19. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2015 was Imperial Tobacco Group 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 Tobacco Group PLC, whose consolidated financial statements may be obtained from The Secretary, Imperial Tobacco Group PLC, 121 Winterstoke Road, Bristol, BS3 2LL.

The immediate parent undertaking of the Company at 30 September 2015 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.