

Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC

Annual Report and Financial Statements 2019

Imperial Brands Finance PLC

Board of Directors

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

Company Secretary

J M Downing

Registered Office

121 Winterstoke Road
Bristol
BS3 2LL

Independent Auditors

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

Imperial Brands Finance PLC

Strategic Report

For the year ended 30 September 2019

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 2019.

Principal activity and principal risks and uncertainties of the Company

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

The Company, as the main financing and financial risk management company for the Group, undertakes transactions to manage the Group's financial risks, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, market, credit and liquidity risk. A summary of the Company's policies in respect of foreign exchange, interest, credit and liquidity risks is included in note 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 20 of the Group's annual report which does not form part of this report, but is available at www.imperialbrandsplc.com. Financial risk management disclosures can be found in note 14.

BREXIT

The Company has looked into potential Brexit impacts under a number of different scenarios: soft, hard and no deal. The Company provides financing for the wider Group and may be impacted by Brexit risks that could affect the Group. The key risks that have been identified include potential increase in import duties and impact on UK customers of the Group, additional risk of tobacco smuggling, inventory requirements to ensure supply, impact on consumer confidence and implications on existing international tax treaties. In the event of a no deal Brexit, we estimate there could be additional costs of around £100 million relating to the restructuring of the Group for tax purposes.

LIBOR

Following the announcement of the potential discontinuation of LIBOR after the end of 2021, the Company has commenced an evaluation of its floating rate debt positions maturing after that date. The Company currently expects that an appropriate alternative basis for the calculation of interest will be available in the event LIBOR can no longer be used.

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 £109 million (2018: £159 million).

Total equity as at 30 September 2019 was £2,408 million (2018: £2,299 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amount to £nil million (2018: £nil million).

On behalf of the Board

T R W Tildesley
Director
12 December 2019

Imperial Brands Finance PLC

Report of the Directors

For the year ended 30 September 2019

Company Number: 03214426

The Directors submit their report together with the Strategic Report (on page 2) and the audited financial statements of the Company for the year ended 30 September 2019.

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 do not recommend the payment of a final dividend for the year (2018: £nil million).

Responsibility statements under the Disclosure and Transparency Rules

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

- The financial statements, prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practise), including Financial Reporting Standards 101 'Reduced Disclosure Framework' ("FRS101"), give a true and fair view of the assets, liabilities, financial position and profit of the company, and
- The Strategic Report and Report of the Directors report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Corporate governance

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC and the Directors of the Group manage corporate governance at a Group level. The Group's statement on corporate governance can be found in the corporate governance report in the 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.

Financial reporting

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

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

Insurance

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

Future outlook

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

Board of Directors

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

Imperial Brands Finance PLC

Report of the Directors (continued)

Company Number: 03214426

For the year ended 30 September 2019

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, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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.

A decision to tender the audit was made by the Board of Imperial Brands PLC and due to the length of its tenure, our auditor PricewaterhouseCoopers LLP was not invited to participate. In February 2019 the Board of Imperial Brands PLC made a decision to appoint Ernst & Young as auditor. PricewaterhouseCoopers LLP will resign following the completion of the audit of these financial statements allowing the new auditor to be appointed.

On behalf of the Board

T R W Tildesley
Director
12 December 2019

Imperial Brands Finance PLC

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 2019 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 2019 (the "Annual Report"), which comprise: the balance sheet as at 30 September 2019; 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 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.

We have provided no non-audit services to the company in the period from 1 October 2018 to 30 September 2019.

Our audit approach

Overview



- Overall materiality: £80 million (2018: £80 million), based on 0.5% (2018: 0.6%) of total external liabilities, consisting of borrowings and derivative financial instruments.

-
- All material financial statement line items were subject to the scope of our audit.

-
- Valuation of derivative financial instruments.
 - Valuation of Intercompany Loans.
-

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the valuation of derivative financial instruments. Audit procedures performed by the engagement team included:

- Discussions with management and the internal audit function;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Imperial Brands Finance PLC

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

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.

Key audit matter

How our audit addressed the key audit matter

Valuation of derivative financial instruments

The company balance sheet includes a net liability of £622 million for derivative financial instruments. The derivative portfolio includes a range of instruments with varying maturity dates some of which are over 5 years.

We have agreed all derivatives outstanding at the balance sheet date with the counterparty. We have recalculated the valuations of the derivatives held using observable market data. We compared our valuation to that which is reported by management, any misstatements arising from this were corrected by management.

The derivatives are required to be stated at their fair value. 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.

We noted no material exceptions in our procedures.

Valuation of Intercompany Loans

The company balance sheet includes a total of £33,348 million of intercompany loans receivable disclosed as Trade and other receivables most of which are repayable on demand.

We have agreed all intercompany balances held at the balance sheet date to the corresponding payable or receivable held by the intercompany party.

The accounting for these loans is covered by the Financial Instruments standard IFRS 9, which the entity adopted as of 1 October 2018. Under this standard these loans are required to be subsequently valued at amortised cost. As they are financial instruments, management assess at each reporting date whether these financial instruments are credit impaired.

We have assessed management's ECL model. This included an assessment of the ability of the other group companies to repay the outstanding intercompany loans by comparison to the assets held and the ability of these companies to raise finance and repatriate these funds to Imperial Brands Finance PLC.

Management has applied a simplified approach to the expected credit loss (ECL) model to determine the allowance for impairment of intercompany loans. In applying this model, management have considered various assumptions, historical as well as forward looking information, relating to the entity's management of intercompany loans.

We have tested the assumptions considered by management by tracing them to supporting information. We concluded that the assumptions considered by management to be appropriate. 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 (2018: £80 million).
How we determined it	0.5% (2018: 0.6%) of total external liabilities, comprising of borrowings and derivative financial instruments.
Rationale for benchmark applied	This is the treasury entity for the Imperial Brands PLC group. The results of the entity are driven by the 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 external liabilities in issue.

We agreed with the directors that we would report to them misstatements identified during our audit above £4 million (2018: £4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Imperial Brands Finance PLC

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

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 and Report of the Directors, 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.

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 2019 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, 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.

Imperial Brands Finance PLC

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

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 23 years, covering the years ended 27 September 1997 to 30 September 2019.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
12 December 2019

Imperial Brands Finance PLC

Income Statement

For the year ended 30 September 2019

(In £ million)	Notes	2019	2018
Administrative expenses		(3)	(1)
Other operating income		1	1
Operating loss	4	(2)	-
Investment income	5	1,903	1,504
Finance costs	6	(1,766)	(1,327)
Profit before tax		135	177
Tax on profit	8	(26)	(18)
Profit for the financial year		109	159

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 2019

(In £ million)	Notes	2019	2018
Non-current assets			
Trade and other receivables	10	110	30
Derivative financial instruments	15	677	462
		787	492
Current assets			
Trade and other receivables	10	33,238	33,337
Cash and cash equivalents		1,505	28
Derivative financial instruments	15	137	37
		34,880	33,402
Total assets		35,667	33,894
Current liabilities			
Borrowings	13	(1,892)	(2,369)
Derivative financial instruments	15	(28)	(105)
Trade and other payables	12	(18,234)	(18,450)
		(20,154)	(20,924)
Non-current liabilities			
Borrowings	13	(11,697)	(9,598)
Derivative financial instruments	15	(1,408)	(1,073)
		(13,105)	(10,671)
Total liabilities		(33,259)	(31,595)
Net assets		2,408	2,299
Equity			
Share capital	16	2,100	2,100
Retained earnings		308	199
Total equity		2,408	2,299

The financial statements on pages 9 to 24 were approved by the Board of Directors on 12 December 2019 and signed on its behalf by:

T R W Tildesley _____
Director

J M Jones _____
Director

Company Number: 03214426

Imperial Brands Finance PLC

Statement of Changes in Equity

For the year ended 30 September 2019

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

(In £ million)	Notes	Share capital	Retained earnings	Total equity
At 1 October 2017		2,100	390	2,490
<u>Total comprehensive income</u>				
Profit for the financial year		-	159	159
Total comprehensive income for the year		-	159	159
<u>Transactions with the shareholders of the Company</u>				
Dividends paid	9	-	(350)	(350)
At 30 September 2018		2,100	199	2,299

Imperial Brands Finance PLC

Notes to the Financial Statements

For the year ended 30 September 2019

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

The principal activity of the Company is to provide treasury services to the Group. The Company is a public limited company incorporated and domiciled in England and Wales. The registered address is 121 Winterstoke Road, Bristol, BS3 2LL. The Company is classified as a financial institution as defined by FRS 101.

The financial statements of the Company for the year ended 30 September 2019 were authorised for issue by the Board of Directors on 12 December 2019, and the balance sheet was signed on the Board's behalf by and T R W Tildesley and J M Jones.

These financial statements have been prepared on the going concern basis and in accordance with the Companies Act 2006, FRS 101 and in accordance with applicable accounting standards.

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

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

2. Accounting policies

Basis of preparation of financial statements

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

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

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

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

New accounting standards and interpretations

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 October 2018. The detail of adoption is provided below. There have been no other new standards or amendments which became effective for the current reporting period that have had a material effect on the Group.

On 1 October 2018 the Group adopted IFRS 9, with no revision of prior periods as permitted by the standard. IFRS 9 has replaced IAS 39 'Financial Instruments: Recognition and Measurement' and includes revised guidance on:

Classification and measurement: Financial assets are now classified as either being accounted for as amortised cost, fair value through other comprehensive income, or fair value through profit or loss. There are no changes to the classification or accounting for financial liabilities. Other than trade receivables and derivative financial instruments, the Company does not currently hold any significant financial assets.

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

Receivables which have already become overdue will continue to be provided in line with the current provisioning policy. There was no additional expected credit loss provisions recognised on the adoption of IFRS 9.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

2. Accounting policies (continued)

New accounting standards and interpretations (continued)

On 1 October 2018 the Company adopted IFRS 15. IFRS 15 has introduced an amended framework for revenue recognition and has replaced the prior guidance in IAS 18 'Revenue'. The standard provides revised guidance on revenue accounting, matching income recognition to the delivery of performance obligations in contractual arrangements for the provision of goods or services. It also provides different guidance on the measurement of revenue contracts involving discounts, rebates and payments to customers. There was no impact on the net assets or results of the Company on adoption of the standard.

IFRIC 23 'Uncertainty over income tax treatments' will be effective, subject to EU endorsement, for the period beginning 1 October 2019. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The adoption of this interpretation is not expected to have a material effect on the Company's net assets or results.

IFRS 16 'Leases' will be effective for the period beginning 1 October 2019. As the Company does not currently have any leases there will be no impact on adoption of the standard.

Interest

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

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

Foreign currencies

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

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

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.

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

Following the adoption of IFRS 9, the Company's accounting policies for financial instruments and hedging remain the same as disclosed in the 30 September 2018 financial statements, except for changes to the classification and measurement of certain non-derivative financial assets and the calculation of expected credit losses, as detailed below.

At 30 September 2018 all non-derivative financial assets were classified as loans and receivables. Receivables were all initially recognised at fair value and subsequently stated at amortised cost using the effective interest method. From 1 October 2018, receivables held under a hold to collect business model continue to be stated at amortised cost. Receivables held under a hold to sell business model, which are expected to be sold via a non-recourse factoring arrangement are now separately classified as fair value through profit or loss, within trade and other receivables.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

2. Accounting policies (continued)

Financial instruments (continued)

Up to 30 September 2018, provisions for impairment of receivables would have been established if there was objective evidence that the Company was not be able to collect all amounts due according to the original terms of those receivables. Provisions were only recognised when an impairment had crystallised. From 1 October 2018 the calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The revised approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

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

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. 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. There were no critical judgements involved in the preparation of these financial statements.

Derivatives

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

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

4. Operating loss

Auditors' fees of £43,285 (2018: £42,024) were met by Imperial Tobacco Limited ("ITL"), a wholly owned indirect subsidiary of Imperial Brands PLC. There were no non-audit fees paid during the year (2018: £nil million). The Company has been recharged office rental costs from another Group company of £15,480 (2018: £nil).

5. Investment income

(In £ million)	2019	2018
Interest receivable from Group undertakings	905	874
Interest on bank deposits	4	1
Fair value gains on external derivative financial instruments	671	492
Fair value gains on intragroup derivative financial instruments	323	137
	1,903	1,504

6. Finance costs

(In £ million)	2019	2018
Interest payable to Group undertakings	200	127
Interest on bank loans and other loans	442	481
Exchange losses on monetary assets and liabilities	279	152
Fair value losses on external derivative financial instruments	845	567
	1,766	1,327

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

7. Directors and employees

Employment costs

Employment costs, which do not include pension costs, are paid by ITL and subsequently recharged to the Company. The total salary costs recharged in the year was £645,314 (2018: £nil) and social security costs of £78,626 (2018: £nil). The average monthly number of employees during the year was 10 (2018: nil).

The emoluments of the Directors are paid by ITL. The Directors' services to the Company and to a number of fellow subsidiaries below the ultimate parent company are of a non-executive nature and their emoluments and retirement benefits are deemed to be wholly attributable to their services to ITL and the Group. Accordingly, no emoluments or retirement benefits are disclosed in these financial statements.

8. Tax on profit

Analysis of charge in the year:

(In £ million)	2019	2018
UK Corporation tax on profits for the year	26	-
Adjustments in respect of prior years	-	(1)
Withholding tax	1	1
Double taxation relief	(1)	-
Current tax	26	-
Origination and reversal of timing differences	-	18
Deferred tax	-	18
Total tax charge	26	18

Factors affecting the tax charge for the year

Tax for the year is equal to (2018: lower) the standard rate of corporation tax in the UK for the year of 19 per cent (2018: 19 per cent). The differences are explained as follows:

(In £ million)	2019	2018
Profit before taxation	135	177
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	26	33
Effects of:		
Adjustments to tax charge in respect of prior years (current tax)	-	(1)
Adjustments to tax charge in respect of prior years (deferred tax)	-	18
Foreign tax paid	-	1
UK-UK transfer pricing adjustment	-	(36)
Group relief surrendered	-	3
Total tax charge	26	18

An adjustment for UK-UK transfer pricing has been included in the prior year in accordance with the Taxation (International and Other Provisions) Act 2010, Part 4. The corporation tax charge for the year has been adjusted by £nil (2018: £3 million) due to the surrender of group relief for nil consideration for other Imperial Brands PLC subsidiaries.

Movement on current tax account

(In £ million)	2019	2018
At 1 October	-	50
Credit to the income statement - prior year adjustment	-	1
Charged to the income statement - current year	26	(1)
Cash paid	(1)	(50)
At 30 September	25	-

Factors that may affect future tax charges

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

A further reduction to 17 per cent on 1 April 2020 was enacted at the balance sheet date.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

9. Dividends

Dividend per share in respect of financial year

(In pence)	2019	2018
Final	-	-

Amounts recognised as distributions to the shareholders of the Company

(In £ million)	2019	2018
Final dividend paid in the year in respect of the previous financial year	-	350

10. Trade and other receivables

(In £ million)	2019		2018	
	Current	Non-current	Current	Non-current
Amounts owed by Group undertakings	33,234	110	33,335	30
Other receivables and prepayments	4	-	2	-
	33,238	110	33,337	30

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. At 30 September 2019 £29,737 million (2018: £29,749 million) of the amounts owed by Group undertakings was repayable on demand and £3,607 million (2018: £3,616 million) were term loans. Within current receivables there is a euro denominated loan due from Imperial Tobacco Overseas Holdings Limited Dutch Branch with a carrying value of £902 million (2018: £872 million). As this loan has no fixed repayment date and as it must be repaid on or before 1 October 2022 it has been classified as a current receivable. There were £29,467 million (2018: £29,518 million) of interest bearing loans and £4,017 million (2018: £3,847 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.125% to 12% (2018: 0.125% to 12%).

11. Deferred tax assets

(In £ million)	2019	2018
Deferred tax assets	-	-

The amount regarding deferred tax consists of the following:

(In £ million)	2019	2018
Deferred tax assets due within 12 months	-	-

Deferred tax assets

(In £ million)	Carried forward losses	Total
At 1 October 2017	18	18
Charged to the income statement	(18)	(18)
At 30 September 2018	-	-
Charged to the income statement	-	-
As at 30 September 2019	-	-

12. Trade and other payables

(In £ million)	2019	2018
Amounts owed to Group undertakings	18,209	18,450
Corporation tax payable	25	-
	18,234	18,450

Amounts owed to Group undertakings are unsecured, both interest bearing and non-interest bearing and repayable on demand. At 30 September 2019 all loans were repayable upon demand (2018: all repayable on demand). There were £14,378 million (2018: £15,329 million) of interest bearing loans and £3,831 million (2018: £3,121 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.24% to 4.36% (2018: 0.25% to 4.39%).

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.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

13. Borrowings

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

(In £ million)	2019	2018
Current borrowings		
Bank loans and overdrafts	1	119
Capital market issuance:		
European commercial paper	177	1,530
£200m 6.25% notes due December 2018	-	210
£500m 7.75% notes due June 2019	-	510
€750m 5.0% notes due December 2019	692	-
€1,250m 2.95% notes due July 2020	1,022	-
Total current borrowings	1,892	2,369
Non-current borrowings		
Capital market issuance:		
€750m 5.0% notes due December 2019	-	693
\$1,250m 2.95% notes due July 2020	-	963
€1,000m 2.25% notes due February 2021	897	898
€500m 0.5% notes due July 2021	443	443
£1,000m 9.0% notes due February 2022	1,055	1,055
\$1,250m 3.75% notes due July 2022	1,023	963
\$1,000m 3.5% notes due February 2023	815	768
€750m 1.25% notes due August 2023	664	-
£600m 8.125% notes due March 2024	626	626
\$1,000m 3.125% notes due July 2024	816	-
€500m 1.375% notes due January 2025	446	447
\$1,500m 4.25% notes due July 2025	1,222	1,151
€650m 3.375% notes due February 2026	587	588
\$750m 3.5% notes due July 2026	612	-
£500m 5.5% notes due September 2026	500	499
€750m 2.125% notes due February 2027	671	-
\$1,000m 3.875% notes due July 2029	816	-
£500m 4.875% notes due June 2032	504	504
Total non-current borrowings	11,697	9,598
Total borrowings	13,589	11,967
Analysed as:		
Capital market issuance	13,588	11,848
Bank loans and overdrafts	1	119

Current and non-current borrowings include interest payable of £33 million (2018: £21 million) and £164 million (2018: £172 million) respectively as at 30 September.

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

On 4 December 2018, £200 million 6.25 per cent notes were repaid and on 24 June 2019, £500 million 7.75 per cent notes were repaid. On 12 February 2019 €750 million 1.125 per cent notes due August 2023 and €750 million 2.15% notes due February 2027 were issued and on 26 July 2019 \$1,000 million 3.125 per cent notes due July 2024, \$750 million 3.5 per cent notes due July 2026 and \$1,000 million 3.875 per cent notes due July 2029 were issued.

All borrowings are unsecured and the Company has not defaulted on any during the year (2018: no defaults).

Non-current financial liabilities

The maturity profile of non-current financial liabilities outstanding as at 30 September 2019 (including the impact of derivative financial instruments detailed in note 15 is as follows:

(In £ million)	2019			2018		
	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	1,340	(16)	1,324	1,656	4	1,660
Between two and five years	4,999	14	5,013	4,129	123	4,252
In five years or more	5,358	733	6,091	3,813	485	4,298
	11,697	731	12,428	9,598	612	10,210

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

13. Borrowings (continued)

Fair value of borrowings

The fair value of borrowings as at 30 September 2019 is estimated to be £14,275 million (2018: £12,456 million). £14,274 million (2018: £12,337 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)	2019		2018	
	Balance sheet amount	Fair value	Balance sheet amount	Fair value
GBP	2,685	3,168	3,404	3,861
EUR	4,577	4,681	4,598	4,681
USD	6,326	6,425	3,846	3,795
Total bonds	13,588	14,274	11,848	12,337

Undrawn borrowing facilities

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

(In £ million)	2019	2018
Amounts expiring:		
In less than one year	266	-
Between one and two years	3,011	1,040
Between two and five years	-	3,016
	3,277	4,056

During the year bilateral facilities for a total of €573 million were cancelled.

14. Financial risk management

Overview

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

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

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

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

(a) Market risk

Price risk

The Company is not exposed to equity securities price risk.

Foreign exchange risk

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

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

Translation risk

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

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

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

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 intragroup loans held in non-functional currencies remains constant.

The Company manages its sensitivity to foreign exchange rates through the use of intragroup derivative contracts to 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)	<u>2019</u> <u>Increase in</u> <u>income</u>	<u>2018</u> <u>Increase in</u> <u>income</u>
Income Statement impact on non-functional currency foreign exchange exposures:		
10% appreciation of euro (2018: 10%)	13	(42)
10% appreciation of US dollar (2018: 10%)	(48)	(29)

An equivalent depreciation in the above currencies would cause a decrease in income of £16 million and increase of £59 million for euro and US dollar exchange rates respectively (2018: increases of £51 million and £35 million).

There is no direct net impact on equity (2018: £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 and interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee Framework and Treasury Committee decisions.

As at 30 September 2019, after adjusting for the effect of derivative financial instruments detailed in note 15, approximately 57 per cent (2018: 66 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 2019, 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 (2018: £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)	<u>2019</u> <u>Change in</u> <u>income</u>	<u>2018</u> <u>Change in</u> <u>income</u>
Income Statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2018: 1%)	35	26
+/- 1% increase in US dollar interest rates (2018: 1%)	14	15

(b) Credit risk

The implementation of IFRS 9 requires an expected credit loss model to be applied to financial assets. The expected credit loss model requires the Company to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Company is primarily exposed to credit risk arising from cash deposits, derivatives 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 £2,319 million at 30 September 2019 (2018: £527 million). The increase on prior year is due to the large cash balances resulting from the US dollar bonds issued in July 2019. There is also a potential credit risk associated with intercompany loans receivable from other companies within the Group. Intragroup counterparty credit risk may be mitigated where there is control of a counterparty within the Group, allowing the Group to facilitate repayment through realising counterparty assets or through refinancing.

Trade and other receivables

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

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

14. Financial risk management (continued)

Financial instruments

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

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2019. The increase in the credit exposure is due to falling long term interest rates increasing the value of interest rate swaps converting fixed rate debt to floating rates and a weakening of sterling against the US dollar affecting the buy US dollar leg of foreign exchange forward contracts. 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	2019		2018	
	S&P credit rating	Maximum exposure to credit risk £ million	S&P credit rating	Maximum exposure to credit risk £ million
Highest	A+	20	A+	6
2nd highest	AA-	19	BBB+	5
3rd highest	A	12	A	3
4th highest	A	8	A	3
5th highest	A	8	-	-

(c) Liquidity risk

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

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

We remain fully compliant with all our banking covenants (2018: fully compliant) and remain committed to retaining our investment grade ratings.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiaries in the Group to ensure their liquidity needs are met. Subsidiaries in the Group are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries in the Group where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2019, the Company held liquid assets of £1,505 million (2018: £28 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 2019. 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 2019 (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	1	1	-	-	-
Capital market issuance	13,588	15,787	2,345	1,773	5,806	5,863
Amounts owed to Group undertakings	18,209	18,209	18,209	-	-	-
Total non-derivative financial liabilities	31,798	33,997	20,555	1,773	5,806	5,863
At 30 September 2018 (In £ million)	Balance sheet amount	Contractual cash flows Total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities:						
Bank loans	119	119	119	-	-	-
Capital market issuance	11,848	13,745	2,670	2,002	4,843	4,230
Amounts owed to Group undertakings	18,450	18,450	18,450	-	-	-
Total non-derivative financial liabilities	30,417	32,314	21,239	2,002	4,843	4,230

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

15. Derivative financial instruments

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

Current derivative financial instruments (In £ million)	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	24	(26)	28	(24)
Foreign exchange contracts	104	(2)	6	(7)
Cross currency swaps	9	-	3	(127)
Collateral ¹	-	-	-	53
Total current derivatives	137	(28)	37	(105)
Non-current derivative financial instruments				
(In £ million)	Assets	Liabilities	Assets	Liabilities
Interest rate swaps	645	(1,079)	462	(700)
Cross currency swaps	32	(367)	-	(402)
Collateral ¹	-	38	-	29
Total non-current derivatives	677	(1,408)	462	(1,073)
Total carrying value of derivatives financial instruments	814	(1,436)	499	(1,178)
Net liability		(622)		(679)
Analysed as:				
Interest rate swaps	669	(1,105)	490	(724)
Foreign exchange contracts	104	(2)	6	(7)
Cross currency swaps	41	(367)	3	(529)
Collateral ¹	-	38	-	82
Net liability	814	(1,436)	499	(1,178)
		(622)		(679)

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

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 2019. 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 2019. 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 2019	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
(In £ million)						
Net settled derivatives	(398)	(616)	(30)	(37)	(210)	(339)
Gross settled derivatives	(224)	-	-	-	-	-
Receipts	-	6,852	2,151	165	2,738	1,798
Payments	-	(6,833)	(2,199)	(100)	(2,701)	(1,833)
	(622)	(597)	(78)	28	(173)	(374)
At 30 September 2018						
(In £ million)	Balance sheet amount	Contractual cash flows total	<1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	(205)	(508)	(13)	(38)	(183)	(274)
Gross settled derivatives	(474)	-	-	-	-	-
Receipts	-	5,364	2,249	102	1,228	1,785
Payments	-	(5,610)	(2,349)	(79)	(1,234)	(1,948)
	(679)	(754)	(113)	(15)	(189)	(437)

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

15. Derivative financial instruments (continued)

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 IFRS 9, 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 and/or cross currency swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Company's interest rate risk over the short, medium and long term in accordance with the Treasury Committee Framework and Treasury Committee decisions. Fair value movements are recognised in investment income and finance costs in the relevant reporting period.

As at 30 September 2019, 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 £13,448 million (2018: £10,353 million) with a fair value of £657 million asset (2018: £240 million asset). The fixed interest rates vary from 0.5 per cent to 8.7 per cent (2018: 0.5 per cent to 8.7 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR.

As at 30 September 2019, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £10,024 million (2018: £10,285 million) with a fair value of £1,055 million liability (2018: £445 million liability). The fixed interest rates vary from 0.5 per cent to 4.4 per cent (2018: 0.8 per cent to 4.4 per cent), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,412 million (2018: £1,476 million) of which there are £1,522 million with tenors extending for 5 years, starting between October 2020 and May 2022, £443 million with 10 year tenors starting in October 2019 and £447 million with 13 year tenors starting in October and November 2019.

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 investment income and finance costs in the relevant reporting period.

As at 30 September 2019, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,600 million (2018: £3,300 million) and the fair value of these swaps was £364 million net liability (2018: £473 million net liability). During the financial year foreign currency forward and cross-currency swaps were transacted to convert \$3.0 billion of US dollar denominated debt to €2.8 billion euros with a fair value of £134 million net asset.

Foreign exchange contracts

The Group enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2019, the notional amount of these contracts was £1,087 million (2018: £1,430 million) and the fair value of these contracts was a net asset of £6 million (2018: £1 million net liability).

16. Share capital

(In £ million)	2019	2018
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2018: 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 FRS 101 from disclosing related party transactions with entities that are part of the Group since the Company is a wholly owned indirect subsidiary of Imperial Brands PLC and is included in the consolidated financial statements of the Group, which are publicly available.

Imperial Brands Finance PLC

Notes to the Financial Statements (continued)

For the year ended 30 September 2019

18. Guarantees

The Company is party to a cross guarantee of its bank accounts held at HSBC Bank plc against accounts of Imperial Brands PLC and some of its subsidiary companies. At 30 September 2019, the amount drawn under this cross guarantee was £nil (2018: £22 million). Together with other Group undertakings, the Company guarantees various borrowings and liabilities of other subsidiary companies under this arrangement with HSBC Bank plc.

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

At 30 September 2019, the contingent liability totalled £686 million (2018: £622 million).

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

19. Number of employees

The average number of employees during the year was 10 (2018: nil).

20. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2019 was Imperial Brands PLC, a company incorporated in Great Britain and registered in England and Wales. The smallest and largest group in which the results of the Company are consolidated is that headed by Imperial Brands PLC, whose consolidated financial statements may be obtained from The Company Secretary, Imperial Brands PLC, 121 Winterstoke Road, Bristol, BS3 2LL and are also available in the investors section of the Company website at www.imperialbrandspc.com.

The immediate parent undertaking of the Company at 30 September 2019 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.