

Company Number: 03214426

**IMPERIAL BRANDS FINANCE PLC
Interim Financial Statements 2016**

INTERIM MANAGEMENT REPORT

For the six months ended 31 March 2016

The Directors present their Interim Management Report together with the unaudited Interim Financial Statements of Imperial Brands Finance PLC ("the Company") for the six months ended 31 March 2016.

Business review and performance

On 19 February 2016 the Company changed its name from Imperial Tobacco Finance PLC to Imperial Brands Finance PLC.

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

The Company has previously been entitled to an exemption from preparing Interim Financial Statements, however, following a change in the Disclosure and Transparency Rules issued by the Financial Conduct Authority in January 2015 this exemption is no longer available.

The year ending 30 September 2016 will be the first year in which the Company presents its Financial Statements under the new Financial Reporting standard applicable in the UK and Republic of Ireland, with the Company adopting FRS 100 "Application of Financial Reporting Requirements" and FRS 101 "Reduced Disclosure Framework" on 1 October 2015.

These Interim Financial Statements are therefore prepared in accordance with FRS 104 "Interim Financial Reporting". Comparative figures for the six months ended 31 March 2015 and the year ended 30 September 2015 have been restated in accordance with the new standards. For further information on the adoption of FRS 100, FRS 101 and FRS 104, see note 9.

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 six months ended 31 March 2016 was £149 million (2015: profit £840 million). Total shareholders' funds as at 31 March 2016 were £2,773 million (2015: £7,326 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the six months ended 31 March 2016 amount to £5,500 million (2015: £nil).

Principal risks and uncertainties

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. 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 principal risks and uncertainties of the Group, which include those of the Company, are discussed in the principal risks and uncertainties section of the Group's Annual Report and Accounts for the year ended 30 September 2015, which does not form part of this report, but is available at www.imperialbrandsplc.com.

The principal risks and uncertainties of the Group, which include those of the Company, remain unchanged from those reported at 30 September 2015. The Directors anticipate that these will remain unchanged for the remaining six months of the financial year.

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.

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 these Interim Financial Statements.

Directors' responsibility statement

The Board of Directors comprising J M Jones, N J Keveth, D I Resnekov and O R Tant, confirms that:

- the condensed Interim Financial Statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by Rule 4.2.4 of the Disclosure Transparency Rules of the United Kingdom's Financial Conduct Authority ("the DTRs"); and
- the Interim Management Report includes a fair review of the information required by Rule 4.2.7 of the DTRs, namely an indication of important events that have occurred during the six months ended 31 March 2016 and their impact on the condensed set of Interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the year.

By order of the Board

J M J Jones
Director

D I Resnekov
Director

FINANCIAL STATEMENTS

For the six months ended 31 March 2016

Income Statement

| (In £ million) | Notes | Unaudited 6 months ended 31 March 2016 | Unaudited 6 months ended 31 March 2015 | Audited Year ended 30 September 2015 |
|-------------------------------|-------|--|--|--|
| Other operating income | | - | - | 1 |
| Administrative expenses | | - | - | (2) |
| Operating loss | | - | - | (1) |
| Investment income | 2 | 2,131 | 2,820 | 3,666 |
| Finance costs | 3 | (1,981) | (1,980) | (2,026) |
| Profit before taxation | | 150 | 840 | 1,639 |
| Taxation | 4 | (1) | - | (1) |
| Profit for the period | | 149 | 840 | 1,638 |

All activities derive from continuing operations.

The Company has no recognised income or costs other than those included above and, therefore, no separate Statement of Comprehensive Income has been presented.

There are no material differences between the profit before taxation and the profit for the six months ended 31 March 2016 stated above and their historical cost equivalents.

Balance Sheet

| (£ million) | Notes | Unaudited 31 March 2016 | Unaudited 31 March 2015 | Audited 30 September 2015 |
|----------------------------------|-------|----------------------------|----------------------------|---------------------------------|
| Non-current assets | | | | |
| Derivative financial instruments | 7 | 905 | 1,059 | 901 |
| Current assets | | | | |
| Trade and other receivables | | 32,688 | 35,558 | 34,445 |
| Deferred tax assets | | 1 | 1 | 1 |
| Cash and cash equivalents | | 49 | 1,430 | 2,707 |
| Derivative financial instruments | 7 | 1,440 | 275 | 74 |
| | | 34,178 | 37,264 | 37,227 |
| Total assets | | 35,083 | 38,323 | 38,128 |
| Current liabilities | | | | |
| Borrowings | | (2,510) | (2,114) | (1,528) |
| Derivative financial instruments | 7 | (178) | (1,304) | (25) |
| Trade and other payables | | (16,782) | (19,054) | (15,466) |
| | | (19,470) | (22,472) | (17,019) |
| Non-current liabilities | | | | |
| Borrowings | | (11,716) | (7,751) | (12,250) |
| Derivative financial instruments | 7 | (1,124) | (774) | (735) |
| | | (12,840) | (8,525) | (12,985) |
| Total liabilities | | (32,310) | (30,997) | (30,004) |
| Net assets | | 2,773 | 7,326 | 8,124 |
| Equity | | | | |
| Share capital | | 2,100 | 2,100 | 2,100 |
| Retained earnings | | 673 | 5,226 | 6,024 |
| Total equity | | 2,773 | 7,326 | 8,124 |

Statement of Changes in Equity

Unaudited

| £ million | Share capital | Retained earnings | Total equity |
|-----------------------------------|---------------|-------------------|--------------|
| At 1 October 2015 | 2,100 | 6,024 | 8,124 |
| Profit for the period | - | 149 | 149 |
| Total comprehensive income | - | 149 | 149 |
| Dividends paid | - | (5,500) | (5,500) |
| At 31 March 2016 | 2,100 | 673 | 2,773 |

| | Unaudited Share capital | Retained earnings | Total equity |
|-----------------------------------|----------------------------|-------------------|--------------|
| At 1 October 2014 | 2,100 | 4,386 | 6,486 |
| Profit for the period | - | 840 | 840 |
| Total comprehensive income | - | 840 | 840 |
| Dividends paid | - | - | - |
| At 31 March 2015 | 2,100 | 5,226 | 7,326 |

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 March 2016

1. Accounting Policies

These Interim Financial Statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the UK and Republic of Ireland.

On 19 February 2016 the Company changed its name from Imperial Tobacco Finance PLC to Imperial Brands Finance PLC.

Basis of Preparation

The Interim Financial Statements comprise the unaudited results for the six months ended 31 March 2016 and 31 March 2015, together with the audited results for the year ended 30 September 2015.

The information shown for the year ended 30 September 2015 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006, and is an abridged version of the Company's Financial Statements for that year. The Auditors' Report on those Financial Statements was unqualified and did not contain any statements under section 498 of the Companies Act 2006. The Financial Statements for the year ended 30 September 2015 were approved by the Board of Directors on 9 December 2015 and filed with the Registrar of Companies.

This condensed set of Interim Financial Statements for the six months ended 31 March 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and FRS 104 'Interim Financial Reporting' ("FRS 104") as adopted by the Financial Reporting Council ("FRC") using the recognition and measurement requirements of FRS 101. The condensed set of Interim Financial Statements for the six months ended 31 March 2016 should be read in conjunction with the Annual Report and Financial Statements for the year ended 30 September 2015 which have been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP").

The basis of accounting under FRS 101 is materially the same as under previous UK GAAP, therefore the Company's principal accounting policies used in preparing this information are as stated in the Annual Report and Financial Statements for the year ended 30 September 2015. The Company's Annual Report and Financial Statements for the year ended 30 September 2015 are available from the Registrar of Companies.

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC and is included in the consolidated Financial Statements of Imperial Brands PLC. Consequently, the Company has taken advantage of the exemption conferred by FRS 101 paragraph 8(h) and not presented a cash flow statement.

2. Investment income

| (In £ million) | Unaudited 6 months ended 31 March 2016 | Unaudited 6 months ended 31 March 2015 | Audited Year ended 30 September 2015 |
|---|---|--|--|
| Interest receivable from Group undertakings | 644 | 1,078 | 2,173 |
| Interest on bank deposits | 1 | 1 | 1 |
| Exchange gains on monetary assets and liabilities | - | 1,042 | 801 |
| Fair value gains on external derivative financial instruments | 216 | 699 | 691 |
| Fair value gains on intragroup derivative financial instruments | 1,270 | - | - |
| | 2,131 | 2,820 | 3,666 |

3. Finance costs

| (In £ million) | Unaudited 6 months ended 31 March 2016 | Unaudited 6 months ended 31 March 2015 | Audited Year ended 30 September 2015 |
|--|---|--|--|
| Interest payable to Group undertakings | 42 | 130 | 209 |
| Interest on bank loans and other loans | 259 | 216 | 440 |
| Exchange losses on monetary assets and liabilities | 1,251 | - | - |
| Fair value losses on external derivative financial instruments | 429 | 561 | 578 |
| Fair value losses on intragroup derivative financial instruments | - | 1,073 | 799 |
| | 1,981 | 1,980 | 2,026 |

4. Taxation

Analysis of charge in the period:

| (In £ million) | Unaudited 6 months ended 31 March 2016 | Unaudited 6 months ended 31 March 2015 | Audited Year ended 30 September 2015 |
|--|---|---|--|
| UK Corporation tax on profits for the period | - | - | - |
| Withholding tax | 1 | - | 1 |
| Current tax | 1 | - | 1 |
| Origination and reversal of timing differences | - | - | - |
| Effect of change in future tax rate | - | - | - |
| Deferred tax | - | - | - |
| Total taxation | 1 | - | 1 |

5. Dividends

Dividend per share in respect of financial year

| (In Pence) | Unaudited 2016 | Audited 2015 | Audited 2014 |
|------------|---------------------------|-----------------|-----------------|
| Final | - | 262 | - |
| | - | 262 | - |

Amounts recognised as distributions to ordinary equity holders in the period

| (In £ million) | Unaudited 6 months ended 31 March 2016 | Unaudited 6 months ended 31 March 2015 | Audited Year ended 30 September 2015 |
|---|---|--|---|
| Final dividend paid in the period in respect of the previous financial year | 5,500 | - | - |
| | 5,500 | - | - |

6. Fair value of financial assets and liabilities

There are no material differences between the carrying value of the Company's financial assets and liabilities and their estimated fair value, with the exception of bonds. The fair value of bonds is estimated to be £12,338 million (2015 6 months: £10,149 million) and has been determined by reference to market prices at the balance sheet date. The carrying value of bonds is £11,134 million (2015 6 months: £8,851 million).

7. Derivative financial instruments

| (In £ million) | Unaudited 6 months ended 31 March 2016 | Unaudited 6 months ended 31 March 2015 | Audited Year ended 30 September 2015 |
|--|---|--|---|
| Assets | | | |
| Interest rate swaps | 885 | 794 | 721 |
| Forward foreign currency contracts | 6 | 18 | 13 |
| Intragroup forward foreign currency contracts | 1,400 | 184 | - |
| Cross currency swaps | 54 | 338 | 241 |
| Total carrying value of derivative financial assets | 2,345 | 1,334 | 975 |
| Liabilities | | | |
| Interest rate swaps | (1,088) | (890) | (773) |
| Forward foreign currency contracts | (11) | (13) | (5) |
| Intragroup forward foreign currency contracts | (75) | (1,252) | - |
| Cross-currency swaps | (174) | (7) | (23) |
| Carrying value of derivative financial liabilities before collateral | (1,348) | (2,162) | (801) |
| Collateral | 46 | 84 | 41 |
| Total carrying value of derivative financial liabilities | (1,302) | (2,078) | (760) |
| Total carrying value of derivative financial instruments | 1,043 | (744) | 215 |
| Analysed as: | | | |
| Interest rate swaps | (203) | (96) | (52) |
| Forward foreign currency contracts | (5) | 5 | 8 |
| Intragroup forward foreign currency contracts | 1,325 | (1,068) | - |
| Cross currency swaps | (120) | 331 | 218 |
| Collateral | 46 | 84 | 41 |
| Total carrying value of derivative financial instruments | 1,043 | (744) | 215 |

The Company's derivative financial instruments are held at fair value. Fair values are determined based on observable market data (Level 2 classification hierarchy) and are consistent with those applied during the year ended 30 September 2015.

8. Related party transactions

The Company has taken advantage of the Group dispensation permitted under FRS 101 for 100% owned Group subsidiaries, not to disclose intragroup transactions during the period.

9. First time application of FRS 100, FRS 101 and FRS 104

This is the first reporting period that the Company has presented its Financial Statements under FRS 101. The last Financial Statements prepared under UK GAAP were for the year ended 30 September 2015. The Company's date of transition was 1 October 2014 and all comparative information in these Financial Statements has been restated to reflect the Company's adoption of FRS 101.

IFRS 1 requires that FRS 101 is applied retrospectively to establish the Company's Balance Sheet at the date of transition, 1 October 2014.

The change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with applicable accounting standards. Consequently, there are no transition adjustments which affect the Income Statement or Statement of Changes in Equity between previous UK GAAP and FRS 101, and therefore no reconciliation statements are presented in these Interim Financial Statements.