Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC
Annual Report and Financial Statements 2016

STRATEGIC REPORT

For the year ended 30 September 2016

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 2016.

Principal activity

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 year ended 30 September 2016 is the first year in which the Company presents its financial statements under new financial reporting standards applicable in the UK and Republic of Ireland, with the Company adopting Financial Reporting Standard 100 "Application of Financial Reporting Requirements" ("FRS100") and Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") on 1 October 2015. Comparative figures for the year ended 30 September 2015 have been restated in accordance with the new standards. For further information on adoption of FRS 100 and FRS 101 see note 21.

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC, which is the ultimate parent company within the Group, and the Directors of the Group manage operations at a Group level. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the treasury operations of the Group, which includes the Company, are discussed in note 19 of the Group's Annual Report which does not form part of this report, but is available at www.imperialbrandsplc.com.

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 principally exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk.

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

In the normal course of business, the Company is exposed to market, credit and liquidity risk. These are discussed in note 14 to the financial statements. A summary of the Group's policies in respect of foreign exchange, interest, credit and liquidity risks, as required by FRS 101, is also included in note 14.

Review of the business

The performance of the Company is dependent on external borrowings and intragroup loans payable and receivable and interest thereon, together with fair value gains and losses on derivative financial instruments providing commercial hedges.

The profit for the financial year was £142 million (2015: £1,638 million).

Total equity as at 30 September 2016 was £2,766 million (2015: £8,124 million).

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

On behalf of the Board

D I Resnekov

Director

8 December 2016

REPORT OF THE DIRECTORS

For the year ended 30 September 2016

The Directors submit their report together with the Strategic Report and the audited financial statements of the Company for the year ended 30 September 2016.

Principal activity and financial risk management

As set out in the Strategic Report, the principal activity of the Company is to provide treasury services to the Group. The principal risks and uncertainties facing the Company are outlined in the Strategic Report with the management of those risks discussed in note 14 to the financial statements.

Financial results and dividends

The financial results of the Company for the year are outlined in the Strategic Report.

The Directors recommend the payment of a final dividend for the year of £600 million (2015: £5,500 million).

Corporate governance

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC and the Directors of the Group manage corporate governance at a Group level. The Group's statement on corporate governance can be found in the corporate governance report of the Group's Annual Report, which does not form part of this report, but is available at www.imperialbrandsplc.com. A description of the internal control framework is provided in the Strategic Report with consideration given to the risk management systems of the Company included in note 14 to the financial statements. For this reason, the Company's Directors consider further detail of corporate governance in this report not necessary.

Insurance

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

Future outlook

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

Board of Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are:

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

There were no changes of Directors in the year.

Going concern

The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future and accordingly they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and

● prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent Auditors and disclosure of information to Auditors

Each of the Directors in office as of the date of approval of this report confirms that:

● so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and

● they have each taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

In the absence of a notice proposing that the appointment of PricewaterhouseCoopers LLP as independent auditors to the Company should be brought to an end, the Auditors will be deemed to be re-appointed for the next financial year.

On behalf of the Board

D I Resnekov

Director

8 December 2016

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

Report on the financial statements

Our opinion

In our opinion, Imperial Brands Finance Plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 30 September 2016;
- the Income Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Other matters on which we are required to report by exception

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

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

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

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

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
9 December 2016

Income Statement

(In £ million)	Notes	2016	2015
Administrative expenses		**(4)**	(2)
Other operating income		**1**	1
Operating loss	4	**(3)**	(1)
Investment income	5	**4,688**	3,666
Finance costs	6	**(4,566)**	(2,026)
Profit before taxation		**119**	1,639
Taxation	8	**23**	(1)
Profit for the financial year		**142**	1,638

All activities derive from continuing operations.

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

Balance Sheet

(In £ million)	Notes	2016	2015
Non-current assets			
Derivative financial instruments	15	**1,063**	901
Current assets			
Trade and other receivables	10	**34,790**	34,445
Current tax assets	8	**50**	-
Deferred tax assets	11	**25**	1
Cash and cash equivalents		**784**	2,707
Derivative financial instruments	15	**46**	74
		35,695	37,227
Total assets		**36,758**	38,128
Current liabilities			
Borrowings	13	**(1,846)**	(1,528)
Derivative financial instruments	15	**(118)**	(25)
Trade and other payables	12	**(17,988)**	(15,466)
		(19,952)	(17,019)
Non-current liabilities			
Borrowings	13	**(12,394)**	(12,250)
Derivative financial instruments	15	**(1,646)**	(735)
		(14,040)	(12,985)
Total liabilities		**(33,992)**	(30,004)
Net assets		**2,766**	8,124
Equity			
Share capital		**2,100**	2,100
Retained earnings		**666**	6,024
Total equity		**2,766**	8,124

The financial statements were approved by the Board of Directors on 8 December 2016 and signed on its behalf by:

D I Resnekov ________________
Director

J M Jones _________________
Director

Company Number: 03214426

Statement of Changes in Equity

(In £ million)	**Share capital**	**Retained earnings**	**Total equity**
At 1 October 2015	**2,100**	**6,024**	**8,124**
Profit for the period	**-**	**142**	**-**
Total comprehensive income	**-**	**142**	**142**
Dividends paid	**-**	**(5,500)**	**(5,500)**
At 31 September 2016	**2,100**	**666**	**2,766**

	Share capital	Retained earnings	Total equity
At 1 October 2014	2,100	4,386	6,486
Profit for the period	-	1,638	1,638
Total comprehensive income	-	1,638	1,638
At 31 September 2015	2,100	6,024	8,124

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

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

The financial statements of the Company for the year ended 30 September 2016 were authorised for issue by the Board of Directors on 8 December 2016, and the balance sheet was signed on the Board's behalf by J M Jones and D I Resnekov.

These financial statements have been prepared on the going concern basis and in accordance with the Companies Act 2006, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

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

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

2. Accounting policies

Basis of preparation of financial statements

The Company has undergone transition from reporting under UK GAAP to FRS 101. The financial statements have therefore been prepared in accordance with FRS 101 as issued by the Financial Reporting Council.

The transition has had no impact on the financial result in 2015, nor on the opening equity at 1 October 2014 or 1 October 2015.

On transition the Company has applied IFRS 1 paragraphs 6-33 as adopted by the EU, as required under FRS 100 paragraph 11(b).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, presentation of comparative information in respect of certain assets, presentation of a cashflow statement, standards not yet effective and related party transactions.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of 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 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

Other than the adoption of FRS 101, there are no new accounting standards, or amendments to accounting standards, or IFRS Interpretation Committee ("IFRS IC") interpretations that are effective for the year ended 30 September 2016, that have had a material impact on the Company. The principal accounting policies have been applied consistently, other than where new policies have been adopted.

Interest

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

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

Foreign currencies

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

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

2. Accounting policies (continued)

Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in the shareholders' funds, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Deferred tax is 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

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

Non-derivative financial assets are classified as loans and receivables. Receivables are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method, subject to reduction for allowances for estimated irrecoverable amounts. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of those receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, and is recognised in the profit and loss account. For interest-bearing assets, the carrying value includes accrued interest receivable.

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method. For borrowings, the carrying value includes accrued interest payable, as well as unamortised transaction costs.

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments.

The Company transacts both intragroup and external derivative financial instruments to manage the Company's and the Group's underlying exposure to foreign exchange and interest rate risks. The Company does not transact derivative financial instruments for trading purposes. Derivative financial instruments are initially recorded at fair value plus any directly attributable transaction costs. Derivative financial assets and liabilities are included in the balance sheet at fair value, and include accrued interest receivable and payable where relevant. The Company has decided (as permitted under FRS 101) not to hedge account for its derivative financial instruments and so changes in fair values are recognised in the income statement in the period in which they arise.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association ("ISDA") agreements in respect of certain derivatives are net settled and are, therefore, netted off the carrying value of those derivatives in the balance sheet.

3. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Derivatives

The fair value of derivatives is determined based on quoted market prices, where available, or on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates, estimates of future cash flows, exchange rates and interest yield curves.

The categorisation within the fair value hierarchy (i.e. level 1, 2 or 3) of the inputs to the fair value measurements of derivatives carried at fair value is set out in note 15.

4. Operating loss

The Company paid fees in respect of audit services of £36,000 (2015: £36,000).

5. Investment income

(In £ million)	**2016**	2015
Interest receivable from Group undertakings	**1,045**	2,173
Interest on bank deposits	**1**	1
Exchange gains on monetary assets and liabilities	**-**	801
Fair value gains on external derivative financial instruments	**484**	691
Fair value gains on intragroup derivative financial instruments	**3,158**	-
	4,688	3,666

6. Finance costs

(In £ million)	**2016**	2015
Interest payable to Group undertakings	**77**	209
Interest on bank loans and other loans	**512**	440
Exchange losses on monetary assets and liabilities	**3,152**	-
Fair value losses on external derivative financial instruments	**825**	578
Fair value losses on intragroup derivative financial instruments	**-**	799
	4,566	2,026

7. Directors' emoluments and pensions

The Company has no employees other than the Directors, who did not receive any emoluments from the Company in respect of the year under review (2015: £nil).

The emoluments of the Directors are paid by Imperial Tobacco Limited ("ITL") a wholly owned indirect subsidiary of Imperial Brands PLC, the ultimate parent company. The Directors' services to the Company and to a number of fellow subsidiaries below the ultimate parent company are of a non-executive nature and their emoluments and retirement benefits are deemed to be wholly attributable to their services to ITL and the ultimate parent company. Accordingly, no emoluments or retirement benefits are disclosed in these financial statements.

8. Taxation

Analysis of charge in the year:

(In £ million)	**2016**	2015
Withholding tax	**1**	1
Current tax	**1**	1
Origination and reversal of timing differences	**(25)**	-
Effect of change in future tax rate	**1**	-
Deferred tax	**(24)**	-
Total taxation (credit)/charge	**(23)**	1

Factors affecting the tax charge for the year

Tax for the year is lower (2015: lower) than the standard rate of corporation tax in the UK for the year of 20.0 per cent (2015: 20.5 per cent). The differences are explained as follows:

(In £ million)	**2016**	2015
Profit before taxation	**119**	1,639
Profit before taxation multiplied by standard rate of corporation tax in the UK of 20.0% (2015: 20.5%)	**24**	336
Effects of:		
Group relief surrendered/(claimed)	**86**	(154)
Remeasurement of deferred tax – change in UK tax rate	**1**	-
UK-UK transfer pricing adjustment	**(192)**	(181)
Foreign tax paid	**1**	-
Adjustments to tax charge in respect of prior years	**57**	-
Total taxation	**(23)**	1

The corporation tax charge for the year has been adjusted by £86 million (2015: £154 million) due to the surrender of group relief for nil consideration to (2015: nil consideration from) other Imperial Brands PLC group subsidiaries.

Movement on current tax account

(In £ million)	**2016**	2015
At 1 October	**-**	-
Charged to the income statement – prior year adjustment	**(57)**	-
Credited to the income statement – current year	**56**	-
Cash paid	**51**	-
At 30 September	**50**	-

Factors that may affect future tax charges

There is no guarantee that the surrender of group tax losses by other Group companies will occur in the future.

The current year tax rate of 20.0 per cent arises from profits being taxed at 20.0 per cent until 30 September 2016.

The rate of corporation tax was reduced by 1.0 per cent from 21.0 per cent to 20.0 per cent from 1 April 2015. Further reductions to 19.0 per cent on 1 April 2017 and 17.0 per cent on 1 April 2020 were enacted as at the balance sheet date.

9. Dividends

Dividend per share in respect of financial year

(In pence)	**2016**	2015
Final	**29**	262
	29	262

Amounts recognised as distributions to ordinary equity holders in the period

(In £ million)	**2016**	2015
Final dividend paid in the year in respect of the previous financial year	**5,500**	-
	5,500	-

10. Trade and other receivables

(In £ million)	**2016**	2015
Amounts owed by Group undertakings	**34,788**	34,433
Other receivables and prepayments	**2**	12
	34,790	34,445

Amounts owed by Group undertakings include £192 million (2015: £95 million) falling due after more than one year which is unsecured, interest bearing and has fixed repayment dates during the financial year ending 30 September 2019.

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

11. Deferred tax assets

(In £ million)	**2016**	2015
As at 1 October	**1**	1
Current year movements	**24**	-
As at 30 September	**25**	**1**

The amount regarding deferred tax consists of the following:

(In £ million)	**2016**	2015	**2016**	2015
Deferred tax assets due within 12 months	**25**	1	**25**	1
	25	1	**25**	1

12. Trade and other payables

(In £ million)	2016	2015
Amounts owed to Group undertakings	**17,988**	15,466

Amounts owed to Group undertakings are unsecured, both interest bearing and non-interest bearing and repayable on demand.

Amounts owed to Group undertakings are not included in the borrowings analysis in note 13 of the financial statements which only includes borrowings with external counterparties.

13. Borrowings

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

(In £ million)	2016	2015
Current borrowings		
Bank loans and overdrafts	**397**	4
Capital market issuance:		
European commercial paper	**978**	359
£450m 5.5% notes due November 2016	**471**	
€1,500m 8.375% notes due February 2016	**-**	1,165
Total current borrowings	**1,846**	1,528
Non-current borrowings		
Bank loans	**925**	1,479
Capital market issuance:		
£450m 5.5% notes due November 2016	**-**	471
$1,250m 2.05% notes due February 2016	**966**	825
€850m 4.5% notes due July 2018	**739**	634
$500m 2.05% notes due July 2018	**387**	330
£200m 6.25% notes due December 2018	**210**	210
£500m 7.75% notes due June 2019	**510**	510
€750m 5.0% notes due December 2019	**672**	576
$1,250m 2.95% notes due July 2020	**968**	826
€1,000m 2.25% notes due February 2021	**869**	745
£1,000m 9.0% notes due February 2022	**1,055**	1,054
$1,250m 3.75% notes due July 2022	**968**	827
$1,000m 3.5% notes due February 2023	**773**	660
£600m 8.125% notes due March 2024	**626**	626
$1,500m 4.25% notes due July 2025	**1,155**	986
€650m 3.375% notes due February 2026	**569**	488
£500m 5.5% notes due September 2026	**499**	499
£500m 4.875% notes due June 2032	**503**	504
Total non-current borrowings	**12,394**	12,250
Total borrowings	**14,240**	13,778
Analysed as:		
Capital market issuance	**12,918**	12,295
Bank loans and overdrafts	**1,322**	1,483

Current and non-current borrowings include interest payable of £20 million (2015: £57 million) and £199 million (2015: £208 million) respectively as at the balance sheet date.

Interest payable on capital market issuances are at fixed rates of interest and interest payable on bank loans and overdrafts are at floating rates of interest, including non-current bank loans which comprise committed USD term loan facilities due to mature between one and two years.

On 17 February 2016 €1,500 million 8.375 per cent notes were repaid. On 29 September 2016 $300 million of bank term loans were repaid and cancelled.

All borrowings are unsecured and the Company has not defaulted on any during the year (2015: no defaults).

Non-current financial liabilities

The maturity profile of non-current liabilities outstanding as at 30 September 2016 (including the impact of derivative financial instruments detailed in note 15) is as follows:

	2016			2015		
(In £ million)	**Borrowings and overdrafts**	**Net derivative financial (assets) / liabilities**	**Total**	Borrowings and overdrafts	Net derivative financial (assets) / liabilities	Total
Amounts expiring:						
Between one and two years	**3,017**	**(39)**	**2,978**	1,457	67	1,524
Between two and five years	**3,229**	**9**	**3,238**	4,405	(127)	4,278
In five years or more	**6,148**	**613**	**6,761**	6,388	(106)	6,282
	12,394	**583**	**12,977**	12,250	(166)	12,084

Fair value of borrowings

The fair value of borrowings as at 30 September 2016 is estimated to be £15,741 million (2015: £14,584 million). £14,419 million (2015: £13,101 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.

	2016		2015	
(In £ million)	**Balance sheet amount**	**Fair value**	Balance sheet amount	Fair value
GBP	**3,874**	**4,835**	3,874	4,518
EUR	**3,827**	**4,122**	3,967	4,122
USD	**5,217**	**5,462**	4,454	4,461
	12,918	**14,419**	12,295	13,101

Undrawn borrowing facilities

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

(In £ million)	**2016**	2015
Amounts expiring:		
In less than one year	**301**	-
Between one and two years	**-**	739
Between two and five years	**2,941**	2,594
	3,242	3,333

During the year, the €1 billion facility maturing in July 2017 was reduced by €650 million, and the €2,835 million and £500 million facilities were extended by twelve months, both now maturing in July 2021.

14. Financial risk management

Overview

In the normal course of business, the Company is exposed to financial 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 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 exposures to funding and liquidity, interest rate, foreign exchange and counterparty credit risk. The Group operates on a global basis and manages its capital to ensure that subsidiaries are able to operate as going concerns and to optimise returns to shareholders through an appropriate balance of debt and equity.

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

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

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

(a) Market risk

Price risk

The Company is not exposed to equity securities price risk or financial instrument price risk.

Foreign exchange risk

The Company is exposed to movements in foreign exchange rates due to the translation of cash, borrowings, derivatives and intra-group loans held in non-functional currencies. The Company's financial results are principally exposed to fluctuations in euro and US dollar exchange rates.

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

Translation risk

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

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

Foreign exchange sensitivity analysis

The Company's sensitivity to foreign exchange rates attributable to the translation of monetary items held by the Company in currencies other than its functional currency, is illustrated on an indicative basis below. The sensitivity analysis has been prepared on the basis that the proportion of cash, borrowings, derivatives and intra-group loans held in non-functional currencies remains constant.

The Company manages its sensitivity to foreign exchange rates through the use of intra-group derivative contracts to minimise foreign exchange gains or losses on the translation of financial instruments. The sensitivity analysis does not reflect any change to non-finance costs that may result from changing exchange rates and ignores any taxation implications and offsetting effects of movements in the fair value of derivative financial instruments.

	2016	2015
(In £ million)	**Increase in income**	Increase in income
Income Statement impact on non-functional currency foreign exchange exposures:		
10% appreciation of euro (2015: 10%)	**1,358**	1,147
10% appreciation of US dollar (2015: 10%)	**603**	520

An equivalent depreciation in the above currencies would cause a decrease in income of £1,660 million and £737 million for euro and US dollar exchange rates respectively (2015: £1,402 million and £635 million).

There is no direct net impact on equity (2015: £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, US dollar and sterling 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, principally interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee framework.

As at 30 September 2016, after adjusting for the effect of derivative financial instruments detailed in note 15, approximately 65 per cent (2015: 48 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, US dollar and sterling 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 2016, 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 (2015: £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)	**2016**	2015
Income Statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2015: 1%)	**82**	69
+/- 1% increase in US dollar interest rates (2015: 1%)	**57**	54
+/- 1% increase in sterling interest rates (2015: 1%)	**4**	16

(b) Credit risk

The Company is primarily exposed to credit risk arising from cash deposits and amounts due from external financial counterparties on financial instruments held with them. The maximum aggregate credit risk to these sources was considered to be £1,893 million at 30 September 2016 (2015: £3,682 million).

Financial instruments

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

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2016. 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.

	2016		2015	
	S&P credit rating	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**AA-**	**150**	AA-	153
2nd highest	**AA-**	**125**	AA-	131
3rd highest	**A**	**87**	AA-	114
4th highest	**A+**	**85**	A	114
5th highest	**BBB+**	**52**	A+	112

(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 designed to ensure that the Company has sufficient available funds to meet the forecast requirements of the Group over the short to medium term. To prevent over-reliance on individual sources of liquidity, funding is provided across a range of instruments including debt capital market issuance, bank term loans, bank revolving credit facilities and European commercial paper.

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiary companies to ensure their liquidity needs are met. Subsidiary companies are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2016, the Company held liquid assets of £784 million (2015: £2,707 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 2016. 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 2016

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

At 30 September 2015

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Non-derivative financial liabilities						
Bank loans	1,483	1,515	13	1,000	502	-
Capital market issuance	12,295	15,525	2,002	1,022	5,061	7,440
Amounts owed to group undertakings	15,466	15,466	15,466	-	-	-
	29,244	32,506	17,481	2,022	5,563	7,440

Amounts owed to the Company by Group undertakings of £34,788 million (2015: £34,433 million) are excluded from the above tables, as disclosure of contractual cashflows is only required for liabilities.

Capital management

The management of the Company's capital structure forms part of the Group's capital risk management, details of which can be found in note 19 of the Group's Annual Report which does not form part of this report, but is available at www.imperialbrandsplc.com.

Fair value estimation and hierarchy

All financial assets and liabilities are carried on the balance sheet at amortised cost, other than derivative financial instruments which are carried at fair value. Derivative financial instruments are valued using techniques based significantly on observable market data such as yield curves and foreign exchange rates as at the balance sheet date (Level 2 classification hierarchy per FRS 101) as detailed in note 15. There were no changes to the valuation methods or transfers between hierarchies during the year. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered approximate to their carrying amount as outlined in note 13.

Netting arrangements of financial instruments

The following tables set out the Company's financial assets and financial liabilities that are subject to netting and set-off arrangements. Financial assets and liabilities that are subject to set-off arrangements and disclosed on a net basis in the Company's balance sheet primarily relate to collateral in respect of derivative financial instruments under ISDA Credit Support Annexes. Amounts which do not meet the criteria for offsetting on the balance sheet but could be settled net in certain circumstances principally relate to derivative transactions executed under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

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

(In £ million)	2015 Gross financial assets / liabilities	Gross financial assets / liabilities set off	Net financial assets /liabilities per balance sheet	Related amounts not set off in the balance sheet	Net
Assets					
Derivative financial instruments	1,016	(41)	975	(607)	368
	1,016	(41)	975	(607)	368
Liabilities					
Derivative financial instruments	(801)	41	(760)	607	(153)
	(801)	41	(760)	607	(153)

15. Derivative financial instruments

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

Current derivative financial instruments	**2016**		2015	
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**32**	**(60)**	55	(20)
Foreign exchange contracts	**9**	**(11)**	13	(5)
Cross currency swaps	**5**	**(121)**	6	-
Collateral[1]	**-**	**74**	-	-
Total current derivatives	**46**	**(118)**	74	(25)
Non-current derivative financial instruments				
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**1,063**	**(1,279)**	666	(753)
Cross currency swaps	**-**	**(427)**	235	(23)
Collateral[1]	**-**	**60**	-	41
Total non-current derivatives	**1,063**	**(1,646)**	901	(735)
Total carrying value of derivative financial instruments	**1,109**	**(1,764)**	975	(760)
Net (liability)/asset		**(655)**		215
Analysed as:				
Interest rate swaps	**1,095**	**(1,339)**	721	(773)
Foreign exchange contracts	**9**	**(11)**	13	(5)
Cross currency swaps	**5**	**(548)**	241	(23)
Collateral[1]	**-**	**134**	-	41
Total carrying value of derivative financial instruments	**1,109**	**(1,764)**	975	(760)
Net (liability)/asset		**(655)**		215

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

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 2016. 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 2016. 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 2016

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	**(205)**	**(374)**	**(23)**	**(6)**	**(136)**	**(209)**
Gross settled derivatives	**(450)**					
Receipts		**5,719**	**2,038**	**24**	**835**	**2,822**
Payments		**(5,906)**	**(1,990)**	**(107)**	**(975)**	**(2,834)**
	(655)	**(561)**	**25**	**(89)**	**(276)**	**(221)**

At 30 September 2015

(In £ million)	Balance sheet amount	Contractual cash flows Total	< 1 year	Between 1 and 2 years	Between 2 and 5 years	> 5 years
Net settled derivatives	(20)	(183)	18	(7)	(13)	(181)
Gross settled derivatives	235					
Receipts		4,660	921	528	752	2,459
Payments		(5,405)	(976)	(550)	(974)	(2,905)
	215	(928)	(37)	(29)	(235)	(627)

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 cash flow forecasts as appropriate. The Company does not apply cash flow or fair value hedge accounting as permitted under FRS 101, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs.

Interest rate swaps

To manage interest rate risk on its borrowings, the Company issues debt in the market or markets that are most appropriate at the time of raising new finance with regard to currency, interest denomination and duration, and then uses interest rate swaps to re-base the debt into the appropriate proportions of fixed and floating interest rates where necessary. Interest rate swaps are also transacted to manage and re-profile the Company's interest rate risk over the short, medium and long term in accordance with the Treasury Committee framework. Fair value movements are recognised in net finance costs in the relevant reporting period.

As at 30 September 2016, the notional amount of interest rate swaps outstanding that were entered into to convert fixed rate borrowings into floating rates of interest at the time of raising new finance were £11,676 million equivalent (2015: £11,667 million equivalent) with a fair value of £1,093 million asset (2015: £721 million asset). The fixed interest rates vary from 2.0 per cent to 8.7 per cent (2015: 2.0 per cent to 8.7 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR.

As at 30 September 2016, the notional amount of interest rate swaps outstanding that were entered into to convert floating rate debt into fixed rates of interest to manage and re-profile the Company's interest rate risk were £12,462 million equivalent (2015: £10,692 million equivalent) with a fair value of £1,298 million liability (2015: £741 million liability). The fixed interest rates vary from 0.8 per cent to 5.2 per cent (2015: 0.8 per cent to 5.2 per cent), and the floating rates are EURIBOR, LIBOR and US LIBOR. This includes forward starting interest rate swaps with a total notional amount of £2,459 million equivalent (2015: £4,990 million equivalent) with tenors extending for 5 years, starting between May 2017 and May 2022.

Cross currency swaps

The Company enters into cross currency swaps to change the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in net finance costs in the relevant reporting period. As at 30 September 2016, the notional amount of cross currency swaps entered into to convert issued fixed rate debt into the desired currency at floating rates of interest was £650 million (2015: £650 million) and the fair value liability of these swaps was £56 million net liability (2015: £5 million net liability).

As at 30 September 2016, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £3,100 million (2015: £3,100 million) and the fair value of these swaps was £392 million net liability (2015: £232 million net asset).

Foreign exchange contracts

The Company enters into foreign exchange contracts to manage short term liquidity requirements in line with cash flow forecasts. As at 30 September 2016 the notional amount of these contracts was £1,531 million equivalent (2015: £867 million equivalent) and the fair value of these contracts was a net liability of £2 million (2015: £8 million net asset).

16. Share capital

(In £ million)	**2016**	2015
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2015: 2,100,000,000)	**2,100**	2,100

17. Related party transactions

The Company has taken advantage of the Group exemption under the terms of IAS 24 from disclosing related party transactions with entities that are part of the Group since the Company is a wholly owned indirect subsidiary of Imperial Brands PLC and is included in the consolidated financial statements of the Group, which are publicly available.

18. Guarantees

The Company is party to a cross guarantee of its bank accounts held at HSBC Bank plc against accounts of its ultimate parent, Imperial Brands PLC, and some of its subsidiary companies. At 30 September 2016, the amount drawn under this cross guarantee was £nil (2015: £nil). Together with other Group undertakings, the Company guarantees various borrowings and liabilities of other UK subsidiary companies under this arrangement with HSBC Bank plc.

At 30 September 2016, the contingent liability totalled £nil (2015: £nil).

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

19. Number of employees

The average number of employees during the year was nil (2015: nil).

20. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2016 was Imperial Brands PLC, a company incorporated in Great Britain and registered in England and Wales. The smallest and largest group in which the results of the Company are consolidated is that headed by Imperial Brands PLC, whose consolidated financial statements may be obtained from The Company Secretary, Imperial Brands PLC, 121 Winterstoke Road, Bristol, BS3 2LL.

The immediate parent undertaking of the Company at 30 September 2016 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

21. First time application of FRS 100 and FRS 101

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 financial statements.