Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC

Interim Financial Statements 2021

Imperial Brands Finance PLC

Interim Management Report

Company Number: 03214426

For the six months ended 31 March 2021

The Directors present their Interim Management Report together with the condensed unaudited Interim Financial Statements of Imperial Brands Finance PLC ("the Company") for the six months ended 31 March 2021.

Business review and performance

The principal activity of the Company is to provide treasury services to Imperial Brands PLC and its subsidiaries ("the Group"). There have been no changes in the composition of the Company in the interim period.

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 six months ended 31 March 2021 was £177 million (2020: profit £240 million). Total shareholders' funds as at 31 March 2021 were £2,435 million (2020: £2,648 million).

The directors do not recommend a dividend for the current period. There were no aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the six months ended 31 March 2021 (2020: £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 Company are discussed in note 13 of the Company's Annual Report and Accounts for the year ended 30 September 2020, which does not form part of this report, but is available at www.imperialbrandsplc.com. These risks and uncertainties remain materially unchanged as at 31 March 2021.

COVID-19

During the pandemic the impacts of COVID-19 have been well managed by the Imperial Brands Group to ensure continuity of operations, with new working practices having evolved and significant effort provided by our teams across the globe, along with those of our customers, suppliers, and other stakeholders. However, the wider socio-economic effects of COVID-19 could impact the commercial environment into the longer-term, and could result in the size of the legitimate nicotine market being negatively impacted by regulatory change, excise tax or increases in other product taxes, and affordability concerns resulting in consumer downtrading or increased consumption of illicit product. Additionally, the impacts on global supply chains, financial markets, and businesses in commercial distress are being actively considered and mitigating actions taken across the business. Given the unprecedented nature of the pandemic and the related variability of outcomes our ability to accurately predict and quantify these risks may be reduced in comparison to pre-pandemic periods.

The Directors recognise that the current environment brings uncertainty due to the COVID-19 pandemic; however, over the last year, the Group has effectively managed operations across the world, and has an established mechanism to operate efficiently despite the uncertainty, with little impact to date. Consumer sales have proved to be resilient, and it can be seen that governments are supportive of ongoing distribution. Consequently, we now do not perceive the impact of COVID-19 to present a significant risk to the maintenance of cash flows. This means that the Group continues to have the ability to pay down debt, maintain covenants, credit ratings, bank, bond, and investor confidence.

BREXIT

The UK formally exited from the European Union (EU) on 31 January 2020, and entered into a transition trading arrangement until 31 December 2020. On 30 December 2020 a trade deal was agreed between the UK and EU. The Company has considered the potential impacts of the trade deal and does not expect any material adverse consequences from the UK's exit from the EU.

LIBOR

In response to the planned cessation of LIBOR at the end of 2021, the Company is reviewing recently published ISDA Fallbacks Protocol. The Company is considering how it will proactively restructure to the new basis for its floating rate debt and derivative positions maturing after that date.

Imperial Brands Finance PLC

Outlook

The business activity is expected to continue at levels similar to the current level. The Company will continue to manage the overall liquidity and financial risk management requirements of the Group as they change over time. The Company will manage the Group's financing requirement in combination with other Group entities where it is beneficial to the Group as a whole.

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.

Changes in Directorate

On 30 April 2021 T R W Tildesley resigned as a director. On 18 May 2021 O R Tant resigned and on 19 May 2021 L J Paravicini was appointed as a director.

Directors' responsibility statement

The Board of Directors comprising J M Jones, L J Paravicini and M A Wall, 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 2021 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 Jones
Director
3 June 2021

M A Wall
Director
3 June 2021

Imperial Brands Finance PLC

Income Statement

For the six months ended 31 March 2021

(In £ million)	Notes	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Other operating income		**-**	-	1
Administrative expenses		**(2)**	-	(4)
Impairment losses		**(57)**	-	(294)
Operating loss		**(59)**	-	(297)
Investment income	*2*	**1,886**	1,037	1,554
Finance costs	*3*	**(1,595)**	(741)	(1,373)
Profit/(loss) before taxation		**232**	296	(116)
Tax on profit	*4*	**(55)**	(56)	(34)
Profit/(loss) for the period		**177**	240	(150)

All activities derive from continuing operations.

The Company has no other comprehensive income other than that included above and, therefore, no separate Statement of Comprehensive Income has been presented.

Imperial Brands Finance PLC

Balance sheet

at 31 March 2021

(In £ million)		Unaudited At 31 March 2021	Unaudited At 31 March 2020	Audited At 30 September 2020
Non-current assets				
Other receivables	*7*	**198**	281	109
Derivative financial instruments	*6*	**480**	816	784
		678	1,097	893
Current assets				
Other receivables	*7*	**32,307**	33,129	31,983
Current and deferred tax assets		**-**	1	-
Cash and cash equivalents		**170**	159	911
Derivative financial instruments	*6*	**104**	270	51
		32,581	33,559	32,945
Total assets		**33,259**	34,656	33,838
Current liabilities				
Borrowings		**(1,435)**	(3,371)	(1,381)
Derivative financial instruments	*6*	**(1,093)**	(51)	(37)
Trade and other payables		**(18,614)**	(16,441)	(18,334)
		(21,142)	(19,863)	(19,752)
Non-current liabilities				
Borrowings		**(8,645)**	(10,716)	(10,209)
Derivative financial instruments	*6*	**(1,037)**	(1,429)	(1,619)
		(9,682)	(12,145)	(11,828)
Total liabilities		**(30,824)**	(32,008)	(31,580)
Net assets		**2,435**	2,648	2,258
Equity				
Share capital		**2,100**	2,100	2,100
Retained earnings		**335**	548	158
Total equity		**2,435**	2,648	2,258

The notes on pages 6 to 9 form an integral part of these Interim Financial Statements.

The Interim Financial Statements were approved by the Board of Directors on 3 June 2021 and signed on its behalf by:

J M Jones
Director

M A Wall
Director

Company Number: 03214426

Imperial Brands Finance PLC

Statement of Changes in Equity (unaudited)

at 31 March 2021

(In £ million)	**Share capital**	**Retained earnings**	**Total equity**
At 1 October 2020	**2,100**	**158**	**2,258**
Profit for the period	**-**	**177**	**177**
Total comprehensive income	**-**	**177**	**177**
At 31 March 2021	**2,100**	**335**	**2,435**

(In £ million)	Share capital	Retained earnings	Total equity
At 1 October 2019	2,100	308	2,408
Profit for the period	-	240	240
Total comprehensive income	-	240	240
At 31 March 2020	2,100	548	2,648

Notes to the Interim Financial Statements

For the six months ended 31 March 2021

1. Accounting policies

These condensed Interim Financial Statements have been prepared on the going concern basis and in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including the Companies Act 2006 and FRS 101.

Basis of preparation

The condensed Interim Financial Statements comprise the unaudited results for the six months ended 31 March 2021 and 31 March 2020, together with the audited results for the year ended 30 September 2020.

The information shown for the year ended 30 September 2020 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 2020 were approved by the Board of Directors on 30 March 2021 and filed with the Registrar of Companies.

This condensed set of Interim Financial Statements for the six months ended 31 March 2021 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 100 'Application of Financial Reporting Requirements' ("FRS 100") and FRS 101 'Reduced Disclosure Framework' ("FRS 101"). The condensed set of Interim Financial Statements for the six months ended 31 March 2021 should be read in conjunction with the Annual Report and Financial Statements for the year ended 30 September 2020.

The Company has taken advantage of the following disclosure exemptions under FRS 101 on the basis that the disclosures are available within the consolidated financial statements of the ultimate parent company, which is Imperial Brands PLC:

a) 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.
b) the requirements of paragraphs 10(d) and 10(f) of IAS 1 Presentation of Financial Statements.
c) the requirements of IAS 7 Statement of Cash Flows.
d) the requirements of paragraph 17 of IAS 24 Related Party Disclosures.
e) 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.

The Imperial Brands PLC consolidated financial statements may be found in via the investor relations section of the Imperial Brands PLC website at www.imperialbrandsplc.com/investors.

The Interim Financial Statements have been prepared on an amortised cost or fair value basis as described in the accounting policies on derivative financial instruments below.

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 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Interest receivable from Group undertakings	**279**	451	836
Interest on bank deposits	**-**	3	2
Exchange gains on monetary assets and liabilities	**1,190**	14	-
Fair value gains on external derivative financial instruments	**417**	569	660
Fair value gains on intragroup derivative financial instruments	**-**	-	56
	1,886	1,037	1,554

Notes to the Interim Financial Statements

For the six months ended 31 March 2021

3. Finance costs

(In £ million)	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Interest payable to Group undertakings	**32**	75	141
Interest on bank loans and other loans	**182**	205	414
Exchange losses on monetary assets and liabilities	**-**	-	233
Fair value losses on external derivative financial instruments	**327**	438	585
Fair value losses on intragroup derivative financial instruments	**1,054**	23	-
	1,595	741	1,373

4. Tax on profit

Analysis of charge in the period:

(In £ million)	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
UK Corporation tax on profits for the period	**55**	56	34
Withholding tax	**-**	-	1
Double taxation relief	**-**	-	(1)
Current tax	**55**	56	34
Total taxation	**55**	56	34

5. 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 £10,837 million (2020: £12,701 million) and has been determined by reference to market prices at the balance sheet date. The carrying value of bonds is £10,076 million (2020: £12,621 million). The fair value of all other borrowings is considered to be equal to their carrying amount.

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Notes to the Interim Financial Statements

For the six months ended 31 March 2021

6. Derivative financial instruments

(In £ million)	**Unaudited 6 months ended 31 March 2021**	Unaudited 6 months ended 31 March 2020	Audited Year ended 30 September 2020
Assets			
Interest rate swaps	**542**	833	823
Foreign exchange contracts	**21**	150	9
Intragroup forward foreign currency contracts	**17**	84	-
Cross currency swaps	**4**	19	3
Total carrying value of derivative financial assets	**584**	1,086	835
Liabilities			
Interest rate swaps	**(862)**	(1,151)	(1,210)
Foreign exchange contracts	**(3)**	(25)	(10)
Intragroup forward foreign currency contracts	**(1,051)**	-	-
Cross currency swaps	**(261)**	(341)	(483)
Total carrying value of derivative financial liabilities before collateral	**(2,177)**	(1,517)	(1,703)
Collateral	**47**	37	47
Total carrying value of derivative financial liabilities	**(2,130)**	(1,480)	(1,656)
Total carrying value of derivative financial instruments	**(1,546)**	(394)	(821)
Analysed as:			
Interest rate swaps	**(320)**	(318)	(387)
Foreign exchange contracts	**18**	125	(1)
Intragroup forward foreign currency contracts	**(1,033)**	84	-
Cross currency swaps	**(258)**	(322)	(480)
Collateral	**47**	37	47
Total carrying value of derivative financial instruments	**(1,546)**	(394)	(821)

The Company's derivative financial instruments are held at 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, and are consistent with those applied for the year ended 30 September 2020.

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 fair values are determined based on observable market data such as yield curves, foreign exchange rates and credit default swap prices to calculate the present value of future cash flows associated with each derivative at the balance sheet date (Level 2 classification hierarchy per IFRS 7). Market data is sourced through Bloomberg and valuations are validated by reference to counterparty valuations where appropriate. Some of the Group's derivative financial instruments contain early termination options and these have been considered when assessing the element of the fair value related to credit risk. On this basis the reduction in reported net derivative liabilities due to credit risk is £21 million and would have been a £46 million reduction without considering the early termination options. There were no changes to the valuation methods or transfers between hierarchies during the period. With the exception of capital market issuance, the fair value of all financial assets and financial liabilities is considered to approximate to their carrying amount.

7. Other receivables

	Unaudited 6 months ended 31 March 2021		Unaudited 6 months ended 31 March 2020		Audited Year ended 30 September 2020	
(In £ million)	**Current**	**Non-current**	Current	Non-current	Current	Non-current
Amounts owed by Group undertakings	**32,305**	**198**	33,127	281	31,980	109
Other receivables and prepayments	**2**	**-**	2	-	3	-
	32,307	**198**	33,129	281	31,983	109

Amounts owed by Group undertakings are unsecured, both interest bearing and non-interest bearing and can be either repayable on a future date to be mutually agreed between the Company and the counterparty borrower or have fixed repayment dates. At 31 March 2021 £29,254 million (2020: £29,742 million) of the amounts owed by Group undertakings is repayable on a mutually agreed future date (treated as a current receivable) and £3,249 million (2020: £3,666 million) were term loans. There were £31,869 million (2020: £32,890 million) of interest bearing loans and £634 million (2020: £518 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.125% to 5.750% (2020: 0.125% to 6.000%).

The Directors have assessed the extent to which amounts owed by the Group companies are impaired. For those balances that are neither overdue nor impaired the Directors have concluded that the expected credit losses (ECL) that are possible from default events over the next twelve months are immaterial and consequently no allowance for impairment has been recognised. For those balances assessed to be impaired, an expected credit loss adjustment of £351 million (2020: £nil) has been recognised to reflect the credit risk inherent within a number of the current intragroup loans receivable, as follows:

Notes to the Interim Financial Statements

For the six months ended 31 March 2021

7. Other receivables (continued)

	31 March 2021		
	Gross	**ECL**	**Net**
Group undertaking loan receivable balances that are not impaired	**31,908**	**-**	**31,908**
Group undertaking loan receivable balances that are impaired	**946**	**(351)**	**595**
	32,854	**(351)**	**32,503**

	31 March 2020		
	Gross	ECL	Net balance
Group undertaking loan receivable balances that are not impaired	33,408	-	33,408
Group undertaking loan receivable balances that are impaired	-	-	-
	33,408	-	33,408

	30 September 2020		
	Gross	ECL	Net balance
Group undertaking loan receivable balances that are not impaired	31,465	-	31,465
Group undertaking loan receivable balances that are impaired	918	(294)	624
	32,383	(294)	32,089

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 undertaken during the period.

During the period the Company charged interest and other expenses to Compañía de Distribución Integral Logista S.A.U. to the value of €1 million (2020: €1million). At 31 March 2021, the Company had an outstanding balance receivable due from Compañía de Distribucion Integral Logista SAU totalling €625 million (2020: €746 million).

During the period the Company was charged interest to the value of €5 million by Logista France SAS (2020: €5 million). At 31 March 2021, the Company had an outstanding balance payable to Logista France SAS totalling €1,343 million (2020: €1,348 million).

During the period the Company was charged interest to the value of €4 million by Logista Italia SpA (2020: €4 million). At 31 March 2021, the Company had an outstanding balance payable to Logista Italia SpA totalling €945 million (2020: €1,000 million).