

Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC

Interim Financial Statements 2022

Imperial Brands Finance PLC

Interim Management Report

For the six months ended 31 March 2022

Company Number: 03214426

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 2022.

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 loss for the six months ended 31 March 2022 was £81 million (2021: profit of £177 million) and is stated after a charge of £168 million (2021: £57 million) arising on an increase in the expected credit loss provision against the carrying value of certain loans made to entities within the Imperial Brands Group. The expected loss provision arises due to increases in the assessment of credit risk associated with the future repayment of the loans. The Group disposed of its interests in Russia on 27 April 2022. The transaction included a waiver of two intragroup loans made to Russian subsidiary companies. The decision to exit operations in Russia has also had an impact on the recoverability of a number of other intragroup loans. Intragroup loans to Russian and a number of other Group entities have subsequently been fully provided for. The charge arising is not tax deductible and therefore there is no associated tax credit. Total shareholders' funds as at 31 March 2022 were £2,232 million (2021: £2,435 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 2022 (2021: £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 20 of the Company's Annual Report and Accounts for the year ended 30 September 2021, 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 2022.

COVID-19 and Macro-economic environment

Over the past six months the Group, in common with other organisations, has had to manage the continuing impacts of COVID-19, as well as those arising from Russia's invasion of Ukraine. The wider socio-economic effects of COVID-19 and the conflict in Ukraine have started to impact businesses and consumers across all goods and services and could impact the commercial environment into the longer-term.

The Directors recognise that the current political situation in Ukraine and Russia brings uncertainty. During the period of the Covid-19 pandemic, the Group effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite uncertainty. The Directors consider that a one-off discrete event with immediate cash outflow is of greatest concern to the short term liquidity of the Group. The Directors have assessed the principal risks of the business, including stress testing a range of different scenarios that may affect the business. The scenario planning also considered mitigation actions including reductions to capital expenditure and dividend payments. There are additional actions that were not modelled but could be taken including other cost mitigations such as staff redundancies, retrenchment of leases, and discussions with lenders about capital structure. Under the worst-case scenario, where the largest envisaged downside scenarios all take place at the same time the Group would have sufficient headroom until February 2023. The Group believes this worst-case scenario to be highly unlikely given the relatively small impact on trading performance and bad debt levels during the Covid-19 pandemic. In addition, the Group has a number of mitigating actions available that could be implemented should such a scenario arise. This means that the Group is confident it continues to have the ability to pay down debt, maintain covenants, credit ratings, bank, bond, and investor confidence.

LIBOR

Following the announcement of the discontinuation of GBP LIBOR at the end of 2021 and USD LIBOR discontinuation in 2023, the Company has amended its bank facility agreement to stop referencing GBP and USD LIBOR and instead reference the daily risk free rates of SONIA and SOFR respectively. In the first half of the fiscal year all GBP LIBOR derivatives have been changed to reference SONIA instead of GBP LIBOR. All USD LIBOR derivatives will be changed to reference SOFR instead of USD LIBOR during the remainder of calendar year 2022. There are no changes pending for EUR derivatives.

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 1 November 2021 J M Jones resigned as a director. On 18 December 2021 M E Slade was appointed as a director. On 18 February 2022 M A Wall resigned and D M Tillekeratne was appointed as a director.

Directors' responsibility statement


The Board of Directors comprising L J Paravicini, M E Slade and D M Tillekeratne, 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 2022 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



M E Slade
Director
20 May 2022



David Tillekeratne (May 19, 2022 20:47 GMT+2)

D M Tillekeratne
Director
20 May 2022

Imperial Brands Finance PLC

Income Statement

For the six months ended 31 March 2022

(In £ million)	Notes	Unaudited 6 months ended 31 March 2022	Unaudited 6 months ended 31 March 2021	Audited Year ended 30 September 2021
Other operating income		-	-	1
Administrative expenses		(1)	(2)	(1)
Impairment losses		(168)	(57)	(198)
Operating loss		(169)	(59)	(198)
Investment income	2	1,040	1,886	2,034
Finance costs	3	(932)	(1,595)	(1,721)
(Loss)/profit before taxation		(61)	232	115
Tax on profit	4	(20)	(55)	(60)
(Loss)/profit for the period		(81)	177	55

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.

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Balance sheet

at 31 March 2022

(In £ million)	Unaudited At 31 March 2022	Unaudited At 31 March 2021	Audited At 30 September 2021
Non-current assets			
Other receivables	7	198	64
Derivative financial instruments	6	480	391
	223	678	455
Current assets			
Other receivables	7	32,307	33,731
Cash and cash equivalents	23	170	622
Derivative financial instruments	6	104	68
	28,562	32,581	34,421
Total assets	28,785	33,259	34,876
Current liabilities			
Borrowings	(1,669)	(1,435)	(1,056)
Derivative financial instruments	6	(1,093)	(62)
Trade and other payables	(16,040)	(18,614)	(21,745)
	(17,985)	(21,142)	(22,863)
Non-current liabilities			
Borrowings	(7,139)	(8,645)	(7,857)
Derivative financial instruments	6	(1,037)	(984)
Other payables	(837)	-	(859)
	(8,568)	(9,682)	(9,700)
Total liabilities	(26,553)	(30,824)	(32,563)
Net assets	2,232	2,435	2,313
Equity			
Share capital	2,100	2,100	2,100
Retained earnings	132	335	213
Total equity	2,232	2,435	2,313


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 20 May 2022 and signed on its behalf by:

M E Slade
Director



D M Tillekeratne
Director


David Tillekeratne (May 19, 2022 20:47 GMT+2)

Company Number: 03214426

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Statement of Changes in Equity (unaudited)

at 31 March 2022

(In £ million)	Share capital	Retained earnings	Total equity
At 1 October 2021	2,100	213	2,313
Loss for the period	-	(81)	(81)
Total comprehensive loss	-	(81)	(81)
At 31 March 2022	2,100	132	2,232

(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

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Notes to the Interim Financial Statements

For the six months ended 31 March 2022

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 2022 and 31 March 2021, together with the audited results for the year ended 30 September 2021.

The information shown for the year ended 30 September 2021 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 2021 were approved by the Board of Directors on 28 January 2022 and filed with the Registrar of Companies.

This condensed set of Interim Financial Statements for the six months ended 31 March 2022 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 2022 should be read in conjunction with the Annual Report and Financial Statements for the year ended 30 September 2021.

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:

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

	Unaudited	Unaudited	Audited
	6 months	6 months	Year ended
	ended 31	ended 31	30
	March 2022	March 2021	September
			2021
(In £ million)			
Interest receivable from Group undertakings	252	279	554
Exchange gains on monetary assets and liabilities	100	1,190	997
Fair value gains on external derivative financial instruments	688	417	483
	1,040	1,886	2,034

Imperial Brands Finance PLC

Notes to the Interim Financial Statements

For the six months ended 31 March 2022

3. Finance costs

(In £ million)	Unaudited	Unaudited	Audited
	6 months	6 months	Year ended
	ended 31	ended 31	30
	March 2022	March 2021	September
			2021
Interest payable to Group undertakings	55	32	70
Interest on bank loans and other loans	148	182	380
Fair value losses on external derivative financial instruments	616	327	427
Fair value losses on intragroup derivative financial instruments	113	1,054	844
	932	1,595	1,721

4. Tax on profit

Analysis of charge in the period:

(In £ million)	Unaudited	Unaudited	Audited
	6 months	6 months	Year ended
	ended 31	ended 31	30
	March 2022	March 2021	September
			2021
UK Corporation tax on profits for the period	20	55	60
Withholding tax	-	-	1
Double taxation relief	-	-	(1)
Current tax	20	55	60
Total taxation	20	55	60

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 £7,963 million (2021: £10,837 million) and has been determined by reference to market prices at the balance sheet date. The carrying value of bonds is £7,899 million (2021: £10,076 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 2022

6. Derivative financial instruments

(In £ million)	Unaudited	Unaudited	Audited
	6 months ended 31 March 2022	6 months ended 31 March 2021	Year ended 30 September 2021
Assets			
Interest rate swaps	190	542	451
Foreign exchange contracts	21	21	4
Intragroup forward foreign currency contracts	35	17	-
Cross currency swaps	26	4	4
Total carrying value of derivative financial assets	272	584	459
Liabilities			
Interest rate swaps	(480)	(862)	(813)
Foreign exchange contracts	(16)	(3)	(4)
Intragroup forward foreign currency contracts	(227)	(1,051)	-
Cross currency swaps	(179)	(261)	(266)
Total carrying value of derivative financial liabilities before collateral	(902)	(2,177)	(1,083)
Collateral	34	47	37
Total carrying value of derivative financial liabilities	(868)	(2,130)	(1,046)
Total carrying value of derivative financial instruments	(596)	(1,546)	(587)
Analysed as:			
Interest rate swaps	(290)	(320)	(362)
Foreign exchange contracts	5	18	-
Intragroup forward foreign currency contracts	(192)	(1,033)	-
Cross currency swaps	(153)	(258)	(262)
Collateral	34	47	37
Total carrying value of derivative financial instruments	(596)	(1,546)	(587)

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 2021.

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 £17 million (2021: £21 million) and would have been a £33 million (2021: £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

(In £ million)	Unaudited 6 months ended 31 March 2022		Unaudited 6 months ended 31 March 2021		Audited Year ended 30 September 2021	
	Current	Non-current	Current	Non-current	Current	Non-current
Amounts owed by Group undertakings	28,442	44	32,305	198	33,724	64
Other receivables and prepayments	4	-	2	-	7	-
	28,446	44	32,307	198	33,731	64

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 2022 £25,322 million (2021: £29,254 million) of the amounts owed by Group undertakings is repayable on a mutually agreed future date (treated as a current receivable) and £3,164 million (2021: £3,249 million) were term loans. There were £27,847 million (2021: £31,869 million) of interest bearing loans and £639 million (2021: £634 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.125% to 20.000% (2021: 0.125% to 5.750%).

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 £660 million (2021: £351 million) has been recognised to reflect the credit risk inherent within a number of the current intragroup loans receivable, as follows:

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For the six months ended 31 March 2022

7. Other receivables (continued)

	31 March 2022		
	Gross	ECL	Net
Group undertaking loan receivable balances that are not impaired	28,207	-	28,207
Group undertaking loan receivable balances that are impaired	939	(660)	279
	<u>29,146</u>	<u>(660)</u>	<u>28,486</u>

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

	30 September 2021		
	Gross	ECL	Net balance
Group undertaking loan receivable balances that are not impaired	33,513	-	33,513
Group undertaking loan receivable balances that are impaired	767	(492)	275
	<u>34,280</u>	<u>(492)</u>	<u>33,788</u>

The charge in the period was £168 million (2021: £57 million). There were loan receivables totalling £131 million included in the ECL provision of £660 million that have subsequently been waived after the interim reporting date as a result of the disposal of the Group's Russian operations.

9. 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 (2021: €1million). At 31 March 2022, the Company had an outstanding balance receivable due from Compañía de Distribucion Integral Logista SAU totalling €442 million (2021: €625 million).

During the period the Company was charged interest to the value of €5 million by Logista France SAS (2021: €5 million). At 31 March 2022, the Company had an outstanding balance payable to Logista France SAS totalling €1,419 million (2021: €1,343 million).

During the period the Company was charged interest to the value of €4 million by Logista Italia SpA (2021: €4 million). At 31 March 2022, the Company had an outstanding balance payable to Logista Italia SpA totalling €1,124 million (2021: €945 million).