Company Number: 03214426

IMPERIAL BRANDS FINANCE PLC

Annual Report and Financial Statements 2021

Imperial Brands Finance PLC

Board of Directors

L J Paravicini	(appointed on 19 May 2021)
M E Slade	(appointed on 13 December 2021)
M A Wall	

Company Secretary

J M Downing

Registered Office

121 Winterstoke Road
Bristol
BS3 2LL

Independent Auditors

Ernst & Young
1 More London Place
London
SE1 2AF

Strategic Report

For the year ended 30 September 2021

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 2021.

Principal activity and principal risks and uncertainties of the Company

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

The Company, as the main financing and financial risk management company for the Group, undertakes transactions to manage the Group's financial risks, together with its financing and liquidity requirements. Financial risks comprise, but are not limited to, market, credit and liquidity risk. A summary of the Company's policies in respect of foreign exchange, interest, credit and liquidity risks is included in note 13.

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 21 of the Imperial Brands PLC Annual Report ("Imperial Brands Annual Report") which does not form part of this report, but is available at www.imperialbrandsplc.com. Financial risk management disclosures can be found in note 13.

COVID-19

The Company's policy is to ensure that we always have sufficient capital markets funding and committed bank facilities in place to meet foreseeable peak borrowing requirements of the Group. The Directors recognise that the current environment brings uncertainty due to the COVID-19 pandemic; however, over the last 18 months, the Group has effectively managed operations across the world, and has proved it has an established mechanism to operate efficiently despite the uncertainty.

To date, the observable impacts on the Imperial Brands group's activities have been limited to low level changes in credit risk in the duty free and travel retail operations area. However there are ongoing risks arising from the COVID-19 pandemic that may impact the Company including:

- The pandemic has placed pressure on raw material suppliers which may result in some cost increases which have limited implications for future funding requirements.

- The need to raise public finances following the cost of the COVID-19 pandemic may increase the likelihood of changes in tax legislation, and/or an increased propensity for regulators to investigate large companies in the hope of achieving additional tax revenues and fines. These challenges may result from differences of opinion or changes in regulator interpretation of tax legislation in place with which the Company considers itself to be compliant.

- There is an ongoing risk that failure to maintain cash flows could impact the Group's and therefore the Company's ability to pay down debt, impacting covenants, credit ratings, bank, bond, and investor confidence. In addition a fall in certain of our credit ratings would raise the cost of our existing committed funding and is likely to raise the cost of future funding and affect our ability to raise debt. However, the Group has a strong focus on cash generation supported by robust governance processes. Cash flows, financing requirements and key rating agency metrics are regularly forecast and updated in line with performance and expectations to manage future financing needs and optimise cost and availability. The Company has investment grade credit ratings from the main credit rating agencies, which supports it to access financing in the global debt capital markets.

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. All current GBP LIBOR derivatives will be changed to reference SONIA instead of GBP LIBOR by the end of 2021, then all USD LIBOR derivatives will be changed to reference SOFR instead of USD LIBOR during the remainder of fiscal year 2022. There are no changes pending for EUR derivatives.

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. While the Company remains the principal financing entity for the Imperial Brands Group a new Group entity, Imperial Brands Financing Netherlands BV, was incorporated during the year. This company raised an initial bond of €1 billion in March 2021 and is expected to raise external debt finance for the Group going forward.

The profit for the financial year was £55 million (2020: loss of £150 million) and is stated after a charge of £198 million (2020: £294 million) arising on an increase in the expected credit loss provision against the carrying value of certain of its 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 charge arising is not tax deductible and therefore there is no associated tax credit.

Total equity as at 30 September 2021 was £2,313 million (2020: £2,258 million).

The aggregate dividends on the ordinary shares recognised as a charge to shareholders' funds during the year amount to £nil million (2020: £nil million).

UK Companies Act: Section 172 (1) statement

The Company is part of the Imperial Brands Group and is ultimately owned by Imperial Brands PLC. As set out above the Company's principal activities comprise undertaking transactions to manage the Group's financial risks, together with its financing and liquidity requirements. Under Section 172 (1) of the UK Companies Act 2006 and as part of the Directors' duty to the Company's shareholders to act as they consider most likely to promote the success of the Company, the Directors must have regard to the long term consequences of decisions and the desirability of maintaining a reputation for high standards of business conduct. The Directors must also have regard for business relationships with the Company's wider stakeholders, and the impact of the Company's operations on the environment and communities in which it operates. Consideration of these factors and other relevant matters is embedded into board decision making and risk assessments throughout the year.

The Company's key stakeholders are financial institutions in which it engages with in relation to the Company's financial activities and those members of the Imperial Brands Group to which it provides finance-related services. Primary ways in which the Company engages with financial institutions are through meetings, ongoing dialogue and relationship management conducted by the Imperial Brands Group Treasury and Finance teams. There is regular engagement with Imperial Brands PLC on finance related matters, which is taken into account in the Company's decision making. Primary ways in which the Company engages directly or indirectly, as part of the Imperial Brands Group, with its key stakeholders are summarised at pages 38 to 41 of the Imperial Brands Annual Report. This enables the Directors to maintain an effective understanding of what matters to those stakeholders and to draw on these perspectives in Board decision making. During the decision making process the Directors are made aware of the impact of decisions on relevant stakeholders and engagement that has occurred with those stakeholders where applicable.

In accordance with the Imperial Brands Group's overall governance and internal control framework and in support of the Company's purpose as part of the Imperial Brands Group, the Company applies and the Directors have regard to all applicable Imperial Brands Group policies and procedures, including the Group Statement of Delegated Authorities, standards of business conduct, health and safety and environmental policies. Where authority for decision making is delegated to management under the Group delegated authority rules, appropriate regard is given to the likely long term consequences of decisions, the imperative of maintaining high standards of business conduct, employees' interests, business relationships with wider stakeholders, the impact of business operations on the environment and communities, and other relevant factors. The Imperial Brands Group Statement of Delegated Authorities is part of the Imperial Brands Group's governance and internal control framework through which good corporate governance, risk management and internal control is promoted within the Imperial Brands Group and does not derogate from any requirement for Board review, oversight or approval in relation to the Company's activities.

On behalf of the Board

Marie Wall (Jan 28, 2022 16:35 GMT)

M A Wall
Director
28 January 2022

Imperial Brands Finance PLC

Report of the Directors

Company Number: 03214426

For the year ended 30 September 2021

The Directors submit their report together with the Strategic Report (on page 2) and the audited financial statements of the Company for the year ended 30 September 2021.

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 13 to the financial statements.

Financial results and dividends

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

The Directors do not recommend the payment of a final dividend for the year (2020: £nil million).

Responsibility statements under the Disclosure and Transparency Rules

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

- The financial statements, prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"), give a true and fair view of the assets, liabilities, financial position and profit of the company, and

- The Strategic Report and Report of the Directors report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Corporate governance

The Company is a wholly owned indirect subsidiary of Imperial Brands PLC and the Directors of the Group manage corporate governance at a Group level. The Group's statement on corporate governance can be found in the corporate governance report in the Imperial Brands Annual Report, which does not form part of this report, but is available at www.imperialbrandsplc.com. A description of the internal control framework is provided in the Strategic Report with consideration given to the risk management policies of the Company included in note 13 to the financial statements. For this reason, the Company's Directors consider further detail of corporate governance in this report not necessary.

Financial reporting

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

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

Insurance

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

Future outlook

The business activity is expected to continue at levels similar to the current level. The Company will continue to manage the 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.

Board of Directors

J M Jones	Resigned on 1 November 2021
L J Paravicini	Appointed on 19 May 2021
M E Slade	Appointed on 13 December 2021
O R Tant	Resigned on 18 May 2021
T R W Tildesley	Resigned on 30 April 2021
M A Wall	

Imperial Brands Finance PLC

Report of the Directors (continued)

Company Number: 03214426

For the year ended 30 September 2021

Going concern

The Company has been issued a support letter from its parent company, Imperial Brands PLC, confirming ongoing financial support in meeting liabilities as they fall due for a period of 12 months from the date of approval of the financial statements. Imperial Brands PLC has undertaken its own assessment of going concern, which it has confirmed and this is disclosed on page 164 of the Imperial Brands Annual Report for the year ended 30 September 2021. The Directors are satisfied that no events took place after the release of the Imperial Brands PLC Annual Report that give rise to any uncertainties relating to going concern, and accordingly the Directors considered it appropriate to rely upon this support in making their going concern assessment for these financial statements. The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future which is 12 months from the date of signing the financial statements and accordingly they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

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

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

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

● select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and applying them consistently;

● make judgements and accounting estimates that are reasonable and prudent;

● present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

● provide additional disclosures when compliance with the specific requirements in FRS 101 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company’s financial position and financial performance;

● state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and

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

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

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.

On behalf of the Board

Marie Wall (Jan 28, 2022 16:35 GMT)

M A Wall
Director
28 January 2022

Independent auditor's report to the members of Imperial Brands Finance PLC

Opinion

We have audited the financial statements of Imperial Brands Finance PLC for the year ended 30 September 2021 which comprise the Income Statement, the Balance Sheet, the statement of changes in equity and the related notes 1 to 19 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2021 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- confirming our understanding of the directors' going concern assessment process, including discussion with management to ensure all key factors were taken into account.
- assessing the appropriateness of the duration of the going concern assessment over a period of 12 months from when the financial statements were authorised for issue and considering the existence of any significant events or conditions beyond this period based on our procedures on the Company's business plan, cash flow forecasts and from knowledge arising from other areas of the audit.
- as the directors' going concern assessment includes reliance on a letter of support provided by Imperial Brands PLC ("the Group"), our evaluation of the ability of the Group to provide the support included the following procedures:
    - verifying inputs against the board-approved business plan, cash flow forecasts and debt facility terms, and reconciling the opening liquidity position to the prior year end and half year going concern assessments;
    - reviewing borrowing facilities to confirm both their availability to the Group and the forecast debt repayments through the going concern assessment period and to validate that there are only two financial covenants in relation to the revolving credit facility;
    - evaluating management's historical forecasting accuracy and the consistency of the going concern assessment with information obtained from other areas of the audit, such as our audit procedures on the business plan and cash flow forecasts;
    - testing the assessment, including forecast liquidity under base and downside scenarios, for clerical A260;
    - assessing whether assumptions made were reasonable and in the case of downside scenarios, appropriately severe, in light of the Group's relevant principal risks and uncertainties and our own independent assessment of those risks;
    - assessing Group's management considerations related to material climate change impacts in the going concern period
    - evaluated the amount and timing of identified mitigating actions available to respond to a severe downside scenario, and whether those actions are feasible and within the Group's control;
    - performing reverse stress testing on management's base case scenario to understand how severe conditions would have to be to breach liquidity or financial covenants and whether the reduction in EBITDA has no more than a remote possibility of occurring; and,
    - performing independent stress testing on management's assumptions including applying incremental adverse cash flow sensitivities. Our sensitivities included the impact of certain severe but plausible scenarios, identified in other areas of our audit, including litigation and tax, materialising within the going concern period.
- assessing the appropriateness of the going concern disclosure.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Valuation of derivative financial instruments • Valuation of ECL provision for intercompany loan receivables
Materiality	• Overall materiality of £23.2m which represents 1% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Changes from the prior year

No significant changes identified in relation to prior year scoping.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the directors
Valuation of derivative financial instruments (£587m net liabilities, **2020**: £816m net liabilities) Refer to the Strategic Report (page 2); Accounting policies (page 13); Note 3 to the financial statements (page 16); and Note 13 of the Financial Statements (page 21) The company has a portfolio of derivatives including a range of instruments with differing maturity dates, some of which are over 5 years. The derivatives are reported at their fair value in accordance with IFRS 9 requirements. The Fair values are determined based on observable market data such as yield curves and foreign exchange rates to calculate the present value of future cash flows associated with each derivative at the balance sheet date. We identified a risk relating to the judgments used in fair value measurement, leading to a heightened risk of error in the valuation of the derivative financial instruments.	In order to assess the valuation of derivative financial instruments, our audit procedures included: • Understanding the methodology applied by management for derivatives valuation and walking through the controls over the process. • Reading agreements between the company and derivative counterparties. • Obtaining confirmations from all derivative counterparties confirming the existence of derivative instruments outstanding at the balance sheet date. • Involving internal specialists to perform: a) an independent valuation of a sample of the derivative instruments, b) an assessment of the classification of the derivatives, c) an audit of the credit risk adjustment and its movement throughout the period, and d) an assessment of the accounting treatment under IFRS with derivatives being treated at fair value through profit and loss. • We evaluated the disclosures in the financial statements for consistency with the findings of our audit procedures, including a description of the assumptions used in calculating this estimate.	We concluded that the valuation of derivative financial instruments as at 30 September 2021 is materially correct.

Risk	Our response to the risk	Key observations communicated to the directors
Valuation of ECL provision for intercompany loan receivables (£492m, **2020:** £294m) *Refer to the Strategic Report (page 2); Accounting policies (page 13); Note 3 to the financial statements (page 16); and Note 10 of the Financial Statements (page 18)* Under IFRS 9 management is required at each reporting date to assess whether the financial instruments are credit impaired using the expected credit loss ("ECL") model, involving the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. Given the subjectivity involved in estimating potential future impairments, there is a risk that the provision for expected credit loss is misstated.	In order to assess the recoverability of intercompany loan receivables, our audit procedures included, among others: • Understanding the process undertaken by management to perform the ECL provision assessment, including the evaluation of operational factors impacting the assumptions used by management to determine the probability of default and loss given default in case of default of each of the loans' counterparties. • We tested the clerical accuracy of the model used to assess the recoverability of loan receivables. • We assessed the risk of counterparty default, by reference to, among other things, the nature of the entity (Tobacco or NGP), its operating performance and the presence of guarantee letters provided to the counterparties. • For loans where there were indicators of impairment, we critically assessed management's assertions and key input assumptions by: - Assessing management's estimation of probability of default on the basis of the counterparties' operational performance - Comparing the net asset/liability position of the counterparties as at 30 September 2021 to the loss given default used in the calculation. • We evaluated the disclosures in the financial statements for consistency with the findings of our audit procedures, including a description of the methodology used in calculating this estimate.	We concluded that the expected credit loss provision is fairly stated at 30 September 2021.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £23.2million (2020: £22.6 million), which is 1% (2020: 1%) of net assets. We believe that net assets provides us with an appropriate basis for determining the nature and extent of our audit procedures. We believe that net assets is reflective of the Company's position and would be the measure of most interest to the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £11.6m (2021: £11.3m). We have set performance materiality at this percentage due to a combination of risk factors, including the level of adjustments identified in the prior year.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the directors that we would report to them all uncorrected audit differences in excess of £1.16m (2020: £1.13m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise toa material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are
  - FRS101 and the Companies Act 2006
  - Tax legislation (Governed by HM Revenue and Customs)
- We understood how Imperial Brands Finance PLC is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of the directors. We made enquiries of the Company's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved reading the reporting to the tax and treasury committee and board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Financial Statements with the requirements of the relevant accounting standards and UK legislation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the group's audit committee we were appointed by the company on 5 June 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ending 30 September 2020 to 30 September 2021.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the directors

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP.

Marcus Butler (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 January 2022

Imperial Brands Finance PLC

Income Statement

For the year ended 30 September 2021

(In £ million)	Notes	2021	2020
Administrative expenses		**(1)**	(4)
Impairment losses	10	**(198)**	(294)
Other operating income		**1**	1
Operating loss	*4*	**(198)**	(297)
Investment income	*5*	**2,034**	1,554
Finance costs	*6*	**(1,721)**	(1,373)
Profit/(loss) before tax		**115**	(116)
Tax on profit/(loss)	*8*	**(60)**	(34)
Profit/(loss) for the financial year		**55**	(150)

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

Imperial Brands Finance PLC

Balance Sheet

as at 30 September 2021

(In £ million)	Notes	**2021**	2020
Non-current assets			
Other receivables	*10*	**64**	109
Derivative financial instruments	*14*	**391**	784
		455	893
Current assets			
Other receivables	*10*	**33,731**	31,983
Cash and cash equivalents		**622**	911
Derivative financial instruments	*14*	**68**	51
		34,421	32,945
Total assets		**34,876**	33,838
Current liabilities			
Borrowings	*12*	**(1,056)**	(1,381)
Derivative financial instruments	*14*	**(62)**	(37)
Other payables	*11*	**(21,745)**	(18,334)
		(22,863)	(19,752)
Non-current liabilities			
Borrowings	*12*	**(7,857)**	(10,209)
Derivative financial instruments	*14*	**(984)**	(1,619)
Other payables	*11*	**(859)**	-
		(9,700)	(11,828)
Total liabilities		**(32,563)**	(31,580)
Net assets		**2,313**	2,258
Equity			
Share capital	*15*	**2,100**	2,100
Retained earnings		**213**	158
Total equity		**2,313**	2,258

The financial statements on pages 11 to 26 were approved by the Board of Directors on 28 January 2022 and signed on its behalf by:

Lukas Paravicini
Lukas Paravicini (Jan 28, 2022 16:59 GMT)

L J Paravicini
Director

Marie Wall (Jan 28, 2022 16:35 GMT)

M A Wall
Director

Company Number: 03214426

Imperial Brands Finance PLC

Statement of Changes in Equity

For the year ended 30 September 2021

(In £ million)	Notes	**Share capital**	**Retained earnings**	**Total equity**
At 1 October 2020		**2,100**	**158**	**2,258**
Total comprehensive income				
Profit for the financial year		**-**	**55**	**55**
Total comprehensive income for the year		**-**	**55**	**55**
At 30 September 2021		**2,100**	**213**	**2,313**

(In £ million)	Notes	Share capital	Retained earnings	Total equity
At 1 October 2019		2,100	308	2,408
Total comprehensive income				
Loss for the financial year		-	(150)	(150)
Total comprehensive income for the year		-	(150)	(150)
At 30 September 2020		2,100	158	2,258

Notes to the Financial Statements

For the year ended 30 September 2021

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

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

The financial statements of the Company for the year ended 30 September 2021 were authorised for issue by the Board of Directors on 28 January 2022, and the balance sheet was signed on the Board's behalf by M A Wall and L J Paravicini.

These 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. The Company has been issued a support letter from its parent company, Imperial Brands PLC, confirming ongoing financial support in meeting liabilities as they fall due for a period of 12 months from the date of approval of the financial statements. Imperial Brands PLC has undertaken its own assessment of going concern, which it has confirmed and this is disclosed on page 164 of the Imperial Brands Annual Report for the year ended 30 September 2021. The Directors are satisfied that no events took place after the release of the Imperial Brands PLC Annual Report that give rise to any uncertainties relating to going concern, and accordingly the Directors considered it appropriate to rely upon this support in making their going concern assessment for these financial statements. The Directors are satisfied that the Company has adequate resources to meet its operational needs for the foreseeable future which is 12 months from the date of signing the financial statements and accordingly they continue to adopt the going concern basis in preparing the financial statements.

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

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

2. Accounting policies

Basis of preparation of financial statements

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

The Company has taken advantage of the following disclosure exemptions under FRS 101 on the basis that the disclosures are available within the consolidated financial statements of the ultimate parent company, which is Imperial Brands Plc. The disclosures may be found via the investor relations section of the Imperial Brands PLC website at www.imperialbrandsplc.com/investors.

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 financial statements have been prepared on an amortised cost or fair value basis as described in the accounting policies on financial instruments below.

New accounting standards and interpretations

For the year ended 30 September 2021 the Company continued to apply international accounting standards in conformity with the requirements of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including the Companies Act 2006 and FRS 101. From 1 October 2021, as a result of the UK leaving the European Union, the Company will be required to prepare financial statements in line with FRS 101 applying applicable international accounting standards, issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC) and endorsed for use in the UK, referred to as 'UK-adopted IFRS'.

The following amendments to the accounting standards, issued by the IASB or IFRIC, have been adopted by the Company from 1 October 2020 with no impact on the Company's results, financial position or disclosures:

- Amendments to References to the Conceptual Framework in IFRS
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 1)

The Company holds derivative contracts which will be impacted by the impending reforms to the calculation of the Interbank Offered Rates (IBOR). However, the Company does not expect the reforms will result in a material impact on its results and the derivatives are not included within hedge accounting relationships in the Company. Changes in the fair value of these derivatives attributable to changes in interest rates and the effect of discounting are recognised directly in profit or loss within the Finance costs line.

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

2. Accounting policies (continued)

Accounting standards and interpretations not yet in issue

The following standard and amendment, issued by the IASB has not yet been adopted by the Company:
•Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (phase 2) (effective in the year ending 30 September 2022)

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. All current GBP LIBOR derivatives will be changed to reference SONIA instead of GBP LIBOR by the end of 2021, then all USD LIBOR derivatives will be changed to reference SOFR instead of USD LIBOR during the remainder of fiscal year 2022. There are no changes pending for EUR derivatives.

There are also a number of other amendments and clarifications to IFRS, effective in future years. None of which are expected to significantly impact the Company's results or financial position.

Interest

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

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

Foreign currencies

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

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

Taxes

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

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

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

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

Receivables held under a hold to collect business model are stated at amortised cost.

The calculation of impairment provisions is subject to an expected credit loss model, involving a prediction of future credit losses based on past loss patterns. The approach involves the recognition of provisions relating to potential future impairments, in addition to impairments that have already occurred. The expected credit loss approach involves modelling of historic loss rates (where applicable) and consideration of the level of future credit risk. Expected loss rates are then applied to the gross receivables balance to calculate the impairment provision.

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

Non-derivative financial liabilities are initially recognised at fair value and are subsequently stated at amortised cost using the effective interest method under a hold to collect business model. 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.

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

2. Accounting policies (continued)

Financial instruments (continued)

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 a credit support annex document under an International Swaps and Derivatives Association ("ISDA") agreement in respect of one derivative is net settled and is, therefore, netted off the carrying value of the derivative in the balance sheet.

3. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. There were no critical judgements involved in the preparation of these financial statements.

Expected credit loss on other receivables

An expected credit loss provision has been recognised against the carrying value of certain trade and other receivables. The provision is a reduction in the carrying value of the asset involved reflecting an assessment of the level of risk that future repayment may default. The loans receivable involved are all loans made to entities within the Imperial Brands Group. The provision has been calculated based on the size of the loan, the probability of default (measured through credit default rates or expected future cashflows) and the loss estimated to arise if a default occurred (considered with regard to the value of the realisable assets of the counterparty). The probability of default rates used vary from 1% up to 75%. The loss given default rates ranged from nil up to 100% for certain entities where the counterparty has insufficient assets that could be realised to repay the loan. All intergroup loans continue to perform at present, are not in default and operate within their loan limits.

There may be circumstances where intragroup guarantees are in place where a Group company accepts the credit risk associated with an intergroup loan between the Company and a further third Group entity. These guarantees are evaluated in terms of their effect on the level of credit risk retained by the Company and therefore the total amount of the expected credit loss provision. Further information as to the sensitivity of expected credit loss risk is disclosed in note 13, B) credit risk.

Derivatives

The fair value of derivatives 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. Those techniques are significantly affected by the assumptions used, including discount rates, estimates of future cash flows, exchange rates and interest rates. The valuation of derivatives is subject to changes in the underlying assumptions used by financial markets in valuing financial instruments. The impact of changes in these assumptions can be significant resulting in volatility in valuations. Further information as to the sensitivity of valuations is disclosed in note 13.

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 13.

4. Operating loss

The operating loss includes an expected credit loss charge on loans receivable of £198 million (2020: £294 million). It is stated after charging auditors' fees of £155,270 (2020: £44,716) which were met by Imperial Tobacco Limited ("ITL"), a wholly owned indirect subsidiary of Imperial Brands PLC. There were no non-audit fees paid during the year (2020: £nil). The Company has also been recharged office rental costs from another Group company of £30,960 (2020: £30,960).

5. Investment income

(In £ million)	**2021**	2020
Interest receivable from Group undertakings	**554**	836
Interest on bank deposits	**-**	2
Exchange gains on monetary assets and liabilities	**997**	-
Fair value gains on external derivative financial instruments	**483**	660
Fair value gains on intragroup derivative financial instruments	**-**	56
	2,034	1,554

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

6. Finance costs

(In £ million)	**2021**	2020
Interest payable to Group undertakings	**70**	141
Interest on bank loans and other loans	**380**	414
Exchange losses on monetary assets and liabilities	**-**	233
Fair value losses on external derivative financial instruments	**427**	585
Fair value losses on intragroup derivative financial instruments	**844**	-
	1,721	1,373

7. Directors and employees

Employment costs

Employment costs, which do not include pension costs, are paid by ITL and subsequently recharged to the Company. The total salary costs recharged in the year was £710,114 (2020: £933,467) and social security costs of £72,851 (2020: £106,539) recognised within administrative expenses in the income statement. The average monthly number of employees during the year was 8 (2020: 8).

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

8. Tax on profit

Analysis of charge in the year:

(In £ million)	**2021**	2020
UK Corporation tax on profit/(loss) for the year	**60**	34
Withholding tax	**1**	1
Double taxation relief	**(1)**	(1)
Current tax	**60**	34
Total tax charge	**60**	34

Tax for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK for the year of 19% (2020: 19%).

The differences are explained as follows:

(In £ million)	**2021**	2020
Profit/(loss) before taxation	**115**	(116)
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	**22**	(22)
Effects of:		
Non-deductible expected credit loss provision charge	**38**	56
Total tax charge	**60**	34

Movement on current tax account

(In £ million)	**2021**	2020
At 1 October	**33**	25
Charged to the income statement - current year	**60**	34
Cash paid	**-**	(26)
At 30 September	**93**	33

Factors that may affect future tax charges

The current year tax rate of 19% arises from profits being taxed at 19% for the year to 30 September 2021.

The Finance Act 2021 received Royal Assent on 10th June 2021, which confirmed that the main rate for UK corporation tax rate will increase to 25% with effect from 1st April 2023.

9. Dividends

No dividend is proposed for the current year (2020: nil)

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

10. Other receivables

(In £ million)	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Amounts owed by Group undertakings	**33,724**	**64**	31,980	109
Other receivables and prepayments	**7**	**-**	3	-
	33,731	**64**	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 30 September 2021 £30,585 million (2020: £28,652 million) of the amounts owed by Group undertakings were repayable on a mutually agreed future date (treated as a current receivable) and £3,139 million (2020: £3,328 million) were term loans treated as current receivables and £64 million (2020: £109 million) were term loans treated as non-current receivables. There were £32,795 million (2020: £31,195 million) of interest bearing loans and £993 million (2020: £894 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.125% to 6.750% (2020: 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 £492 million (2020: £294 million) has been recognised to reflect the credit risk inherent within a number of the current intercompany loans receivable, as follows:

2021	Gross amount	ECL allowance	Net balance
Loan receivable balances that are not impaired	**33,513**	**-**	**33,513**
Loan receivable balances that are impaired	**767**	**492**	**275**
	34,280	**492**	**33,788**

2020	Gross amount	ECL allowance	Net balance
Loan receivable balances that are not impaired	31,465	-	31,465
Loan receivable balances that are impaired	918	294	624
	32,383	294	32,089

11. Other payables

(In £ million)	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Amounts owed to Group undertakings	**21,653**	**859**	18,301	-
Corporation tax payable	**92**	**-**	33	-
	21,745	**859**	18,334	-

Amounts owed to Group undertakings are unsecured, both interest bearing and non-interest bearing and repayable on a future date to be mutually agreed between the Company and the counterparty lender (treated as a current liability). There were £12,958 million (2020: £11,747 million) of interest bearing loans and £9,553 million (2020: £6,552 million) of non-interest bearing loans. Where loans were subject to interest the rates charged varied from 0.19% to 3.73% (2020: 0.13% to 4.36%).

Amounts owed to Group undertakings are not included in the borrowings analysis in note 12 of the financial statements which only includes borrowings with external counterparties.

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

12. Borrowings

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

(In £ million)	2021	2020
Current borrowings		
Bank loans and overdrafts	**-**	-
Capital market issuance:		
€1,000m 2.25% notes due February 2021	**-**	925
€500m 0.50% notes due July 2021	**-**	456
£1,000m 9.0% notes due February 2022	**1,056**	-
Total current borrowings	**1,056**	1,381
Non-current borrowings		
Bank loans	**9**	-
Capital market issuance:		
£1,000m 9.0% notes due February 2022	**-**	1,056
$1,250m 3.75% notes due July 2022	**-**	980
$1,000m 3.5% notes due February 2023	**746**	782
€750m 1.25% notes due August 2023	**646**	684
£600m 8.125% notes due March 2024	**626**	626
$1,000m 3.125% notes due July 2024	**745**	782
€500m 1.375% notes due January 2025	**434**	460
$1,500m 4.25% notes due July 2025	**1,119**	1,172
€650m 3.375% notes due February 2026	**570**	604
$750m 3.5% notes due July 2026	**559**	586
£500m 5.5% notes due September 2026	**500**	500
€750m 2.125% notes due February 2027	**653**	692
$1,000m 3.875% notes due July 2029	**745**	781
£500m 4.875% notes due June 2032	**505**	504
Total non-current borrowings	**7,857**	10,209
Total borrowings	**8,913**	11,590
Analysed as:		
Capital market issuance	**8,904**	11,590
Bank loans and overdrafts	**9**	-

Current and non-current borrowings include interest payable of £56 million (2020: £13 million) and £85 million (2020: £151 million) respectively as at 30 September 2021.

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. All capital market issuances are listed on the London Stock Exchange.

On 30 November 2020, €1,000 million 2.25 per cent notes were repaid. On 27 April 2021, €500 million 0.5 per cent notes were repaid. On 29 September 2021, $1,250 million 3.75 per cent notes were repaid.

All borrowings are unsecured and the Company has not defaulted on any during the year (2020: no defaults).

Non-current financial liabilities

The maturity profile of non-current financial liabilities outstanding as at 30 September 2021 (including the impact of derivative financial instruments detailed in note 14) is as follows:

	2021			2020		
(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	**1,393**	**(6)**	**1,387**	2,036	24	2,060
Between two and five years	**4,554**	**(9)**	**4,545**	4,506	(31)	4,475
In five years or more	**1,910**	**608**	**2,518**	3,667	842	4,509
	7,857	**593**	**8,450**	10,209	835	11,044

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

12. Borrowings (continued)

Fair value of borrowings

The fair value of borrowings as at 30 September 2021 is estimated to be £9,479 million (2020: £12,434 million). £9,474 million (2020: £12,434 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.

	2021		2020	
(In £ million)	**Balance sheet amount**	**Fair value**	Balance sheet amount	Fair value
GBP	**2,686**	**2,894**	2,686	3,054
EUR	**2,302**	**2,418**	3,821	3,943
USD	**3,916**	**4,162**	5,083	5,437
Total capital market issuance	**8,904**	**9,474**	11,590	12,434

Undrawn borrowing facilities

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

(In £ million)	**2021**	2020
Amounts expiring:		
Between one and two years	**-**	1,551
Between two and five years	**3,012**	3,193
	3,012	4,744

During the year the maturity date of the Group's existing syndicated multicurrency facility for €3,500 million was extended to 30 September 2024. During the year six bilateral facilities for a total of €1,700 million were cancelled.

13. Financial risk management

Overview

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

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

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

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

(a) Market risk

Price risk

The Company is not exposed to equity securities price risk.

Foreign exchange risk

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

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

Translation risk

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

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

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

13. Financial risk management (continued)

Foreign exchange sensitivity analysis

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

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

(In £ million)	**2021** Increase/ (decrease) in income	2020 Increase/ (decrease) in income
Income Statement impact on non-functional currency foreign exchange exposures:		
10% appreciation of Sterling against Euro (2020: 10%)	**44**	337
10% appreciation of Sterling against US dollar (2020: 10%)	**261**	(138)

An equivalent depreciation of Sterling against the above currencies would cause a decrease in income of £54 million and decrease of £318 million for euro and US dollar exchange rates respectively (2020: decrease of £411 million and increase of £169 million respectively).

There is no direct net impact on equity (2020: £nil).

Interest rate risk

The Company's interest rate risk arises from its borrowings net of cash and cash equivalents, with the primary exposures arising from fluctuations in euro and US dollar interest rates. Borrowings at variable rates expose the Company to cash flow interest rate risk. Borrowings at fixed rates expose the Company to fair value interest rate risk.

The Company manages its exposure to interest rate risk on its borrowings by entering into derivative financial instruments, interest rate swaps, to achieve an appropriate mix of fixed and floating interest rate debt in accordance with the Treasury Committee Framework and Treasury Committee decisions.

As at 30 September 2021, after adjusting for the effect of derivative financial instruments detailed in note 14, approximately 63% (2020: 69%) of the Company's borrowings were at fixed rates of interest.

Interest rate sensitivity analysis

The Company's sensitivity to interest rates on its euro and US dollar monetary items which are primarily external borrowings, cash and cash equivalents, is illustrated on an indicative basis below. The impact in the Company's Income Statement reflects the effect on net finance costs in respect of the Company's net debt and the fixed to floating rate debt ratio prevailing at 30 September 2021, 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 (2020: £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)	**2021** Change in income	2020 Change in income
Income Statement impact of interest rate movements:		
+/- 1% increase in euro interest rates (2020: 1%)	**25**	30
+/- 1% increase in US dollar interest rates (2020: 1%)	**7**	8

(b) Credit risk

IFRS 9 requires an expected credit loss (ECL) model to be applied to financial assets. The ECL model requires the Company to account for expected losses as a result of credit risk on initial recognition of financial assets and to recognise changes in those expected credit losses at each reporting date. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition. The Company is exposed to credit risk arising from loans to entities within the Imperial Brands Group, cash deposits, derivatives and other amounts due from external financial counterparties arising on other financial instruments. The maximum credit risk relating to intergroup loans was £33,788 million (2020: £32,089 million). The maximum aggregate credit risk to parties external to the Imperial Brands Group was considered to be £1,081 million at 30 September 2021 (2020: £1,777 million). Intragroup counterparty credit risk may be mitigated where there is control of a counterparty within the Group, allowing the Group to facilitate repayment through realising counterparty assets or through refinancing. At 30 September 2021 an ECL provision of £492 million was recognised relating to the risk of intergroup loans not being repaid (2020: £294 million).

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

13. Financial risk management (continued)

As discussed in the accounting policies note the calculation of the expected credit loss provision is based on management's assessment of the probability of default (PoD) and the percentage loss expected to arise in the event of default (LGD), multiplied by the current size of the loan receivable. The PoD and LGD rates are estimated on a loan by loan basis. Most of the intragroup loan receivables have very low PoD and LGD due to their low credit risk and do not contribute significantly to the overall ECL provision. However, there are a small group of intragroup loan with higher credit risk that contribute most towards the ECL provision and these loans have an average PoD of 75% and LGD of 100%. Management estimates of these rates is judgemental and any changes in estimates would change the amount of ECL recognised. For the higher credit risk loans a 1% increase in the PoD would increase the ECL by approximately £7 million (2020: approximately £4 million). In regards to the LGD estimate a 1% reduction would reduce the ECL by approximately £5 million (2020: approximately £3 million). It is not possible to increase the LGD and therefore there is no risk of the ECL increasing due to this factor.

Trade and other receivables

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

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 connection with one ISDA Credit Support Annex the Company had placed £37 million as at 30 September 2021 (2020: £47 million) as collateral with a third party in order to manage their counterparty risk on the Company under derivative financial instruments.

The table below summarises the Company's largest exposures to financial counterparties as at 30 September 2021. At the balance sheet date management does not expect these counterparties to default on their current obligations.

	2021		2020	
Counterparty Exposure	**S&P credit rating**	**Maximum exposure to credit risk £ million**	S&P credit rating	Maximum exposure to credit risk £ million
Highest	**A+**	**35**	A+	14
2nd highest	**-**	**-**	A	11
3rd highest	**-**	**-**	A+	5
4th highest	**-**	**-**	A+	2

(c) Liquidity risk

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

Certain of these borrowings contain cross default provisions and negative pledges. The core committed bank facilities are subject to two financial covenants, these being minimum interest cover ratio of four times and maximum gearing of four times (per the definition within the agreement) and are subject to pari passu ranking and negative pledge covenants. Any non-compliance with covenants underlying the Company's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities.

We remain fully compliant with all our banking covenants (2020: fully compliant).

The Group primarily borrows centrally in order to meet forecast funding requirements, and the treasury function is in regular dialogue with subsidiaries in the Group to ensure their liquidity needs are met. Subsidiaries in the Group are funded by a combination of share capital and retained earnings, intercompany loans, and in very limited cases through external local borrowings. Cash pooling processes are used to centralise surplus cash held by subsidiaries in the Group where possible in order to minimise external borrowing requirements and interest costs. Treasury invests surplus cash in bank deposits and uses foreign exchange contracts to manage short term liquidity requirements in line with short term cash flow forecasts. As at 30 September 2021, the Company held liquid assets of £622 million (2020: £911 million).

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

13. Financial risk management (continued)

The table below summarises the Company’s non derivative financial liabilities by maturity based on their remaining contractual cash flows as at 30 September 2021. 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 14.

At 30 September 2021 (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	**9**	**56**	**56**	**-**	**-**	**-**
Capital market issuance	**8,904**	**10,125**	**1,326**	**1,663**	**5,023**	**2,113**
Amounts owed to Group undertakings	**22,512**	**22,522**	**21,662**	**-**	**-**	**860**
Total non-derivative financial liabilities	**31,425**	**32,703**	**23,044**	**1,663**	**5,023**	**2,973**

At 30 September 2020 (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	-	-	-	-	-	-
Capital market issuance	11,590	13,302	1,806	2,339	5,165	3,992
Amounts owed to Group undertakings	18,301	18,301	18,301	-	-	-
Total non-derivative financial liabilities	29,891	31,603	20,107	2,339	5,165	3,992

Amounts owed to the Company by Group undertakings of £33,788 million (2020: £32,089 million) are excluded from the above tables, as disclosure of contractual cash flows 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 21 of the Imperial Brands 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, foreign exchange rates and credit default swap prices for the Imperial Brands PLC Group as at the balance sheet date (Level 2 classification hierarchy per IFRS 7) as detailed in note 14. 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 14.

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 one derivative financial instrument under an ISDA credit support annex. 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.

			2021		
(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	**496**	**(37)**	**459**	**(435)**	**23**
	496	**(37)**	**459**	**(435)**	**23**
Liabilities					
Derivative financial instruments	**(1,083)**	**37**	**(1,046)**	**435**	**(611)**
	(1,083)	**37**	**(1,046)**	**435**	**(611)**

			2020		
(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	882	(47)	835	(828)	7
	882	(47)	835	(828)	7
Liabilities					
Derivative financial instruments	(1,703)	47	(1,656)	828	(828)
	(1,703)	47	(1,656)	828	(828)

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

13. Financial risk management (continued)

Classification of financial instruments

The following table sets out the Company's accounting classification of each class of financial assets and liabilities:

	2021 Fair value through income statement	Assets and liabilities at amortised cost	Total	Current	Non-current
Trade and other receivables	**-**	**33,795**	**33,795**	**33,731**	**64**
Cash and cash equivalents	**-**	**622**	**622**	**622**	**-**
Derivatives	**459**	**-**	**459**	**68**	**391**
Total financial assets	**459**	**34,417**	**34,876**	**34,421**	**455**
Borrowings	**-**	**(8,913)**	**(8,913)**	**(1,056)**	**(7,857)**
Trade and other payables	**-**	**(22,604)**	**(22,604)**	**(21,745)**	**(859)**
Derivatives	**(1,046)**	**-**	**(1,046)**	**(62)**	**(984)**
Total financial liabilities	**(1,046)**	**(31,517)**	**(32,563)**	**(22,863)**	**(9,700)**
Total net financial assets/(liabilities)	**(587)**	**2,900**	**2,313**	**11,558**	**(9,245)**

	2020 Fair value through income statement	Assets and liabilities at amortised cost	Total	Current	Non-current
Trade and other receivables	-	32,092	32,092	31,983	109
Cash and cash equivalents	-	911	911	911	-
Derivatives	835	-	835	51	784
Total financial assets	835	33,003	33,838	32,945	893
Borrowings	-	(11,590)	(11,590)	(1,381)	(10,209)
Trade and other payables	-	(18,334)	(18,334)	(18,334)	-
Derivatives	(1,656)	-	(1,656)	(37)	(1,619)
Total financial liabilities	(1,656)	(29,924)	(31,580)	(19,752)	(11,828)
Total net financial assets/(liabilities)	(821)	3,079	2,258	13,193	(10,935)

14. Derivative financial instruments

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

Current derivative financial instruments	**2021**		2020	
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**60**	**(33)**	39	(27)
Foreign exchange contracts	**4**	**(4)**	9	(10)
Cross currency swaps	**4**	**(25)**	3	-
Collateral[1]	**-**	**-**	-	-
Total current derivatives	**68**	**(62)**	51	(37)
Non-current derivative financial instruments				
(In £ million)	**Assets**	**Liabilities**	Assets	Liabilities
Interest rate swaps	**391**	**(780)**	784	(1,183)
Cross currency swaps	**-**	**(241)**	-	(483)
Collateral[1]	**-**	**37**	-	47
Total non-current derivatives	**391**	**(984)**	784	(1,619)
Total carrying value of derivatives financial instruments	**459**	**(1,046)**	835	(1,656)
Net liability		**(587)**		(822)
Analysed as:				
Interest rate swaps	**451**	**(813)**	823	(1,210)
Foreign exchange contracts	**4**	**(4)**	9	(10)
Cross currency swaps	**4**	**(266)**	3	(483)
Collateral[1]	**-**	**37**	-	47
	459	**(1,046)**	835	(1,656)
Net liability		**(587)**		(821)

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

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

14. Derivative financial instruments (continued)

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. 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 £19m (2020:£27 million) and would have been a £49m (2020:£76 million) reduction without considering the early termination options. All derivative assets and liabilities are classified under the FRS 101 fair value hierarchy as being level 2.

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. For the purposes of the above and following analysis, maturity dates have been based on the likelihood of any early termination options being exercised with consideration to counterparty expectations and market conditions prevailing as at 30 September 2021. 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 2021. 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 13.

At 30 September 2021 (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	**(325)**	**(480)**	**16**	**(1)**	**(157)**	**(338)**
Gross settled derivatives	**(262)**	**-**	**-**	**-**	**-**	**-**
Receipts	**-**	**5,667**	**2,516**	**66**	**2,522**	**563**
Payments	**-**	**(5,818)**	**(2,521)**	**(48)**	**(2,661)**	**(588)**
	(587)	**(631)**	**11**	**17**	**(296)**	**(363)**

At 30 September 2020 (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	(340)	(479)	62	19	(104)	(456)
Gross settled derivatives	(481)	-	-	-	-	-
Receipts	-	6,530	2,240	1,084	1,528	1,678
Payments	-	(6,858)	(2,221)	(1,153)	(1,633)	(1,851)
	(821)	(807)	81	(50)	(209)	(629)

Derivatives as hedging instruments

As outlined in note 13, the Company hedges its underlying interest rate exposure and foreign currency translation exposure in an efficient, commercial and structured manner, primarily using interest rate swaps and cross currency swaps. Foreign exchange contracts are used to manage the Company's short term liquidity requirements in line with short term cash flow forecasts as appropriate. The Company does not apply cash flow or fair value hedge accounting as permitted under IFRS 9, which results in fair value gains and losses attributable to derivative financial instruments being recognised in net finance costs.

The Company has considered the impending requirements to re-base LIBOR based interest rates to new risk-free based rates. The Company is currently undertaking an exercise to re-base to risk-free rates all its affected interest rate derivative contracts that mature after the end of September 2021. GBP LIBOR contracts will be rebased to SONIA in the last quarter of the 2021 calendar year with USD LIBOR contracts to be rebased later in the 2022 fiscal year. At present, it is not anticipated that these changes will impact the Group's commercial hedging strategy, nor should they have a material financial impact.

Interest rate swaps

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

Notes to the Financial Statements (continued)

For the year ended 30 September 2021

14. Derivative financial instruments (continued)

As at 30 September 2021, 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 £10,775 million (2020: £11,656 million) with a fair value of £425 million asset (2020: £822 million asset). The fixed interest rates vary from 1.1% to 8.7% (2020: 0.5% to 8.7%), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR.

As at 30 September 2021, the notional amount of interest rate swaps outstanding that were entered into to convert the Group's debt into the appropriate proportion of fixed and floating rates to manage and re-profile the Group's interest rate risk were £8,806 million (2020: £10,311 million) with a fair value of £750 million liability (2020: £1,163 million liability). The fixed interest rates vary from 0.5% to 4.4% (2020: 0.5% to 4.4%), and the floating rates are EURIBOR, GBP LIBOR and USD LIBOR. This includes forward starting interest rate swaps with a total notional amount of £1,531 million equivalent (2020: £2,519 million equivalent) with tenors between 3.5 and 6 years, starting between May 2022 and October 2024.

Cross currency swaps

The Company enters into cross currency swaps to covert the currency of debt into the appropriate currency with consideration to the underlying assets of the Group as appropriate. Fair value movements are recognised in investment income and finance costs in the relevant reporting period.

As at 30 September 2021, the notional amount of cross currency swaps entered into to convert floating rate sterling debt into the desired currency at floating rates of interest was £2,600 million (2020: £2,600 million) and the fair value of these swaps was £214 million net liability (2020: £409 million net liability); the notional amount of cross currency swaps entered into to convert floating rate US Dollar debt into the desired currency at floating rates of interest was $1,750 million (2020: $1,750 million) and the fair value of these swaps was £48 million net liability (2020: £71 million net liability).

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 2021, the notional amount of these contracts was £1,430 million (2020: £2,126 million) and the fair value of these contracts was a net liability of £0.6 million (2020: £0.7 million net liability).

15. Share capital

(In £ million)	**2021**	2020
Issued and fully paid		
2,100,000,000 ordinary shares of £1 each (2020: 2,100,000,000)	**2,100**	2,100

16. Related party transactions

The Company has taken advantage of the Group exemption under the terms of FRS 101 from disclosing related party transactions with entities that are part of the Group since the Company is a wholly owned indirect subsidiary of Imperial Brands PLC and is included in the consolidated financial statements of the Group, which are publicly available.

17. Guarantees

The Company is party to a cross guarantee of its bank accounts held at HSBC Bank plc against accounts of Imperial Brands PLC and some of its subsidiary companies. At 30 September 2021, the amount drawn under this cross guarantee was £nil million (2020: £10 million). Together with other Group undertakings, the Company guarantees various borrowings and liabilities of other subsidiary companies under this arrangement with HSBC Bank plc.

The Company is party to five counter-indemnity deeds, each dated July 2020, made on substantially the same terms under which certain insurance companies have made available to Imperial Brands PLC, Imperial Tobacco Limited and the Company, a surety bond. In each case issued on a standalone basis but in aggregate forming an amount of £225 million, until January 2026. These surety bonds provide support to the Imperial Tobacco Pension Trustees Ltd, the main UK pension scheme.

At 30 September 2021, the contingent liability totalled £225 million (2020: £235 million).

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

18. Number of employees

The average monthly number of employees during the year was 8 (2020: 8).

19. Immediate and ultimate parent undertakings

The ultimate parent undertaking and controlling party of the Company at 30 September 2021 was Imperial Brands PLC, a company incorporated in Great Britain and registered in England and Wales. The smallest and largest group in which the results of the Company are consolidated is that headed by Imperial Brands PLC, whose consolidated financial statements may be obtained from The Company Secretary, Imperial Brands PLC, 121 Winterstoke Road, Bristol, BS3 2LL and are also available in the investors section of the Group website at www.imperialbrandsplc.com.

The immediate parent undertaking of the Company at 30 September 2021 was Imperial Tobacco Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.