

IMPERIAL TOBACCO GROUP



Operating Responsibly: Corporate Responsibility Review 2009

**Assurance statement and
commentary**

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Imperial Tobacco Group has commissioned Corporate Citizenship to provide external assurance and a commentary on *Operating Responsibly, its Corporate Responsibility Review 2009*.

The scope of our assurance

The assurance provides the reader with an independent, external assessment of the report and, in particular, with how it corresponds with the AA1000 standard. It is intended for the general reader and for more specialist audiences who have a professional interest in Imperial Tobacco Group's sustainability performance.

Imperial Tobacco Group has chosen to use the AA1000 assurance standard (AA1000AS) 2008. Our assurance is a Type 1 assurance as defined by the standard, in that it evaluates the nature and extent of adherence to the AA1000AS principles of inclusivity, materiality and responsiveness and assures the behaviour of the organisation as reported here. Our assurance used disclosed information as its starting point and then investigated the underlying systems, processes and sustainability performance information to arrive at its conclusions.

The level of assurance offered is moderate as defined by AA1000AS (2008). That is to say, our work obtained sufficient evidence to support the statement that the risk of our conclusion being in error is reduced.

In conducting the assurance we have had consideration to the Global Reporting Initiative Principles for Defining Report Content and Ensuring Report Quality.

Imperial Tobacco Group is responsible for the contents of the report, Corporate Citizenship for its assurance. As noted above, our assurance is confined to the Corporate Responsibility Review 2009.

In addition to this assurance, the data on Imperial Tobacco Group's performance against its non-financial performance indicators as included in the report has been independently assured by SGS.

A detailed note of our assurance methodology appears at the end of this statement.

Opinion and conclusions

In our opinion the Imperial Tobacco Group plc *Corporate Responsibility Review 2009* reflects the principles of AA1000 (2008): inclusivity, materiality and responsiveness. In our commentary we review the report against each of these principles separately. We also provide feedback that can help the company and its stakeholders identify where its reporting can be strengthened in future.

Commentary

A corporate responsibility report is an opportunity for a company to demonstrate how it manages its impact on society and how it takes account of, and engages with, a range of different stakeholders to inform its management of core issues. It should also be open about shortcomings and show how the company is listening, learning and improving.

For the current Review Imperial Tobacco has kept to a similar structure and format to previous years and has focussed its reporting on the issues that it has previously identified as key to its overall management of corporate responsibility. The Review does, however, include two important developments in Imperial Tobacco Group's reporting:

- The first has been to commission, for the first time, this external assurance to the AA1000 standard;
- The second is the establishment of a panel of key stakeholders and opinion formers, which has provided feedback on the Review and its contents during production. This was facilitated by Corporate Citizenship.

Imperial Tobacco Group is to be commended on taking these steps.

Specific comments in relation to the three principles of AA1000 are as follows:

Inclusivity: *Does the company accept a responsibility to those on whom it has an impact, and does it enable their participation in identifying issues and finding solutions?*

Imperial Tobacco Group has defined its main stakeholders as those that have a financial interest in the company. The Corporate Responsibility Review articulates different ways in which the company can impact on each of these and the steps it has taken to manage these impacts and engage with different stakeholders. For example, through employee forums, or working with suppliers through the Social Responsibility in Tobacco Production (SRITP) initiative as well as more generally through its stakeholder panel.

The company also acknowledges that it has an impact on, and a responsibility towards, a wider range of stakeholders. It reports on a number of processes that address these issues and interests such as youth smoking prevention and broader community investment activity.

The Review highlights two challenges that Imperial Tobacco Group faces concerning its engagement with different stakeholder groups. Firstly, it reports that, as a tobacco producer, the company's ability to participate in discussion with key groups (e.g. governments and other agencies) on issues around the production, sale and distribution of its product is increasingly limited despite considerable efforts by the company to take a lead on key issues. The frustration the company feels at this challenge is evident. However, future reports will be strengthened by providing more specific detail on the concrete steps that it takes to lead on, and be part of the solution to, issues around its product, how it engages with key stakeholders on an issue (and/or any challenges) and the results it achieves. On the subject of potentially reduced exposure products (PREPs), for example, the information in the report could be supplemented by more specific detail on the nature and extent of the investment made by the company, how it has worked with regulators and other key bodies in this process, and the results it has achieved in moving development of PREPs forward.

Secondly, the company acknowledges that it must do more to engage with groups that are critical of the tobacco industry and to ensure that its response to their views is reported. The report provides a robust defence of the interests of smokers and it will be interesting to read how the company addresses instances where these conflict with those of other stakeholder groups.

While the report clearly addresses the interests of Imperial Tobacco Group's key stakeholders, it is notable that external voices, as well as those of key internal groups such as employees, are largely absent from the Review. Future reports will benefit from greater inclusion of the views of stakeholders and their perception of Imperial Tobacco Group's performance with regard to the issues that impact on them.

Materiality: *What are the issues that really matter to the company's sustainability performance?*

Imperial Tobacco Group has undertaken an extensive process to identify the issues that are of most relevance to its social and environmental performance, which it has covered in detail in previous reports. It is encouraging that it has now aligned these with its risk register so that the two are complementary. We also look forward to reading in future reports about the results of its current review of the framework and accompanying performance indicators.

Future reports would benefit from greater detail on some of the systems the company has in place to gather intelligence on emerging issues and areas of concern and so be on top of developing issues. An example is the formal system that requires country managers to identify and report through local issues of relevance to its broader corporate responsibility objectives.

For most external audiences the subject of smoking and health is a key issue for the tobacco sector. The Review is explicit in stating Imperial Tobacco Group's position; that no cigarette is safe, which is covered under product stewardship in the Review. This is a robust statement and is aligned with externally accepted views. We understand that Imperial Tobacco Group undertakes significant research into tobacco and its health implications, working with a range of academic and scientific bodies. Future reports could be strengthened by including more detail about the outcomes of this research and the degree to which the company's efforts contribute to increasing the overall understanding of tobacco and tobacco-related diseases.

In our assignment, we came across two issues around smoking and health, that Imperial Tobacco covers in other communications (e.g. its website), but which are largely absent from its report. These are environmental smoke (passive smoking) and the issue of smoking and addiction. Future reporting would benefit from more information on the steps Imperial Tobacco Group takes as a responsible tobacco supplier to contribute to research in these areas and to address the concerns of smokers and non-smokers alike. The Corporate Responsibility Review is clear on the company's position that smoking is a matter of informed adult choice. Future reports should demonstrate Imperial Tobacco Group's role in enabling consumers to

make informed choices. This would be in-line with its commitment to behave responsibly to the high standards expected of an international company.

There are also certain issues that are emerging across the sector that should be reflected in future reports. One of these is phenomenon of “cheap white brands”. These are cigarettes that are produced legitimately in countries outside western Europe, where the brands are registered and excise duty paid in the country of origin. Problems arise when these products are illegally imported into the UK where they can be sold below market prices because of differences in excise duty

Responsiveness: *has the company put in place the policies, targets, management processes, engagement, measuring and reporting needed to address material issues?*

It is particularly encouraging that Imperial Tobacco Group’s commitment to corporate responsibility is formally reported to and discussed by the Board. We are also encouraged that there is substantial evidence that it has established a range of systems and processes to effectively manage and address its core issues.

It has identified key objectives in each core issue area and has devolved delivery to a number of issue ‘owners’. It has developed a set of key performance indicators around its non-financial reporting and has embedded a comprehensive data gathering system to collect performance information in these areas.

In reporting its engagement in specific issues around its management of corporate responsibility there are several examples where the company’s approach is substantiated by specific actions it takes and/or its engagement with particular organisations to address the issue. Examples include its involvement in SRiTP, its new internal marketing standard and the Eliminating Child Labour in Tobacco Foundation (ECLT).

However, there are also a number of instances where the company’s reported response to particular issues is to state a position or a belief about anticipated consequences of an action (on the possible impact of display bans or a ban on vending machines, for example) with limited or no evidence to substantiate the claim. Future reports should include or refer readers to sources of, ideally independent, information that can help them develop an informed opinion on the issue in question.

As noted above, the Review refers to a large number of initiatives and activities that Imperial Tobacco engages in, or with, in addressing its material issues. It could increase readers understanding of the part it plays by providing more information

about its own involvement and the impact it has made. The case study on ECLT, for example, or the other community projects it supports, could be strengthened with more information about the extent of Imperial Tobacco Group's investment and the achievements its partners have made as a result. Equally, the example of its involvement in joint anti-illicit trade activities could be bolstered with more information about the part the company played in these successes.

Conclusion

Overall we have found much to be commended in the Corporate Responsibility Review, particularly with regard to the process the company has gone through to identify its key issues and the systems it has implemented to manage these. We are also encouraged by the steps the company is taking to increase its engagement with wider stakeholders, through the stakeholder panel, for example.

In this commentary we have highlighted specific areas for improvement regarding the company's reporting and we look forward to seeing how these are reflected in future reports.

Finally, the Corporate Responsibility Review is an opportunity to communicate with all interested stakeholders. In future, Imperial Tobacco Group could review the language that it uses to report its performance. Some sections of the report could be difficult for someone outside the company, or without specialist knowledge, to fully understand.

***Corporate Citizenship
London
12 February 2010***

Methodological notes

The assurance work was commissioned in March 2009 and was completed on 15th February 2010. Detailed records were kept of meetings, assurance visits and correspondence relating to the inclusivity, materiality and responsiveness of the report, as well as to technical matters relating to the accuracy and presentation of data. A team of three, led by a director, undertook the assurance and commentary process. A second director acted as adviser to the group. The team has a variety of professional and technical competencies and experience. For further information please refer to our website www.corporate-citizenship.com.

Our external assurance and commentary process for Imperial Tobacco Group plc's *Corporate Responsibility Review 2009* has involved, but not been limited to, the following elements:

- Understanding Imperial Tobacco Group and its value chain, its own culture and the broader social contexts in which it operates; its approach to and understanding of corporate citizenship; how it identifies issues material to its operations.
- Benchmarking against peers, competitors, best practice and internationally recognised standards to identify the basis on which to judge Imperial Tobacco Group's performance.
- Analysis of Imperial Tobacco Group's additional stakeholder engagement activity, principally employee surveys, feedback on previous reports as well as stakeholder panel feedback on development drafts of this report.
- Review of national and international published sources of information about the views and opinions of external stakeholders, including inter-governmental and governmental agencies, media, academics and special interest groups.
- A review of external assessments made of Imperial Tobacco Group's corporate responsibility performance such as BitC's Corporate Responsibility Index.
- Examination of the report at set stages in its development and testing of the assertions throughout on a section-by-section basis, drawing from evidence and supporting documentation, reporting mechanisms, frameworks and processes.
- Examination of management and reporting systems, notably for environmental management.

- Meetings and discussions with a cross-section of Imperial Tobacco Group departments about the company's approach to corporate citizenship, its policies and performance, its future challenges and its relations with stakeholders. These were used to obtain evidence to validate data and statements made in the report.

Our work did not extend to a complete audit of the report's contents. We have not been responsible for the preparation of Imperial Tobacco Group plc's *Corporate Responsibility Review 2009* nor in devising the internal management and reporting systems that yielded the data contained therein.

The opinions expressed in this external assurance statement and commentary are intended to extend understanding of Imperial Tobacco Group's non-financial performance and should not be used or relied upon to form any judgments, or take any decisions, of a financial nature.

Corporate Citizenship is a leading assessor of corporate responsibility reports. The company is a member of AccountAbility (Institute for Social and Ethical AccountAbility).

This is the first year that we have provided Imperial Tobacco Group with external assurance. During the 2009 reporting period, our work with Imperial Tobacco Group focused exclusively on assurance and stakeholder engagement. We supported Imperial Tobacco Group in convening and facilitating its stakeholder panel. Our fees for this work did not exceed 1% of our total fee income.



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