

Imperial Tobacco Group PLC
Corporate Responsibility Review 2006

Progress in responsibility



90%

in BiTC Environment
index 2005

64th

in BiTC 'Top 100
Companies That Count'

32%

less waste to landfill*

Achievements

- Developed potential products, and initiated dialogue with governments for their consideration as Potentially Reduced Exposure Products (PREPs)
- Achieved all environmental performance targets for 2010 ahead of schedule
- Energy consumption down* by 11%
- Carbon dioxide emissions down* by 20%
- Waste output down* by 3%
- Waste to landfill down* by 32%
- Water consumption down* by 12%
- Achieved ISO 14001 certification at 4 more manufacturing sites (61% of sites now certified, covering 80% of turnover)
- Created significant partnerships with local NGOs, including environmental, malaria control and HIV/AIDS
- Developed a new non-financial reporting system to collect data from our sites and markets
- Finalised non-financial reporting arrangements and Advisory Panel
- Set up a network of corporate responsibility co-ordinators in our Sales & Marketing function
- Local management control delivered stable accident rates
- Created training programmes in CR and stakeholder engagement

*Absolute values for financial year 2005 compared with 2001 base year, 2004 base year for waste

External opinion

- Scored 73% (66% in 2005) in the SAM Research assessment for the Dow-Jones Sustainability Index 2006, against a sector average of 66% (the highest score was 79%)
- Named as 64th in the 2006 'Top 100 Companies That Count' by the UK's Business in the Community
- Scored 90% in the Business in the Community Environment Index 2005 (83% in 2004), ranked 48 out of 145
- Rating agency SERM Index (Risk Management) has given us the second lowest risk rating compared with the five other international companies in our sector

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Imperial Tobacco is the world's fourth largest international tobacco company, which manufactures, markets and sells a comprehensive range of cigarettes, tobaccos, rolling papers and tubes.

Overview

Our employees

Group

Imperial Tobacco products are available in over 130 countries worldwide and the company has grown beyond its key markets of the UK and Germany. Our geographic and product diversity provides business resilience and a strong platform for future growth.

64th in 'Top 100 companies that count' see page 11



Average number of employees

14,486

United Kingdom

We have clear market leadership in the UK, which is a key profit centre for the Group, with strong positions in cigarette, fine cut tobacco and papers.

Best supplier award
see page 26



Average number of employees

2,435

Germany

Germany is an important contributor to our overall results. Our cigarette market share is growing and although trading conditions are challenging, our broad portfolio enables us to respond to changing consumer dynamics.

Restructuring in Berlin
see page 34



Average number of employees

2,328

Rest of Western Europe

Building on our leading position in fine cut tobacco and papers, we have growing cigarette shares in a number of markets in our Rest of Western Europe region, despite a highly competitive and regulated environment.

Snus
see page 17



Average number of employees

1,443

Rest of the World

Our Rest of the World region is diverse with over 100 countries, with different dynamics, opportunities and challenges. We are growing our market shares and sales volumes in many markets across the region.

Waste water in Senegal
see page 22



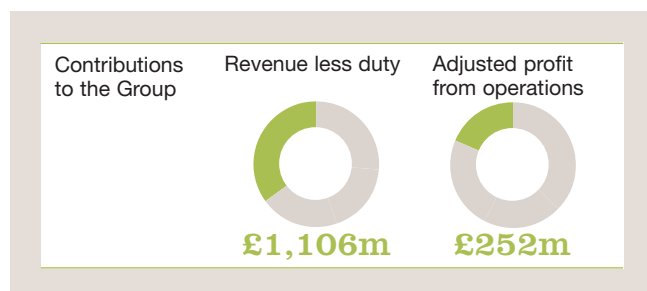
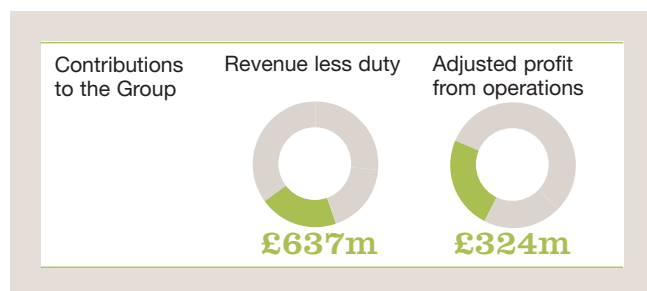
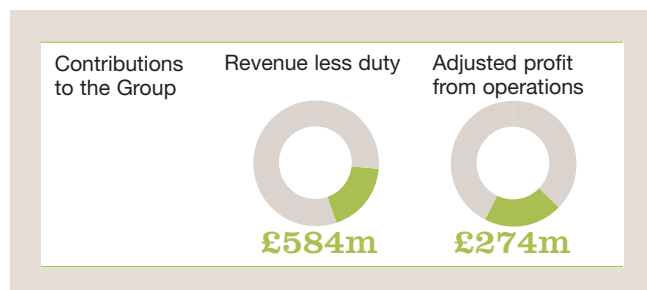
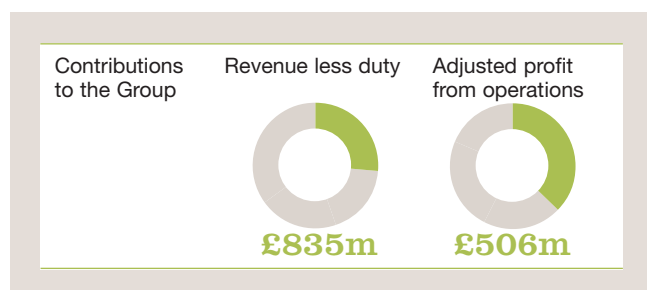
Average number of employees

8,290

Our CR Strategy We are committed to building a sustainable and profitable business while behaving responsibly as a good corporate citizen in all our operations. Our strategy is to embed the principles of corporate responsibility (CR) into the Group's executive management practices and processes across all aspects of our businesses.

2006 financial performance

Revenue less duty	£3,162m	Adjusted earnings per share	122.2p	Total tax charge	£310m
Adjusted profit from operations	£1,356m	Dividends per share	62.0p	Community investment	£1.2m



Our values

- ▶ We work as one team for the good of the whole business
- ▶ We are a responsible company, pursuing high standards in everything we do
- ▶ We deliver high-quality products to ensure customer satisfaction
- ▶ We put shareholders first among our stakeholders

Our people



Our success in 2006 was as much about our people as our products and markets.

We aim to provide a working environment which will attract, retain and motivate the best people, to ensure they can maximise their potential and share in the Group's success.



We are committed to behaving as a responsible corporate citizen



“If corporate responsibility is to be an enduring part of the business landscape, then it must address mainstream business issues.”

Imperial Tobacco supports the sound, reasonable and practical regulation of tobacco products. We believe that this approach, combined with well thought out local voluntary agreements, is the best way to regulate tobacco. The search for appropriate regulation continues. The Framework Convention on Tobacco Control, sponsored by the World Health Organisation (WHO), is seen by many as a means of achieving a way forward.

However, to produce a framework for regulation that is sound, reasonable and practical, the WHO, or its international and local successors and implementers, will require access to considerable expertise in tobacco science. It is not enough simply to hear second-hand from others about tobacco; it must be seen at first hand what is involved in the production and stewardship of tobacco products. Yet those in the WHO that would manage the regulatory process have so far chosen to exclude what could be the most useful input to its deliberations – input from those like ourselves, who operate in and understand the tobacco industry.

Indiscriminate generalisations questioning the potential quality and value of input from the tobacco industry simply will not do as justification for its exclusion. As I pointed out in the Introduction to last year's Review: *“There is now a wealth of governance procedures which surrounds any statement made by a public company... I welcome such provisions and wish they were extended formally to all in the public debate, including non-governmental organisations and the media.”*

I am delighted to see that several leading NGOs have signed the newly-developed International Non-Governmental Organisations' Accountability Charter which includes clauses on responsible advocacy and on accuracy of information. This is a welcome first step towards what I hope will be parity with public companies. I would now urge all NGOs operating in the tobacco sector to sign up to and implement this Accountability Charter – and I would urge all governments firstly to demand that all those NGOs who would make input to the regulatory consultative process make and implement such a commitment and secondly to take no account of those who do not.

Reasoned, informed and expert evidence that is soundly-based on the primary scientific literature, together with enlightened and respectful debate, are fundamental prerequisites of good regulation. Tobacco regulation should be no different.

I believe that the time is now right to make real and practical progress by involving the expertise of the tobacco industry in the development of sound, reasonable and practicable regulation of tobacco.

This is our fourth Corporate Responsibility Review. In it, we provide an insight into our business activities from the viewpoint of our product value chain and its corporate responsibility issues. We provide performance data on what we see as our most important issues. We report on those which may have had a material effect on our performance in our Annual Report and Accounts. To provide independent comment on our progress, we welcome once again Deborah Leipziger and Mallen Baker.

Thank you for taking an interest in our Review. We would appreciate your feedback via cr@uk.imptob.com

Frank Rogerson
Corporate Affairs Director

CR and governance are integral to our business activities



“Wherever we operate in the world, we employ a rigorous approach to governance through the implementation of our Values, our Business Principles, our Group policies and standards, including our International Marketing Standards.”

Ten years ago, Imperial Tobacco Group PLC de-merged from the Hanson Group and was listed on the London Stock Exchange. In the Group's introduction to the Official List, we said that the key strengths of the business were its strong market position, its financial resources, its low-cost production, its effective management and its opportunities for international growth.

In the ensuing years, that early promise has been realised and the Group today enjoys a prominent position as the world's fourth largest international tobacco company. To grow our business internationally, we have invested around £5.2 billion in acquisitions. Our 14,000 employees operate in over 130 markets worldwide. We remain committed to international growth.

Corporate responsibility and good governance are integral to our business activities. Wherever we operate in the world, we employ a rigorous approach to governance through the implementation of our Values, our Business Principles, our Group policies and standards, including our International Marketing Standards. These express the intentions of the Directors of the Group for the running of its operations throughout the world. Much of this material is published on our corporate web site www.imperial-tobacco.com

Social progress is dependent on economic progress. Governments cannot pursue their mandate for social progress without the tax revenues required to fund their programmes. Companies cannot afford to pay tax revenues and to employ people if they are unable to pursue revenue-generating strategies. Economies, particularly developing economies, cannot successfully achieve their social goals by driving away profitable business through over-regulation, endemic corruption or over-taxation.

In this context, it is worth recalling that 77.7 per cent, over 77 pence of every £1, spent by the UK consumer on cigarettes goes to government in tax and in Germany, the figure is 74.5 per cent.

The ill-informed view that sales of tobacco only benefit the shareholders of tobacco companies is a myth. Companies can and do play their part in assisting governments to achieve social progress, but governments should not look to good businesses as substitutes for the delivery of economic, social and environmental progress.

In the last ten years, Imperial Tobacco has played its part in the creditable delivery of such progress, and will continue to do so.

A handwritten signature in dark ink, reading 'Gareth Davis'.

Gareth Davis
Chief Executive

Our 2006 Corporate Responsibility (CR) Review gives an overview of our approach to CR, our issues, management systems and processes and focuses on our performance during the past year.

We have structured the Review around our product value chain to provide insight into the product stewardship, social and environmental issues we face. These sections of the Review cover:

- Product and process development
- Leaf buying and processing
- Product manufacture
- Storage and distribution
- Sales, marketing and brand management
- Consumer use

We follow this by reporting on our responsibilities which lie outside the product value chain, as an employer and member of communities local to our factories and offices.

As in previous Reviews, we have used local case studies to illustrate how we put our principles into practice and how we create local solutions to tackle the wider issues that are important to our stakeholders.

To form a clear picture of our CR activities, you could also visit our web site www.imperial-tobacco.com where you will find more detailed information about our commitment and approach to CR, together with additional case studies. Throughout this Review, we have used a 'find out more' symbol to signpost further information on our web site.

As is our custom, we have invited two independent experts to comment on our public reporting and on our approach to CR. We are grateful to Deborah Leipziger (Director of the Anders & Winst Company) and Mallen Baker (Development Director for Business in the Community) for their critiques of this year's Review. Their views, together with the feedback we have received from various stakeholders, should help us to improve our public reporting.

Once again, we have used the 2002 Global Reporting Initiative (GRI) guidelines to help shape this Review. For the first time, we have included a GRI index in our online, web site version of the Review. This index compares the 2002 GRI reporting elements and indicators with our public reporting and web site material for ease of cross-reference. Although we welcome the GRI guidance, we believe that voluntary social and environmental reporting offers a more flexible approach that can be more relevant to our business. We have followed closely the development of the 2006 GRI (G3) guidelines and will assess their future use in our non-financial reporting.

The information and performance data in this Review have been verified by SGS United Kingdom Limited, using their Level One Sustainability Report Assurance protocol detailed in their Assurance Statement. These assurance protocols are based on the current best practice guidance provided by the Global Reporting Initiative and the AA1000 Assurance Standard.



Scope

Performance information and data cover our financial year October 2005 to September 2006 and, unless we state otherwise, measures cover this period and cover Group activities where we have operational control. We also report on our performance in areas where we have appreciable influence with our suppliers and other business partners.

Disclosure regarding forward-looking statements

All statements in this Review, other than statements of historical fact, are, or may be deemed to be, forward-looking statements within the meaning of Section 21E of the United States Securities Exchange Act 1934, as amended. For a discussion of important factors that could cause actual results to differ materially from those discussed in such

forward-looking statements, please refer to Imperial Tobacco's Annual Report on Form 20-F for the financial year ended 30 September 2005, filed with the Securities and Exchange Commission on 16 February 2006.

This Review supplements information provided in our Annual Report and Accounts 2006 and in previous Corporate Responsibility Reviews, which can be found on our web site www.imperial-tobacco.com

In recent years, the reporting of corporate responsibility activities by UK public limited companies has been the subject of debate and regulation by UK government. We have followed that debate closely and made preparations for its outcome.

Initially, the UK Company Law Review advised reporting on the basis of issues that might materially impact a business. It created a definition of materiality in these circumstances which we found useful in designing our own reporting systems. In our 2004 CR Review, we described our developing approach to reporting using performance indicators based on environmental and social issues potentially material to Imperial Tobacco.

The subsequent government regulation for companies to provide Operating and Financial Reviews with their Annual Report and Accounts moved away from this definition of materiality. This regulation was repealed in favour of the Strategic Business Review requirements of the European Accounts Modernisation Directive. Now in force, the Directive requires the Strategic Business Review in the Annual Report and Accounts to include:

- Balanced and comprehensive analysis of development, performance and position of the company at year-end
- Description of the principal risks and uncertainties
- Analysis using financial key performance indicators (KPIs) and, where appropriate, other KPIs, including information relating to environmental and employee matters, to the extent necessary for an understanding of the development, performance or position of the company.

Our response has been to continue with our initial approach of collecting performance data on CR issues potentially material to our business. The data will be used for performance management purposes and reported in our CR Reviews. Those measures which prove valuable in use year by year will be retained.

The non-financial measures which are routinely used by the executive Board to run the business will be reported in the Annual Report and Accounts, together with any significant social and environmental matters, supported by performance measures. Additional CR information will continue to be included in that document.

Our CR Reviews and web site will remain the primary vehicles for detailed reporting on environmental, employment and community matters. We have taken the opportunity to refresh the CR material on our web site. It now contains more detailed information on our approach to CR and how we meet our responsibilities. This will be supplemented by an annual CR Progress Review which will be published on our web site and may be downloaded.

This year, we have also started to accept invitations to make verbal reports of our progress and our views. We believe that our measured approach to CR has met with success and that we now have experience to share. The Head of Corporate Responsibility presented to the Commonwealth Business Forum conference on 'Responsibility and Governance in Imperial Tobacco' and the Group OHS&E and Social Responsibility Manager presented at the Business in the Community annual conference 2006. The feedback from both events has been helpful.

Find out more

Visit relevant sections in our corporate web site for further information

- Our approach to CR
- Annual Report and Accounts
- Non-financial reporting framework
- GRI index

www.imperial-tobacco.com

Our approach to corporate responsibility

We are committed to building a sustainable and profitable business while behaving responsibly as a good corporate citizen in all our operations.

Our strategy is to embed the principles of corporate responsibility into the Group's executive management practices and processes across all aspects of our business.

Our aim is to foster appropriate behaviours, ensure performance improvement and provide lasting stakeholder value by:

- Defining clear leadership and accountability to ensure that high standards of business conduct and responsible behaviour are integral to our activities
- Building capability for continuous improvement
- Fostering trust through transparency
- Proactive engagement with our stakeholders



The PLC Board agrees our strategy and medium-term objectives in CR across the Group.

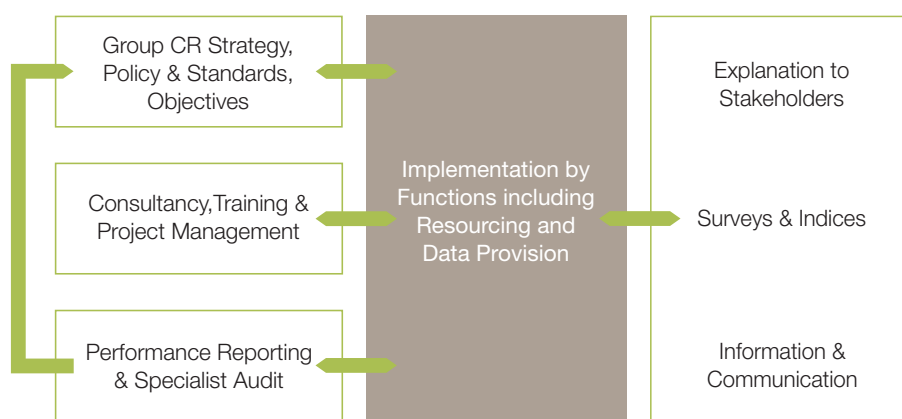
We have chosen to manage CR through the mainstream management of the business, without a Board sub-committee. Therefore, the Chief Executive's Committee (CEC), the executive decision-making body on which all Heads of Function and Executive Directors sit, plays a key role. The CEC is responsible for enforcing high standards of business ethics and promoting our Group policies and CR strategy.

The Corporate Affairs Director and the Head of Corporate Responsibility keep the Board updated with progress in all aspects of CR, via presentations and our regular reporting mechanisms. The Head of Corporate Responsibility and the central CR team lead the development and implementation of CR strategy; provide consultancy and training activities to support implementation throughout the business; and monitor and report on progress internally and externally.

We manage the business and work towards our objectives within the framework of our Group Values, Business Principles, policies and standards, which apply throughout the Group. During 2006, we translated our Business Principles from English into French, German, Polish, Chinese and Russian. The translations will be made available on our Intranet and in a booklet for employees.

The boundaries and manner in which we conduct our business activities are set out in our Acceptable Business Practice policy, which is supported by a Standard for Business Conduct. The policy's intention is to prevent direct or indirect acts of corruption, bribery, anti-competitive behaviour, money laundering, fraud, deception, tax evasion and any other criminal conduct. During 2006, it was distributed to managers within our Policy Manual, for communication to their staff. Together with our Business Principles, the policy and standard supersede our 1996 code of business conduct.

CR working model



We have invested in additional capability to ensure a long-term focus on building sustainable stakeholder value. Our approach to capability building includes:

- Ensuring focus and prioritisation on the CR issues important to our business success
- Providing CR knowledge and expertise
- Developing and maintaining robust systems and processes
- Raising awareness through communication and training
- Effective partnerships and consultancy

We believe that being a responsible company involves always looking to improve. Our focus is on where we have most direct responsibility, where we have most room to improve and on activities that will enable effective future improvement.

Our non-financial reporting performance indicator framework of potentially material issues helps us to focus on specific areas for improvement.

In 2006, we developed and implemented a new software platform that collects and collates data from more than 130 markets and our manufacturing sites worldwide. The system has more than 180 users and allows us to monitor and report on our CR performance.

In order to coordinate the reporting activities of our markets, we now have a new network of CR co-ordinators and administrators. This network will also facilitate the implementation of CR strategy and initiatives within our Sales and Marketing operations.

Systems and processes

Robust systems and processes are key to building and maintaining our success.

Wherever possible, we have chosen to adopt internationally-recognised standards, to help us achieve and maintain high levels of social, environmental and ethical performance. These include management standards such as ISO 9001 for quality and ISO 14001 for environmental management. We are also guided by OHSAS 18001 (or its equivalent) for occupational health and safety management.

We use independent organisations to audit our operational performance and to advise us on our improvement activity. During 2006, our supply chain logistics operation achieved the ISO 9001 standard, making a total of 21 registrations, including our UK trading and vending operations and four factories achieved the ISO 14001 standard (19 factories are now certified). In all, a total of 8 independent, occupational health, safety and environmental audits were undertaken.

Communications

Embedding CR into our Group practices and processes requires a broad internal awareness and acceptance, so internal communications are crucial.

During 2006, our focus has been on improving awareness of our Business Principles, Group policies and CR activities in general. This work has included developing a CR toolkit for managers and specialists for roll-out in 2007; an employee awareness booklet in our main languages; and articles in 'Global View', our corporate magazine. We also delivered regional workshops in Singapore, Sydney, Barcelona, Budapest, Istanbul and New Jersey, to help raise awareness of CR throughout our markets.

As a UK PLC, we comply with the UK Combined Code on Corporate Governance. As we also have American Depository Receipts, we comply with the USA Sarbanes-Oxley Act. Hence, we are subject to extensive governance scrutiny of our business operations worldwide.

As a manufacturer of a controversial product, we believe that we should provide additional information to our stakeholders to allow them to make informed judgements about our business activities. Our approach to efficient and open disclosure has been to:

- Publish detailed information in our CR Reviews and on our web site
- Report on our material issues and performance indicators
- Adopt internationally recognised standards and guidance whenever practicable
- Commission independent audit and verification
- Use appropriate external performance ratings to monitor and benchmark our performance
- Publish significant submissions to competent authorities and review bodies on our web site

We commission SGS United Kingdom Limited to verify the data and claims we make in our CR Review. This year we have started to extend this assurance exercise to cover our CR web site material.

As well as monitoring our performance internally through our non-financial reporting performance indicator framework, we also benchmark ourselves against comparable companies using a number of externally-derived indices. In 2006, these included the SAM Research assessment for the Dow-Jones Sustainability Index, Business in the Community's Corporate Responsibility Index, Carbon Disclosure Project's Climate Leadership Index and the SERM Index (Risk Management).

Highlights 2006 – external opinion



- ▶ Scored 73% (66% in 2005) in the SAM Research assessment for the Dow-Jones Sustainability Index 2006, against a sector average of 66% (the highest score was 79%)
- ▶ Named as 64th in the 2006 'Top 100 Companies That Count' by the UK's Business in the Community. Visit www.bitc.org.uk
- ▶ Scored 90% in the Business in the Community Environment Index 2005 (83% in 2004), ranked 48 out of 145
- ▶ Rating agency SERM Index (Risk Management) has given us the second lowest risk rating compared with the five other international companies in our sector

We believe that effective stakeholder engagement gives us a wider perspective on our responsibilities and more robust options for the way we meet them.

The success of our business depends on our relationships with many people, including investors, employees, suppliers, governments, customers, non-governmental organisations, competitors and the media. We listen to our stakeholders to understand their views, needs and concerns. We also convey our positions, debate issues of mutual interest and use the outcome of this engagement to inform our decision-making.

Over the past two years, 132 of our managers have taken part in regional stakeholder engagement training workshops. They discussed stakeholder mapping, the engagement process and the importance of careful planning, selecting the engagement method, dialogue skills, verification and reporting.

During the financial year, we undertook 35 stakeholder engagement events in various markets on various issues. We have summarised our activities in tabular format in the performance section and used several examples in other sections of the Review.

As part of our engagement programme, we met with our three main leaf suppliers (Universal Corporation, Alliance One International and Continental Tobaccos Alliance) to discuss social responsibility issues in tobacco production. A major concern they raised was that many farmers want to leave the agricultural sector altogether and move to towns where they perceive life to be easier. This may have implications for our leaf supply and increase the country's dependence on imported agricultural produce in general.

One of our suppliers asked for our support in a programme designed to improve agricultural practice issues, such as running farmers' training courses in the responsible and safe use of pesticides, reforestation or water protection. We agreed that we will meet again in early 2007 to pursue this.

As we mentioned in our last Review, in order to improve our understanding of stakeholder dialogue, we participated in the CRADLE project led by the Universities of Leicester and Sheffield. The project, which came to a close early in 2006, established key learning opportunities, for consideration as we develop further our approach to stakeholder engagement. A series of reports on CRADLE's activities are available on the web site www.le.ac.uk/ulmc/cradle

Find out more

Visit relevant sections in our corporate web site for further information

- ✦ Our approach to CR
- ✦ Management
- ✦ Corporate governance
- ✦ External feedback

www.imperial-tobacco.com

Public and regulatory affairs

In the context of increasing regulation and a challenging global environment, we continue to build constructive relationships with governments and regulatory bodies worldwide. Our objective remains to ensure that regulation of tobacco products is sound, proportionate and workable.

We do not accept without challenge regulation that is flawed, unreasonable or disproportionate.

We have a well-developed central Corporate Affairs function which is supported by an international network of corporate affairs practitioners. We have a history of engagement with governments and agencies on a number of topics through our local corporate affairs professionals, through industry associations and through bodies representing the wider business community. Topics discussed during 2006 included:

- Memoranda of understanding and cooperative agreements in our efforts to combat smuggling
- Taxation and other financial issues
- Responsible sales and marketing
- Health warnings
- Smoking in public places
- Ingredients disclosure
- Tobacco constituents and smoke analysis

We are monitoring developments concerning the World Health Organisation's Framework Convention on Tobacco Control (FCTC). Endorsed in May 2003, the FCTC entered into force on 27 February 2005 and is legally binding for all ratifying countries.

The FCTC provides a framework within which national authorities may decide on the most appropriate tobacco control regulation for their national circumstances. The FCTC contains wide-ranging provisions, including those on advertising, ingredients, product testing, taxation and illicit trade.

Imperial Tobacco respects the WHO's overall objective of the "attainment by all peoples of the highest possible level of health". However, it is our view that the WHO should not attempt to regulate areas that fall outside its mandate or competence. The FCTC should not be imposed as a supranational regulatory regime for those issues that are better regulated by governments at a national level.

The tobacco industry has a unique commercial and technical knowledge about its products and about the international tobacco trade. Although regulators may wish to draw on the research and expertise of their own scientific experts, the knowledge of the tobacco industry is invaluable in supporting the development and implementation of practical, workable solutions. We continue to seek participation in constructive and effective dialogue with regulatory authorities and to work with them to develop proportionate and workable regulations.

Our policy and practice is not to make donations to political parties. However, the UK Political Parties, Elections and Referendums Act 2000 includes broad and ambiguous definitions of political donation and expenditure, which may have the effect of covering some normal business activities, for example provisions for employees to take paid leave to participate in trade union activities. However, as the penalties for breach of the Act are severe, acting on legal advice and in common with other companies, we annually request authority from our shareholders to make political donations within the meaning of the 2000 Act. The Group does not, however, make any political donations in the previously accepted sense.

CR in the product value chain

Embedding corporate responsibility into business operations is a challenge many companies face.

In the function-based organisational structure we operate, the individuals who work daily in segments of the product value chain are best placed to recognise and deal with corporate responsibility issues as they arise. The central CR team is one step removed, best placed to train and advise rather than to manage local issues.



Our product value chain

The product value chain consists of the range of activities that are essential to bring a product from its conception, through design, sourcing of raw materials and intermediate inputs such as machinery supply, warehousing, marketing, sale and distribution, through to its use by the consumer.

Each segment of the product value chain raises different social, environmental and ethical issues and different risks to be managed and has an impact on different stakeholder groups.

The managers responsible for the various activities in these segments form the stakeholder relationships that are necessary for them to do their jobs well. In their day-to-day management activities, they are bound by our Group policies and standards, and guided by other governance instruments such as our Business Principles and local regulations. Their executive managers certify annually that due management control is exercised in their areas of operation and they carry out an annual risk analysis required by the Group Compliance team.

The product value chain is being used by the central CR team to analyse where CR issues may arise and to develop relevant training for managers in an effort to assist further embedding of CR in our operations.

Product value chain



1	New developments
2	Leaf buying & processing
3	Product manufacture
4	Storage & distribution
5	Sales & marketing
6	Consumer use

The presentation of tobacco in various forms to those adults who wish to enjoy it is not new.

Smoking is believed to have its origins in Central America, where it was practiced some two thousand years ago by the Mayas tribe, whose members are believed to have smoked rolled up tobacco leaves, similar to present-day cigars.

Herodotus, the fifth century BC historian, described the inhaling of fumes from leaves – not necessarily tobacco leaves – burning on hot coals. Snuffing powdered tobacco leaf through a tube to the nose was described by Ramon Pane, a Spanish monk accompanying Columbus on his second voyage to the New World, writing in 1497 about the local customs of San Domingo.

By the end of the sixteenth century, pipe smoking of tobacco was a nationwide habit in England. Cigarettes were introduced into Spain from the New World early in the seventeenth century and gradually spread to different parts of Europe during the nineteenth century. They became popular in England after the soldiers returned from the Crimean War (1854-1856), having encountered their use among French and Turkish allies.

Modern product development activities are sophisticated and technologically-advanced. The characteristics of tobaccos, various filters and papers are precisely known and are used to design specifications for new products. Mass production techniques can ensure that product specification and quality can be reproduced accurately.

Product introductions

The products and ingredients we use are highly regulated and we comply with the various legal requirements in each country of sale. For all countries where our products are sold, we apply our own high standards of care, which may be higher but never lower than local requirements.

Product introductions may involve a major new development, an innovation relating to an existing product or, more simply, a change of artwork or a brand promotion. In all of these instances we use a Group-wide Product Introduction Process (PIP) as an overriding control mechanism that seeks approval at the appropriate development phases.

The PIP details what needs to be done to take an idea from its initial conception through to finished product, ready for distribution or delivery to market. Once a concept is approved, a project manager ensures that all the processes are followed and that all appropriate Group functions are informed.

PIP has been communicated widely throughout the Group and is part of an ISO 9001 registration. Working documents and a process description are available internally via the Intranet. The overall process is managed by our Business Quality department, part of our Manufacturing function.

Product stewardship and health

Our policy on product stewardship and health is to understand our products; to assess the suitability of the materials used prior to manufacture; and to ensure that developments in the science related to product stewardship and health are monitored and evaluated and appropriate actions are taken.

During the past financial year, our central team of specialists assessed the compliance with relevant regulations of around 12,500 potential combinations of products and markets.

In our previous CR Reviews, we have described how we exercise stewardship of our products and their ingredients. We have reviewed our standards of care which we routinely operate both for the assessment of ingredients used in our products and for our stewardship activities associated with leaf and smoke chemistry. The latter includes our activities for determining and assessing any possible residues of plant protection products.

We continue to develop products that may be regarded by competent authorities as having reduced risk, so called PREPs or Potentially Reduced Exposure Products. Last year we stressed the importance of dialogue with governmental competent authorities on such developments.

We are pleased to report that, during the financial year, we held initial discussions on PREPs in two important domestic markets; with the UK Department of Health and the German Ministry for Consumer Protection.

The next stage of both discussions is for the scientific advisers to each ministry to examine and discuss with ourselves the dataset for the Imperial Tobacco product types. This dataset contains smoke chemistry, toxicology and human biomarker data.

We have made a request to the UK Secretary of State for Health for dialogue with their experts on a range of scientific issues concerning tobacco. We are particularly concerned that developing sound, reasonable and practical regulations requires a level of technical expertise in the tobacco science not currently accessed by many regulatory authorities, through their choice. Frank Rogerson expresses our viewpoint in the introduction to this Review.

We continue to monitor the literature on tobacco and its association with disease and to receive expert opinion on developments, including those related to Environmental Tobacco Smoke (ETS). Our Board of Directors are routinely informed of developments. In 2006, they received a series of presentations reviewing scientific and regulatory positions and developments, including how we fulfil our obligations as a responsible manufacturer.

Product testing

We undertake routine testing of our products for a number of physical and smoke characteristics. Wherever possible, we use internationally-recognised standard methods. Analysis of the smoke chemistry of our products is carried out at our special analytical laboratory in Hamburg. This year, the laboratory received accreditation to the ISO 17025 standard. This accreditation is for selective scientific methods carried out at the laboratory and validates both the accuracy and repeatability of the test methods used. It also recognises the quality of the scientific data produced.

Environmental impacts

It is important that we consider the impact that our products and processes may have on the environment at the design stage.

Minimising packaging, reducing waste and conserving energy improve the environmental impact of our products and processes and can also provide opportunities to reduce costs. We are seeking opportunities for waste minimisation through research into packaging and filter technology, working closely with material and equipment suppliers. Over the years, we have made progress on reducing cardboard density and reducing the use of aluminium in some packaging.

During 2006, we continued our research to improve the degradability of cigarette filters. Our position remains to encourage consumers to discard waste packs and cigarette butts responsibly.

Case story: Snus



In September 2005, we acquired 43 per cent of the Swedish snus manufacturer Skruf. Snus is a moist to semi-moist ground oral tobacco product mainly sold in Scandinavia, particularly Sweden and Norway, and in the US. It is sold either loose or in small pouches of tissue paper and is placed under the lip for about 30 minutes and then discarded.

During 2006, we extended our product stewardship activities to snus and reviewed the appropriateness of our internal standards of care for this product type.

Snus is currently banned for sale within the EU, with the exception of Sweden. There is debate amongst the scientific community and tobacco control advocates as to whether or not snus may be considered as a Potentially Reduced Exposure Product (PREP) or whether it carries a reduced risk compared to smoked tobacco products. This debate has also included several legal challenges to the current EU ban. We are monitoring developments in this area.

Find out more

Visit relevant sections in our corporate web site for further information

- Developing tobacco products
- Product stewardship and health

www.imperial-tobacco.com

1	New developments
2	Leaf buying & processing
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6	Consumer use

We purchase around 97 per cent of our raw tobacco from third party suppliers, with the majority (approximately 62 per cent) from the international tobacco merchants Universal Corporation and Alliance One International. Our tobacco is sourced from various countries including Brazil, China, Greece, Tanzania and India. Approximately three per cent of our tobacco is now purchased through direct involvement in the cultivation of tobacco leaf, principally in Madagascar and Laos.

All tobaccos are different, especially when it comes to curing the leaves. Virginia tobacco is dried by 'flue-curing' where the leaves are hung for four to seven days in a drying barn and cured with warm air from a system of pipes, or via a more elaborate 'bulk-curing' method. This drying process fixes the characteristic orange-yellow colour of the Virginia leaf. Oriental tobacco, in contrast, after a brief drying time is hung from long lines in an airy and sunny location. Burley tobacco requires far more time to dry and the entire plants can hang for six to eight weeks in airy barns or sheds. This gives them a characteristic colour as well as aroma and flavour. Some tobaccos undergo further treatment after curing, perhaps involving several weeks of fermentation.

The growing, curing and fermentation processes establish the quality differences between tobaccos: no two batches are exactly alike.

Leaf procurement

Our leaf buyers work together with our suppliers to ensure agreed leaf processing specifications are met. These specifications are described within the Leaf Manual we provide to all our suppliers. In addition to technical and quality assurance requirements, the manual covers general issues such as housekeeping and hygiene, contamination prevention and infestation control. It also relays our expectation that our suppliers comply with generally-accepted international standards as well as any local laws and regulations in relation to both the employment of minors and to the health and safety of all staff involved in the processing of tobaccos for Imperial Tobacco.

The processing of the cured tobacco leaves involves numerous conditioning and drying stages, before the final product is packed by our suppliers at specified temperature, moisture and density into cases or bales. Prior to shipping from the country of origin and upon arrival at the final destination, a thorough inspection of the tobacco is carried out to ensure conformance with our standards, that the packing materials and markings are in proper condition and that the tobacco is in sound condition and free of any infestation or mould damage.

The first stage of our manufacturing process is to recondition and blend the dry tobacco in different proportions to achieve the product characteristics of our many brands worldwide. Some ingredients may be added to tobacco products during manufacture, to contribute to a brand's individual distinctive taste or aroma.

We have invested significantly in advanced tobacco processing techniques with a view to improving quality, reducing waste and speeding production.

Social responsibility in tobacco production

We continue to operate the Social Responsibility in Tobacco Production (SRiTP) programme in conjunction with our tobacco suppliers.

SRiTP consists of self-assessment road-maps backed up by visits and action plans, which allow us to assess the social, environmental and economic standards in our supply chain. The SRiTP road-maps cover CR policy and management, health and safety, socio-economic, agricultural and environmental impacts of growing and processing.

During 2005, we introduced our suppliers to new SRiTP guidelines that now have more emphasis on biodiversity and the safety and environmental aspects of site vehicles

We expect that the application of the SRiTP improvement process will lead to benefits for all concerned. Suppliers can understand their level of performance and make improvements where necessary. Farmers can potentially improve yield and be more sustainable, whilst reducing risks to themselves, their workers and the environment.

The independent assessor of our tobacco suppliers has reported on our 2005 programme. All 72 suppliers provided self-assessments and action plans for analysis and 16 review visits were completed. Numerical comparisons of results (between 2005 and previous years) are not possible because a new, more rigorous and extended protocol has been introduced by the participating companies.

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Case story: SRiTP in Madagascar



We use the SRiTP road-maps and action plans in Africa and Laos, where we are involved in the purchase of small amounts of tobacco directly from farmers. In some of these instances, we are involved in the curing and processing of the tobacco leaf.

Curing may use wood either as a fuel for curing Virginia and fire-cured tobacco or as construction material for drying and grading barns. Wood from non-renewable sources is sometimes used which leads to issues regarding potential deforestation and the loss of biodiversity. In Madagascar we are on track to be self-sufficient in wood fuel by 2008. A similar scheme is being developed to support our tobacco farmers in Laos.

Our tobacco threshing plant managers in Madagascar have had to deal with soil pollution issues due to past oil spills during delivery of oil to the site. As is often found in developing countries, we had no access to environmental contractors or technologies to remedy this situation. So we commissioned an engineering consultancy to devise a handbook of procedures that could be used in developing countries. In this instance, we decided to construct a concrete basin to contain the polluted soil which is turned, moisturised and mixed with fertiliser.

Integrated crop management (ICM) presents the biggest challenge, with 69 per cent of suppliers yet to reach level 3, which represents a good level of risk management. Level 4 represents best practice. We will monitor ICM and will ask our assessor to focus on this during future visits and give practical advice to farmers and suppliers.

Plant protection products, if mishandled, may become a source of pollution to soil and water and create an imbalance in eco-systems. We take part in the activities of CORESTA (the Centre de Coopération pour les Recherches Scientifiques Relatives au Tabac) to define guidelines for the residues of agrochemicals in tobacco. For more information, see the CORESTA web site www.coresta.org

We also work closely with our suppliers to improve the quality of the tobacco we purchase. When necessary, we deliver training on agrochemical regulatory or safety issues to technicians, farmers or industry bodies. During 2006, we held a training seminar in Vietnam attended by approximately 200 people.

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CR in the product value chain

Social Responsibility in Tobacco Production (SRiTP) 2005 road-maps:

Social Responsibility Policy:

Formal statement of the group of companies

Formal statement of each company

Tobacco Processing:

Occupational environment
External environmental impact
Safety
Fire prevention
First aid, medical examination and care
Sub-contractors and visitors
Vehicles

Mean level: 3.25

Mean level: 2.95

Integrated Crop Management:

Tobacco seed quality assurance
Integrated pest management (IPM)
IPM safety
Soil resource protection
Water resource protection
Use of wood and other fuels
Use of wood for tobacco barn construction
Biodiversity
Training of farmers

Socio-Economic Factors:

Minors in crop production
Farmers' standards of living
Capacity building in processing and extension services

Mean level: 2.71

Mean level: 3.28

- Level 1** Poorly managed, high risk
- Level 2** Reactive management responds to disaster but does not plan
- Level 3** Good level of risk management but does not manage all risks systematically
- Level 4** Proactive management to best international practice standards

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Case story: Eliminating child labour

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We are committed to working with our suppliers to encourage their compliance with international standards on child labour.

We are a Board member of the Eliminating Child Labour in Tobacco (ECLT) Foundation, an initiative advised by the International Labour Organisation. The ECLT's members are representatives of trade unions, tobacco growers and the corporate sector. It aims to contribute to the elimination of the use of child labour in the tobacco-growing sector, so that children are provided with an upbringing that gives them the best chance in all aspects of life.

The work of the Foundation focuses on:

- Developing independent research to produce an objective picture of the level and conditions of child labour in tobacco growing
- Supporting and funding local and community-based projects
- Establishing and sharing best practice and lessons learnt

Projects we support through the Foundation are underway in Malawi, Uganda, Tanzania, Kyrgyzstan, the Philippines and Zambia. Details of these projects can be found at www.eclt.org

One of the early projects was in Malawi, a country heavily dependent on tobacco exports and where we buy over 5,000 tons of tobacco a year. There, the ECLT makes families aware of the benefits of sending children to school and helps with the building of village schools; digs wells and provides irrigation so that children do not have to walk for miles to fetch water for the family needs; and plants trees for reforestation and to provide villages with wood fuel for cooking.



During 2006, we extended our contribution to reforestation in Malawi and to the ECLT's shared initiatives. These include microfinance for farmers in Kyrgyzstan; we are the partner with the greatest interest in this market. In Tanzania, where we buy over 4,000 tons of tobacco a year, the ECLT aims to create awareness of the issues of child labour in the local communities, provide schools and vocational training for children (carpentry, brick laying, mechanics, etc), and also improve families' livelihoods through small family businesses such as tailoring, crop diversification and poultry farming.

Find out more

Visit relevant sections in our corporate web site for further information

- ✚ Social responsibility in tobacco production
- ✚ Eliminating child labour

www.imperial-tobacco.com

In 1883, WD & HO Wills introduced the revolutionary Bonsack cigarette machine from America into its operations in Bristol, UK. The machine was capable of producing 200 cigarettes a minute and enabled the company to undercut the prices its competitors charged for similar hand-made products.

Modern cigarette machines can produce 14,000 cigarettes per minute, so fast that the process is a blur to the human eye. The process is highly controlled for quality, bringing together tobacco filling, filter and paper in precise fashion and at considerable speed. Packaging is also highly automated as cigarettes, foil inserts, printed cardboard packs and wrapping combine in the packaging machine.

Continued investment in product design, state of the art equipment and innovative processing techniques have made Imperial Tobacco one of the world's lowest cost producers of tobacco products.

However, contemporary manufacture of tobacco products involves many considerations beyond the mechanical. Occupational health and safety, minimising packaging materials, the safety of ingredients and contact materials, environmental issues such as waste and energy usage and product quality are all important concerns.

Quality

Our Quality department supports the improvement of manufacturing business processes and product quality through to the consumer. There are three elements to their work: project control and co-ordination, occupational health, safety and the environment and central quality management.

We have developed quality management systems to address continual improvement and customer focus and to promote process management. So far, we have achieved 18 registrations to the ISO 9001 standard across factories, central departments, product development and supply chain distribution.

Environmental highlights

Achieved all environmental performance targets for 2010 ahead of schedule

- ▶ Achieved all environmental performance targets for 2010 ahead of schedule
- ▶ Energy consumption down* by 11%
- ▶ Carbon dioxide emissions down* by 20%
- ▶ Waste output down* by 3%
- ▶ Waste to landfill down* by 32%
- ▶ Water consumption down* by 12%
- ▶ Achieved ISO 14001 certification at 4 more manufacturing sites (61% now certified)

*Absolute values for financial year 2005 compared with 2001 base year, 2004 base year for waste

Product improvements are driven using a product quality rating system (PQRS), standardisation of test equipment and methodology, benchmarking of final products and the quality improvement plans. The PQRS has been implemented in all of our manufacturing locations.

We have procedures at operational level to support contamination prevention and define the actions that must be taken should contamination be found. If contamination is not contained, we have crisis management and product recall procedures that could be followed as appropriate.

Combating counterfeit manufacture

The growing international trade in counterfeit tobacco products is a significant problem for all legitimate tobacco manufacturers and for competent authorities worldwide. Modern technology makes counterfeiting easier, cheaper and harder to detect. International criminal organisations appear to be involved.

We combat problems of counterfeit manufacture by working very closely with customs and law enforcement agencies around the world. During the 2006 financial year, we provided information which resulted in the closure of a large number of illegal factories and printing operations and numerous warehouse raids and container seizures.

Through our manufacturing and distribution supply chain processes, we have tight controls in place on proprietary elements of our product, such as product specifications and pack artwork, and keep as much knowledge in-house as possible.

Asset protection

Through annual asset protection audits of our principal manufacturing and storage sites, we have moved away from the traditional reliance on insurance cover and have created a strong risk management culture within our business operations.

Our businesses understand and accept risk management principles as part of their day-to-day operational environment.

As a result of this, three of our main manufacturing sites have been accredited by our insurer as meeting the highest risk management standards for asset protection.

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Case story: Waste water discharge in Senegal

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CR in the product value chain



We have constructed a new waste water discharge system for our manufacturing site in Dakar. Pipelines were inspected and reconstructed where necessary. The new system separates run-off and sewage water. This helps to comply with the local waste water legislation. However, the major positive impact of this new system was demonstrated during the rainy season. For the first time in years the factory was not flooded. We were able to continue production, while the rain interrupted business at adjacent undertakings.

Non-tobacco materials supply

The main non-tobacco materials (NTM) that we need to conduct our business as a tobacco manufacturer are rolling paper, acetate tow (for the production of cigarette filter tips) and printed packaging materials that use carton board. We purchase these from a number of suppliers.

Like our leaf suppliers, our NTM suppliers complete a CR self-assessment questionnaire and provide improvement plans where they identify weaknesses. Following feedback from our suppliers, we have decided to simplify this questionnaire and integrate it into our existing supplier qualification process.

During 2006, we introduced a CR assessment process for the purchase of information systems. We now include basic environmental, occupational health and safety and employment practice questions in our assessment of IT suppliers.

Over the past three years, our experience with supplier social and environmental assessment has taught us:

- To integrate the assessments into existing purchasing processes
- Not to make things so complicated that stakeholder buy-in suffers
- To be patient and proceed step-by-step with good communication

Over the next year, we intend to evaluate existing processes in dialogue with key stakeholders.

Environmental management

Our greatest direct impact on the environment comes from our product manufacturing activities. Our policy is to minimise the adverse impact of our products, activities and services on the natural environment.

Good environmental management systems, designed to manage local impacts and sensitivities, are an essential component of our strategy.

We started our ISO 14001 programme in 2001 and now have certified systems in 61 per cent of our manufacturing sites. These sites represent over 80 per cent of our revenue.

In the last financial year, four more factories in Germany, Senegal, Turkey and Russia, achieved ISO 14001 certification, bringing the total to 19 factories. Three additional factories have been recommended for certification. We also have three other operations certified to ISO 14001: our customer service centre and vending operations in the UK and our printing operation in Senegal.

This international spread has contributed to international capacity building and our phased approach has provided operational experience to ease certification at more remote sites.

Over the last four years, we have improved the way we collect and report environmental data from our manufacturing facilities and main offices. During 2006, we implemented a new software platform for our non-financial performance indicators, including our environmental measures. The experience we have in environmental management and reporting was important in understanding the practical requirements of this new reporting system. In addition to the collection of environmental performance data, the new system provides a self-assessment tool for individual sites to evaluate their environmental management.

Case story: Integrated management systems in Turkey



Our new factory in Manisa, Turkey has taken on an integrated approach to quality, environment and occupational health and safety. This has resulted in a well structured, integrated management system that includes risk assessments, incident and accident investigation, waste management, legal compliance, quality control and much more. The involvement of our employees was essential during the implementation phase. Their contribution and efforts were acknowledged by the ISO certification body.

Environmental performance

Our environmental performance indicators are showing encouraging decreasing trends in energy and water consumption, carbon dioxide emissions, waste and waste to landfill.

Part of the decrease in absolute figures can be explained by factory closures. However, our relative indicators – expressed as per million cigarette equivalents – are also showing downward trends, an indication that our environmental management systems are indeed improving our performance. We aim to consolidate this performance in the coming years. Details of these trends can be found in the Performance section of this Review.

Climate change

Climate change remains one of the most important environmental areas for our attention. The aim of our climate change strategy is to reduce our direct impacts by improving energy efficiency and to reduce our indirect impacts by influencing our partners in the supply chain.

By the end of our 2005 financial year, we had achieved the ten per cent reduction target we set for carbon dioxide emissions, well before the 2010 deadline. We aim to consolidate this achievement and further improve through a balanced approach to carbon management. This may include energy conservation, lower carbon technologies, on-site renewable energy, the purchase of green electricity and carbon offset opportunities.

During 2006, our Nottingham factory in the UK was registered with the EU Emissions Trading Scheme and will be able to trade carbon credits on the open market.

We have again participated in the Carbon Disclosure Project's request for information on our climate change strategy. The CDP is a co-ordinating secretariat for a group of institutional investors. You will find further information, including our submission, at www.cdproject.net

Waste management

Eliminating waste or converting it to a useful resource elsewhere is consistent with our low cost manufacturing principles. Waste management methods used by our German facilities have provided a good indication of the most cost-effective measures and our environmental advisers are active in sharing this knowledge throughout the Group.

Occasionally, our capacity for waste minimisation is limited by the local waste infrastructure of countries where we operate. Composting of tobacco dust, for example, has been normal practice in mainland Europe and developing countries for several years but has only just become available in the UK.

Our Bristol facility has taken part in the National Symbiosis Programme. This UK recycling initiative brings businesses together so that the waste from one can be used by another.

We continue to participate in packaging recovery and compliance schemes in all the countries where these apply. In the UK, we comply through Valpak, who recently audited our compliance procedures and found them to be more than satisfactory.

Environmental complaints and prosecutions

We aim to maintain high standards of environmental management in our factories. We had no prosecutions or interventions for exceeding emissions to air, land or water during the financial year 2004 to 2005. There were, however, four improvement notices issued for minor environmental management issues at three of our sites. These were for unsightly landscaping, no authorisation for a paper incinerator and late submission of environmental data to the authorities.

The number of environmental complaints fell from 73 in financial year 2004, to eight in 2005. This was mainly due to a drop in odour complaints at our factory in Mullingar, Ireland. During the 2006 financial year, we received numerous odour nuisance complaints at our Nottingham site. Investigation has shown that this was due to different odour emissions from a new tobacco processing line. A pilot project has successfully reduced the odour at source and we are planning to extend this pilot to the new processing line during the next financial year.

Find out more

Visit relevant sections in our corporate web site for further information

- Manufacturing tobacco products
- Smuggling, counterfeit products and taxation
- Environmental management

www.imperial-tobacco.com

At the entrance to the harbour in Bristol, where Imperial Tobacco is headquartered, stand three large red-brick warehouses, originally constructed around 1900 for the secure 'bonded' storage of imported goods. Bristol was an important trading port with connections to the tobacco and wine trade. As transport efficiency improved and the need to keep smaller stocks of expensive raw materials grew, such architectural indications of the presence of the tobacco industry declined in many parts of the world. The original Bristol tobacco bonds were demolished in the 1980s.

The world of tobacco warehousing has developed considerably. Today's storage of tobacco is high tech and more small-scale. Efficiencies have been improved and new methods and systems have been introduced, taking advantage of advanced technologies and speedier processes. Manned narrow-aisle trucks have given way to automated cranes and increased use is made of scanning technology to improve product pick and placement accuracy. Finished tobacco products are stored in registered premises with strict adherence to customs requirements regarding excisable product.

The logistical issues in supplying the right product at the right time from over 30 production facilities to over 130 markets across the globe, requires sophisticated planning, storage and distribution capabilities.

Product quality

The storage and distribution of our products is managed by our Manufacturing function. Our aim is to ensure that we, our distributors and our customers store our products in such a way that consumer expectations of product freshness and quality are met. We have procedures in place which specify how products should be stored and distributed.

Customer validation

Our policy is to supply our products on a commercial basis only to approved customers and markets. A detailed product supply compliance process helps us to ensure this.

We work with our customers to ensure that they are aware of our Product Supply Policy and their responsibilities to have good control of their supply chain. We thoroughly investigate product diversions and take appropriate action to mitigate the risk of further diversion.

During 2006, following investigations on stock seized by Her Majesty's Revenue and Customs, we took action against three customers. Two of these customers, who purchased directly from one of our trading companies, were issued with written warnings. The third was a customer of one of our distributors and already under suspicion. This customer was informed that we would no longer trade with them.

We are totally opposed to smuggling and work with governments and customs authorities around the world to combat smuggling. We give an update of our activities in the sales and marketing section of the Review.

Environmental impacts

The environmental impact of our product storage premises and distribution activities is relatively low.

The fuel management practices of our logistics service providers are covered in our contract discussions with them. Innovative route planning, vehicle selection and accurate forecasting all help to minimise the environmental footprint of our logistics activities.

With regard to climate change, the Scope 3 carbon dioxide emissions generated by third parties, such as third party logistics providers, remain outside our measurement and monitoring process, as they account for less than ten per cent of our emissions.

We continue to encourage our service providers to improve fuel-efficiency as part of our cost-reduction initiatives. Many of our suppliers are ISO 14001 certified but, at this stage, we have no plans to insist on this.

1 New developments

2 Leaf buying & processing

3 Product manufacture

4 Storage & distribution

5 Sales & marketing

6 Consumer use

Case story: Reduced mileage



Following the acquisition of Reemtsma Cigarettenfabriken GmbH in 2002, we transferred the production of some of our brands so that we could benefit from synergy savings for both manufacture and distribution mileage.

In particular, brands destined for the UK market that were previously manufactured in Germany are now produced in our UK factory and vice versa.

Our supply chain team are in the process of implementing an improved forecasting system. We will then be able to optimise finished product stock holding and manufacturing.

Find out more

Visit relevant sections in our corporate web site for further information

- Product supply compliance
- Environmental management
- Smuggling, counterfeit products and taxation

www.imperial-tobacco.com

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The dramatic growth of Imperial Tobacco since its listing on the London Stock Exchange in 1996 has been by a combination of acquisition and organic growth. A number of notable brands have entered Imperial's portfolio through acquisition, many of them household names in their countries of sale: *Rizla*, *Davidoff*, *West*, *Drum*, *Horizon*, *Van Nelle*, *R1*, *Bastos*, *Excellence*, *Maxim* and *Paramount*, to name but a few. They have joined our other leading brands: *Lambert & Butler*, *Golden Virginia*, *Richmond* and *JPS*.

Through the hard work and creativity of our employees, significant organic growth has been achieved across the portfolio. Strong market intelligence and knowing and following market trends have played their part in achieving this growth, as has direct personal contact by our skilled sales-force with our primary customer group, the retailers.

We believe that tobacco products are for adults. We are committed to promoting and selling our products responsibly, within the laws and voluntary agreements in the countries within which we operate. On a strictly commercial basis, we enter and seek to increase our market share for tobacco products in all countries where we have identified an existing demand from adult consumers, and where it is legitimate for us to do so.

Responsible sales and marketing

Our policy is to advertise our tobacco products responsibly in order to maintain brand loyalty, to encourage adult smokers to switch brands and to try to make smokers aware of any new products that the Group makes available.

Our International Marketing Standards (IMS) set out clear rules and principles to ensure that our advertising and promotional activities are directed only to adult smokers aged 18 years or over in all circumstances. In some markets, additional local rules may apply.

Case story: Challenges of reporting

Capturing non-financial data from more than 130 markets and our manufacturing sites worldwide is challenging.

During 2005 and 2006, we developed with a service provider an internet-based non-financial reporting system (NFR system), to ease the burden of data handling, reporting and verification.

The system allows us to collect and report non-financial performance indicators and other performance measures from our international business operations. The data can be examined and analysed at site, function and Group level and used for performance management and public reporting.

Although designed to be user-friendly, some of the technical terminology used in the NFR system can be difficult for users to understand, particularly if English is not their first language. To help our users, the system has guidance information and data definitions in English, French, German and Russian.

We already have user networks in place for the input of occupational health, safety and environmental data from our manufacturing sites and main offices. With the need for additional information, on issues such as employment practices and community investment, we formed an additional network of CR co-ordinators and administrators to cover our markets worldwide. We have delivered user training programmes to suit the different requirements of these various networks.

The initial implementation of the NFR system has to date been a success, with only a few minor access issues left to resolve. Our hope is that the system will help to simplify the reporting of non-financial performance and minimise multiple requests for the same or slightly different information from different parts of the business.

Find out more

Visit relevant sections in our corporate web site for further information

- Responsible sales and marketing
- International marketing
- Smuggling, counterfeit products and taxation
- Non-financial reporting framework

www.imperial-tobacco.com

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Case story: Best supplier awards for Imperial Tobacco UK

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CR in the product value chain



Imperial Tobacco UK's role as a quality supplier has been recognised by two prestigious awards.

The first is the 2006 Convenience Tracker Programme (CTP) award for Best Supplier – which we have won for the third time in four years – and the second is the 2005 Cost-cutter Supplier of the Year. We constantly strive to build strong relationships with our trade customers in order to meet their evolving expectations and provide them with the support and impartial guidance they need.

The 2006 CTP award was judged by a panel made up of a broad mixture of store retailers, head office buyers, warehouse workers and senior management. It voted Imperial Tobacco as the winner after it came top in ten of the 13 categories. These included category development skills and knowledge, display and merchandising, knowledge of shoppers and full order fulfilment.

As our business evolves, we will update our IMS accordingly. We are currently conducting a general review of its content and are seeking to implement an even more robust process for future reviews of the standard. We are examining employee training needs and creating a guidance presentation to aid understanding and interpretation of our IMS by our markets.

Smuggling

Taxation differentials across borders mean that our products are attractive to smugglers.

We continue to work with customs authorities in a number of countries to counter smuggling of tobacco products. On 1 March 2006, we signed an updated Memorandum of Understanding (MoU) with Her Majesty's Revenue and Customs in the UK. We also signed a further four MoUs elsewhere. We now have agreements in 11 countries, with discussions progressing in a further 12 countries.

Memorandum of Understanding (MoU) agreements

Country	Type of agreement	Signed
UK	Memorandum of understanding	July 2003 March 2006 – Updated industry MoU
Slovakia	Co-operation with tobacco industry	August 2003
Ireland	Memorandum of understanding	June 2004
Kosovo	Memorandum of understanding	August 2004
Hungary	Memorandum of understanding (tobacco industry co-operation)	June 2006 – extended for a further 4 years
Czech Republic	Co-operation agreement	December 2004
China	Tobacco Coalition memorandum of understanding	July 2005
Italy	Memorandum of understanding	November 2005
Turkey	Memorandum of understanding	December 2005
Macedonia	Memorandum of understanding	February 2006
Ukraine	Memorandum of understanding	November 2005

Safeguarding intellectual property rights

We actively manage our trademark portfolio to ensure that our brands are comprehensively protected in trademark registries around the world. This enables us to sell our products and take action against third parties who may attempt to infringe our intellectual property rights.

On 5 September 2006, we announced the completion of the acquisition of the worldwide *Davidoff* cigarette trademark from Tchibo Holding AG. We had been the long-term licensee of the trademark since the acquisition of Reemtsma in 2002. We have achieved considerable success with *Davidoff* cigarettes, increasing global volumes in the last four years. *Davidoff* is recognised by consumers and hence is a key international premium brand and an important potential growth driver for the business. Ownership of the trademark provides greater flexibility to develop the brand, enabling us to increase investment and accelerate its international growth.

As a tobacco company we believe in the underlying freedom of our adult consumers to smoke and use our products. We seek to respond to consumer demand by developing and manufacturing tobacco products which meet their requirements. We believe that consumers also require that we exercise the freedom to innovate to meet their changing needs, within a regulated framework.

In meeting this legitimate consumer demand, we believe that we should be able to sell our products at acceptable price levels, within a sensible tax framework and to communicate information about our products to our consumers and customers in a way that distinguishes them from competitors' products. Such normal business practices are under threat from the rise in advertising restrictions.

Product information

In many countries around the world, tar and nicotine measurements are printed on cigarette packs as a yield in milligrams (mg) from each cigarette. In some countries, carbon monoxide (CO) measurements are also required. These measurements vary according to the blend of tobacco and the design of the cigarette. It is often the case that tar, nicotine and carbon monoxide yields are subject to declaration and/or regulatory limits.

For the last five years, the principal ingredients of our cigarette products have been available on our web site. During 2006, we updated our web site to include the ingredients in the brands that we sell in 35 countries. We are developing new software that will automate updates of product specifications to make this more timely and accurate. We can then extend this approach to other tobacco products.

Heath warnings

In the UK, product health warnings were first introduced on Imperial Tobacco cigarette products in 1971, in response to developing regulations in the UK. Earlier in 1964, the then UK Prime Minister, Sir Alec Douglas Home, said in Parliament:

"I do not think there is any excuse for anyone not to know the connection between smoking and lung cancer"

Source: Hansard, 1963-64, Vol. 683, col. 528

We continue to place health warnings on all our packs and advertisements and elsewhere as required. We comply with regulations concerning the content, size and format of health warnings and with agreements and codes in countries where governments choose to operate without regulation. Where there is no existing local law or voluntary agreement, we use the wording of the EU approved warning 'smokers die younger'.

More recently, there have been regulatory moves towards pictorial health warnings. We do not believe that the use of graphic pictorial warnings is necessary. It is our view that such warnings are designed solely to shock and stigmatise smokers and we disagree with their use. In our view, pictorial or graphic health warnings make no overall contribution to the public awareness of the risks associated with smoking, which we believe are already well known.

The World Bank has reported that in 2003 worldwide approximately 1.3 billion people smoked cigarettes or other tobacco products (almost 1 billion men, 300 million women).

Source: Guindon, G. Emmanuel and Boisclair, Past, Current and Future Trends in Tobacco Use, March 2003 (2nd Ed.)

1	New developments
2	Leaf buying & processing
3	Product manufacture
4	Storage & distribution
5	Sales & marketing
6	Consumer use

Case story: Vending machines in Germany

28

CR in the product value chain



Germany's cigarette vending machines will be payment card-enabled from January 1, 2007 in a bid by health officials to reduce smoking rates in the youth and teenage populations.

Adult smokers will receive chip-protected bank or credit cards displaying a youth protection symbol, to prevent under-16s from using the machines. Relevant personal information, 'Jugendschutzmerkmal', will be stored on a microchip on the cards.

Legislation in April 2003 banned the sale of cigarettes to under-16s, but this law did not cover vending machines, which means around 600,000 of the country's vending machines need to be adapted for the new chip-based cards.

Consumer and customer complaints

We manage consumer and customer complaints centrally using a defined process.

This process helps us gain a better understanding of customer requirements, leading to focused quality improvement activities. It also aims to significantly improve the consistency of our monitoring of and response to consumer and customer complaints.

Smoking in public places

In a number of the markets and regions in which we operate, the debate on the introduction of restrictions or outright bans on smoking in public places and in the workplace has intensified.

Our view is that, when properly analysed and understood, the scientific and statistical evidence on Environmental Tobacco Smoke (ETS) leads to the conclusion that a ban on smoking in public places cannot be justified on health grounds.

Our concerns have been echoed by the UK House of Lords Economic Affairs Committee, in its enquiry into Government policy on the management of risk.

The Committee's report, published on 7 June 2006, called for the UK Government to pay more attention to the risks to personal liberty posed by new legislation and argued that *"given the evidence about the impact of passive smoking, we are concerned that the decision to ban smoking in public places may represent a disproportionate response to a relatively minor health concern."*

In February 2006, we made a submission to the Committee, highlighting our fundamental position regarding the science of ETS. In our submission we stated that *"we believe that public policy toward smoking in public places should be grounded in fact and proper scientific methods. It is unfortunate that policy in this area appears to have been driven by the passion of tobacco control advocates rather than by a dispassionate assessment of the science relating to ETS"*.

The Committee concluded that: "in particular, the purpose of legislation should have been defined more clearly and greater attention should have been given to available scientific evidence, the relative merits of alternative policy options and the impact of legislation on personal freedom and choice. Failure to consider these matters properly has resulted in the introduction of a policy that appears to demonstrate a disproportionate response to the problem."

We continue to support sensible regulation but believe that outright bans are unnecessary and disproportionate. You will find our full submission to the Committee in section 10 of this Review.

Tobacco control advocates continue to claim that ventilation is not effective in removing ETS from indoor air. Studies of ventilation have been performed in environments where the highest level of ETS might be expected, such as pubs and casinos. These studies show that through proper ventilation it is possible to reduce the concentration of ETS constituents in indoor air to levels which are comparable to that found in completely smoke-free venues. Nevertheless several governments have ignored this and implemented bans on smoking in public places including in Scotland, Sweden and Malta; a ban in England is proposed for summer of 2007.

We have continued to engage with governments on this issue. For example, in March 2005, we made representation to the Scottish Parliamentary Health Committee, and similarly in October 2005, to the UK Health Committee Inquiry into Smoking in Public Places. We also met with the German Parliamentary Secretary of State of the Federal Ministry for Food, Agriculture and Consumer Protection on 29 June 2006, where we were given the opportunity briefly to present our views on the science of ETS.

- 1 New developments
- 2 Leaf buying & processing
- 3 Product manufacture
- 4 Storage & distribution
- 5 Sales & marketing
- 6 Consumer use

Case story: Youth smoking prevention in Hungary

Youth smoking

We are active in youth smoking access prevention programmes in several parts of the world. Our involvement is principally through Government-approved proof-of-age identity programmes, where we work in conjunction with independent bodies and trade associations. During 2006, we were involved in initiatives in Ireland, Hungary, Luxembourg and the UK.

The UK Department of Health has unveiled proposals to reduce smoking amongst teenagers. Plans include increasing the minimum legal age at which you can be sold tobacco products from 16 years to 17 or 18 years and imposing tougher sanction on retailers who persist in selling cigarettes to under-age teenagers. We are preparing our response to this consultation through our membership of the UK Tobacco Manufacturers' Association.

Litter

Our products may have a negative impact on the environment when consumers dispose of product and packaging materials improperly. Even though controlling this behaviour is largely a difficult matter for society as a whole to address, we are seeking opportunities for waste minimisation and improvements in filter degradability through research into packaging and filter technology, working closely with our material and equipment suppliers.

During 2006, we started to provide unbranded, pocket ashtrays - 'butts out' containers - in Australia. In the UK, we participated in a consultation process organised by ENCAMS, the environmental charity that runs the 'Keep Britain Tidy' campaign. Through our membership of the UK Tobacco Manufacturers' Association, we are involved with the Cigarette Litter Action Group, along with stakeholders from local government, retailers and ENCAMS.



Member companies of the Hungarian Association of Tobacco Industry (HATI), including Imperial Tobacco Hungary, have proved their commitment to preventing youngsters below the age of 18 from accessing tobacco products. Each year since 1999, HATI has undertaken a pro-active campaign entitled 'Responsible Retailer – Juvenile Access Prevention'. The sales forces of HATI companies have distributed information and advice to more than 25,000 retail shops, hotel and hospitality outlets throughout the country.

In September 2005, HATI launched nationwide events, supported by numerous government bodies and associations including the National Association of Entrepreneurs and Employers, the Ministry of Economy and Transport, Ministry of Education, Ministry of Youth, Family, Social Affairs and Equal Opportunities, the Hungarian Chamber of Commerce and Industry, the Hungarian Advertising Association and the Consumer Protection Supervisory Authority.

Find out more

Visit relevant sections in our corporate web site for further information

- Environmental tobacco smoke
- International marketing
- What's in a cigarette?

www.imperial-tobacco.com

Our people

Our success in 2006 was as much about our people as our products and markets.

We aim to provide a working environment which will attract, retain and motivate the best people, to ensure they can maximise their potential and share in the Group's success.

Working in a highly-competitive environment, we need to continue our drive to improve efficiency. This has led to restructuring of various parts of the business and further factory closures being announced. We work hard to ensure that affected employees are treated responsibly and to continue to motivate and engage our workforce.



Employee engagement

We continue to promote constructive working relationships with employees and their representative organisations.

We use a range of engagement mechanisms in different locations: formal European Works Councils, the European Employee Forum, joint bargaining arrangements, general communication cascade methods and more informal 'open door' dialogue with all levels of staff.

In recent years, we have significantly restructured our sales and marketing organisations in Germany. In 2005, we invited all employees in this part of the business to take part in a project to increase employee involvement and identify areas for improvement in our business practice. Suggestions included introducing online staff feedback, setting clear standards for meetings and increasing the number of business discussions which include employees at different levels within the organisation. These have all been implemented.

In West Africa, we have created a Common Collective Agreement concerning main terms and conditions of employment for our four subsidiaries. Considerable time and commitment was spent in gathering and incorporating suggestions on the content of the Agreement from employee representatives. The Agreement now covers 1,050 individuals employed within our operations in Senegal, Ivory Coast, Burkina Faso and Mali.

In other areas of the business, for example in Australia and Hungary, we have used the results of employee opinion surveys to help identify where we can improve communication and engagement with our employees.

Responsible restructuring

Whilst we have invested in increased employment in some areas of our business such as Italy, Russia and Australia, we have also taken a number of efficiency-based restructuring decisions resulting in employment losses.

This year, we announced the closure of our factories in Lahr, Germany and Liverpool, UK. We have closed our rolling papers factory in Treforest, UK and reduced the size of the workforce at our factory in Berlin, Germany. We have also announced the restructuring of our UK sales and marketing operations.

In each instance of restructuring that has been completed, we have paid severance compensation in excess of the legal minimum and have followed the appropriate information and consultation processes.

We sought alternative employment opportunities within the organisation for affected employees and have provided out-placement support. For example, 97 of the Treforest employees registered with the Resource Centre we ran in conjunction with our out-placement agency, allowing us to track their success in finding alternative employment. By the time the factory closed in April 2006, 52 had either found new jobs, were on training courses or had started their own businesses. A further 21 had chosen to take an extended break and said that they would value the support provided when they returned to the labour market. Five employees were transferred to new jobs within the Group.

Management sustainability

We continue to make significant investment in the development of our managers.

The Imperial Leadership Programme (ILP) aims to develop the top leadership and future leaders of Imperial Tobacco. This uniquely-tailored programme focuses on the delivery of Group and personal business objectives. Aligned to the succession planning process, ILP facilitates the development of leadership skills and competencies.

Our annual succession planning process places particular emphasis on developing the individuals who have been identified as potential successors to key management roles and as future leaders of the business. We aim to equip them with the skills and experience they need to develop as individuals and to add greater value to our business.

Performance management and reward

During 2006, we implemented further improvements to our performance management process. This included a system to help line managers to measure performance and establishing a clearer link between appraisal and salary review.

To improve managers' skills and knowledge, we are running approximately 70 development workshops for our managers worldwide during the 2006 calendar year.

In order to provide further consistency in our approach to management reward, we have updated our common management bonus scheme for 2006. At all levels of management, bonuses are linked to the achievement of specific personal objectives as well as those relating to the business function and the performance of the Group overall.

For our sales forces, we have established a standard incentive scheme framework which incorporates measurement of achievement against the targets of market profit, annual retail standards and performance within particular sales cycles. During 2006, it has been introduced into the Russian and Ukrainian markets. This scheme supports the drive for excellence in trade marketing and audits have revealed tangible links to improved business performance. Sales people are rewarded for individual and market achievement, encouraging both individual and team success.

Learning and development

In addition to our centralised investment in managers, we have many local initiatives taking place to support employee development.

In the Ukraine, we have a scheme to provide opportunities for certain employees, including factory workers and sales people, to obtain higher education or post-graduate qualifications. This support includes a significant contribution to costs or to providing company loans for the payment of training fees.

Within our Asia business region, we have established a programme called the 'Management Journey' to provide less experienced managers with leadership and associated managerial skills to support their success in the competitive environment. This involved 21 managers from five countries and comprised an intensive four-day training course in April with subsequent workshops to reinforce the learning.

Human rights

We recognise the importance of human rights across our operations and are aware that we operate in a number of countries where human rights are an issue of particular concern.

Our Human Rights policy commits us to support the core International Labour Organisation conventions on labour rights. The core conventions cover freedom from discrimination; freedom from forced labour; freedom of children from child labour; and freedom of association and the right to collective bargaining. These rights are covered in more detail in various Group employment policies.

During 2006, we piloted a self-assessment questionnaire as part of the new non-financial reporting system to capture information relating to our Group employment policies and the local practices in place.

Our initial set of performance indicators captures country-level quantitative and qualitative information. These indicators cover areas such as sickness absence, performance management, equal opportunity, fairness and respect.

Data is still being gathered from some of our business operations, which means that we cannot provide any meaningful information at this time. However, we are confident that we shall be able to provide information in the coming year.

We are inherently a diverse organisation, following the integration of our acquisitions and recruitment in Europe, Africa, Asia and Australasia. We regard equal opportunity and non-discrimination as a fundamental basis of all our employment practices. Discrimination, unless it is on grounds of ability to do a job and performance in that job, is unacceptable to us.

Case story: Road risk and safe driving in Poland

Occupational health and safety

The occupational health and safety (OHS) of our employees and those working with us, such as contractors, remains a high priority.

In 2006, there were no fatal accidents to either employees or contractors during normal working activities. However, we are saddened to report the fatal shooting of one of our employees at an illegal roadblock in Africa outside working hours. This serves to highlight the personal security risks which can on occasions be faced in certain locations. This is fundamentally outside our control, although we continuously strive to minimise such risks where we can.

As part of our three-yearly rolling audit programme, we commissioned external companies to undertake OHS audits of our manufacturing facilities in Central and Western Europe. Our independent consultants use the OHSAS 18001 framework to benchmark site OHS management. They compare OHS performance with previous audit findings, where available, judge progress and make recommendations for improvement. Advice is given on opportunities for integration of OHS into existing management system programmes, such as ISO 9001 and ISO 14001, or development of an independent Safety Management System (SMS). We are considering the benefits of each of these approaches; in the meantime, we have developed a SMS self-assessment protocol for sites to monitor their progress. We require sites to make improvements and apply the plan-do-check-act philosophy.

Lost time accident rates in the 2005 financial year were broadly similar to previous years. Data analysis, together with the findings from our audits, has identified priority topics and sites where improvements should deliver most benefit to our business and workforce. We will monitor progress and regularly review results with management.



Poland suffers from difficult weather conditions for more than six months of the year, making driving hazardous. We have a comprehensive Safe Driving Programme aimed at preventing road traffic accidents and injuries. Company cars are selected to ensure that they have standard safety equipment, such as airbags and anti-lock braking systems. We even provide sunglasses as standard issue. As part of their induction, new company car drivers are given driver safety training and practical driving

Our operation in Poland is based in Tarnowo. Here we employ over 200 company car drivers who drive an average of 3,300 kilometres per month.

instruction. We send out regular emails to remind drivers of specific risks and we regularly publish road-risk articles in our local newsletter. At Imperial Tobacco Poland's annual conference in 2006, we hired a guest celebrity speaker to talk about safe driving. At our annual 'Driver of the Year' competition, five employees received cash awards for 'Best Driver'. The best team was also given the opportunity to further improve their skills through advanced driver training.

There were 55 major injuries during the 2005 financial year, across a workforce of about 14,000. 28 were hand injuries, typically finger tip injuries, caused by contact with moving machinery. Two-thirds of these injuries occurred at our manufacturing sites in less developed countries, where the prevailing standards of community safety still influence behaviours. We have invested heavily in new manufacturing equipment to improve our performance and meet CE marking standards. It is also important that we assess older machines and make practical improvements. As well as physical guarding improvements, we aim to improve our permit to work systems and address behavioural safety issues, as these are important for long-term risk reduction.

During 2006, all our African manufacturing sites used distance learning materials to help develop better behaviours and we extended our OHS risk assessment training to sites in Senegal and Gabon.

During the 2005 financial year, we experienced an increase in the number of road traffic injuries. 31 per cent of the major injuries mentioned above were as a result of road accidents involving our sales force employees. We are developing an occupational road risk workshop for high-mileage drivers who are not already covered by other driver safety programmes. The workshop will include examples of best practice in road risk management and driver safety already used by several of our markets.

Case story: Restructuring in Berlin



In September 2005, we announced the reorganisation of manufacturing in Central Europe which involved the loss of about 200 of the existing 500 jobs in our cigarette factory in Berlin. Discussions with the Works Council were resolved quickly, in just over one month. We offered comprehensive outplacement support to the employees affected by the reorganisation as well as financial support in the form of severance payments. 20 Berlin employees moved to our Langenhagen facility,



taking up half of the 40 new jobs created by the reorganisation. 20 others took early retirement and three took jobs at our Hamburg operation. To date, 37 former Berlin employees have found new jobs with other companies and 11 have either started their own businesses, or are studying or retraining. Through the co-operation of employees and the Works Council, we were able to complete the reorganisation three months ahead of schedule.

We have developed online OHS training programmes in association with the UK Rapid Results College (RRC). Our first cohort of employees from around the Group achieved excellent results. Eight employees attained the intermediate level and a further 13 the advanced level (ten with distinction). Advanced level participants are eligible for associate membership of the International Institute of Risk and Safety Management. We will continue to offer these courses and aim to have them made available in several languages in the future.

Using an evidence-based approach to employee wellbeing, our focus is on reducing major risks through assessment, control and health surveillance. Following the success of our stress-prevention workshops in Germany and the UK, we are considering further road-shows and the feasibility of interactive computer-based methods, as part of our approach to promote employee health and wellbeing.

Employee wellbeing

The prevention of occupational illness and the promotion of our employees' health are essential investments we make in our people.

We have contracted International SOS, a provider of medical assistance, international healthcare, security services and outsourced customer care, to provide a comprehensive emergency medical intervention and vaccination programme for our business travellers. We continue to monitor the risk to human health from emerging infectious agents such as Avian Influenza.

Integral to our occupational health agenda are public health issues and prevention programmes, largely focussing on HIV/AIDS, malaria and other communicable diseases. We address these issues through various local projects and community investment initiatives in countries where the risk is greatest. Further information is given in the community investment section of this Review and on our web site.

After due consideration of the potential risks, we permit smoking in our workplaces unless there are hazards present such as flammable materials, risks of product contamination or regulation. Sites operate a local smoking policy which regulates where and when smoking is allowed. Controlled designated areas are provided for those employees who wish to exercise their personal choice to smoke. Where we operate in countries which regulate smoking in the workplace, local smoking policies are changed to reflect this and ensure compliance with the local regulations. We will continue to make provision for employees who choose to smoke by providing semi-enclosed or open-air smoking facilities in line with local regulation.

Find out more

Visit relevant sections in our corporate web site for further information

- Occupational health and safety
- Community investment
- Employees

www.imperial-tobacco.com

Community investment

The rapid growth of Imperial Tobacco since our listing as a public company in 1996 has presented us with first-hand local experience of significant global issues. Our response has been to increase our community investment activities and extend our support to our international operations and to developing countries where we source tobacco.

We invest in projects at both the corporate and local levels and we now have both the expertise and the capability to help achieve positive change, particularly in our workplaces, communities and supply chain.



During 2006, we committed £1.2 million to our community investment activities. This does not include payments in kind, employee volunteering or management time. Often our donations are not attributed to the Group, unless it is of specific assistance to the charity concerned.

Our community investment budgets are not the only way in which we help communities. Successful companies deliver profit which, in turn, delivers tax revenues for governments. Without such tax revenues, governments cannot deliver their mandate for social progress. Gareth Davis, Chief Executive, expands on this point in his endorsement to this Review.

Disaster response

Following our significant donation to the Asian tsunami in 2004, we have received many requests to respond to other natural disasters. We remain concerned by the inter-Agency issues, high funding levels, waste and inefficiency of aspects of relief activities. Rather than respond to individual disasters, we have decided to enable better general responses by supporting SARAID, a British rapid-response charity, for three years. The charity is dedicated to saving the lives of innocent victims of disaster as well as relieving human suffering around the world regardless of colour, creed, religion and political persuasion. More information is available on their web site at www.saraid.co.uk

Building effective partnerships

Some organisations, particularly international NGOs, will not accept donations from the tobacco sector, in the belief that it may damage their brand value or their ability to raise funds from other sources. Although saddened by this, we respect their decision and are careful to avoid supporting causes which may be controversial in this regard.

By actively seeking engagement with stakeholders who have complementary objectives to our own, we seek to achieve more than we could by acting alone. We will invest in schemes with good governance and clear deliverables and monitor them to see that money is well spent.

We would be pleased to receive proposals from potential partners seeking to address issues of relevance related to meeting the Millennium Development Goals and the aims of the Gleneagles G8 Summit on Africa and Climate Change. Our guidelines for donations can be found on our web site at www.imperial-tobacco.com/index.asp?pageid=456 together with an on-line application form for financial support.

Environmental partnerships

We have formed a number of partnerships with NGOs engaged in innovative schemes to address poverty, water and sanitation, forest conservation, reforestation, biodiversity and sustainable development. These schemes include ongoing projects in Uganda, Madagascar, Malawi and Mozambique.

We are funding a scheme in Madagascar to help conserve and reforest the Makira region. The scheme has been designed to combine biodiversity and sustainable farming with the generation of voluntary emission reduction certificates that could be used to offset carbon emissions.

During the last financial year, we provided initial funding to Fauna & Flora International to help develop an integrated regional plan for forest conservation and agriculture in the Niassa Reserve, Mozambique. Tobacco growing in the region has been increasing and offers a significant source of income in one of the most deprived regions of Africa. It is hoped that the plan will ensure careful agricultural development, reduce agriculturally-led deforestation and give rise to both conservation and community benefits. You can find more information about Fauna & Flora on their web site www.fauna-flora.org/partners/corporate.html

HIV/AIDS

Despite the set-back we reported last year, when an international NGO prevented their regional office from partnering us in several developing countries, we continued to seek partnerships on HIV/AIDS in Francophone Africa.

We are delighted that, during 2006, we became a partner of a French NGO, SIDA Entreprises, who will help us to support employees and their communities in Sub-Saharan Africa in the fight against HIV/AIDS.

In Burkina Faso we have continued to provide access to anti-retroviral treatment to complement and support HIV/AIDS prevention efforts, in partnership with the public sector and a non-governmental organisation. We are also contributing to the global effort as members of the Global Business Coalition on HIV/AIDS.

We have also made a commitment to provide an unattributed contribution for a facility and carers for HIV/AIDS-orphaned children in Malawi, where we source tobacco. Our policy is to avoid funding causes where children benefit, as some have chosen to misinterpret such donations as promoting our products. However, our decision in this instance to support this project was taken because of the extreme need of the children concerned.

Case story: Puits Verts, Madagascar



Poor infrastructure means that many people in Madagascar lack access to clean water and sanitation facilities. There is a high incidence of diarrhoea and other diseases.

Working with the farming communities and a local NGO in Madagascar, we have linked the public health issue of potable water and sanitation with a health education programme.

Over the past two years, Project Puits Verts has provided access to clean water, sanitation and hygiene education to six communities and around 23,000 people. From the start, the NGO has worked closely with village elders to ensure that they support and promote the project.

Literacy levels are low, especially in rural areas of Madagascar, so getting basic hygiene messages across can be a complex task. The NGO employs local people who understand local customs and equips them with basic health and hygiene messages that are then shared with whole households.

We are now moving into the next two-year phase, with the planned provision of more wells and sanitation blocks, health and hygiene education. Our aim is to reach some 85,000 people over the life of the project.

Local community involvement

One aim of our community investment activity is to benefit the local communities of which we are a part. We have regional Community Investment Committees (CICs) covering our factories and markets in Africa, Asia, Australasia, UK and Germany. In 2006, we created a committee for the Rest of Europe, to support activities in around 30 countries, spreading from Ireland to Russia and from Scandinavia to Cyprus.

The committees add local perspective and relevance to the way our donations are made. They can take account of different cultural approaches to corporate giving and reflect the endeavours and interests of our international workforce. Here are just a few highlights of these local activities.

- We are supporting adult education and community development in the UK, as well as the building and upkeep of a local community hall.
- Our UK CIC continues to support employees in their own charitable activities, matching the funds they have raised.
- In Germany, we have supported employees who are involved with a home for senior citizens by buying a special sense machine which gives comfort to the residents.
- Our support for an age care facility in New Zealand has helped to prevent its closure.

- Various local projects continue in Africa, including malaria control programmes and the meningitis vaccination programmes in Burkina Faso, Senegal, Chad and Congo.
- In Asia, we are sponsoring a scheme to clear landmines.
- We are funding a trust for five years to help African students to study at British and African universities.
- We have made a donation to an international network of social work agencies that aim to resolve social and legal problems arising from migration and subsequent separation of children from their families.
- We are supporting an international microfinance project which provides opportunities for rural families in Malawi to transform their lives by creating jobs, reducing vulnerability, stimulating small businesses and strengthening communities.

Find out more

Visit relevant sections in our corporate web site for further information

- Community investment
- Environmental partnerships

www.imperial-tobacco.com

These non-financial performance indicators are an attempt to reflect and quantify potential material issues for the Group. They are intended to give the Board the ability to select in any given year, which issues and indicators have had a material effect on the business.

Product stewardship

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Number of countries for which cigarette ingredients are published on Imperial Tobacco web site	Number	19	30 ▲	35 ▲

Environment*

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Number of factories ISO 14001 certified at the time of reporting	% Ratio	40 14/35	50 ▲ 16/32	61 ▲ 19/31
Environmental waste – tobacco factories only	Tonnes/mil cig equiv	0.123 restated**	0.115 ▲	
Environmental waste – all manufacturing sites and main offices	Tonnes	31,602 restated**	30,637 ▲	
Environmental waste to landfill – tobacco factories only	Tonnes/mil cig equiv	0.028 restated**	0.016 ▲	
Environmental waste to landfill – all manufacturing sites and main offices	Tonnes	7,922 restated**	5,364 ▲	
Energy consumption by tobacco factories only	KWh/mil cig equiv	2,279 restated**	2,051 ▲	
Energy consumption by all manufacturing sites and main offices	GWh	537 restated**	498 ▲	
CO ₂ equivalent emissions from energy consumed by tobacco factories only	Tonnes/mil cig equiv	0.565 restated**	0.501 ▲	
CO ₂ equivalent emissions from energy consumed by all manufacturing sites and main offices	Tonnes	135,036 restated**	123,062 ▲	

▲ Improvement ► No change ▼ Decline

* Environmental and occupational health and safety data is reported publicly 12 months in arrears to allow for independent verification.

** Restated environmental data:

We have changed the calculation method for millions of cigarette equivalents to better reflect the manufacturing process

Environmental waste now includes liquid waste

Energy consumption and carbon dioxide emissions include corrected data received since last year's Review.

Occupational health and safety*

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
>3-day lost time accident rate	Per 1,000 employees	12.4	11.6 ▲	
Average number of employees covered by reporting	Number %	14,747 94% approx	13,922 ▼ 93.4% approx	

Processes

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Number of factory OHS independent audits (per cent of all factories over a 3-year rolling programme)	% factories over 3-year rolling programme	49	47 ▼	64 ▲ Further 7 audits
Number of factory environmental independent audits (per cent of all factories over a 3-year rolling programme)	% factories over 3-year rolling programme	77	56 ▼ Excludes ISO 14001 surveillance visits	94 ▲ 1 audit and 21 ISO 14001 surveillance visits
Number of social reviews undertaken of countries where we have manufacturing operations (per cent over a 4-year rolling programme)	% countries over 4-year rolling programme	46	52 ▲	56 ▲
Number of organisations involved in stakeholder engagement	Number	45	58 ▲	44 ▼
Number of corporate responsibility issues discussed in stakeholder engagement	Number	19	31 ▲	20 ▼

▲ Improvement ► No change ▼ Decline

* Environmental and occupational health and safety data is reported publicly 12 months in arrears to allow for independent verification.

Employment practices

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Performance data

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Sickness absence (manufacturing sites only) Incl. non-work-related and work-related absence	%	–	–	
Performance management: Corporate Management Group appraisals completed	%	–	–	
Equal opportunity: Female Corporate Management Group managers	%	–	–	
Female permanent employees	%	–	–	
Total compensation: Corporate Management Group roles benchmarked with external market	%	–	–	
Resource: CMG Grade E to G positions internally advertised Note: Other indicators to be added post data collection pilot	%	–	–	
Fairness and respect: Documented grievance procedures (operations covered)	%	–	–	
Documented harassment procedures (operations covered)	%	–	–	
Documented disciplinary procedures (operations covered)	%	–	–	
Public interest disclosure: Public interest disclosure communication (operations covered)	%	–	–	
Development and training	Local management – data not held centrally			

▲ Improvement ► No change ▼ Decline

*Data for our initial set of employment practice performance indicators are still being gathered from some of our business operations. This means that we cannot provide any meaningful information at this time.

Combating smuggling and counterfeit

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Total number of memoranda of understanding and co-operation agreements on combating smuggling and counterfeit signed with governments	Number	5	7 ▲	11 ▲

Supplier social responsibility

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Tobacco suppliers participating in the SRiTP programme	%	99	100 ▲	100 ►
Manufacturing's centralised purchase of non-tobacco materials covered by social responsibility programme	% by cost	96	To be revised	To be revised

Community investment

Performance indicator	Unit	FY 2004	FY 2005	FY 2006
Community investment donations Does not include value of employee time, in-kind contribution or management costs	£ million	0.92	1.26 ▲	1.2 ▼

▲ Improvement ► No change ▼ Decline

Accident data reporting

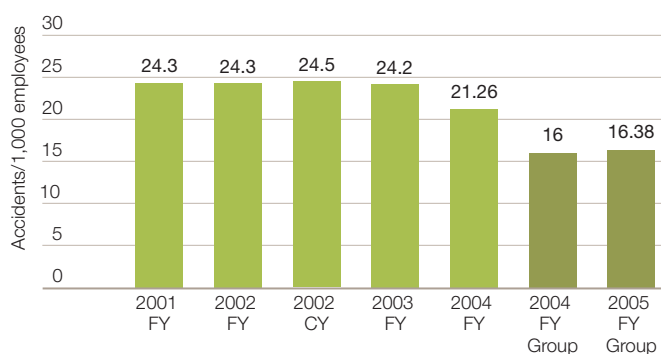
42

Performance data

Occupational health and safety data is reported publicly 12 months in arrears to allow for independent verification.

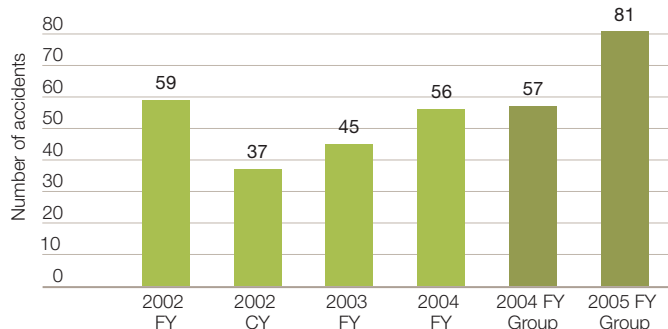
- ▶ Our Group > 3-day lost time accident rate improved from 12.4 per 1,000 employees in 2004, to 11.6 in 2005.
- ▶ Reporting coverage for the 2005 financial year remained at approximately 93.4% of employees.
- ▶ Early data (pre-2004) is predominantly for our manufacturing operations.

Lost time accident rate (per 1,000 employees)



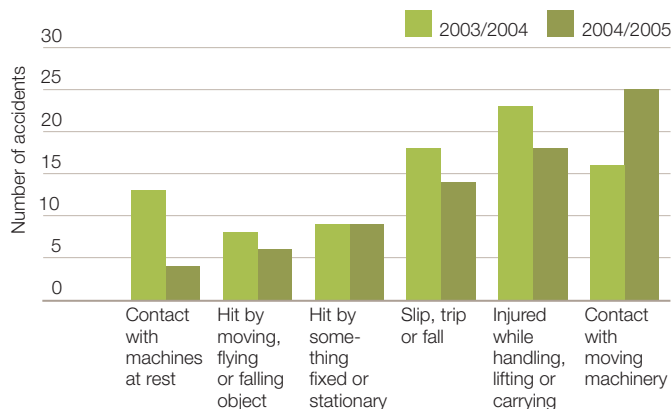
Our Group lost time accident (LTA) rate has remained virtually static on the previous year.

Contractor accidents



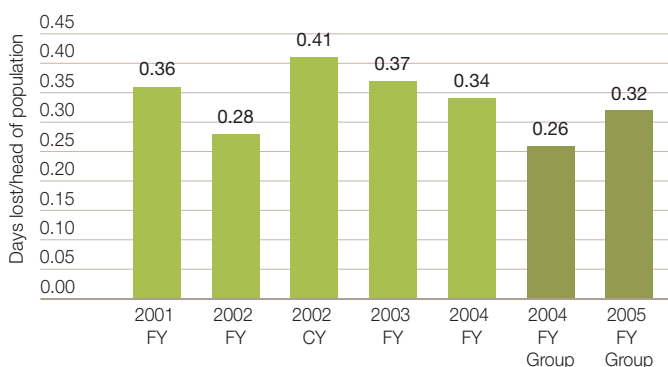
Intended improvements in our contractor safety management are not yet reflected in the accident data. We continue to target this area.

Top 6 causes of lost-time accidents



The category 'Hit by a moving vehicle' reported in previous CR reviews no longer features in the 'Top 6' causes of lost time accidents and has been replaced with the category 'Contact with machines at rest'.

Days lost due to accidents per head population



Although there has been a slight increase in days lost due to accidents per head of population, the general trend is downward.

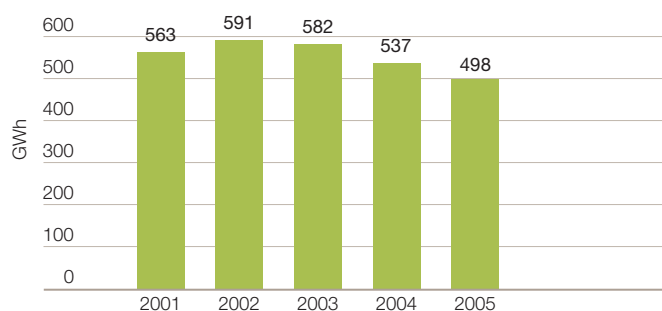
Environmental data reporting

We report our environmental data 12 months in arrears, to allow time for data collection from suppliers and for independent verification.

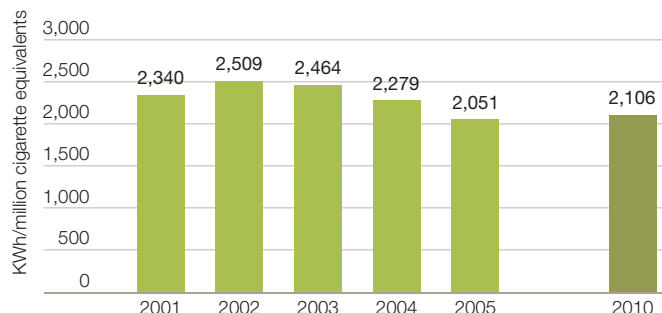
Our environmental data for the 2005 financial year covers our main offices in Bristol, Hamburg and Paris and all our factories except for those in Laos and Turkey, for which data were not available when calculating our base years for target setting. In accordance with the Greenhouse Gas Protocol, we will recalculate our base year for carbon dioxide emissions, by integrating the emissions for all the excluded factories once they exceed the ten per cent threshold of the total emissions in any given year. We will do the same for all energy, waste and water base year data.

We have changed the calculation method we use for our relative measure, millions of cigarette equivalents, to better reflect our manufacturing process. Cigarette equivalents can only be considered as an estimate, in order to compare the energy efficiency of our different product groups. The more accurately our model reflects the real production processes, the more effective our targets will be in providing incentives for the right emission reduction strategies. We have applied this new calculation to all reported years. Therefore the actual figures are recalculated and are consequently slightly different to the results that we reported last year, although the underlying trends remain unchanged.

Energy consumption (GWh)

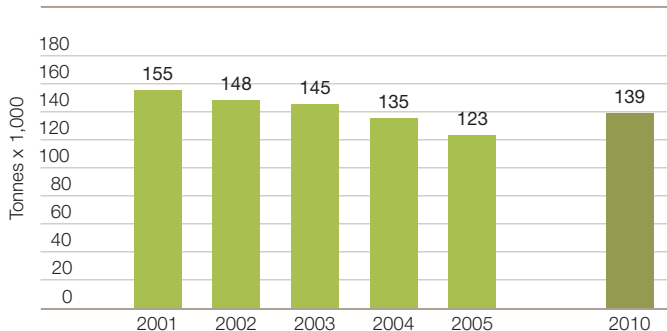


Energy consumption – tobacco manufacturing (KWh per million cigarette equivalents)

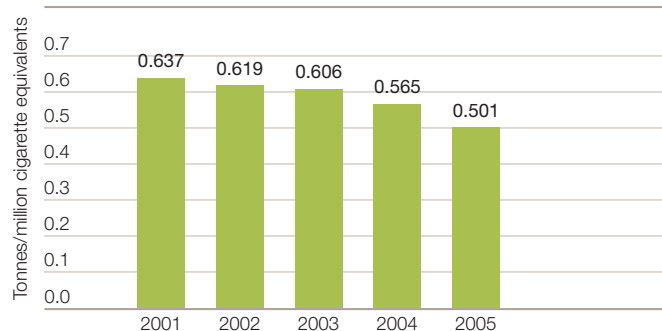


By the end of the 2005 financial year, we achieved 11% reduction in absolute energy consumption and 12% reduction in energy consumption relative to production volumes, when compared with our 2001 base year.

CO₂ emissions Scope 1 & 2 (tonnes x 1,000)



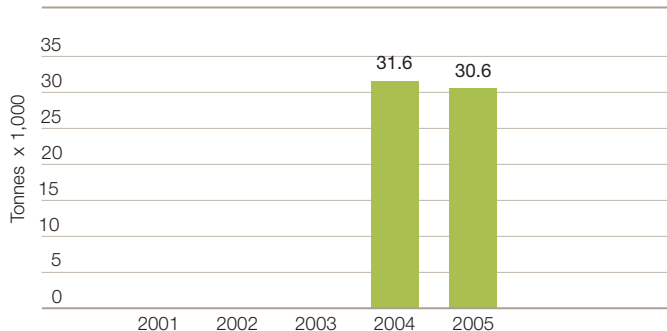
CO₂ emissions – tobacco manufacturing
(tonnes per million cigarette equivalents)



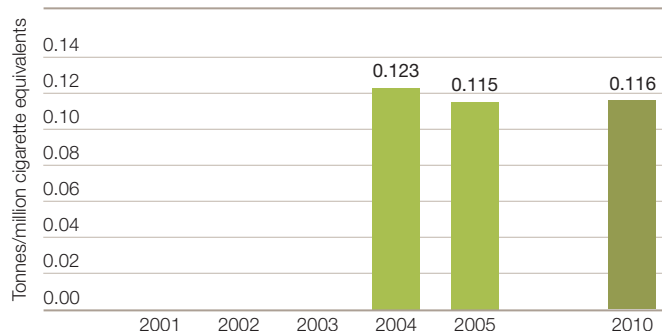
By the end of the 2005 financial year, we achieved a 20% reduction in Scope 1 and Scope 2 CO₂ emissions when compared with our 2001 base year, thereby exceeding our 2010 reduction target. There was also a 21% reduction in emissions relative to production volumes.

Scope 1 = direct emissions; Scope 2 = indirect emissions (in accordance with Greenhouse Gas Protocol)

Environmental waste (tonnes x 1,000)

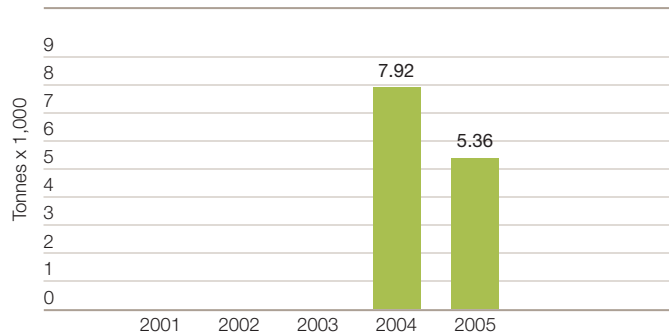


Environmental waste – tobacco manufacturing
(tonnes per million cigarette equivalents)

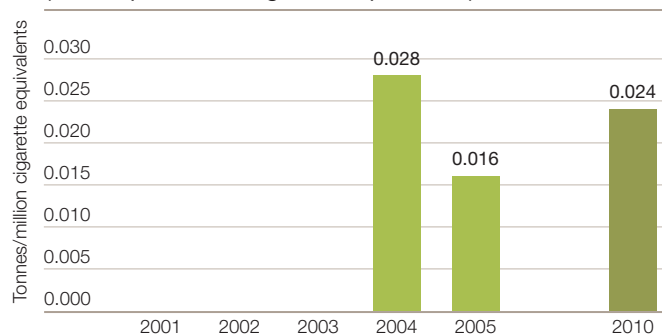


By the end of the 2005 financial year, we achieved a 3% reduction in environmental waste – 6% reduction relative to production volumes – in comparison to our 2004 base year.

Environment waste to landfill (tonnes x 1,000)

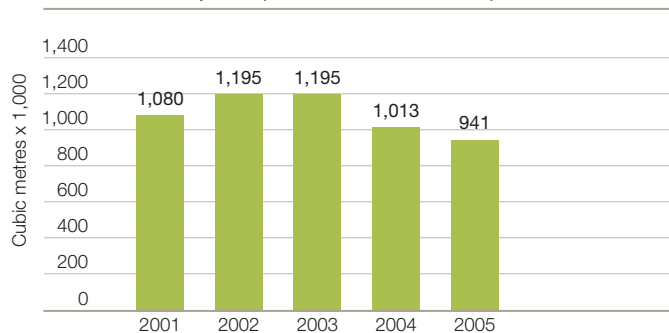


Environmental waste to landfill – tobacco manufacturing (tonnes per million cigarette equivalents)

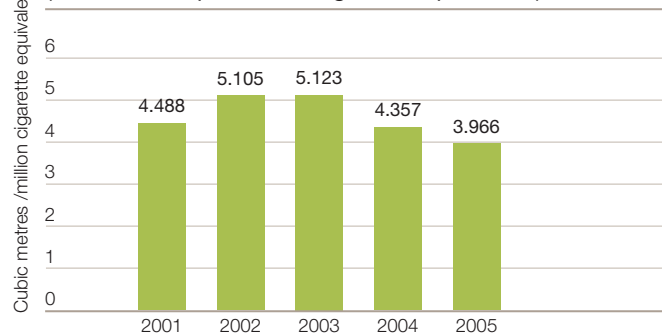


By the end of the 2005 financial year, we achieved a 32% reduction in environmental waste to landfill – 42% reduction relative to production volumes – in comparison to our 2004 base year.

Water consumption (cubic metres x 1,000)



Water consumption – tobacco manufacturing (cubic metres per million cigarette equivalents)



By the end of the 2005 financial year, we achieved a 12% reduction in water consumption – 11% relative to production volumes – in comparison to our 2001 base year. Even without setting any corporate targets specific to water, the introduction of ISO 14001 environmental management systems proves to be a driver for performance improvement.

Summary table (specific local issues only)

	Australia	Belgium	Greece	Hungary	New Zealand	Poland	Russia	Slovakia	Slovenia	UK
Smuggling and counterfeit										
The illicit trade market and measures to fight it	+ ■	■		+		● ▶ +		● ▶ +		
Destruction of contraband cigarettes						▶ +				
Memorandum of Understanding						●				
Taxation & other financial issues										
Taxation and Excise rates			●			● ▶		●		
Tax Stamps			● ■							
Limitation to excessive stock building								●		
Sales issues										
Selling tobacco products			▲							
Youth smoking prevention programmes				■						
Information to consumers										
Health warnings		■			▲ ■					
Descriptor items	+									
Pictorial health warnings		■			●					

Key to shareholders

- | | |
|---|----------------------------------|
| ● Governments (national) | ❖ Employees |
| ▶ Governments (local) | ■ Investment analysts |
| + Governments (agencies, customs, police, etc...) | ★ Pan governmental organisations |
| ▲ Suppliers & customers | ■ Industry bodies |
| * Consumers | ◆ Many stakeholders involved |

Summary table (specific local issues only) continued

	Australia	Belgium	Greece	Hungary	New Zealand	Poland	Russia	Slovakia	Slovenia	UK
Regulatory issues										
General regulation issues							●			
Laboratory and production issues			●			◐		●		
Legislative procedures		■								
Smoking in public										
Smoking in public places		■		■ *		■				
Corporate responsibility										
Community involvement						★				
Relations with employees		❖★	❖			❖★		★		
Stakeholder survey	◆									
SRiTP										▲
CR issues in general										■

Key to shareholders

- Governments (national)
- ◐ Governments (local)
- ✚ Governments (agencies, customs, police, etc...)
- ▲ Suppliers & customers
- * Consumers
- ❖ Employees
- Investment analysts
- ★ Pan governmental organisations
- Industry bodies
- ◆ Many stakeholders involved

Independent Assurance Statement: SGS United Kingdom Limited's report on sustainability activities in Imperial Tobacco's Corporate Responsibility (CR) Review 2006



Nature and scope of the assurance

SGS United Kingdom Limited was commissioned by Imperial Tobacco to conduct an independent assurance of the CR Review 2006. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text and data in accompanying tables and graphs contained in the Review.

The information in Imperial Tobacco's CR Review 2006 and its presentation are the responsibility of the directors and management of Imperial Tobacco Group PLC. SGS United Kingdom Limited has not been involved in the preparation of any of the material included in the CR Review 2006.

Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification set out below.

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (2002) and the AA1000 Assurance Standard (2003). These protocols follow differing levels of Assurance depending on the reporting history and capabilities of the reporting organisation.

This report has been assured using our Level 1 protocol for content veracity. The assurance comprised a combination of documentation and record review, validation with external bodies and interviews with employees at the following locations; Hamburg in Germany, Vientiane in Lao, Menen in Belgium, Paris in France, Nottingham and Bristol in UK.

Financial data was drawn directly from the audited accounts of Imperial Tobacco Group PLC and has not been checked back to source as part of this verification process.

Although a GRI Index has been included in the web site version of the report, the report has not been assured for 'In Accordance' status against this standard.

Statement of independence and competence

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance. SGS United Kingdom Limited does not provide any consultancy services to Imperial Tobacco and affirm our independence, being free from bias and conflicts of interest with the organisation, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised EMAS Verifiers, Lead Auditors registered with IEMA and IRCA and a GHG Lead Assessor.

Assurance opinion

On the basis of the methodology described and the verification work performed, we are satisfied that the data and associated graphs and tables contained within the CR Review 2006 are accurate and reliable and provide a fair and balanced representation of Imperial Tobacco's sustainability performance. Additionally, we are satisfied that the text and statements made in the CR Review 2006 are supported by underlying evidence.

We believe that the organisation has chosen an appropriate level of assurance for this stage in their reporting. It is our opinion that Imperial Tobacco's reporting has reached the level where it would measure favourably against current reporting guidelines. We recommend that Imperial Tobacco progress in future to a broader approach to assurance in line with observed improvement in their CR reporting.

Signed:
For and on behalf of SGS
United Kingdom Limited

A handwritten signature in dark ink, appearing to read 'P. Earl'.

Pauline Earl
Business Manager, System
and Services Certification
SGS United Kingdom Limited

October 2006

We are pleased that two independent experts have provided us with their opinions of our CR Review this year and, with their permission, we have reproduced their critiques here.

It is not our intention to derive credibility or authority from their personal comments but to receive expert input into our continuous improvement processes. Just as they express their disagreements with some of the statements we have made and some of the approaches we have taken to suit the particularities of our business, so we would wish respectfully to disagree with some of their comments. As with the comments of previous expert reviewers, we do not provide our own point-by-point commentary on their personal views.

**Commentary by
Deborah Leipziger**

Deborah Leipziger is a Managing Director of The Anders & Winst Company, a strategy consultancy advising companies, NGOs and governments. She is the author of 'The Corporate Responsibility Code Book' (Greenleaf 2003), and 'SA8000: the Definitive Guide to the New Social Standard' (FT 2001). Her books have been translated into Chinese, Korean, French and Portuguese.

Please note that the comments expressed here are her own and cannot be linked to any of the organisations that she represents.

Imperial Tobacco, like multinational companies everywhere, is working to define the boundaries of its impact or its sphere of influence. Civil society is asking companies to take greater responsibility for their actions and to better understand their sphere of influence. This is the crux of the Corporate Responsibility Performance Review, its challenges and potential.

As this is the second time I am invited to comment on Imperial Tobacco's Corporate Responsibility Review, it is possible to see the Company's longer-term trajectory. Since I first commented in 2003, there are a number of signs of continuous improvement in both reporting and in performance.

As Imperial Tobacco becomes more global, so have its corporate responsibility (CR) efforts. In my last commentary, I commented that the Review was somewhat UK-centric. This report reflects the activities of a company that is becoming more global, while also embedding CR practices at a global level.

The report's premise is correct: "If corporate responsibility is to be an enduring part of the business landscape, then it must address mainstream business issues." Imperial Tobacco is addressing mainstream business issues within a CR framework, including better product design and supply chain issues.

The report is well organized and accessible. The summary of achievements and external opinion provides a good overview. The environmental achievements are impressive. Organizing the material around the product value chain provides

an interesting and innovative format. The context provided on the value chain is interesting. Likewise, the use of links to web sites is useful. The Review shares some of the lessons that the Company has learned in corporate responsibility, a useful perspective often lacking in such reports.

What is missing from the report is a vision for corporate responsibility. Where does Imperial Tobacco expect to be in five years from a corporate responsibility perspective? How is Imperial Tobacco adapting to major trends? How will the Company adapt to a world where smoking is being increasingly restricted? Are there areas where Imperial Tobacco is showing leadership and can extend its knowledge and experience to other companies?

Human rights

The human rights section is disappointing in its brevity. In most countries in which it operates, Imperial Tobacco will have dealings with governments, some of which are abusing human rights. Imperial Tobacco sources from countries with serious human rights abuses, including China. While there is a reference to social reviews of countries where the company has manufacturing operations in the indicators, there is little context on these reports and what they mean for Imperial Tobacco.

While the 2005 report was also weak on human rights issues, it did make an important commitment to the OECD Guidelines for Multi-National Enterprises. However, what this commitment means for the vision and activities of the Company remains unclear.

I commend Imperial Tobacco for its choice to work with the OECD Guidelines for Multi-National Enterprises, one of the most comprehensive of standards within the field of corporate responsibility. However, one of the challenges for subsequent reports will be to describe in greater depth the ramifications of such a policy decision. There is a risk for companies to commit to a set of guidelines without clear reporting around progress.

Supply chain issues

Imperial Tobacco has made progress in addressing CR within the value chain. The Social Responsibility in Tobacco (SRiTP) programme provides a good road-map and addresses a comprehensive set of issues including integrated crop management, capacity building and the standard of living of farmers. In his thoughtful commentary last year, Jan Jonker asked how Imperial Tobacco was trying to realize its ambition to see the SRiTP programme become an industry norm. This is an important goal and opportunity for Imperial Tobacco to provide leadership in the sector. The Review could benefit from a broader vision for the SRiTP programme.

More depth on certain issues related to the supply chain would be helpful. While it is important to reference the ILO Core Conventions, more in-depth reporting is needed to explain the linkages between the Conventions and Imperial Tobacco's supply chain. The CR Review states: "The independent assessor of our tobacco suppliers has given a report on our 2005 programme." It is useful to know more about the independent assessor, what sort of training and accreditation they may or may not have. While the 2005 report made reference to seven auditors trained in Social Accountability 8000 systems, it is not clear if this effort has continued.

Eliminating child labour partnership

The use of case studies provides depth and insight to the Review. I commend Imperial Tobacco for holding a Board position within the Eliminating Child Labour in Tobacco (ECLT) Foundation. This type of multi-stakeholder initiative is proving to be increasingly able to demonstrate results in addressing child labour in a coherent and effective way. However, there is a need to show some indicators of progress and impact. How many children have benefited? What lessons have been learned?

Traceability

The issue of traceability is becoming more important as supply chains become more complex. Since this is a question of risk, it is important that companies can report concretely about how quickly they can take action in case contaminated products need to be recalled. While it is reassuring to know that there are procedures in place, it would be good to know how quickly Imperial Tobacco could recall products, should contaminants be found in a product line.

Employees

Employees receive only limited discussion in this report. It is here that the dearth of indicators is most problematic. The report provides very little information on Imperial Tobacco's diversity profile, a concern I raised in 2003.

Have surveys been conducted to assess the level of employee satisfaction? What kinds of procedures are in place to address the child care needs of employees? Are there policies and plans in place to address Avian Flu? Are there financial incentives for employees to promote social and environmental concerns?

A key indicator that should be recorded is the number of hours of training per employee. This is a useful benchmark to compare with other companies.

Stakeholder engagement

The discussion on stakeholder engagement is enriched by the mention of some of the findings, such as the perception on the part of farmers that life will be easier in the city rather than in the countryside. Likewise, it is interesting to learn that suppliers have asked for the Company's support in running training courses for farmers. This appears to be an excellent opportunity for Imperial Tobacco to extend its sphere of influence so as to improve its environmental and social performance within supplier communities. It would be interesting to hear the voices of stakeholders actually emerge. How do the key stakeholders view the engagement process?

Assurance

I am pleased to see that Imperial Tobacco's CR web site material will also be assured.

Smuggling and counterfeit products

It is impressive to see that progress is being made in combating smuggling and closing down illegal factories. The use of indicators is helpful to gain a sense of progress in this area. By having formal Memoranda of Understanding with governments on this issue, the Company is paving the way for enhanced stakeholder management.

Integration of quality, health and safety

I commend Imperial Tobacco for integrating quality, environment and organisational health and safety issues in its plant in Turkey. Will this approach be expanded to the rest of the Company?

Litter

The introduction of a pocket “butts out” ashtray is a positive development. Will there be an expansion of this programme?

Health labels

Imperial Tobacco's aversion to pictorial health warnings fails to take into account the prevalence of illiteracy in developing countries. According to the World Bank, nearly one-third of adult men and half of all adult women in low-income countries are illiterate. Despite the high illiteracy rates, the Review states: “We do not believe that the use of graphic pictorial warnings is necessary... In our view, pictorial or graphic health warnings make no overall contribution to the public awareness of the risks associated with smoking, which we believe are already well known.” Imperial Tobacco's statement (above) should be removed from the report.

Environmental tobacco smoke

The section on environmental tobacco smoke, or second-hand smoke, is disappointing. More reference needs to be made to the impact of ETS on children. According to the US Environmental Protection Agency (EPA):

“The conclusion that second-hand smoke causes respiratory effects in children is widely shared and virtually undisputed. Even the tobacco industry does not contest these effects in its media and public relations campaign.

EPA estimates that, every year, between 150,000 and 300,000 children under 1½ years of age get bronchitis or pneumonia from breathing second-hand tobacco smoke, resulting in thousands of hospitalizations. In children under 18 years of age, second-hand smoke exposure also results in more coughing and wheezing, a small but significant decrease in lung function and an increase in fluid in the middle ear. Children with asthma have more frequent and more severe asthma attacks because of exposure to second-hand smoke which is also a risk factor for the onset of asthma in children who did not previously have symptoms.”

If the Company's products can have a negative impact on children and babies, then the Company's sphere of influence needs to extend further to do more to both prevent problems and mitigate them.

The challenge ahead

My challenge to Imperial Tobacco is to create a report where the voices of stakeholders emerge more clearly. Are there messages from employees, from stakeholder engagements, from governments that could be quoted? These quotes would introduce an element of dialogue and would indicate that listening is an integral aspect of Imperial Tobacco's DNA. In too many places, this Review becomes a platform for Imperial Tobacco rather than a vehicle for exchange.

More detail on how the report is used and by whom would provide useful context. One interesting possibility for subsequent reports would be to invite a CR expert from Asia or Latin America to comment on the Review. CR organisations are growing in the developing world and their viewpoints would provide some new perspectives.

Commentary by Mallen Baker

Mallen Baker is Development Director for Business in the Community. He is responsible for the organisation's work on marketplace issues and has extensive experience on working with businesses on their corporate responsibility strategy, measurement and reporting. He is also a regular columnist with Ethical Corporation and has written extensively on issues around business and society.

In some areas of substance, Imperial Tobacco's latest report shows that it has made real progress.

For instance, it is to be congratulated for the progress it has made on solid environmental performance measures, as well as employee health and safety. Its approach in this report, to illustrate each step of its value chain and to take the issues contained within each step, usefully illustrates how embedded its approach to responsibility is throughout its business process. Ultimately, corporate responsibility is about how you make your money and Imperial Tobacco has shown with this report that it understands this starting point very well.

Of course, for any tobacco company, the story starts with the product. Imperial Tobacco recognises this by putting a big focus on product responsibility issues. Due to the nature of their product, tobacco companies should expect to be held to higher expectations of where their ambitions take them.

This is not an easy area. Stakeholder opinions are sharply polarised and some measures that might be considered to be steps forward can be held to be highly controversial. Nevertheless, this is the area where Imperial Tobacco most needs to raise its game to close the gap between expectations and performance.

In this report, Imperial Tobacco outlines its vision, strategy and values. Its vision is to be the world's most profitable tobacco company, leading the industry in delivering sustainable growth, shareholder value and customer satisfaction. Since Imperial Tobacco is a high wealth-generating company, it should be able to rise to a vision that goes beyond managing market share within an unsatisfactory status quo. It is well placed to show real leadership and that must mean taking a more active role in developing genuinely reduced-harm products and using such innovation to reshape its marketplace.

Indeed, with continuing attacks on the industry through litigation and tightened regulation, one might argue that the writing is pretty much on the wall that, in order to achieve 'sustainable' growth, the industry needs to make real progress in this area. The Company's plea for regulation based on sound science is much more an invitation to regulate the status quo, rather than to change it.

In the light of this, Imperial Tobacco's key statement on reduced-harm products, that it continues to seek dialogue with governments and competent authorities on them, is disappointing and reflects no apparent progress on its statement of a couple of years ago.

To show real leadership, the Company should commit itself to serious investment in reduced-harm products and reflect its intention to define a sustainable future for tobacco in changing the current realities for the 1.3bn smokers worldwide. At the moment, its achievements on solid progress on environmental and workplace performance are overshadowed by what many stakeholders will view as legalistic definitions that seem designed to fend off change. It is hard to see a parallel where such pressures for change have been successfully resisted by such a strategy.

The Company has shown good transparency in its description of its approach to public and regulatory affairs. By being clear about its position on matters of public policy, the Company enables those who have an interest in the points of policy to engage with its arguments.

However, aspects around this go to the crux of the debate. The Company has stated that it does not accept without challenge regulation that is flawed, unreasonable or disproportionate. Nobody could disagree with such a statement as far as it goes – but in the minds of many, it will beg the question as to exactly how the Company frames its definitions in these areas.

The Company's approach to environmental tobacco smoke is where it most stands out as occupying difficult ground. Many would disagree with its interpretation of the science in this area but it should also remember the lessons painfully learned by Shell over the Brent Spar and a number of others since – it is possible to get the science right and lose the argument. There might be a more constructive way for the Company to engage the concerns that fuel this debate than to plead lack of scientific certainty.

In the area of product and the role of the business in the society, this is territory that is defined by judgement, leadership and some courage. The scale of the challenges facing the tobacco industry are no lesser than those which prompted Richard Branson to pledge all of the profits from his travel businesses to combating climate change, or John Browne to declare the long-term mission of 'Beyond Petroleum'. The question is whether Imperial Tobacco, in its quest of a sustainable future for tobacco, can find its own leadership voice.

Other areas of corporate responsibility come down to developing good quality management systems and processes. In these areas, the Company has shown good progress. The Company's gradual improvement in CO₂ emissions, even discounting the effect of factory closures, is a solid achievement. The continual process of bringing its factories into line with its formal environmental management system (ISO 14001) is significant.

Also its work with suppliers on social responsibility issues within tobacco production is producing some good results. Such measures not only help to improve social conditions in developing country environments but also help to strengthen the health and stability of the Company's supply chain.

The Company's work on workplace health and safety, and particularly its focus on safety for its drivers in countries where standards of driving are poor, is creditable.

Given some of the challenges in countries where Imperial Tobacco operates relating to human rights, its commitments in this area, focusing on the ILO conventions, are very welcome, as are its intended aims around avoiding bribery and corruption.

Ultimately, the final challenge is how one establishes from the data of a CSR report what is the real picture in terms of performance. The key performance indicators (KPIs) adopted by the Company, whilst useful and appropriate in a number of key areas such as environmental performance and health and safety, remain of questionable value in other areas. Given all the weighty considerations around product, to have a single KPI in this area focusing on how many countries publish the ingredients in the product is not a long-term satisfactory position. Likewise, measures of the numbers of organisations involved in stakeholder engagement is no real measure as to the quality of that stakeholder engagement, nor what has happened as a result.

A good key performance indicator should measure something that is quantifiable, able to be measured, practical, able to show trend data year on year, is within the Company's control and gives a real measure of performance that enables targets to be set. These criteria do not apply to all the KPIs used here and it is simply not possible from the data alone to be able to really understand what kind of year Imperial Tobacco has had.

Overall, Imperial Tobacco continues to show, through its reporting, that it is serious about seeking solutions in the area of social responsibility. It has focused on systems that develop sound quality of management covering the processes that can be controlled to provide year on year improvements in performance. The challenges that it remains to face are big challenges and, although some of its competitors may have gone further in their declared intent to focus on these, there is not yet any kind of magic solution demonstrated by best practice elsewhere. However, the statement of intent is the first stage of the process and this is the big leap forward that I would encourage Imperial Tobacco to consider over the coming year.

As both of our expert reviewers have raised issues around Environmental Tobacco Smoke (ETS), which is a current topic of strong interest in many parts of the world, we have taken the unusual step of reproducing our evidence to the UK House of Lords Economic Affairs Committee, in its enquiry into Government policy on the management of risk. This has been available on our web site since February 2006.

House of Lords' Select Committee on Economic Affairs Inquiry into Government Policy on the management of risk

Submission by Imperial Tobacco Group PLC on Environmental Tobacco Smoke and Policy on Smoking in Public Places

Introduction

1. This submission is made by Imperial Tobacco Group PLC (ITG) in response to a specific request made by the House of Lords' Select Committee on Economic Affairs for evidence on the science of Environmental Tobacco Smoke (ETS) and the assessment of risk in relation to government policy.

Background

2. The vast majority of people in the UK are now reported to believe that ETS is harmful to the non-smoker. That belief has been fostered over the past three decades by individuals and organisations campaigning specifically for the regulation of smoking.

3. An example of one such campaign group is Action on Smoking & Health (ASH), a non-governmental organisation which describes its methods as including *"advocacy and lobbying of all relevant stakeholders for practical public policy measures to control tobacco"*

In deploying that methodology, ASH asserts that exposure to ETS causes death and disability from diseases ranging from cervical cancer to stroke, claims that such assertions are based on science and calls for regulation to ban smoking in public places.

4. When this issue first arose over 30 years ago, many of the then critics of smoking expressed the view that ETS did not appear to cause harm to non-smokers. On occasions, they did so when specifically addressing the question whether or not there was scientific evidence to justify regulation of smoking in public places.

5. For example, Dr. Ernst Wynder, the first major researcher to link cigarette smoking with lung cancer, said in 1974 that he did not believe that *"passive smoking really hurts the health of somebody who sits next to you."* Ten years later, in 1984, Dr. Wynder concluded: *"Should lawmakers wish to take legislative measures with regard to passive smoking, they will, for the present, not be able to base their efforts on a demonstrated health hazard from passive smoking."*

6. Dr. E. Cuyler Hammond of the American Cancer Society and the lead researcher of the CPS I study (the first of two one-million person studies of cancer incidence in the United States) stated in 1975:

"There is no shred of evidence that a non-smoker can get cancer from 'second-hand' smoke and there is a lot of evidence that he cannot ..." Dr Hammond added that to suggest passive smoking could cause cancer was dishonest and he would be prepared to testify to that in a court. As recently as February 2001, Prof. Sir Richard Doll said: *"the effects of other people smoking in my presence are so small that it doesn't worry me."*

7. Governmental agencies in the United States came to a similar conclusion in the 1970s. In a 1971 joint study, the Federal Aviation Administration, the Department of Health, Education & Welfare and the National Institute for Occupational Safety & Health together examined the health aspects of smoking on commercial passenger aircraft. The study's conclusion was as follows:

"...inhalation of the by-products from tobacco smoke generated as a result of passengers smoking aboard commercial aircraft does not represent a significant health hazard to non-smoking passengers."

8. Even public health reports during this period acknowledged that ETS did not pose a health hazard to the non-smoker. For example, the 1979 US Surgeon General's Report stated: *"Healthy non-smokers exposed to cigarette smoke have little or no physiologic response to the smoke, and what response does occur may be due to psychological factors."* The 1982 US Surgeon General's Report, which dealt with cancer, stated that the available evidence was not sufficient to conclude that atmospheric tobacco smoke caused lung cancer in non-smokers.

9. In light of this history, how are we to explain the fact that today many people accept as proven the notion that ETS is harmful to the non-smoker? The answer is that, beginning in the 1970s, public health advocates set out to obtain and to publicise evidence that ETS was harmful to health, while frequently ignoring the scientific method. For example, if investigators were unable to achieve statistical significance at the standard 95 per cent confidence level to confirm their *a priori* hypotheses, they merely lowered the confidence level to 90 per cent. This approach to science resulted in the publication of a number of flawed studies, many of which received widespread attention in the general media around the world. The objective was simple. If ETS could be portrayed as harmful, this would justify the limitation of smoking in public places as well as in the workplace, thus depriving the smoker of the opportunity to smoke. This, of course, is consistent with the major public health aim of getting smokers to give up smoking.

10. The same type of approach to ETS can be seen in the California Environmental Protection Agency's 2003 conclusion that ETS causes breast cancer. Dr Michael Thun, the chief epidemiologist for the American Cancer Society, commented that the "published evidence" underlying this conclusion could not "*withstand careful scientific scrutiny*" and that advancing this conclusion could be more damaging to the credibility of tobacco control "*than a deliberative approach that acknowledges the limitations of the evidence currently available*." The EPA panel, however, thanked Dr Thun for his comments, acknowledged its recognition that "*there is uncertainty in the evidence*" but refused to alter its conclusion.

11. In a 1992 Report, the US Environmental Protection Agency (USEPA) characterised ETS as a Group A (ie, human) carcinogen. A US Federal District Court criticised the EPA's methodology, stating: "*In conducting the ETS Risk Assessment, EPA disregarded information and made findings on selective information; did not disseminate significant epidemiologic information; deviated from its Risk Assessment Guidelines; failed to disclose important findings and reasoning; and left significant questions without answers. EPA's conduct left substantial holes in the administrative record. While doing so, EPA produced limited evidence, then claimed the weight of the Agency's research evidence demonstrated ETS causes cancer.*" (4 F. Supp. 2d 435, 466 (1998)).

12. Moreover, any researcher publishing data that do not support the claimed health danger of ETS is attacked by public health advocates as not acting in the interests of public health. Thus, when the British Medical Journal published data from the American Cancer Society (CPS I) study in 2003, showing no association between ETS exposure and disease, the author, Dr J Enstrom, was widely criticised. The crux of the criticism had less to do with his data than the fact that his study was funded in part by tobacco manufacturers. The Editor of the BMJ was subjected to the same criticism. In a reasoned rebuttal to that criticism, the Editor concluded with these words: "*... I found it disturbing that so many people and organisations referred to the flaws in the study without specifying what they were. Indeed, this debate was much more remarkable for its passion than its precision.*"

13. An example of the effect that the advocacy approach to science can have on policy making can be found in the Scottish Parliament's recent deliberations on its smoking ban. In its briefing paper "Passive Smoking: A Summary of the Evidence," ASH relies on the 1992 USEPA Report referred to above, describing it as "a major review." ASH records that the EPA classified ETS as a "Class A (known human) carcinogen," but does not tell the reader that the EPA's methodology was criticised by a US Federal District Court. In evidence to the Scottish Parliament on the Smoking, Health & Social Care (Scotland) Bill, ASH argued against exemptions to a smoking ban other than in exceptional cases, concluding: "*Any possible exemption should be justified in terms of the acceptability of exposing members of the workforce to a preventable Class A carcinogen.*" Once again, there was no reference to the judicial criticism of the methods that led to that unwarranted conclusion. When the Scottish Health Committee took oral evidence on the proposed smoking ban, there was an acceptance among its members that ETS is a Group A human carcinogen.

ETS and Health

14. We believe that public policy toward smoking in public places should be grounded in fact and proper scientific methods. It is unfortunate that policy in this area appears to have been driven by the passion of tobacco control advocates rather than by a dispassionate assessment of the science relating to ETS. In a proper evaluation, consideration should be given to (i) the characteristics of ETS and its constituents; (ii) the effect of ventilation on ETS in the indoor environment; (iii) the biological mechanisms that allow humans to thrive in a chemical environment; and (iv) the epidemiological studies that have been carried out regarding ETS.

The Characteristics of ETS and Its Constituents

15. ETS is a mixture of exhaled mainstream tobacco smoke and smoke from a smouldering tobacco product (often referred to as "sidestream smoke"). This mixture is diluted in indoor air, and aged. The major contributor to ETS is the atmosphere itself which, in turn, is largely comprised of ambient (or outside) air. There is no environment in real life that is chemical and particle-free and, in fact, the vast majority of smoke constituents that contribute to ETS are already present in ambient (or outside) air from other sources. Thus, the constituents of ETS that have attracted the most attention from public health bodies, such as benzo[a]pyrene and carbon monoxide, are already present in ambient (or outside) air.

16. The concentration of those ETS constituents that have drawn the attention of public health bodies has been calculated for public places. Performing that calculation, even for the atmosphere in a public place with the highest levels of ETS, such as a pub, reveals that these ETS constituents are present in very small amounts.

Ventilation

17. Public health advocates, including the authors of the 2005 Royal College of Physicians' Report, claim that ventilation is not effective in removing ETS from the air. In fact, studies of ventilation have been performed in environments where the highest levels of ETS can be expected, such as pubs, restaurants and casinos. These studies show that through proper ventilation it is possible to reduce the concentration of ETS constituents in the air to a level which is comparable to that found in completely smoke-free venues. It is worth noting that no amount of ventilation can reduce the concentration of ETS constituents to a level below that which is found in ambient (or outside) air. The suggestion made by public health advocates that extreme levels of ventilation are required to achieve this result is simply baseless.

Chemicals and Biological Mechanisms

18. Chemicals are ubiquitous; the environment in which we live is composed of chemicals. Thus, humans are continuously exposed to chemicals, including those that have been labelled as 'toxic' or 'carcinogenic.' Benzo[a]pyrene, formaldehyde and nitrosamines, to name just a few, have been labelled as carcinogenic. These chemicals are naturally present in food and in the air that we breathe.

19. Humans have evolved a network of biological structures and functions that serve as defences to low levels of exposure to chemical carcinogens. As the first line of this defence, metabolic detoxication renders potentially toxic molecules less toxic, more water-soluble and excretable. When reactive molecules are created, the architecture of the cell presents barriers to that metabolite reaching the DNA which is contained in the cell nucleus. A series of DNA repair mechanisms are available to correct DNA modifications if they occur. Cell cycle checkpoints, which regulate cell division, can act to delay cell division to allow DNA repair to occur. Finally, apoptosis, or programmed cell death, is the final defence employed to remove a cell with DNA modifications and prevent the consequence of replicating a damaged genome.

20. The presence of these interlocking and staggered systems and structures helps to explain why exposure to a small amount of a carcinogen will not produce an adverse biological response, such as cancer. This results in there being a threshold below which exposure to a carcinogen is of no biological consequence. The scientific literature yields numerous examples of this threshold effect in the case of chemicals such as polycyclic aromatic hydrocarbons, nitrosamines, arsenic and formaldehyde.

Epidemiology

21. In light of (i) the low concentrations of ETS constituents that are present in public places and (ii) the biological mechanisms available to deal with chemical exposures, it would be anticipated that epidemiological studies would show no greater incidence of disease in ETS-exposed non-smokers compared to non-exposed non-smokers. In fact, a dispassionate evaluation of the epidemiological studies shows that there is no difference in disease incidence between the exposed and the non-exposed non-smokers.

22. It is true that a number of observational epidemiological studies have reported increased relative risks for lung cancer, coronary heart disease (CHD) and chronic obstructive pulmonary disease (COPD) in groups exposed to ETS, in comparison to groups without ETS exposure. At the same time, a number of studies have found no association between ETS exposure and those diseases. The studies reporting an association have calculated the relative risks in the ETS groups to be less than 2.0 and, in many cases, barely more than 1.0. In some studies, the reported association was determined to be statistically significant and in others it was not.

23. Epidemiologists generally place little weight on observational studies reporting an association between an exposure and a disease where the reported relative risk in the exposed groups is less than 2.0. (Observational studies are those in which the researcher takes his subjects as he finds them, whether smokers, drinkers or vegetarians; such studies are subject to the problem that other characteristics of the subject which are related to the disease of interest may also be related to the exposure of interest, such as smoking.) Relative risks barely in excess of 1 are likely to be susceptible to problems of exposure measurement, bias and confounding. Observational epidemiology is a blunt instrument that is not capable of interpreting small relative risks.

24. Studies of ETS are susceptible to various biases that tend to inflate the reported relative risks. Primary among these is misclassification bias (the tendency of current or former smokers to claim that they are “never smokers”). Because these persons are statistically more likely to be married to smokers, the observed relative risk in such “never smokers” exposed to ETS is inflated. Similarly, recall bias (the tendency of persons with disease to be more likely to report prior exposure than those without disease) is a factor which permeates the study of ETS and tends to inflate the reported relative risks.

25. The problem of confounding, common to all observational studies, is particularly acute in the case of ETS. Confounding occurs when other factors related to the exposure of interest (ETS) are also related to the outcome (disease). In the case of ETS and lung cancer, for example, persons with ETS exposure, particularly from a spouse, are more likely to have other characteristics that are themselves statistically associated with an increased risk of lung cancer. These factors include poorer diets, greater alcohol use, lower socio-economic status and other environmental exposures. It is probable that it is the consistency of confounding, rather than any property of ETS, which accounts for the small increased incidence of lung cancer observed in some studies. The same issue of confounding arises in connection with the study of ETS and CHD.

26. Some epidemiologists have attempted to combine various observational studies through the technique of meta-analysis in an attempt to obtain statistical significance from studies of ETS and a particular disease. Good practice in meta-analysis requires studies that are comparable in populations examined, outcomes measured and other factors (such as potential confounders) included in the studies.

The studies combined in ETS and lung cancer meta-analyses, however, do not conform to good practice. They are not comparable either in populations studied – the studies vary in the geographic populations and definitions of ‘exposure to ETS’ within those studies – or in the measurement of other confounding factors.

27. Moreover, because meta-analysis is essentially the combination of the data or results from many underlying data studies, its reliability is dependent on there being a complete and unbiased set of underlying data studies. There is, however, a well-known tendency for smaller studies with negative (non-significant) results to be either rejected for publication or not submitted for publication in the first place. The absence of such negative studies from the overall meta-analysis results in what is known as ‘publication bias.’ In an area as politically sensitive as ETS, the problem of publication bias is particularly acute and probably results in overstatement of the observed relative risk.

28. The epidemiological studies considering ETS and CHD have yielded a particularly troubling anomaly for public health advocates. While the relative risk for CHD of *smokers* is approximately 1.7, that of *non-smokers* with ETS exposure (who have perhaps 1/500th or less the exposure of smokers) is approximately 1.3. This finding is incompatible with any known understanding of a dose-response relationship. Public health advocates have attempted to explain away this anomaly by invoking the CHD mechanisms of platelet aggregation and endothelial dysfunction. This anomaly cannot be explained, however, by reference to these mechanisms.

29. Given the low level of exposure to ETS (approximately 1/500th that of the smoker), there is no reason to believe that ETS causes respiratory diseases such as COPD, emphysema, chronic obstructive bronchitis or adult onset asthma in otherwise healthy non-smokers.

There are no studies showing that such low level exposure results in these diseases. Indeed, those exposed to ETS have no clinically-significant loss of airflow, which is the hallmark of COPD. As with lung cancer and CHD, the epidemiological evidence does not show a difference in the incidence of these diseases between the non-smokers exposed to ETS and the non-smokers not exposed to ETS.

Conclusion

30. It is Imperial Tobacco’s view that regulation should be a proportionate response to risk. Properly analysed and understood, the scientific and statistical evidence on ETS leads to the conclusion that a ban on smoking in public places cannot be justified on health grounds.

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