



## Independent Limited Assurance Report to the Directors of Imperial Tobacco Group plc

The Board of Directors of Imperial Tobacco Group plc (“Imperial Tobacco”) engaged us to provide limited assurance on the information described below and set out in the Corporate Responsibility sections of Imperial Tobacco’s Annual Report and the website [www.imperial-tobacco.com/cr](http://www.imperial-tobacco.com/cr) for the year ended 30 September 2015 (“the Report”).

### Our conclusion

**Based on the procedures we have performed and the evidence we have obtained:**

- A) Nothing has come to our attention that causes us to believe that the Selected Information set out in the Corporate Responsibility sections of Imperial Tobacco’s Annual Report and the website for the year ended 30 September 2015 has not been prepared, in all material respects, in accordance with the Reporting Criteria.**
- B) Nothing has come to our attention to suggest that the description of Imperial Tobacco’s alignment with AA1000 APS (2008) principles of Inclusivity, Materiality and Responsiveness is not fairly stated.**

This conclusion is to be read in the context of what we say in the remainder of our report.

### What we are assuring

The scope of our work was limited to assurance over:

- A) the information marked with the symbol (A) in the Report. This includes information for the year ended 30 September 2015 (“FY2015”) and some information for the prior 12 months (“FY2014”) (the “Selected Information”) which is summarised in the table below. Our assurance does not extend to information in respect of earlier or later periods or to any other information included in the Report.

Selected Information	Period	Value
<b>Reinvesting in society</b>		
Community investment donations (allocations) (£m)	FY2015	2.55
Social Responsibility in Tobacco Production (SRiTP) score (%)	FY2015	79
<b>Respecting natural resources</b>		
Factories with ISO 14001 at the time of reporting (%)	FY2015	90
Relative environmental waste – tobacco segment (t/£m tobacco net revenue)	FY2014	7.63
Absolute environmental waste – tobacco segment (t)	FY2014	50,143
Relative environmental waste to landfill – tobacco segment (t/£m tobacco net revenue)	FY2014	1.57
Absolute environmental waste to landfill – tobacco segment (t)	FY2014	10,351
Relative water consumption – tobacco segment (m <sup>3</sup> /£m tobacco net revenue)	FY2014	251
Absolute water consumption – tobacco segment (m <sup>3</sup> )	FY2014	1,650,848
Relative energy consumption – tobacco segment (kWh/£m tobacco net revenue)	FY2014	125,265
Absolute energy consumption – tobacco segment (GWh)	FY2014	824

Relative CO2 equivalent emissions – tobacco segment (t/£m tobacco net revenue)	FY2014	37.0
Absolute CO2 equivalent emissions – tobacco segment (t)	FY2014	243,599
Relative energy consumption – fleet fuel (kWh/£m tobacco net revenue)	FY2014	22,020
Absolute energy consumption – fleet fuel (GWh)	FY2014	145
Relative CO2 equivalent emissions – fleet fuel (t/£m tobacco net revenue)	FY2014	5.6
Absolute CO2 equivalent emissions – fleet fuel (t)	FY2014	36,907

### Rewarding workplace

Lost-time accident frequency rate (per 200,000 hours)	FY2014	0.52
Sickness absence (including non-work-related and work-related absence) (%)	FY2014	2.43
Female PLC Board members (%)	FY2015	22
Female Operating Executive members (%)	FY2015	22
Employee engagement score (%)	FY2015	53

### Responsible with products

Number of markets for which ingredient information is publicly disclosed	FY2015	46
% annual improvement in Global Quality Index	FY2015	6.8
Total number of memoranda of understanding and cooperation agreements on combating smuggling and counterfeit signed with governments	FY2015	24

Imperial Tobacco’s internal reporting guidelines for measuring, recording and reporting the Selected Information (the “Reporting Criteria”) are set out in Imperial Tobacco’s criteria document, Reporting Responsible Performance; Principles, Criteria and Methodologies 2015, available at [http://www.imperial-tobacco.com/cr\\_criteria2015](http://www.imperial-tobacco.com/cr_criteria2015) (“Measurement and Criteria Document”).

- B) Imperial Tobacco’s description of alignment with the AA1000 APS (2008) principles of inclusiveness, materiality and responsiveness for the year ended 30 September 2015 which is set out in Imperial Tobacco’s Responding to our Stakeholders document available at [http://www.imperial-tobacco.com/responding\\_stakeholders2015](http://www.imperial-tobacco.com/responding_stakeholders2015) (the “Stakeholder Engagement description”) and Approach and Performance document available at [http://www.imperial-tobacco.com/approach\\_performance2015](http://www.imperial-tobacco.com/approach_performance2015) (“the Stakeholder Engagement Approach document”).

### Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 ‘Assurance

Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board, and AA1000AS (Type 1, moderate, which is the equivalent to ISAE 3000 limited assurance). A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

### **Our Independence and Quality Control**

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK & Ireland) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent and multi-disciplinary team with experience in sustainability reporting and assurance.

### **Understanding reporting and measurement methodologies**

The Selected Information needs to be read and understood together with the Reporting Criteria set out in the Measurement and Criteria Document, and the Stakeholder Engagement description needs to be read and understood together with the Stakeholder Engagement Approach document, both of which Imperial Tobacco is solely responsible for selecting and applying.

The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are as at 30 September 2015.

### **Work done**

- A) We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:
- made enquiries of Imperial Tobacco's management;
  - evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information. This included visiting 4 sites out of 115, selected on the basis of their inherent risk and materiality to the group, to understand the key processes and controls for reporting site performance data to the group Corporate Responsibility team;
  - performed limited substantive testing on a selective basis of the Selected Information over 16 sites;
  - performed analytical reviews over all 115 sites; and
  - considered the disclosure and presentation of the Selected Information.
- B) In respect of Imperial Tobacco's description of alignment with AA1000 APS (2008) principles of inclusiveness, materiality and responsiveness we performed the following activities:

- interviewed a selection of Imperial Tobacco's executives, senior managers, and site managers to determine their understanding of their stakeholders, the mechanisms used to engage them and key issues that are of interest to each stakeholder group;
- reviewed evidence on a selective basis to support the assertions made in these interviews and in the Stakeholder Engagement description;
- assessed the outputs from the risk assessment and materiality process relating to stakeholders and Imperial Tobacco's engagement; and
- assessed the disclosure and presentation of the Stakeholder Engagement description.

A further description of our assurance approach and procedures is attached in 'PwC's assurance approach'.

### **Imperial Tobacco's responsibilities**

The Directors of Imperial Tobacco are responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Reporting Criteria;
- reporting the Stakeholder Engagement description; and
- the content of the Report.

### **Our responsibilities**

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information and the Stakeholder Engagement description is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Imperial Tobacco.

This report, including our conclusions, has been prepared solely for the Board of Directors of Imperial Tobacco Group plc in accordance with the agreement between us, to assist the Directors in reporting Imperial Tobacco Group plc's corporate responsibility performance and activities. We permit this report to be disclosed in the Corporate Responsibility section of Imperial Tobacco Group plc's Annual Report for the year ended 30 September 2015 and the Corporate Responsibility section of the website [www.imperial-tobacco.com](http://www.imperial-tobacco.com), to assist the Directors in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Imperial Tobacco Group plc for our work or this report except where terms are expressly agreed between us in writing.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
**Chartered Accountants**  
**London**  
**3 November 2015**



<sup>i</sup>The maintenance and integrity of Imperial Tobacco's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Imperial Tobacco's website.

## PwC's Assurance Approach

This summary of our assurance approach should be read in conjunction with our assurance report on pages 1 to 2. Defined terms have the same meaning as those in the assurance report.

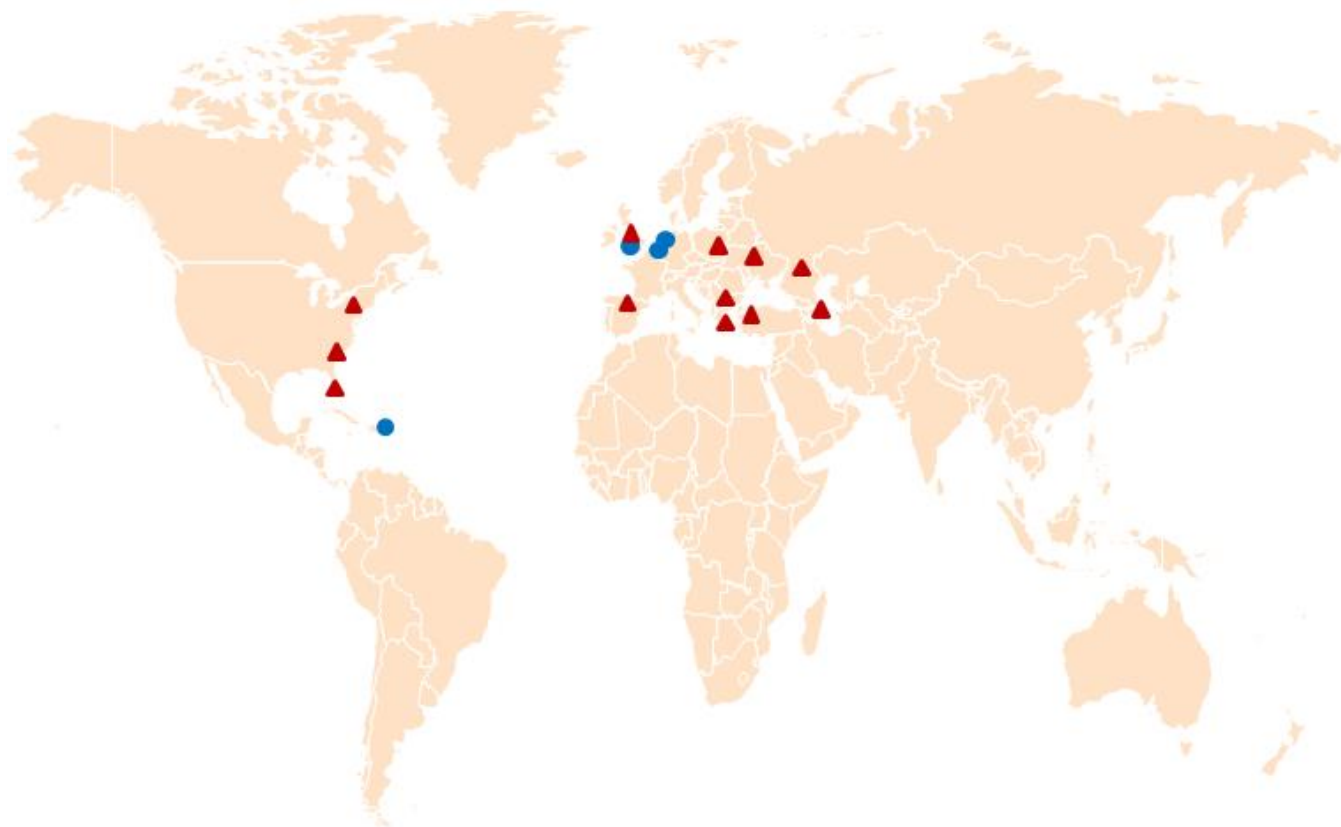
### Overview of the scope of our work

Imperial Tobacco Group plc ("Imperial Tobacco") operates in a number of countries throughout the world as described in the Report. Our assurance approach was designed to enable us to obtain the necessary evidence to support our conclusions in respect of the Selected Information and the Stakeholder Engagement description, taking into account how data is collected from these countries.

We followed a 3 tiered testing model illustrated below:

1. Site visits with detailed testing on a sample basis (●), selected due to the size of the contribution of site data to the group total for individual indicators in the Selected Information, and due to a risk of misstatement identified through prior year site visits:
  - a. The manufacturing facility at La Romana, Dominican Republic;
  - b. The manufacturing facility at Joure, Netherlands;
  - c. The sales and marketing offices at Oosterhout, Netherlands; and
  - d. The sales and marketing offices at Bristol, UK.
2. Data testing on a sample basis at corporate head office in respect of certain regions (▲): Nottingham, UK; Reidsville, USA; McAdoo, USA; Fort Lauderdale, USA; Volgograd, Russia; Kiev, Ukraine; Radom, Poland; Logrono, Spain; Sofia, Bulgaria; Athens, Greece; Baku, Azerbaijan; and Manisa, Turkey. These sites were chosen due to the size of the contribution of site data to the group total for individual indicators in the Selected Information.
3. Data analytics performed at head office over all sites, which included comparison of reported data against prior year data, and correlation of reported data and production volume data. Enquiries were made with sites where material unusual or unexpected variances were identified and supporting evidence obtained.

We selected Imperial Tobacco sites for site visits and data testing which equate to not less than 20% of the Group total figures for each indicator within the Selected Information, and applied a selection methodology which included analysis of production volumes and hours worked to address the risk of understatement. This is to agree details to supporting documentation.



### Site visits

We visited four sites and interviewed key personnel to understand the process for collecting and submitting data and to perform sample testing of the data being reported by the site. Each site visit comprised two to three days' field work (excluding reporting) and a report was issued to local leadership teams setting out any recommendations for improvements in processes and controls, and the results of the data testing. Differences identified in those tests are included in the Observations and Recommendations section below.

### Stakeholder engagement

Our methodology for obtaining evidence to support Imperial Tobacco's description of alignment to the AA1000 APS (2008) principles of inclusiveness, materiality and responsiveness focused on enquiries and interviews with Group- and site-level management and selected

corporate functions. The key areas of focus for these interviews included Product standards (including tobacco & health), Employee development & reward, Employee behaviour & respect, Non-tobacco materials supplier standards, Child labour, Resource efficiency and Water. Those interviewed explained their understanding of their stakeholders, the mechanisms used to engage them and key issues that are of interest to each stakeholder group. We reviewed evidence to support the assertions made in these interviews and in Imperial Tobacco's reported stakeholder engagement activities.

### **Materiality**

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We set thresholds for materiality at the planning stage and reassessed them during the engagement. These helped us to determine the nature, timing and extent of our procedures and to evaluate the effect of identified misstatements on the Selected Information, both individually and in aggregate. Based on our professional judgement, we determined overall materiality for each element of the Selected Information as summarised below.

When we identified differences during our sample testing we used a set threshold to determine whether these needed to be adjusted. The threshold, or 'materiality' level, we applied was 5% of the total for each indicator, which was determined based on our professional judgement. Individual errors greater than 0.5% of the site total were recorded in a "Summary of Unadjusted Differences" to consider the aggregate error for each indicator within the selected information.

### **Observations and Recommendations**

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The following observations and accompanying recommendations for improvement in relation to of data testing, site visits, stakeholder engagement and corporate responsibility reporting arose as part of our work. These were communicated to Imperial Tobacco's management. These are our primary recommendations and not necessarily a complete list of all recommendations for improvement that were identified. The recommendations do not impact our assurance conclusions.

#### **Data testing**

Our sample testing identified one material error for vehicle fleet fuel data in one Imperial Tobacco location. The error applied to an instance of human error in relation to a spreadsheet used for data collation. Root-cause analysis and additional testing showed that the error was isolated and is not a systemic issue across the Group, and confirmed that management have adjusted the difference prior to reporting.

Differences lower in aggregate than our group materiality threshold of 5% were identified in data for waste, energy, lost time accidents and vehicle fleet fuel. Management have decided to adjust all differences greater than 5% of an individual site's total on either an individual or aggregate basis. Additional testing confirmed that management have adjusted the differences prior to reporting

Management have advised us that they are committed to addressing these issues through a number of measures including reviewing roles for the validation of information in the non-financial reporting system and strengthening formal management review of non-financial information. We have not verified whether these have been implemented.

#### **Site visits**

During our site visits, where appropriate, we sought to rely on management's processes and controls as part of our assurance testing. We noted a number of areas for improvements:

- improve site level review of non-financial data;
- improve sites' understanding of Group's data collection and reporting requirements, particularly in relation to vehicle fleet fuel;
- improve local systems to capture and report on data for accidents and vehicle fleet fuel;
- define how sites are expected to contribute to Group-level targets; and
- improve documentation of reporting processes and staff training.

These matters were communicated to the individual site management teams and to Imperial Tobacco's Corporate Responsibility team, and management have advised us that they are committed to addressing these issues through a number of measures including: a review of methodologies for the calculation of working hours; awarding contracts with specific requirements around the provision of accurate and timely data; and issuing step-by-step instructions and data collection and reporting templates for non-financial information. We have not verified whether these have been implemented.

#### **Stakeholder engagement**

We recommend that Imperial Tobacco provides more detailed information in their reporting of stakeholder engagement activities at group level, for example:

- Better disclosure of the coverage of reported engagement activities across the group;
- Disclosure around the employee engagement survey could include details of the key issues and ITG responses; and
- Better alignment of performance metrics to the materiality assessment. Particular primary and secondary issues where no metric is currently reported have been identified (responsible marketing, deforestation, adult choice).

#### **Corporate responsibility reporting**

In line with leading practice Imperial Tobacco provides information on the following areas within the Annual Report and Accounts and the Corporate Responsibility (CR) section of the website:

- the materiality process and material issues;
- identification of stakeholder groups and stakeholder engagement activities including the issues identified and Imperial Tobacco's response to these issues;
- articulation of the interaction between stakeholder engagement, material issues and strategy; and

- explanation of the approach to CR governance.

In order to improve trust and transparency through reporting of non-financial information we have recommended that Imperial Tobacco consider improving narrative in the following areas:

- risks and opportunities related to material CR issues;
- narrative relating to future access to the most significant non-financial inputs and how this may be impacted by a changing climate;
- disclosing areas of poor performance against objectives and actions identified to improve performance;
- including Logista and Fontem Ventures in the stakeholder engagement reporting (see operational boundary comment below); and
- disclosing how staff and senior management are incentivised to deliver on the CR strategy. There is an opportunity for Imperial Tobacco to drive engagement around CR through linking objectives and remuneration.

We provided feedback to Imperial Tobacco's Corporate Responsibility team around their CR reporting and management advised us that this feedback would be taken into consideration in the development of future reporting. We have not verified whether this has been implemented.

### **Operational Boundary**

Logista, Imperial Tobacco's logistics segment, and Fontem Ventures, Imperial Tobacco's e-cigarette subsidiary, are parts of the Imperial Tobacco group which are not currently included in Imperial Tobacco's Corporate Responsibility reporting. Logista has not historically been consolidated into non-financial information disclosed for the group. The business is run on an arms-length basis as it delivers tobacco products for other tobacco companies in parts of Europe as well as for Imperial Tobacco. As Logista is a material component within Imperial Tobacco group's financial control, Logista's data has been included alongside the Tobacco segment for the Mandatory Greenhouse Gas Reporting requirements (however Logista's emissions are not included in the scope of our assurance). Fontem Ventures is a new subsidiary and is not currently a material component of either Imperial Tobacco group's operational control or financial control boundary, however e-cigarettes are of growing interest to external stakeholders. Imperial Tobacco should consider further ways to expand the inclusion of Logista and Fontem Ventures in the wider Corporate Responsibility information reported in the Annual Report.