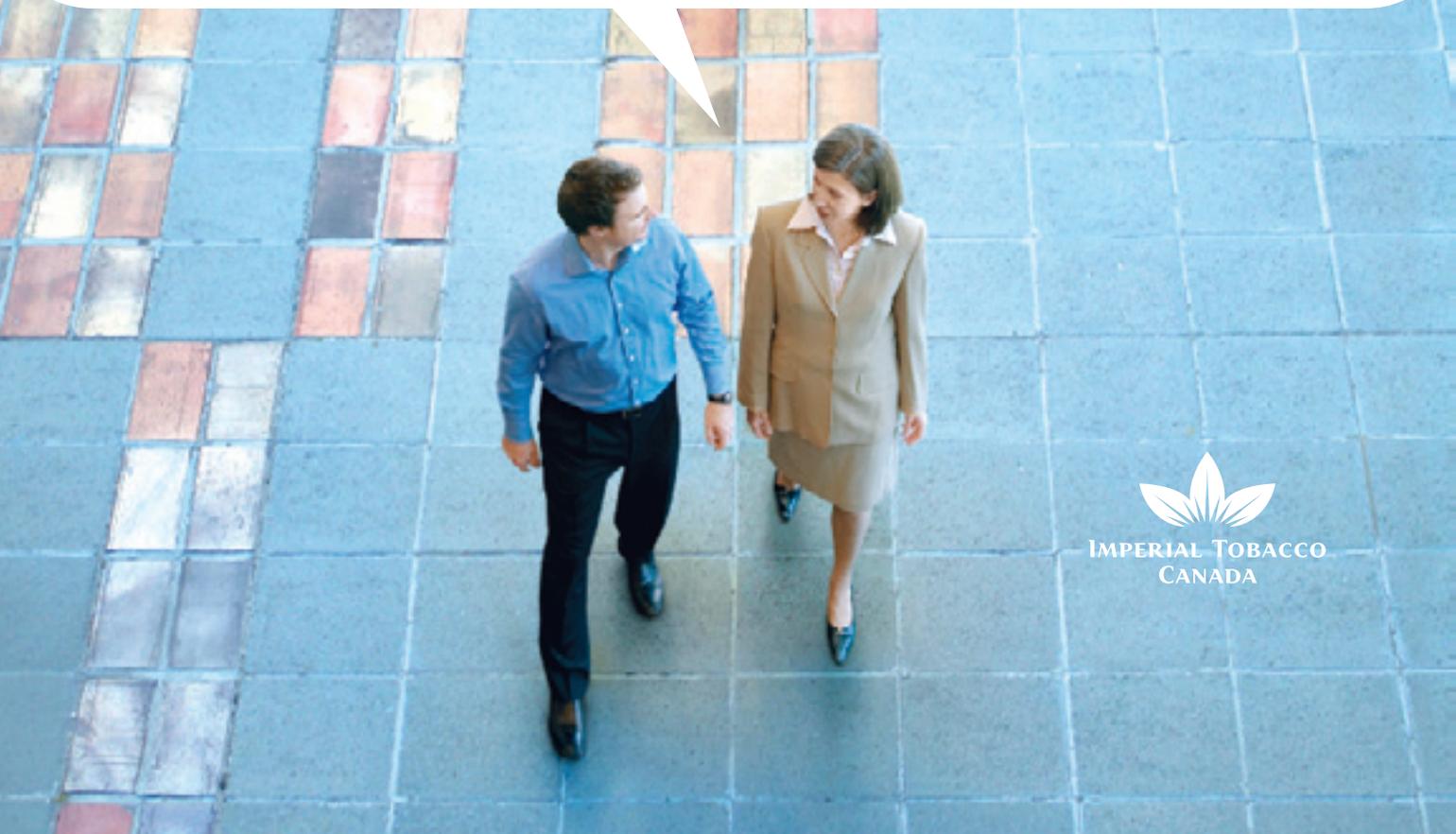


Social Report 2006-2007
Imperial Tobacco Canada
Let's talk



*Let's talk
about our social
responsibility*

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-  **Advanced:** The information presented is supported by underlying evidence, the activities have been observed by the assessor and the activities described are aligned to the requirements of AA1000.
-  **Positive:** Information reported is supported by underlying evidence and no material errors or omissions were identified.

Message to Stakeholders

Being a socially responsible company is a top priority at Imperial Tobacco Canada. We recognize that society has high expectations of us in this regard given the controversial nature of our products, and we are continuously working to meet or even exceed those expectations.

We realize that some may question the very notion of a “responsible” tobacco company. Because there are and will likely continue to be millions of adult smokers in Canada, who are fully aware of the risks involved in consuming tobacco, it is all the more important that we uphold the highest standards in social responsibility and integrity.

For us, corporate social responsibility (CSR) is our commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the concerns of those who have an interest in our business – our stakeholders. This approach to value creation goes beyond the strictly financial and is a building block of our corporate strategy. This strategy is guided by our Business Principles, which provide the basis on which we operate our business in terms of responsibility: the principles of Mutual Benefit, Responsible Product Stewardship and Good Corporate Conduct.

These three principles also formed the basis for our first stakeholder dialogue initiative, called *Let's talk*. This initiative, which involved employees at every level of the organization from the Board of Directors down, is the subject of this independently-audited report.

Foundation of Our Success

We believe that the long-term success of our business depends on understanding and acting upon the needs of our stakeholders. That is why we launched *Let's talk* in the summer of 2006 to meet with and listen to a wide variety of groups, ranging from consumers to our business partners, governments, socio-economic groups and our employees.

To make sure that we concentrated on issues important to our stakeholders, we looked at which topics were top-of-mind to Canadians. The three main issues that emerged regarding tobacco were: harm reduction in relation to tobacco consumption, the reduction and elimination of illicit trade and youth smoking prevention.

Rigorous Process

The stakeholder dialogue exceeded our expectations, with over 80 external participants agreeing to take part in this unique exchange – the first of its kind for a Canadian tobacco company. As Imperial Tobacco Canada experts criss-crossed the country to meet with a wide range of individuals, some were more reluctant to talk with us while others were more enthusiastic. But all had important views on the tobacco industry and real expectations of us.

This report is the culmination of the first round of *Let's talk*. We are proud of the commitments that resulted from the initiative, which directly reflect the interests and concerns of our stakeholders. In the coming weeks and months, we intend to go back to those who spoke with us – and welcome others that didn't meet with us for the initial dialogue – to discuss how we plan to deliver on these commitments, in some cases on our own or in partnership with others.

Without exception, the people we spoke to told us that we should and need to be involved in finding solutions to issues surrounding our products. In reading this report, you will find that we are not only willing and able to do so but that our door is always open to further discussion. Down the road, we intend to apply our process to additional issues and an even broader range of organizations and individuals, including groups that have declined our previous invitations.

In conclusion, we would like to thank those who participated in getting *Let's talk* off to a successful start. We sincerely hope you will take part in this ongoing dialogue by providing us with your valuable feedback on this report.

Benjamin J. Kemball
President and
Chief Executive Officer



About our Company

Imperial Tobacco Canada is Canada's leading tobacco company. Our mission is to compete successfully for market share in any segment we enter, by satisfying adult smoker preferences better than the competition. This will be done in a manner that is profitable, socially responsible, sustainable, and creates value for the company.

Our actions are guided by our Statement of Business Principles. These principles embody our beliefs and we strive to live by them in our dealings with all stakeholders. Imperial Tobacco Canada is a wholly-owned indirect subsidiary of British American Tobacco p.l.c. (BAT). BAT is the world's most international tobacco group, with brands sold in 180 countries and nearly 97,000 employees worldwide.

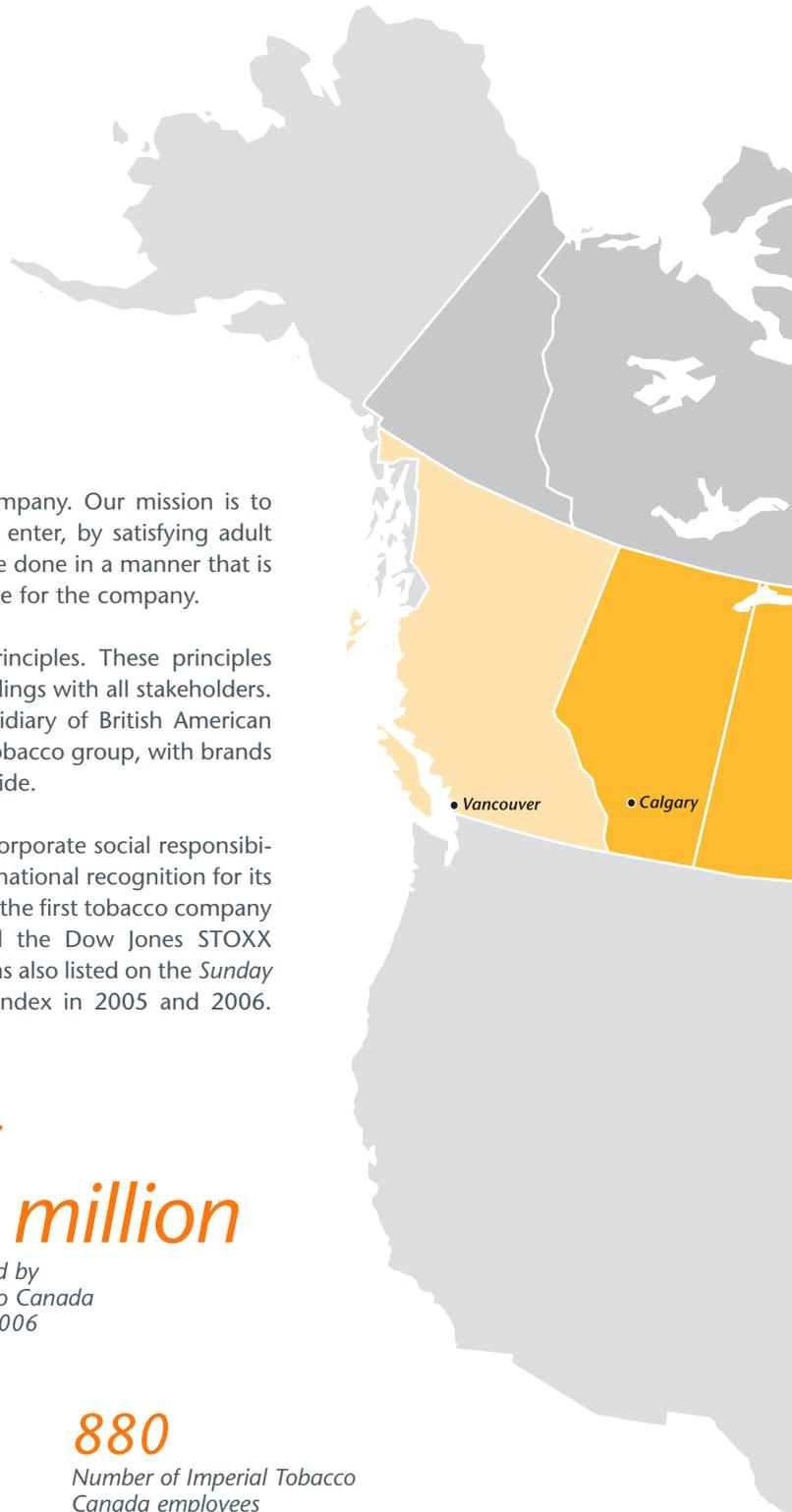
BAT is dedicated to maintaining the highest standards for corporate social responsibility (CSR) in all its group companies, and has achieved international recognition for its global commitment to sustainable business practices. It was the first tobacco company to be listed on the Dow Jones Sustainability Index and the Dow Jones STOXX Sustainability Index in 2002, and remains so to this day. It was also listed on the *Sunday Times* "Companies that Count" Corporate Responsibility Index in 2005 and 2006.
www.bat.com

Over
\$4.8 million

Amount donated by
Imperial Tobacco Canada
Foundation in 2006

880

Number of Imperial Tobacco
Canada employees



\$3.9 billion

Total tax revenue generated by Imperial Tobacco Canada, including income and other taxes, in 2006

\$243.4 million

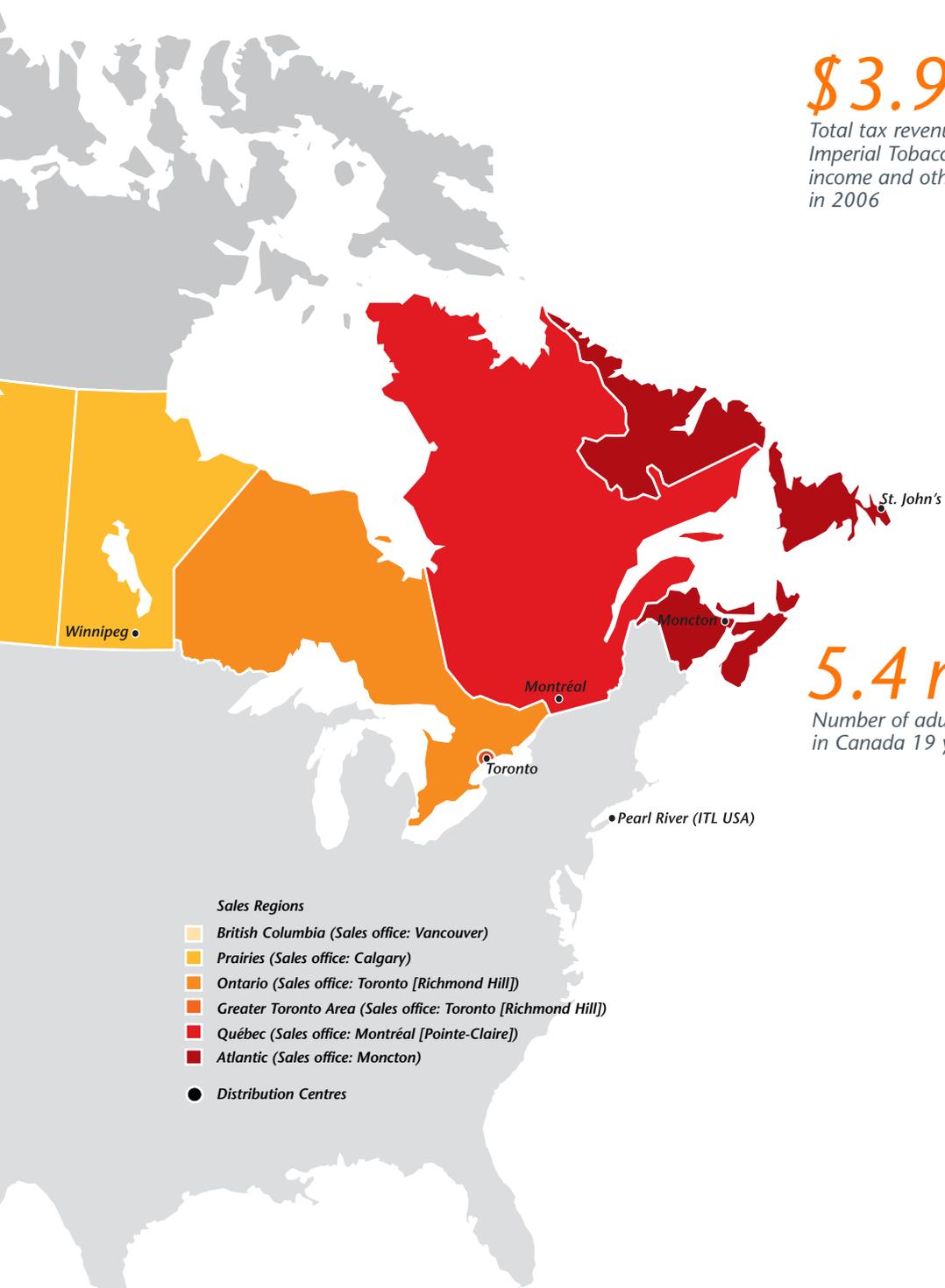
Imperial Tobacco Canada purchases from suppliers in 2006
Refers to suppliers from whom we purchased \$5,000 or more in 2006.

5.4 million

Number of adult smokers in Canada 19 years and older

38,341

Estimated number of tobacco retailers in Canada (includes retail outlets, restaurants, clubs, cafés, etc.)



Sales Regions

- British Columbia (Sales office: Vancouver)
- Prairies (Sales office: Calgary)
- Ontario (Sales office: Toronto [Richmond Hill])
- Greater Toronto Area (Sales office: Toronto [Richmond Hill])
- Québec (Sales office: Montréal [Pointe-Claire])
- Atlantic (Sales office: Moncton)
- Distribution Centres

Statement of Business Principles

The Principle of Mutual Benefit

The principle of Mutual Benefit is the basis on which we build our relationships with our stakeholders. We are primarily in business to build long-term shareholder value and we believe the best way to do this is to seek to understand and take account of the needs of all our stakeholders. • We believe in creating long-term shareholder value. • We believe in engaging constructively with our stakeholders. • We believe in creating inspiring working environments for our people. • We believe in adding value to the communities in which we operate. • We believe that suppliers and other business partners should have the opportunity to benefit from their relationship with us.

The Principle of Responsible Product Stewardship

The principle of Responsible Product Stewardship is the basis on which we meet consumer demand for a legal product that is a cause of serious diseases. Therefore, our products and brands should be developed, manufactured and marketed in a responsible manner. We aspire to develop tobacco products with critical mass appeal that will, over time, be recognized by scientific and regulatory authorities as posing substantially reduced risks to health. • We believe that accurate and clear health messages should be provided to consumers about the risks of tobacco consumption. • We believe that regulatory agencies, including Health Canada, have a principal role to play in the provision of these messages and that we should facilitate the provision of these messages. • We believe that continuing efforts should be made, in consultation with regulatory agencies, including Health

Canada, to produce products that are recognized as posing fewer risks to health. • We believe that consumers have a right to receive relevant and meaningful information about tobacco products, including products that may pose potentially fewer risks to health, and that underage people should not consume tobacco products. • We believe that our brands and products should continue to be marketed responsibly and directed at adult consumers. • We believe in the appropriate taxation of tobacco products and the elimination of illicit trade. • We believe in regulation that balances the interests of all sections of society, including tobacco consumers and the tobacco industry. • We believe that public smoking should be approached in a way that balances the interests of smokers and non-smokers.

The Principle of Good Corporate Conduct

The principle of Good Corporate Conduct is the basis on which our business should be managed. Business success brings with it an obligation for high standards of behaviour and integrity in everything we do and wherever we operate. These standards should not be compromised for the sake of results. • We believe our business should uphold high standards of behaviour and integrity. • We believe that high standards of corporate social responsibility should be promoted within the tobacco industry. • We believe that universally recognized fundamental human rights should be respected. • We believe our industry should have a voice in the formation of government policies affecting it. • We believe in achieving world-class standards of environmental performance.

Our Approach to CSR

Our Business Principles and core beliefs guide us in everything we do. These fundamental convictions, inspired by those developed by BAT in consultation with stakeholders, cover corporate social responsibility issues pertaining to the tobacco industry. We apply them to everything from our product development to our marketing practices, to our role in the community and our overall approach to CSR.

"Imperial Tobacco Canada is one of the few Canadian companies to have engaged in open dialogue with its stakeholders. I'm proud to be involved in the groundbreaking Let's talk initiative."



*The Honourable Barbara McDougall
Chair, Imperial Tobacco Canada
Corporate Social Responsibility Committee*

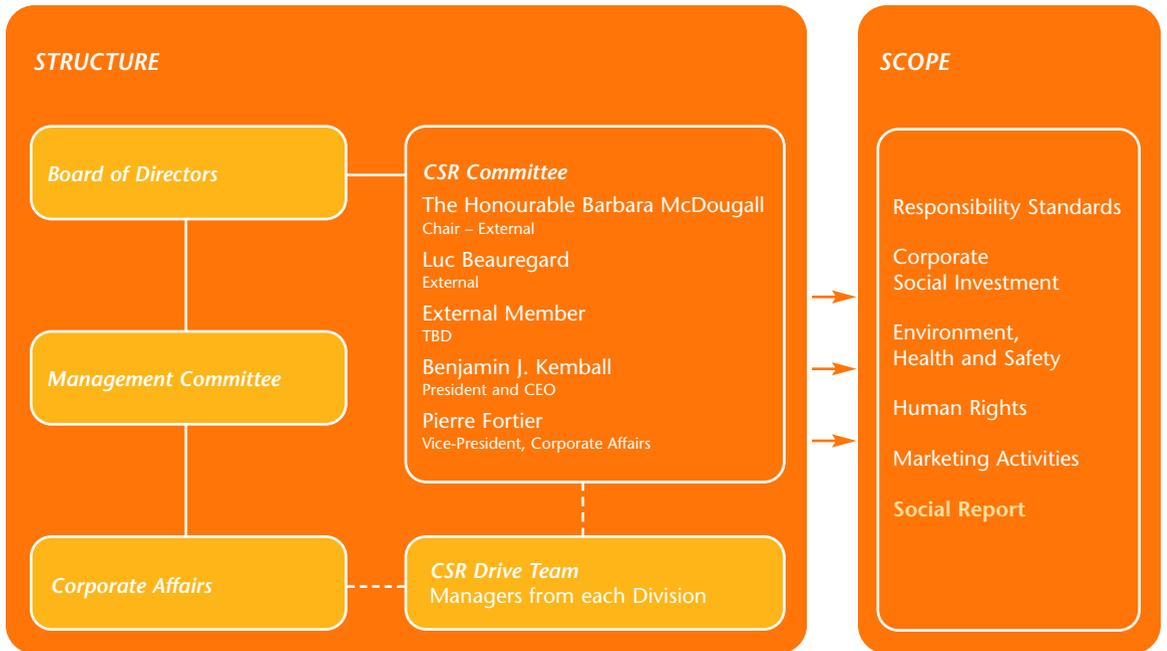
Responsibility for CSR is assumed at every level of the organization, as illustrated in the CSR Governance diagram on the facing page.

CSR Committee

In 2006, we created a CSR Committee of the Board of Directors to ensure that our social and environmental performance is in line with our Statement of Business Principles, and that responsible corporate behaviour is understood and lived by everyone in our organization. Composed of internal members and external advisors, the Committee reports to the Board three times a year. It is supported by a CSR Manager from Corporate Affairs and a CSR Drive Team made up of representatives from each Division, which has been in place since 2003.



CSR Governance



Stakeholder Engagement Process

Stakeholder engagement-based reporting is a three-step process for us. First, we *listen* to our stakeholders so we can better understand their concerns and what they expect from us. Then, we use their feedback to help us *decide* how best to respond to these expectations. Finally, we agree to *deliver* on specific commitments that directly address the issues that are important to our stakeholders.



At Imperial Tobacco Canada, we value the views of our stakeholders. We want to talk with them, understand their opinions and make sure we consider their concerns. Over the years, we have communicated through various means, including our comprehensive Web site and socio-economic reports, both of which offer feedback mechanisms. There have also been presentations before Parliamentary and Legislative committees and other public forums. We have also nurtured close relationships with our many socio-economic partners, including retailers and community leaders.

"Dialogue is critical to the sustainability of our business but the actions resulting from it are even more so."



*Yves-Thomas Dorval
Division Head, Public Affairs*

In 2006, we took a giant leap forward and formalized our stakeholder engagement process with the launch of the *Let's talk* initiative. Our aim was to enter into a dialogue with stakeholders on three key issues. These issues are directly linked to our Business Principles and were identified through extensive research as being top-of-mind for our stakeholders. They are: harm reduction in relation to tobacco consumption, the reduction and elimination of illicit trade and youth smoking prevention. In subsequent rounds of discussion, we hope to include additional issues in the dialogue.



Let's talk Initiative

To ensure the best possible representation of stakeholder groups for our first stakeholder engagement initiative, we developed a structured approach that made the most of internal and external expertise.

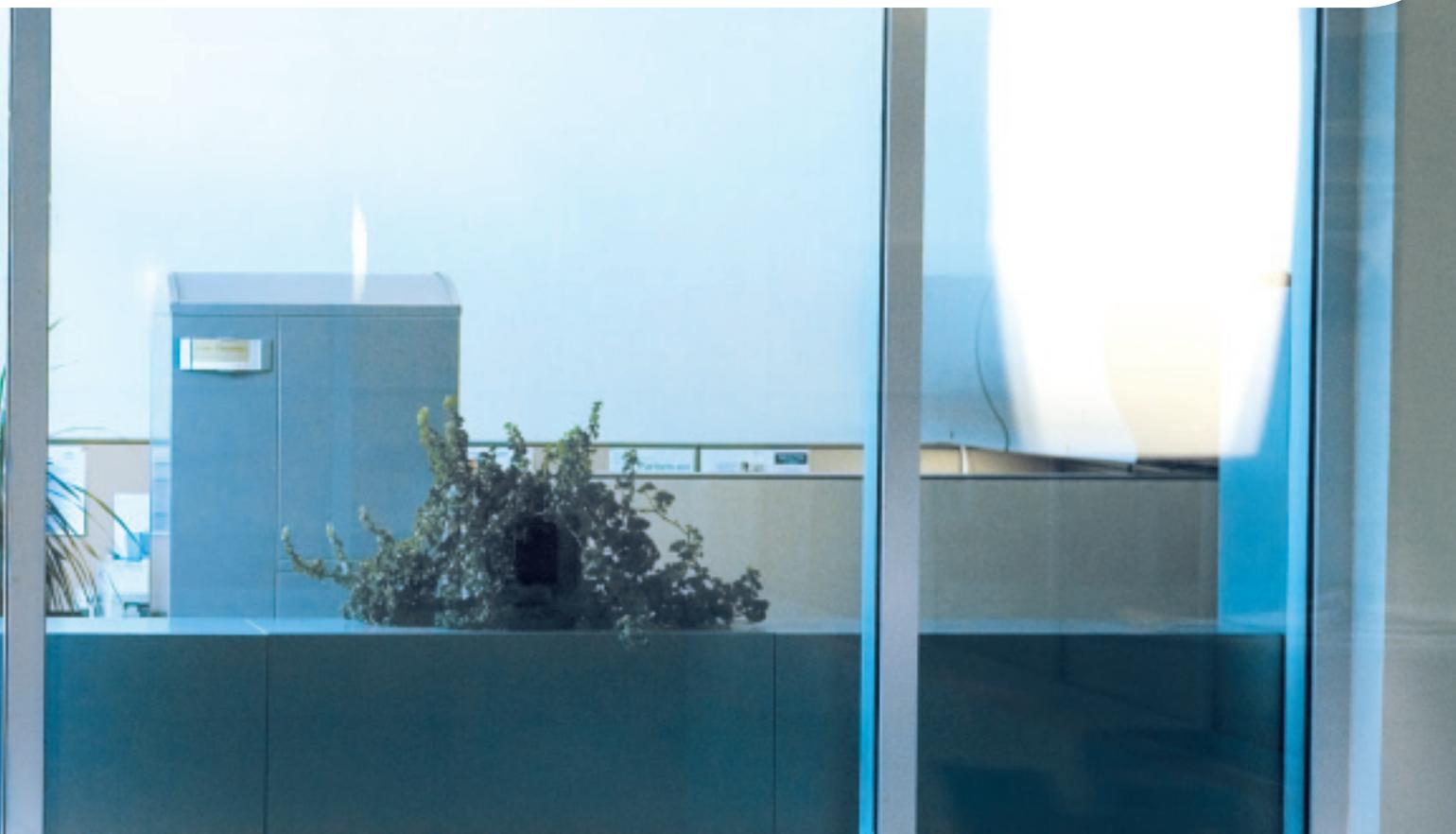
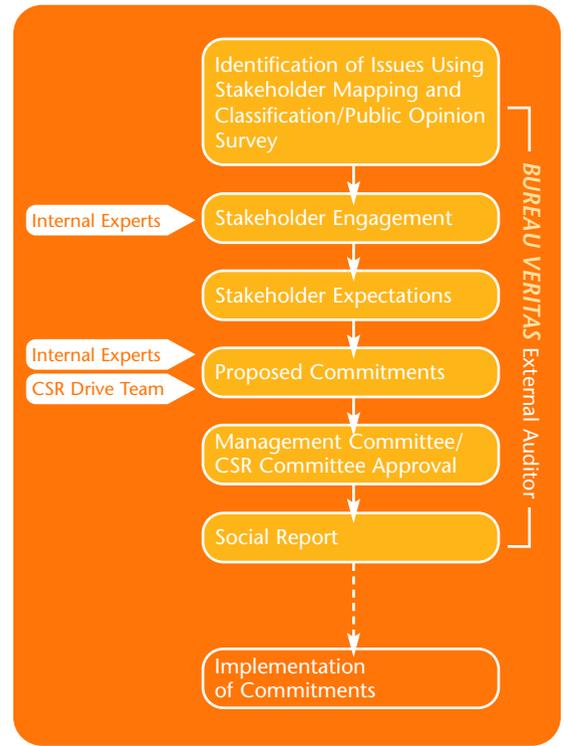
Identifying the issues

Two major external studies were used to identify important issues for our stakeholders.

The first was the 2005 Stakeholder Mapping and Classification (SMC), conducted by NorthStar Research Partners. The SMC explored the views, attitudes, flexibility of opinion and relative influence of various stakeholder groups. We spoke with a broad cross-section of respondents in Ontario, Québec and Alberta through focus group discussions and individual interviews.

SMC findings revealed that reducing the risks of tobacco consumption, illicit trade and taxation, and underage smoking were considered priority areas by most stakeholder groups.

Overview of the Let's talk Process



The concern of Canadians over these three key issues was confirmed in a Public Opinion Survey (POS) conducted in 2006 on individual lifestyle choices and government intervention. This study was also conducted by NorthStar and covered a sample of over 1,200 adult smokers and non-smokers from across the country.

Participant Recruiting

Potential participants for *Let's talk* were identified internally based on an analysis of all our stakeholders. These individuals represented different sectors including governments, the scientific community and health care, as well as socio-economic groups and business partners.

Stakeholders were invited to provide input on a specific issue although comments on the other topics were also welcome. At the same time, we informed them that their feedback would be accurately reported, and remain confidential and anonymous. Not everyone accepted our invitation, with some of the groups that have been most critical of tobacco companies refusing to meet us. Our message to them: our door is always open.

We appointed internal experts on each key issue to help us identify stakeholders and refine our engagement approach. They also participated in stakeholder meetings, providing the in-depth knowledge of the issues under discussion, and contributed to developing our commitments.

Stakeholder Meetings

-  In addition to individual meetings, discussion and focus groups were also organized to adapt to the needs of the different stakeholder groups and enable us to gather the most comprehensive data possible. For example, we conducted one group meeting with stakeholders focused on the issue of youth smoking prevention, while a second group with Canadian business leaders and trade associations covered all three issues. We also held five focus groups with adult consumers in Montréal and Toronto during which all three issues were discussed. The focus groups were conducted by NorthStar.

As you can see in the table below, a strong level of stakeholder participation was obtained for each issue.

Stakeholders by Type of Meeting

	<i>Participants</i>	<i>Meetings</i>
<i>One-on-one</i>	35	16
<i>Discussion group</i>	18	2
<i>Focus group</i>	34	5
Total	87	23

Results and Commitments

-  After compiling and analyzing the results, stakeholder expectations were classified within our CSR framework, which is divided into three areas of responsibility: 1) where Imperial Tobacco Canada can take the lead, 2) where we should work together with others, and 3) where we will support as others take the lead. From this list of expectations, we drew up a series of corresponding commitments.

We obtained sign-off on Imperial Tobacco Canada's commitments from our internal experts on each issue, as well as from the CSR Drive Team, the Management Committee and the CSR Committee of the Board.

The culmination of this inaugural *Let's talk* initiative is the publication of this Social Report. Because social reporting is an ongoing process, we will issue a status report in a year from now in which we will measure our progress through key performance indicators to be developed internally. A report on our progress in fulfilling our commitments and in maintaining ongoing dialogue with our stakeholders will be published in two years.

Independent Standards and Auditing

The *Let's talk* stakeholder engagement process and resulting report were completed in accordance with the requirements of the AA1000 Series of the Institute of Social and Ethical Accountability (AccountAbility). The AA1000 Series is considered a benchmark in the area of stakeholder engagement and social reporting. It covers every aspect from stakeholder recruitment, to how to engage participants and how to report the findings.

This standard was applied by Imperial Tobacco Canada throughout the process. It was also used by Bureau Veritas, the independent auditing firm that ensured the process and findings followed the exacting standards of AccountAbility. Bureau Veritas was chosen for its international expertise in the area of social reporting.

Let's talk *Issues and Results*

Let's talk focused on three issues that are important to our stakeholders: harm reduction in relation to tobacco consumption, the reduction and elimination of illicit trade and youth smoking prevention.

The following pages present the core of our stakeholder engagement process. It includes an overview of each issue, the expectations of our stakeholders and our commitments in response to these issues.

We have grouped the stakeholder expectations and our commitments under three headings. We believe this way of categorizing expectations offers a useful perspective on future actions and contributes to the establishment of constructive ongoing dialogue with stakeholders.

*Our beliefs, the driving force
behind our actions*

*Where we can
take the lead*

*Where we should
work together with others*

*Where we will support
as others take
the lead*



Harm Reduction in Relation to Tobacco Consumption

We have said it before and we will say it again: there is no such thing as a safe cigarette and the most effective way to reduce the risks associated with smoking is to quit. But there are 5.4 million adult smokers 19 years and older in Canada who choose not to quit. That is why our priorities include seeking out and bringing to the Canadian market products that have been proven to be less harmful. We are also focusing on developing a new generation of tobacco products that could one day provide a safer alternative.

A Complex Issue

Tobacco consumption can be a cause of serious diseases in some individuals. It is also recognized that tobacco consumption can be described as an addiction. We acknowledge this and reiterate that, despite common public perception, there is nothing in our cigarettes apart from natural tobacco, although menthol is added to the paper of menthol cigarettes.

So, why has no one yet developed a cigarette that is recognized as being less harmful? It is because the question is extremely complex. Despite all the research that has been done – by us and others – we still do not know the long-term health benefits of reducing one toxin over another or the impact of changes in tobacco consumption behaviours. That said, there have been some advances in the science of harm reduction in relation to tobacco use worldwide. For example, the Swedish-style snus has been proven to be a less harmful alternative to smoking.

Consumer Acceptability

- Most of the adult smokers participating in the focus groups we conducted as part of *Let's talk* expressed an interest in reduced risk tobacco products, but with one important condition – the products would have to provide the same sensory attributes as the brands they currently use. Indeed, this is another of the major challenges we face in developing potentially reduced risk products.

If they do not satisfy the preferences of adult smokers, no one will use them and we will have lost the opportunity for any positive impact on public health.

Consumer Information

Canada's laws governing the marketing of tobacco products are among the strictest in the world. As a result, our ability to communicate information to adult consumers about a new generation of potentially reduced risk tobacco products is very limited.

We believe it is vital that adults who choose to smoke be able to learn about such new products based on complete disclosure of ingredients, properties and attributes. For this to happen, the government would need to create a regulatory environment that allows objective evaluation of such products, and establish guidelines on how their availability may be communicated to adult smokers.

Despite all the challenges of developing reduced risk tobacco products, we still believe it is the right thing to do. As a result, we seek to engage with regulators, health authorities and the scientific community to discuss which product changes would be most effective and might be acceptable to adult consumers, how new products may be tested, and how their attributes might be communicated to adult consumers.

Taking Responsible Action

We remain committed to introducing existing products and developing new products that may reduce the health risks of smoking or tobacco use. We also realize it is important to be clear in our motives and intentions in developing these products. And while it is true that such products would benefit us from a business perspective, we are also doing it because it is the responsible thing to do for the millions of adult smokers in Canada.



Gaétan Duplessis
Division Head, Research & Development

In fact, we have been conducting research in this area and we will continue to do so. We are working with various BAT research centres around the world, as well as with some of our suppliers and commercial partners, and our efforts have contributed significantly to the science of harm reduction in relation to smoking or tobacco use.

Our work currently focuses on:

- Reducing the delivery of toxins in cigarette smoke when smoked by people in everyday conditions.
- Developing and testing technologies with the potential to further reduce tobacco toxins.
- Developing technologies by which to assess the human body's exposure to these toxins.
- Other forms of tobacco products, such as the smokeless Swedish-style snus, which significantly reduces the risk associated with tobacco use.

Our research is based on the best science available today. But independently verifiable, impartial evidence is still needed to determine what constitutes a reduced risk cigarette. We have been working with the scien-

What is Snus?

Snus is a form of pasteurized oral tobacco that is sold in small porous pouches. It is placed between the gum and upper lip, and is neither chewed nor swallowed. It has been proven to be a less harmful alternative to smoking.

tific and health communities to ensure that the methods, standards and measures for testing the reduced exposure and potential harm of any reduced risk products are both scientifically sound and objective.

In our view, the responsible development of reduced risk tobacco products also involves establishing whether these products, or any claims that might be made about them, could have unintended consequences such as influencing individuals to continue to smoke, to take up smoking, to smoke more or not to quit.

As a result, we must also conduct research into adult consumer behaviour and perceptions if and when new products are brought to market. We will continue to share the results of our research with Health Canada and other stakeholders.

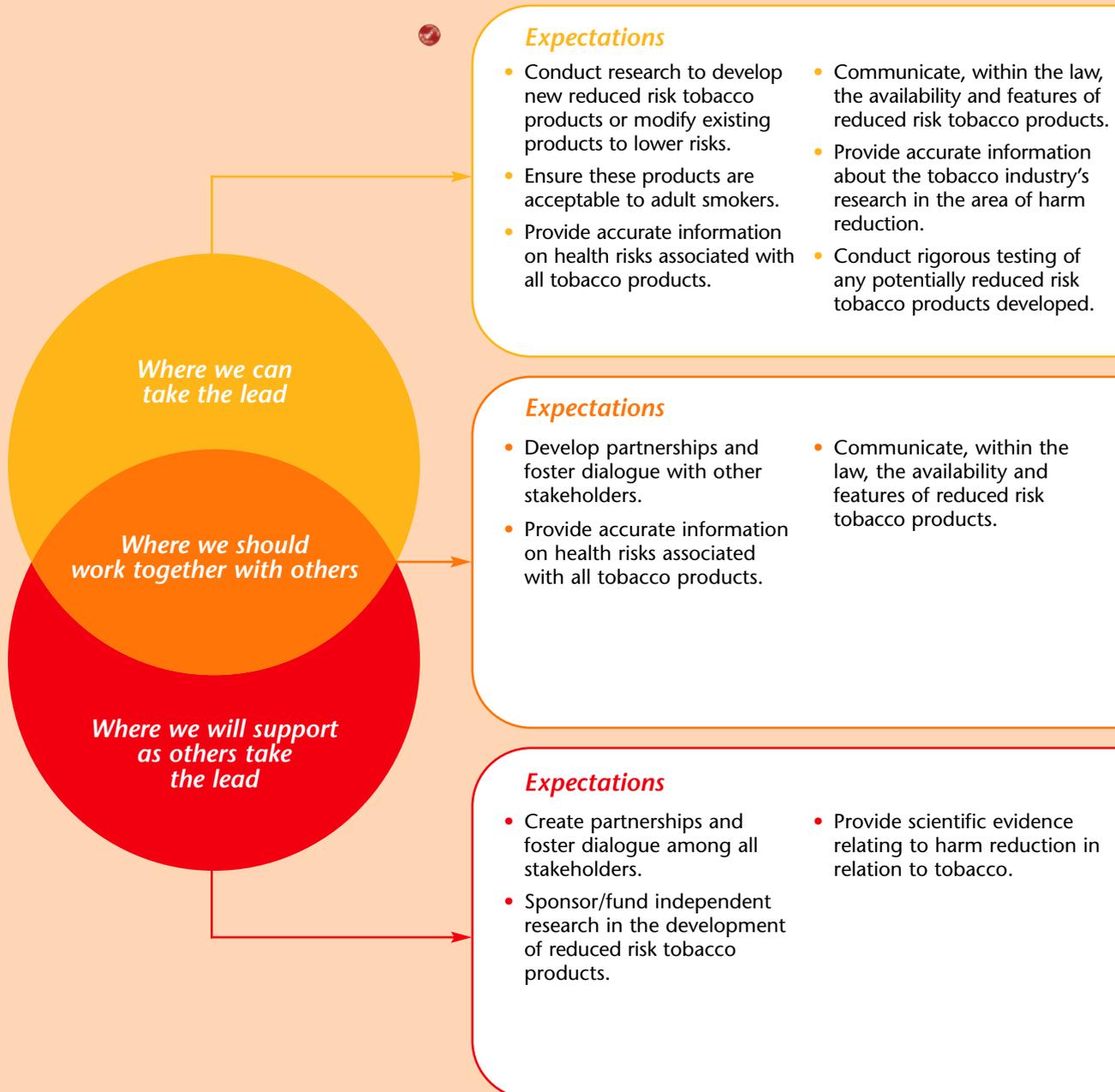
We believe that there will be increasing demand within our markets for a safer alternative to the current range of tobacco products. The creation of a regulatory environment that fosters the responsible stewardship of such products would benefit adult smokers.

Tobacco companies have a definite role to play in reducing the harmful effects of smoking, but we cannot do it alone.

2006-2007 Commitments

Harm Reduction in Relation to Tobacco Consumption

During *Let's talk*, our stakeholders shared with us their expectations regarding the issue of harm reduction in relation to tobacco consumption. They believe we should:



We recognize that tobacco consumption can be the cause of serious diseases. We also acknowledge that quitting is the most effective way to reduce the health risks associated with smoking. However, because many adult smokers choose not to quit, we feel the responsible thing to do is to develop products that may reduce these health risks. At the same time, we realize that to meet their intended purpose, these products will need to be acceptable to adult smokers.

In making the following commitments, we seek to advance the science of harm reduction in relation to tobacco consumption and the development of reduced risk tobacco products. We also hope to forge ongoing relationships with governments, health care authorities, the scientific community and other stakeholders so that they will work with us towards these goals.

Commitments

- We acknowledge that there is no such thing as a risk-free cigarette and that reduced risk tobacco products will not eliminate all risks associated with tobacco consumption.
- We are and will remain dedicated to our rigorous long-term research program into developing and testing products that may reduce health risks.
- We will establish ourselves as a credible source of information on reduced risk tobacco products.
- We will seek to understand what stakeholders know about and would expect from reduced risk tobacco products.
- We will explore the market acceptability of potentially less harmful tobacco categories (e.g., smokeless products such as snus).
- We will leverage the resources at our disposal, both internal and from our affiliations with the British American Tobacco Group and other stakeholders, to continue to develop reduced risk tobacco products.

Commitments

- We will continue to engage openly with governments, the scientific community and other stakeholders on issues surrounding the development of reduced risk tobacco products.
- We will provide accurate information on reduced risk tobacco products to governments, retailers and other stakeholders.
- We will inform consumers of any significant changes to our products, in accordance with the law.
- We will share our views on regulatory matters regarding reduced risk tobacco products.

Commitments

- We will encourage and support independent research on reduced risk tobacco products.
- We will seek out credible, independent scientific advice on matters surrounding the development of reduced risk tobacco products.

Taking Action

Within the next 12 months, we will initiate market tests in one or more Canadian regions for a Swedish-style snus product.

Reduction and Elimination of Illicit Trade

There is no denying that the illicit trade of tobacco products is a major problem for legitimate tobacco manufacturers and suppliers, as well as retailers. But it is also an important social issue that undermines many of the positive efforts made to market tobacco products responsibly and to inform the Canadian public of the health risks associated with smoking. Illicit trade also profits criminal networks, and facilitates risky social behaviours in certain communities and among youth.

A Complex Issue

Today's illicit trade involves mainly tobacco products that are either contraband from abroad or products being manufactured illegally in Canada (the latter account for almost 95% of the problem). The use of these products is on the rise. In fact, it is estimated that more than 25% of all tobacco purchases in this country will be illegal by 2010 if nothing is done to curb the current trend.

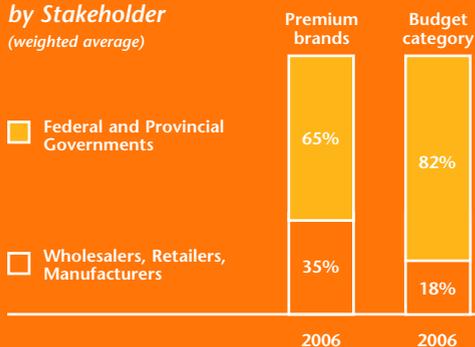
So, what's the solution? Unfortunately, there is no easy answer. More dialogue is needed among the many stakeholders affected by this issue to explore how we can resolve this serious problem through actions such as the application of relevant laws evenly across the country.

Shared Consequences

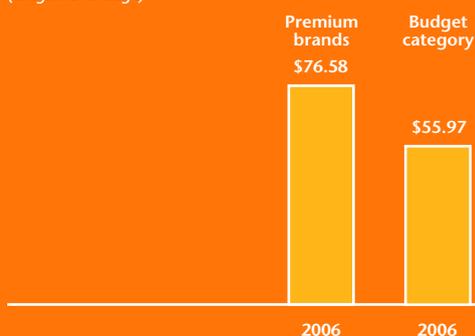
The federal and provincial governments currently collect about \$8 billion in taxes annually from the legal sale of tobacco products. As you can see in the charts below, taxes currently comprise at least 65% of the price of every package of cigarettes.

As a result, the financial burden of illicit trade falls not only on tobacco companies but on all Canadians who are losing out on tax dollars that could otherwise go to important public services and programs.

Distribution of Tobacco Sales Revenues by Stakeholder
(weighted average)



Average Retail Price per Carton of 200 Cigarettes
(weighted average)



Federal and provincial taxes per carton of cigarettes have increased by 118% on average in Québec and an average of 193% in Ontario (excluding the impact of GST and PST) since 2001.

Certain stakeholders also suffer serious consequences from illicit trade. For example, legal retailers, from large chains to family-owned operations, are losing an estimated \$250 million a year due to illicit sales, or an average of \$7,000 per retailer.

"Illicit trade isn't just about illegal cigarettes. Unfortunately, it's also about breaking the law, evading taxes and easy money for criminals to fund other illegal activities."



Marc Nencioni
Director, Excise and Policy

The health repercussions of illicit tobacco products are also very worrisome. These products do not comply with the same strict regulations as legal brands. There are no indications as to what the cigarettes may or may not contain. Their packaging does not carry the government health warnings designed to educate adult consumers about the risks associated with smoking. They also may not meet other important regulatory requirements.

What's more, the price of 200 illicit cigarettes – as low as \$10 – and their availability outside of legal channels make them an attractive alternative for youth seeking to evade underage smoking laws. Indeed, such products are available at bargain prices and the people selling them do not ask for proof of age. In addition, according to police reports, these criminals do not necessarily restrict their activities to tobacco and are frequently part of networks dealing in drugs, alcohol and firearms.

So, while there is no denying that tobacco companies suffer from the proliferation of illicit trade, we are clearly not the only ones affected. This is a serious and growing problem that impacts all levels of society.

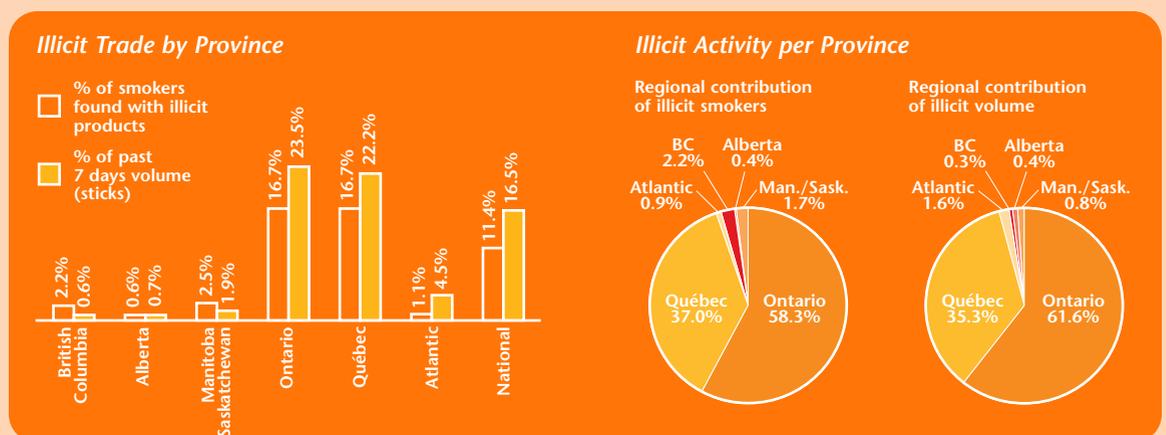
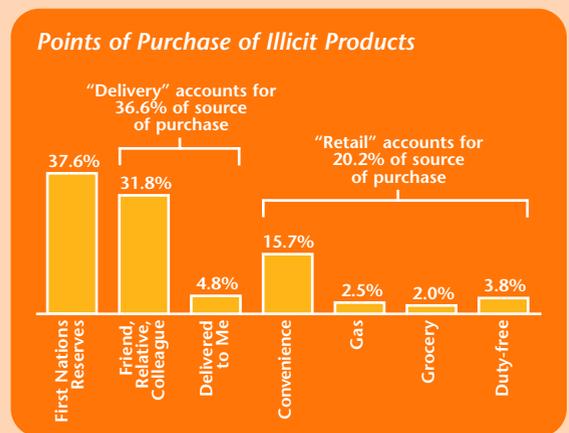
Taking Responsible Action

- ✓ We feel that the more that is known about the sources of illicit tobacco products and how adult consumers access them, the better equipped society will be to help solve this important problem. With this in mind, we commissioned GfK Research Dynamics in 2006 to conduct a study to measure the market share held by illicit trade in Canada. We also wanted to better understand adult consumer awareness of illicit products and where such products are purchased.

✓ Through this study, we learned that illicit trade in tobacco products is firmly entrenched in the Canadian market. We also found out that 96.9% of illicit trade is concentrated in Ontario and Québec, and that almost one out of every four cigarettes smoked in these provinces is illicit. In these two provinces, illicit trade ranks as the second largest source of tailor-made cigarettes – after Imperial Tobacco Canada.

According to the study, purchases on First Nations reserves account for over one third of all illicit trade in tobacco products. The second source is home delivery by friends or other networks. Adult consumers also purchase illicit products in convenience and grocery stores, gas stations and duty-free shops.

Illicit trade is an issue that impacts all Canadians. We are committed to working with governments, retailers, business partners, regulatory bodies and other stakeholders to help enforce the laws governing the sale of tobacco and eliminate all forms of this illegal activity.



2006-2007 Commitments

Reduction and Elimination of Illicit Trade

During *Let's talk*, our stakeholders shared with us their expectations regarding the issue of the reduction and elimination of illicit trade. They believe we should:

Expectations

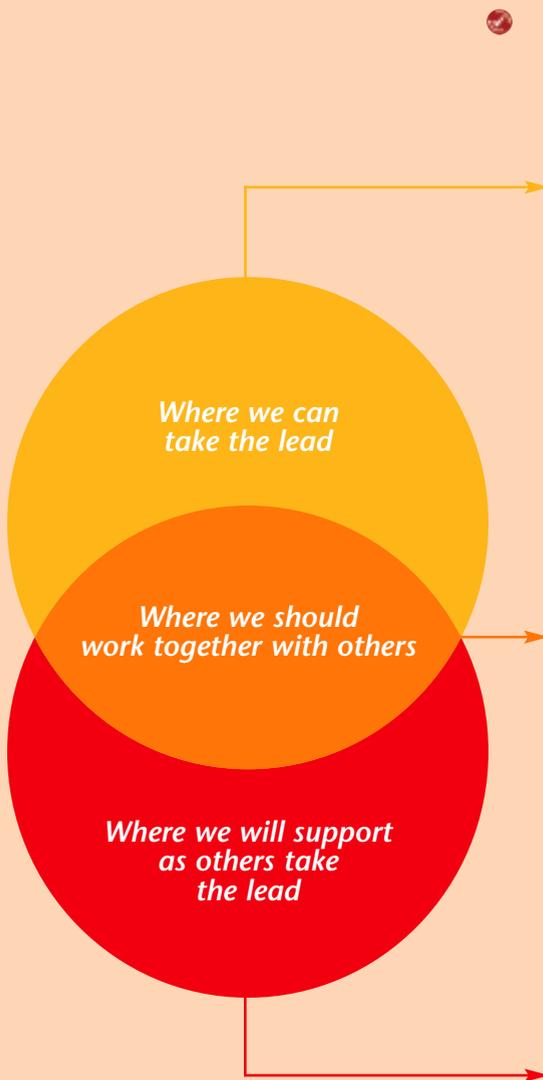
- Be involved in the fight against illicit trade.
- Communicate on the issue of illicit trade (e.g., the difference between legal and illegal products, etc.).
- Help raise awareness of the impacts of illicit trade.

Expectations

- Cooperate with all relevant stakeholders in developing a solution to illicit trade.
- Work with retailers to fight illicit trade.
- Help raise public awareness of the impacts of illicit trade.
- Exchange information with governments and other stakeholders to advance the fight against illicit trade.

Expectations

- Create partnerships and foster dialogue with other stakeholders to help fight illicit trade.
- Ensure laws and regulations are enforced.
- Help raise public awareness of illicit trade.



Illicit trade in tobacco products is an illegal activity that impacts more than just tobacco companies. Illicit tobacco products, unlike those that are legally manufactured, are not subject to government control. Easy access makes them attractive to youth, who can purchase them at bargain prices. They take away business from law-abiding retailers. The federal and provincial governments lose over a billion dollars a year in tax revenues.

In making the following commitments, we aim to continue actively participating in the fight against illicit trade by supporting governments, retailers, impacted communities and other stakeholders in their efforts to raise awareness and enforce the laws governing this criminal act.

Commitments

- We will strengthen and further communicate our policy against illicit trade.
- We will leverage the resources at our disposal, both internal and from our affiliations with the British American Tobacco Group and other stakeholders, to encourage best practices in the fight against illicit trade.

Commitments

- We will fight illicit trade through dialogue with governments, law enforcement, health groups, business partners, impacted communities, adult consumers and other stakeholders.
- We will conduct in-house research and/or support third-party research on the prevalence and impact of illicit trade in Canada.
- We will provide accurate information on illicit trade to governments, retailers and other stakeholders.
- We will support initiatives focused on reducing youth access to illicit tobacco products.
- We will communicate with stakeholders in a timely manner on our anti-illicit trade initiatives.

Commitments

- We will support meaningful enforcement and security initiatives to combat illicit trade.
- We will support initiatives that would establish a common ground between adult smokers, non-smokers, and governments for the elimination of illicit trade.

Taking Action

Within the next 12 months, we will support the organization of a public forum mobilizing stakeholders to discuss the impacts and potential solutions to the problem of illicit tobacco trade.

Youth Smoking Prevention

We do not and will not target underage youth or children in the marketing of our products. Our efforts are focused exclusively on convincing adult smokers to choose our brands over those of our competitors.

Despite all the efforts made to curb the problem, we recognize that youth smoking continues to be a serious concern in Canada. As the leading tobacco company in the country, we know that we have a role to play in helping fight this risky behaviour by supporting prevention initiatives.

A Complex Issue

According to Health Canada, the number of smokers under the legal smoking age has been declining since the end of the 1990s.¹ That said, there are still 18% of youth 15-19 years of age who smoke.²

"The bottom line is kids should not be smoking. By supporting retailer programs, we are helping keep tobacco out of the hands of minors."



Pierre Fortier
Vice-President, Corporate Affairs

Long-term Trends

Easy access to tobacco products is one of the biggest challenges in trying to eliminate underage smoking. Indeed, 52% of Canadian underage smokers obtain their cigarettes primarily from a friend or relative, while the remaining 48% said they purchase them on their own from a retail source (33% from a small grocery/corner store).³

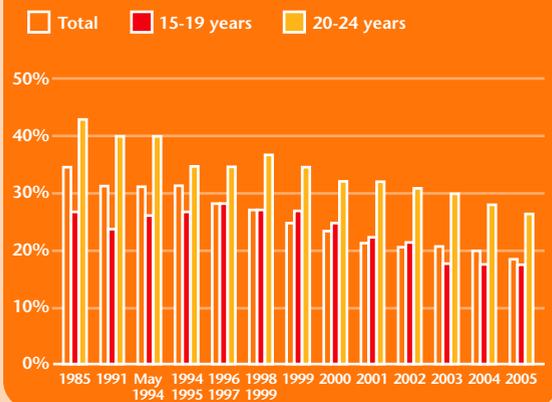
The rise of illicit trade in recent years has provided another source of tobacco products for youth smokers, who can purchase 200 untaxed cigarettes in a plastic bag for as little as \$10 – without being asked for identification! What’s more, these products do not bear the graphic warnings required by law to alert the consumer to the health risks associated with tobacco consumption.

Taking Responsible Action

As a tobacco company, we feel one of the best ways we can help is to keep tobacco products out of the hands of underage youth by working closely with retailers to make sure that our products are sold to adult smokers only.

- ✔ We have demonstrated a long-standing commitment to this objective by contributing financially to Operation I.D. since 1996. This nationwide program was designed to help train retail staff on how to uphold underage smoking laws. It also raises public awareness of Canada’s laws governing the sale of tobacco products. In addition, we lent our support to Operation I.D.’s sister program, Operation I.D. School Zone.

Long-term Trends in the Prevalence of Current Smokers



Source: 1999-2005 - Canadian Tobacco Use Monitoring Survey, Annual Results; 1994/95-1998/99 - National Population Health Survey; May 1994 - Survey on Smoking in Canada (SOSIC); 1985/91 - General Social Surveys



385,000
Approximate number
of Canadian teens
who smoked
in 2005

Operation I.D. booth

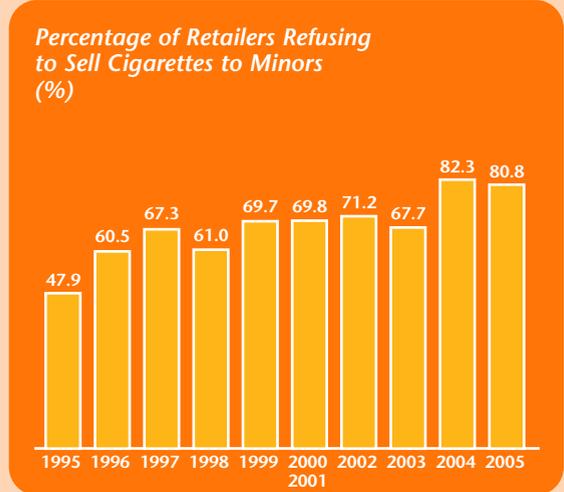
In 2005, for the second year in a row, the national retailer compliance levels regarding youth access to tobacco exceeded the Federal Tobacco Control Strategy's 10-year target objective of 80% or more.⁴

Since its inception, Operation I.D. has supplied more than 115,000 free information kits to retailers containing in-store signage, point-of-sale materials and training tools. At the same time, between 1995 and 2005, the overall rate of retailer compliance with the laws restricting the sale of tobacco to minors increased from 48% to 81%.⁵ We are confident that there is a direct correlation between the success of Operation I.D. and the improved retailer compliance rates.

We feel that we can make a positive contribution to reducing youth access to tobacco products through our work with retailers. We also believe that prevention initiatives aimed at curbing a broad scope of risky behaviours among youth will ultimately produce even higher benefits. Indeed, research has proven that positive relationships and development programs help youth avoid risky behaviours.⁶ That is why, going forward, we intend to continue

supporting initiatives aimed at preventing youth smoking, including those that would involve a partnership with other industries.

1. 2005 Canadian Tobacco Use Monitoring Survey
2. 1999-2005 - Canadian Tobacco Use Monitoring Survey, Annual Results; 1994/95-1998/99 - National Population Health Survey; May 1994 - Survey on Smoking in Canada (SOSIC); 1985/91 - General Social Surveys
3. 2005 Canadian Tobacco Use Monitoring Survey
4. Evaluation of Retailers' Behaviour Towards Certain Youth Access-to-Tobacco Restrictions (Final Report Findings: 2005). The Corporate Research Group, February 2006, Conclusion
5. Evaluation of Retailers' Behaviour Towards Certain Youth Access-to-Tobacco Restrictions; (Final Report Findings: 2005). The Corporate Research Group, February 2006
6. J. Quinn (1995). Positive effects of participation in youth organizations. In M. Rutter (ed.), Psychosocial disturbances in young people: Challenges for prevention. New York: Cambridge University Press.

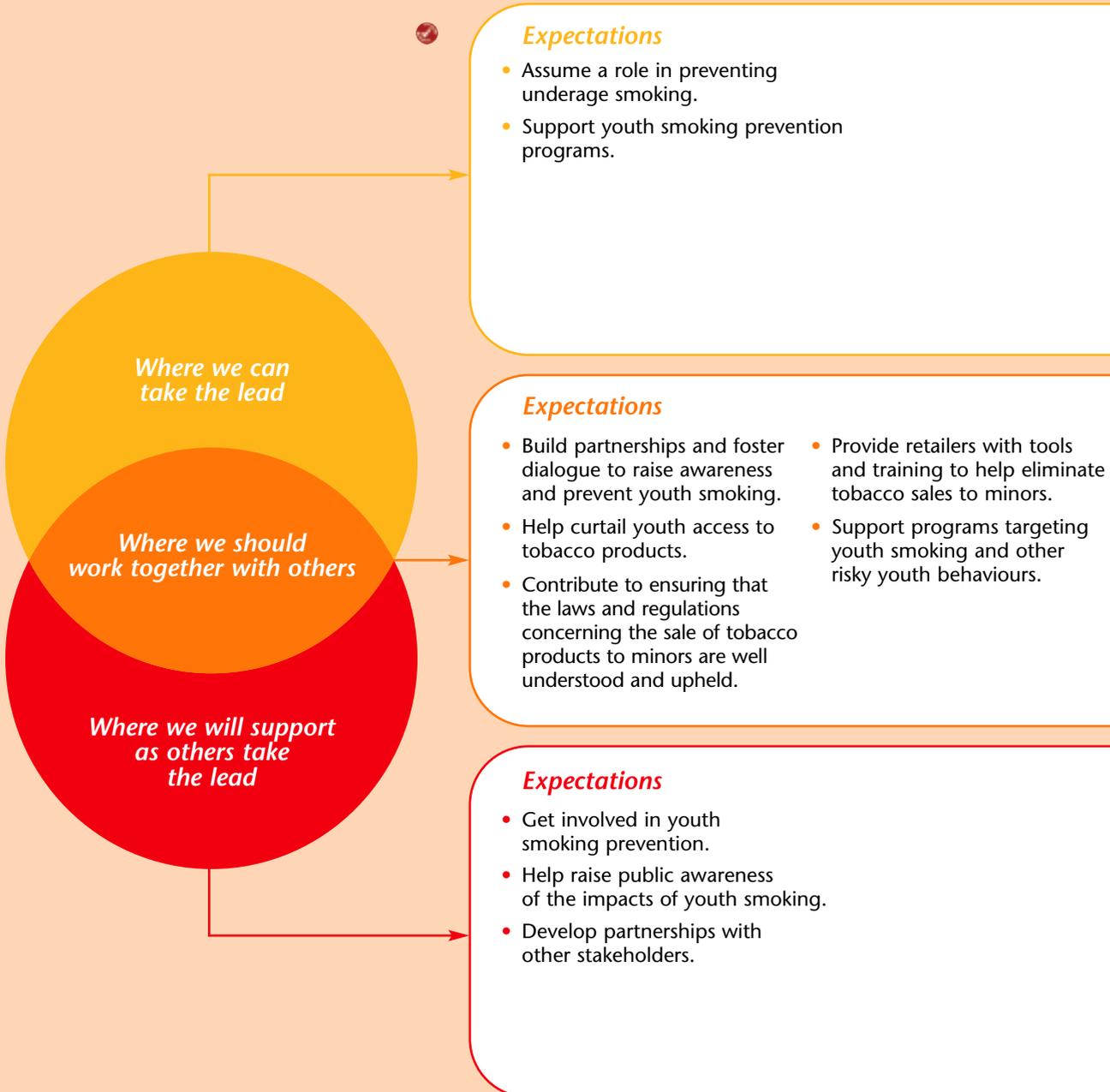


Source: Evaluation of Retailers' Behaviour Towards Certain Youth Access-to-Tobacco Restrictions (Final Report of Findings: 2005) The Corporate Research Group, February 2006

2006-2007 Commitments

Youth Smoking Prevention

During *Let's talk*, our stakeholders shared with us their expectations regarding the issue of youth smoking prevention. They believe we should:



We agree that underage people should not smoke. As such, we market our products to adults only. We contribute financially to programs designed to help retailers and their staff keep tobacco products out of the hands of minors. We also understand that smoking is part of a broader set of social issues affecting youth, and we endeavour to learn more about how to address these risky behaviours.

In making the following commitments, we aim to continue encouraging responsible practices among tobacco manufacturers and retailers. We also hope to build on our relationships with governments, retailers, community leaders and other stakeholders to help increase awareness and take action to prevent youth smoking.

Commitments

- We do not and will not target underage youth, and recognize the inappropriateness of marketing activities directed at them.
- We will apply best practices, both internal and from our affiliations with the British American Tobacco Group and other stakeholders, in our support of programs aimed at preventing youth smoking.

Commitments

- We will pursue our dialogue on youth smoking prevention with governments and other stakeholders.
- We will fund academic research programs studying youth at risk and support youth smoking prevention community initiatives.
- We will make sure retailers are provided with appropriate information and training tools to help them uphold the law and prevent underage tobacco sales.
- We will encourage cooperation within the tobacco industry to reduce and eliminate underage smoking.
- We will promote a partnership with other industries with a view to creating an integrated program to address risky behaviours among youth.

Commitments

- We will support initiatives that would establish a common ground between adult smokers, non-smokers, and governments in regards to youth smoking prevention.

Taking Action

Within the next 12 months, we will contribute financially to a new national program developed by retailers to prevent the sale of tobacco to youth.

Internal *Let's talk* Workshops

- Our employees are important stakeholders and we value their opinion. For example, every year, we conduct a company-wide opinion survey called *Your Voice* in which we ask them to provide their input to help us create a winning organization. This annual review of our internal processes has been instrumental in helping us improve how we operate.
- In keeping with this tradition of consultation, when we wanted to evaluate how we were doing at living up to our Business Principles inside and outside the organization, we turned once again to our employees for their unique and invaluable insight.
- Employees gave us their feedback during a series of *Let's talk* workshops conducted across the company in the summer of 2006. The outcome surpassed our expectations. In fact, we learned much more than just how we are doing at implementing our Business Principles. Employees provided us with best examples of our principles in action, contributed suggestions for improvement, and established targets for where they would – and would not – like to see our company in 2012, a key milestone in our corporate strategy.

Reporting the Results

Let's talk Business Principles workshops were held throughout the summer reaching 75% of head office staff and 80% of sales force employees.

Nearly 5,000 hand-written comments were received and confidentially compiled (7,146 ideas). The results were then divided into three categories: best examples, recommended improvements and targets for 2012.

Once we were able to determine which core beliefs employees consider best practices and which will require additional focus, we appointed process owners and working teams to champion the recommendations of employees.

The results of the internal Business Principles workshops were presented to the CSR Drive Team and CSR Committee of the Board. The entire process was audited by Bureau Veritas, the same auditor that verified our external stakeholder engagement initiative.



What Employees Told Us We Do Best

When it came to identifying best examples, employees had the strongest opinions on the core beliefs that affect them directly.

The issues that came up the most often were working environment (16% of employees identified this as a best example), business and partner relations (13%), and shareholder value (10%).

Working environment

- Offer multiple opportunities for professional development, including the performance evaluation and feedback tool, *PerforM*, and the *DeveloP* training and career planning program.
- Provide a comfortable and safe workplace with amenities like a gym, daycare and medical services (at head office).

Business and partner relations

- Give optimal service through Direct-to-Store Delivery.
- Maintain good communication to help our partners understand our business.
- Work with partners to add value to their business.

"The workshops helped me better understand how Imperial Tobacco Canada maintains its commitment to social responsibility, as well as the level of involvement required from each of its employees to support this objective."



Carlos Liscano
Marketing Representative, Montréal

- Exercise fairness in dealing with all suppliers/business partners.

Shareholder value

- Keep our focus on competitiveness and profitability by making quality products, building strong brands, and fostering consumer brand loyalty.



What Employees Told Us We Need to Improve

Many of the same issues that were identified as best practices were also targets for improvement. Topping the list was working environment (19%), followed by appropriate taxation/illicit trade (11%), business and partner relations (9%), shareholder performance (8%), and environmental performance (7%).

The need for more collaboration with external stakeholders also emerged as a main concern to employees. They advocated, among other things, increased stakeholder engagement, community involvement and consultation with third parties.

Shareholder value

- Communicating about internal organizational changes that impact our business.
- Understanding stakeholder expectations and taking them into account in our strategic decisions.
- Fostering dialogue with government about tobacco legislation.

Working environment

- How to manage workload.
- Communicating internally (need for a more effective cascade of information).

Business relations

- Building and maintaining strong relationships with business partners (inform them better of internal changes that affect them).

Taxation/illicit trade

- Engaging in dialogue over taxation of our products.
- Communicating our position on issues that impact our business.
- Providing information to help fight illicit trade.

Environmental performance

- Improving the environmental practices and performance at head office and within our sales force.
- Tracking the environmental performance of our suppliers.

Where We Want to Be in 2012

Looking ahead to where they would like to see our company in 2012, employees singled out five main points that cover a broad spectrum of our activities.

A profitable company

- Increase our market share among adult smokers.
- Keep pace with the changing needs of adult consumers and other stakeholders.
- Continuously improve the quality of our products.

A responsible company

- Remain profitable in a responsible manner.
- Be recognized as an industry leader in corporate social responsibility.

Ongoing Commitment

Imperial Tobacco Canada implemented its Statement of Business Principles in 2004 and abiding by these principles has been a priority ever since.

Through the *Let's talk* consultation with employees, we realized that we have done a good job of embedding these principles into our daily interactions and decisions. But we also learned that we can do more. In fact, our employees are demanding it.

Some of the issues brought up in the workshops are also covered by the annual *Your Voice* survey, confirming their importance to employees in relationship to our Business Principles. Indeed, we found that a

A company that works together with its stakeholders

- Maintain a dialogue with government and interest groups.
- Establish new and fruitful relationships with various stakeholders.

An inspiring working environment

- Be recognized as one of the best employers in Canada.
- Continue to develop, reward and inspire our employees.

Development of reduced risk tobacco products

- Be a leader in the development of reduced risk tobacco products.
- Work in collaboration with government and the scientific community on developing such products.

number of initiatives are already underway to address the feedback we gathered from employees. For the new issues that were brought up, we are currently working on action plans to implement the changes needed to meet employees' expectations. In parallel and to ensure the dialogue process comes full circle, we have committed to further educate our employees on the three issues addressed in the *Let's talk* stakeholder engagement initiative. The progress we have made on all fronts will be reported in the 2008 Social Report Update.

We thank all the employees who participated in the workshops for their valuable input.

Independent Assurance Statement (Summary)

To the Management of Imperial Tobacco Canada

Bureau Veritas has been engaged to provide assurance services to Imperial Tobacco Canada for its first reporting cycle. This Assurance Statement applies to the Imperial Tobacco Canada Social Report 2006-2007 (the "Social Report"). The preparation of the Social Report and its content is the responsibility of Imperial Tobacco Canada. Bureau Veritas' responsibility is to provide assurance on the reliability of the information therein and to express an overall opinion on the Social Report as per the scope of the assurance.

The overall aim of this exercise was to provide reasonable assurance to stakeholders that the information included in the Social Report is accurate, reliable and objective. We used the AA1000 Assurance Standard and principles – completeness, materiality and responsiveness – to inform the assurance process. We have assessed whether Imperial Tobacco Canada is responsive to its stakeholders by reporting upon material issues. We have also considered the completeness of the Social Report to ensure that it has no significant omissions and that it provides a balanced and accurate reflection of Imperial Tobacco Canada's social impacts and performance over the reporting period.

Objectives, Scope and Methodology

The objectives of this exercise were to provide assurance over the content of the Social Report for the reporting period May 2006 – April 2007 and to provide impartial commentary on the reporting process.

The scope of our work was determined following discussions with Imperial Tobacco Canada and can be summarized as follows:

Provision of two levels of assurance over selected information within the Social Report using the following symbols to describe the scope and nature of our work:

- ✓ **Advanced:** Bureau Veritas provided advanced assurance over the stakeholder dialogue activities that were conducted from May 2006 through to April 2007. This included: a review of processes for selecting discussion topics for dialogue; attendance at dialogue sessions; reviewing samples of stakeholder feedback regarding the quality of dialogue; detailed review of the independent reporting on the dialogue and how Imperial Tobacco Canada has responded to the points raised in dialogue.
- ✓ **Positive:** Bureau Veritas assessed whether information reported in the Social Report in relation to Imperial Tobacco Canada's reporting systems, governance, policies and selected Core Beliefs, was supported by underlying objective evidence through interview, detailed sampling and review of documentary evidence, including from third party sources where possible.

We considered the alignment of social reporting activity against the key requirements of the AA1000 Assurance Standard in relation to the principles of materiality, completeness and responsiveness.

The work carried out by Bureau Veritas is defined by the above symbols. The text in the Social Report that has undergone assurance can be identified by the presence of the appropriate assurance symbol alongside it.

Key Highlights

During the course of the Assurance work Bureau Veritas has identified the following areas of good practice:

- Imperial Tobacco Canada has formed a Social Reporting Steering Committee to review the ongoing performance of its reporting process which is well embedded throughout the organization.
- The Stakeholder mapping process carried out by Imperial Tobacco Canada was comprehensive in its coverage.
- Imperial Tobacco Canada's approach to stakeholder engagement allowed for an open and transparent dialogue which enabled stakeholders to express their concerns and expectations.
- A focused approach to stakeholder engagement helped Imperial Tobacco Canada gain insight to issues that are pertinent to the organization and its key stakeholders.

Key Areas for Improvement:

- Imperial Tobacco Canada should continue to focus upon its social engagement process. Specifically, it should report on its progress against its stated commitments.
- Quantitative targets and performance indicators against commitments should be developed wherever possible to enable the meaningful measurement of progress.
- Imperial Tobacco Canada should clearly identify the performance period covered by the Social Report.

Considerations and Limitations on the assurance process and scope are provided in detail in the Social Report posted on the Imperial Tobacco Canada Web site.



Bureau Veritas
April 2007

The complete Assurance Statement is published in the Social Report posted on Imperial Tobacco Canada's Web site.

Annex

Our Business Principles in Action

The following are selected examples of how we apply our Business Principles throughout our activities.

Principle of Mutual Benefit

We believe in creating long-term shareholder value

We are continuously building on our reputation as a responsible company, an increasingly important criterion for many investors. Our parent company, British American Tobacco, has been included in both the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones STOXX Sustainability Index (DJSI STOXX) for the last five years.

We believe in engaging constructively with our stakeholders

We launched a major stakeholder engagement process in 2006, called *Let's talk*, to gather input on three subjects of concern to Canadians with respect to tobacco. These issues were harm reduction in relation to tobacco use, the reduction and elimination of illicit trade and youth smoking prevention. The results of this process are featured in our 2006-2007 Social Report.

We believe in creating inspiring working environments for our people

Through our *PerforM* performance feedback tool and *DeveloP* training and career training program, employees can match their short and long-term goals with company objectives.

Our head office employees' benefits include in-house healthcare, and on-site daycare and athletic facilities. All of our employees receive competitive salaries and incentives.

We believe in adding value to the communities in which we operate

The Imperial Tobacco Canada Foundation is a private charitable foundation funded solely by Imperial Tobacco Canada Limited. It donated \$4.8 million in 2006 to organizations in the arts and culture, post-secondary education and health services sectors.

We are a "Caring Company" as defined by Imagine Canada. Through the Foundation, we donate at least 1% of our pre-tax profits to non-profit organizations annually, measured on a five-year rolling average.

We created approximately 325 new direct jobs at Imperial Tobacco Canada in 2006 following the implementation of Direct-to-Store Delivery, as well as more than 500 indirect jobs.

We believe that suppliers and other business partners should have the opportunity to benefit from their relationship with us

We maintain long-term relationships with our business partners and purchased \$243.4 million of goods and services from our suppliers in 2006.

We enjoy ongoing collaboration with the Canadian Convenience Store Association, the *Fédération des chambres de commerce du Québec*, the Montréal Junior Chamber of Commerce, and many other trade associations.

Principle of Responsible Product Stewardship

We believe that accurate and clear health messages should be provided to consumers about the risks of tobacco consumption

We speak openly about the issue of smoking and health in the "Our Position" section of our Web site.

We believe that regulatory agencies, including Health Canada, have a principal role to play in the provision of these messages and that we should facilitate the provision of these messages

We have, in the past, placed health warnings on our packages on a voluntary basis and, sometimes, at the request of Health Canada. We have stated that tobacco packaging should display clear health warnings.

We believe that continuing efforts should be made, in consultation with regulatory agencies, including Health Canada, to produce products that are recognized as posing fewer risks to health

We regularly provide governments with information on our progress in developing reduced risk tobacco products, and seek further opportunities for cooperation with them.

We believe that consumers have a right to receive relevant and meaningful information about tobacco products, including products that may pose potentially fewer risks to health, and that underage people should not consume tobacco products

We provide a complete list of the ingredients contained in our products, as well as information on the manufacturing process, on our Web site.

Since 1996, we have contributed financially to Operation I.D., a nation-wide program to prevent underage youth from purchasing tobacco products.

We believe that our brands and products should continue to be marketed responsibly and directed at adult consumers

We do not and will not target minors. We recognize that marketing directly or indirectly to underage youth is wrong and not in keeping with our commitment to be a responsible company.

We believe in the appropriate taxation of tobacco products and the elimination of illicit trade

We have implemented a formal policy against illicit trade.

We believe in regulation that balances the interests of all sections of society, including tobacco consumers and the tobacco industry

We have provided balanced submissions on the issue of descriptors, health warnings and other proposed regulations.

We believe that public smoking should be approached in a way that balances the interest of smokers and non-smokers

We helped in the creation of an on-line association for adult smokers, mychoice.ca. This Web site provides a forum for adult smokers and non-smokers to express their views concerning their rights.

Our Business Principles in Action

Principle of Good Corporate Conduct

We believe our business should uphold high standards of behaviour and integrity

We have a strict Code of Business Conduct in place that promotes high standards of ethical behavior, integrity and compliance with all laws and regulations.

We believe that high standards of corporate social responsibility should be promoted within the tobacco industry

We created a CSR Committee of the Board of Directors in 2006 composed of internal and external members.

We have a CSR structure that reaches every level of the organization.

We believe that universally recognized fundamental human rights should be respected

We comply fully with all Canadian laws and regulations regarding human rights. Our parent company, British American Tobacco, is a founding member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation, which is now advised by the International Labour Organization and is established as the global reference point dedicated to combating exploitative child labour in tobacco growing.

We believe our industry should have a voice in the formation of government policies affecting it

We believe in ongoing consultation with Health Canada and other provincial health authorities. We respond to every opportunity to provide meaningful input on proposed regulatory initiatives.

We believe in achieving world-class standards of environmental performance

We have a comprehensive Environment, Health and Safety (EHS) Policy in place, and are committed to maintaining world-class standards in EHS management and performance.

"When our group discussed how we apply our Business Principles to our work every day, it was great to see how deeply embedded they are within the organization!"



Caroline Ferland
Associate General Counsel, Corporate



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Let's **talk** about our social responsibility: www.imperialtobaccocanada.com/socialreport