

Evolving our Ways of Working

John Jackson, Operating Model Transformation Director

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John Jackson: Thank you very much, Alison. Good morning everybody. I'd like to talk today about the work that we've been doing on our operating model. As Alison mentioned, the business has been on quite a journey of change for quite some time. However, we realised, as we wanted to step up the pace and the scale of change in the business, but also to continue delivering today's business and today's results, we needed to co-ordinate our entire change programme.

For that reason, in March 2014 we established the operating model programme, to bring together all of the change and initiatives throughout the world of Imperial Tobacco. It is probably, or definitely, the biggest change programme in the history of the company, and it's very much focused on winning in market, dramatically improving our productivity, reducing our cost and our product complexity, and indeed our organisational complexity as well. It's about empowering our people to focus on the things that really matter.

Today I want to give you an overview and introduce you to our new operating model. You'll find through the day as you listen to the other presenters and the other presentations that people will refer to the various applications of the operating model in different areas of our business, and you'll get to understand some of the very real and some of the pretty dramatic results that we're getting from the changes that we're making to our business.

As I mentioned, like many other successful consumer goods companies, we created a single, unified programme. The reason we did that is we wanted to make sure that we could understand all of the different changes, and make sure that we protected the delivery of today's business as well. In particular, we ensure that we had strong, local leadership of the programme, and the reason we did that is we wanted to make sure that the people driving the programme at the local level were the same

people who are delivering the business on a day to day basis, so that they could clearly make a judgement about introducing change while delivering today's business. That's been terrifically effective for us, and I'll describe that in a little bit more detail later.

To be clear, the delivery of the existing business and our existing business plans was the number one priority, and then the operating model was then balanced against that as the number two priority for us.

As Alison mentioned, historically as a business we grew through acquisitions, and it's not particular unusual, as you know, in a consumer goods space. We made some really great acquisitions, and that's fantastic. However, one of the consequences of making so many acquisitions is that we had multiple different ways of working, lots of different, inconsistent organisation structures, many, many different IT systems, and lots of different business processes as well. So it was a fairly complex model that we inherited through all of the different acquisitions that we made.

We identified a big opportunity for us to build a better business by really integrating our processes, our organisation structures, and a lot of our underlying systems together, to build a much higher performing business, one that's faster and better at execution, that's much less labour intensive, and significantly more streamlined.

So where were we coming from? So as you can see on the left-hand side, traditionally our business had many, many different component parts. If you just add up all those component parts, you can see there are a lot of them, and that means it was a fairly complex operating environment that we had, with over 250 brands, multiple different market structures. In HR alone we had 350 different HR systems, so there was a lot of complexity in the model that we had, and we saw an opportunity to significantly improve this, to drive the execution of our new strategy.

You might be thinking, "What's an operating model?" It's a fairly reasonable question. So for us, really, and other consumer goods companies, an operating model really defines the business framework that we use to execute our strategy, so it's about people and structures, it's about processes, and it's about technology, and it's organising all of these things so that we can better execute our strategy.

We had three key objectives through our operating model work. First of all we wanted to improve our ability to deliver commercial success, primarily in sales and marketing. Second, we wanted, as Alison mentioned earlier, to leverage the global scale that we had as a global consumer goods business. Finally, we wanted to continue delivering the journey of operational excellence, which we were already well on as we established the operating model programme, and Walter and Titus will describe some of the successes of that later.

So, what did our new organisational model look like? So, I think as Alison mentioned before, we saw an opportunity to cluster 160 markets together into 20 clusters. As you hear Dominic and Amal speak about some of the division successes that we've had, you'll hear some of the stories around how we've applied that and what that's done for us as a business. So we created 20 clusters, and then we organised those into 3 divisions: Growth, Returns and ITG Brands in the US, and you'll hear from each of the leaders today around how we're getting on in that journey.

We created a group marketing function as well, to drive a process of brand migration that's been terrifically successful. When Peter and Marcus talk after me, you'll understand some of the more detailed stories behind how successful that's been for us as a business.

As I mentioned, we wanted to leverage our global scale and expertise, particularly in the support functions of our business, by which I mean procurement, IT, HR, and finance. We saw an opportunity

like many other companies in consumer goods to create global shared services, global centres of expertise that could provide better support services at dramatically lower cost to our business.

Finally, we wanted to continue the journey of operational excellence that we were already on. That meant rationalising our factory footprint, grouping our factories into a series of four regions, and as Walter and Titus will describe, creating a single, unified manufacturing supply chain and R&D organisation to really drive out product complexity within our organisation.

As I mentioned, we wanted to underpin this with new global technology and new processes. So we've implemented a series of global technology platforms, so, Salesforce, for example, which we have deployed already to 26 markets, that supports our sales individuals to win with our customers, and dramatically reduces the amount of time they spend in terms of bureaucratic administrative activity. That's already saved us £23m in terms of driving out costs of bureaucracy and administration in the sales forces. We also want to upgrade our SAP systems and standardise those so we can standardise all of our key processes in our business, and we're well along the journey of doing that.

We've rolled out Workday, which is our HR platform, to our 23,000 people across 64 countries in less than 12 months. That's a cloud-based solution, as is Salesforce as well. Finally, in manufacturing we're leveraging our QAD platform and upgrading and standardising that as well. So there is a lot of standardisation taking place in our technology, that's then enabled us to drive standardisation in our core business processes.

Oliver, in his presentation at the end of the day will describe some of the great results that we're getting in terms of working capital benefits, and also some of the procurement savings as well. So we're starting to really see the results of these changes come through, and in each of the presentations you'll get to understand some of the success stories behind that.

So how does the model work? Well, you'll hear this in a lot more detail later, but at a high level if you take sales and marketing, really driving our ability to deliver commercial success, group marketing is really about developing winning consumer propositions, and when Marcus and Peter speak in a few moments, you'll understand that we've migrated 26 billion sticks to our new growth and specialist brand chassis.

When Dominic and Amal speak to you you'll understand the role of our divisions, and how they really focus our organisation about determining where we play. In terms of our clusters you'll hear from a number of our different cluster general managers about how we win, and how we plan to win across the 20 clusters that we've got.

Finally, in market, we're very much focused on execution and winning with winning customers. As I mentioned earlier, we've already saved 36 million in terms of eliminating a lot of administrative activity in the markets as well.

In terms of our enabling functions, as I mentioned, HR, finance, procurement and IS, we set about establishing shared services. So, as I mentioned, we now have our 23,000 people supported by HR shared services. As Oliver will describe in a bit more detail later, we're well on the way in terms of rolling out finance shared services as well; we've established a global procurement organisation; and we're rolling out IS shared services as well.

We've also set up a number of centres of expertise to provide expert services, but at a global level, to support the rest of the business in a much more streamlined and efficient way. As I mentioned earlier, we're modernising the ways of working by deploying new technology, which is often cloud-based.

Finally, we have a huge academy programme, and huge amounts of training that's taking place in our business, to train people to work in the new ways and successfully use our technology, and we really look now at the return on investment that we're getting from the changes that we're making. And that's really a huge and significant focus to us, to make sure that people are adopting successfully the new ways of working, and I'll come back to that in a few minutes and describe exactly how we do that.

In manufacturing supply chain and R&D, Walter and Titus will describe how the new organisation of MSRDC that's consolidated really helps us reduce product complexity. We've eliminated 20% of our product SKUs so far, and they'll provide you more details on that. That's also given us a large number of global procurement benefits that have been driven by the global procurement organisation that we've established, and so far we've reduced our supplier base by 20%, and we've realised savings, up to financial year '15, of £25m so far, but there is more to come.

We've optimised our factory footprint, and reduced our number of factories by 11 so far, and as I've mentioned, Walter and Titus will describe that in more detail. We've improved our factory productivity by 9%.

Hopefully you're getting a flavour of the scale of change, and you'll hear much more about this through the subsequent presentations, but this has really been a terrific success story for us as a business, as we start to build this unified and disciplined and agile business.

I mentioned earlier, as you're going through a big change programme, we were quite concerned about how we can manage to introduce so many changes in our business. That's why we established the unified operating model team, but we wanted to go further than that. We really wanted to understand how our employees were experiencing the change, what it meant to them and how confident they were of being able to make the changes, because after all, we as a leadership team on our own cannot drive the changes into the business.

We undertook the biggest change tracking process in the history of consumer goods. We surveyed 13,000 employees, before changes, during changes, and after changes. We got a lot of insights, which are maybe a little bit counterintuitive, that I wanted to share with you.

So first of all, the highest performing groups in our company are the ones where we introduced the most change, and typically people got frustrated if we were not moving fast enough. So they really wanted to make change happen, and in some instances they actually asked us to accelerate a lot of the changes that we were making.

Secondly, we realised that people's commitment to the change that we were making increased over time. Thirdly, and this is particularly encouraging, our employees really care about the changes that we're making. We had a terrifically high response rate, in terms of change tracking; when we compared that to other consumer goods companies, we probably had the highest response rate of any company, so our employees really cared about the changes that we were making. What we found was, if they saw us as a leadership team, and their local management, leading the change, then they really bought into it and they really followed it. So we really concentrated on making sure that at the local level and at the global level, everybody in the management team was really committed to change.

But probably the biggest learning for us so far is that the programme is more than just establishing new structures, new roles and responsibilities, new processes and new technology. As Alison mentioned, what we have done is actually created a change-ready and agile organisation. Our people now are used

to change, they're confident about change, and they can deliver change. That's probably the biggest asset we've now got as a business.

We've come a long way, as a business, and every time we look at this chart we surprise ourselves and think, "Wow, we've come a long way." So we started with 160 markets, we've now got 20 clusters. Five divisions have moved to three, 250 brands moved to 5 global brand chassis. Two supply functions combined into one. No shared services – we now have three shared service organisations. We had a relatively high fixed cost base when we started; we've got much more variability in our cost base. We've reduced the number of manufacturing regions that we've had, and we've standardised our business processes.

We've made a lot of progress. But the good news is, as we've been through the process, and as our employees have given us feedback, we can see that there is more to come. There is further opportunity for us. We can move to further, bigger clusters. We can increase our focused market investment even more. We can continue to strengthen our brand portfolio, and we can continue to steal with pride from our colleagues in manufacturing and apply lean principles throughout our organisation. We can consolidate our shared service organisations into global business services, and we can variablise our cost base even more. We can do more work in terms of optimising our footprint, both in terms of factory footprint, and also commercial footprint. Finally, we believe now, and we're pretty confident, that we can get industry leading process execution.

Hopefully that's given you a good overview of what we're doing with our total operating model. We've come a long way, and we can see a lot more opportunity down the track for us as a business, and as I mentioned at the beginning, throughout the day you'll hear many more success stories in terms of the results that we're getting for our operating model.

Thank you very much for giving me the opportunity to talk to you today.