

Transcript – Building the Lean House in Operations

Titus Wouda Kuipers, Operations Director

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Titus Wouda Kuipers: Thank you very much, Walter. My presentation is about operations and the lean way of working we are having in my environment. I want to introduce you to the excellent results we are having with this way of working.

My key message is to you that this lean way of working that we are doing is driving cost leadership by empowering the people working with it in order to seek continuous improvement. Cost leadership; Walter has mentioned it already, as well as empowering the people.

Lean management, lean way of working; that is already a very well-known way of working, and it's a proven system, already for years; actually already for decades. We have embarked on this journey since three, three and a half years ago. What we are currently doing is we are transforming the whole operations environment into a world-class lean working organisation.

What have we done? We have introduced this approach by installing operational excellence programmes, as we call them, factory by factory, to introduce all the lean principles into the factory environment. We believe that at its scale, we are having it around the world; that it is unique for the tobacco industry, and I tell you there's more to come from us.

We have now the vast majority of our footprint, as well as the most important factories, working in this whole lean environment. It has been a great success; I've told you already around this, and we are going to build on this.

Up till now, via the operational excellence programme that we have installed since three and a half years: we are now delivering a sustainable £25 million annualised savings. These cost savings are logically part of the overall company cost programme as called already right moves by Alison.

There will be a deep dive later today in the breakout session around the lean way of working, and what I'm doing now to you is to give you an introduction to what we are currently doing.

First of all, the lean way of working is driving agility. It is of course supporting all these items which are written over here, so it's supporting the cost leadership as our prime purpose, as Walter has already mentioned. When I'm looking with a European lens on, and I'm looking at our conversion costs and I compare this with the competition, we are ahead of them, and I tell you we will stay there.

You have already heard about the complexity programme; it's also again being supported by this approach, this way of working, because it's leading to further simplification and again leading to further agility.

Of course, the lean way of working is also helping us to create in our factories the safest working environment. Last but not least, of course it will help us to be fully regulatory compliant.

The big question is: what is, then, actually, lean? It's a twofold thing. It's about mind-set and behaviour on the one hand side, and it is about operating system, tools and methodologies on the other hand side, in order to create continuous improvement.

Lean means that you're doing more with less. We are maximising value and minimising waste. Waste is the key word. The whole organisation is working with a never-ending effort to eliminate all kinds of waste in this manufacturing environment.

We have identified eight types of waste, and I want to start with overproduction. I tell you what: overproduction is the mother of all waste. It is completely covering up; it has the danger of covering up for all the waste types mentioned here on this slide.

When I'm talking to operators, yes? They could think of overproducing a bit, because changeover times are taking a little bit of a long time, so you'd better create a bit of a buffer. Or another one is saying when you have quality problems, you'd better overproduce a little bit, so you never know.

That brings me directly, then, to inventory. These are simply stocks of raw materials, work in progress, as well as the finished goods. This is all around cash and work and capital; fundamentally non-value-adding waste. There's a waste of waiting; that speaks for itself, it's simply delays in the process, and there's the waste of defects. The waste of the defects in itself of the products, but also doing inspecting in the process that there are no defects, or when they are occurring, fixing the defects.

The waste of motion; the motion of an operator, the distance he is walking between machines, as well as the distance with the tools and the equipment he is using. As you can see, there is a direct link to our safety agenda. Minimising that is also minimising the dangers around him.

There's the waste of over-processing, which means completing work for a customer, whereas the customer does not want too much of it. You're delivering in excess of what the customer wants. There's the transport waste; this is about controlling time and distance. The eighth one is all around: underutilisation of skills and capabilities of our complete workforce; not being utilised to its fullest.

Walter has been talking already about OEE. It's a very important indicator for us in order to show that we are successful with this programme. The number attached to this since we have started the whole programme is 9%; that's a massive number.

Let me explain to you what OEE actually is. It's an internationally known matrix for how effective a machine is running. It's Overall Equipment Effectiveness, and it describes how a machine is performing

against the designed capacity for the period it is planned to run. Start-up times of a machine, or turn it down of a machine, breakdowns of machines, the cleaning of machines. These are the things influencing this total number. OEE is a very good indicator in order to tell us how agile we are, because it is reducing cycle times and it is increasing our possibilities of having the right speed to market.

We have created this lean house vision on our journey. On the right hand side, you see that of course we need to have an operating system in place which is concentrating on the methods people should use. Then I'm talking on things like goal alignment, or things like the metrics we are using in very standardised ways.

When I'm moving to the top, I'm talking about maximising value, and I have mentioned to you already the upside of £25 million of savings. These gains will only increase further in a sustainable way when we have the right behaviours and mind-sets in place. This is the left pillar of the lean house.

In this whole process we are convinced that the operator should have the full ownership of the results he can directly influence. For this reason, this is all about empowering, within of course the general strategic framework.

When I'm talking about this capability development, I'm talking about things like trainings; internationally standardised, internationally recognised training, learning on the job as such. It's about the installing of many business units. You will hear about it in the breakout groups, where teams of operators responsible for a machine or a set of machines own their own businesses. This is again creating the ownership at the lowest level in the organisation.

We have also installed lighthouses around the world, and these are actually the most successful sites, where others can look at the things they are doing. They are the examples for the others.

The most important part of this slide is in the area of the guiding principles. It's about challenging; we simply do not accept the status quo. There is always a way to find improvements in our process. It's about 'go and see'. Everybody is also talking about 'go and see'. It is about going to the shop floor, which is the best classroom there is. It is about experiencing the progress we are making against our objectives we have set ourselves. It's about 'kaizen'; you know about the term 'kaizen'. It is the search for all kinds of improvements, and when you add, however small they are, when you are adding all these improvements, you are truly on the continuous improvement journey.

It's about respecting the operator. He is the one who is doing it, who knows exactly how it works, and he is the one who owns that process. They are the experts delivering the results. We have to listen; we have to ask and we have to support them to do their tasks more easily and therefore better. Of course it is teamwork; it's the commitment of everybody, in order to realise what we have said, what we want to realise.

The whole lean journey is one big change programme. It is not only about allowing the operators to do the things at their machines, but it is especially about empowering them.

It's about coaching, it's about training; I told you already, it's about measuring KPIs. It's about finding, identifying the true, real issues they are confronted with; when it is a problem, find the root cause, and then it's about finding the sustainable solutions for it.

The change is going further. It's not a factory by factory thing; we have created a very big database of all kinds of ideas and improvements. We are sharing very actively around the whole footprint very up-to-date examples; more than 1000 already in this database.



You will experience what it actually means in the breakout session with Ian King; he is the Regional Operations Director, as well as Bart Zijlstra; he is responsible for our OTP sites in Europe. They will give you the live example, using our Joure, the Dutch roll-your-own factory, as an example. This is one of our lighthouses, so you can see how it is really working.

We are in the position to strengthen our competitive position with this approach. We are unique with it on this skill in the tobacco industry, and in this way we are maximising our value by empowering our people. I thank you very much.