

Kiev Factory

Thank you Gary and good morning ladies and gentlemen.

I'm Nicolai Penner, factory manager for Ukraine, and I am glad to welcome you to our factory in Kiev.

In the next 10 minutes, I would like to give you a brief overview on the history, development and the status of this Imperial Tobacco plant. After that, we will take a factory tour.

About Ukraine

I'd like to start with some background on Ukraine, my slide has a few of the key facts for you.

I won't go into all the detail but I would just like to talk about a few key points.

Ukraine is the second largest European country which gained its independence in 1991 following the collapse of the Soviet Union. In the past 15 years, Ukraine has experienced major economical problems including hyperinflation and a 5 million drop in the level of population. This has resulted in a large social gap between the rich and the poor. However, in the last 5 years, which have been marked by political scandals and a "revolution", the Ukrainian economy has begun to recover from the crisis and now we are optimistic about the future. This year, GDP growth is expected to reach 3.5% with inflation up to 10.5%.

Our History

Let me now draw your attention to the history of our factory in Kiev.

Founded in 1861, the factory has gradually switched from other tobacco products or "papirosy" and "makhorka" to cigarettes in 1947. In 1993-94 Reemtsma acquired the Kiev and Cherkasy factories. At that time, the post-Soviet tobacco industry was far behind the world standards. As we will soon see, our business has improved dramatically since then.

In brief, the milestones to date are:

In 1995 we made the first American blend cigarette ever to be produced in Ukraine.

In 1998 the new Kiev factory was commissioned and in 2001 the production site was extended following the sale of the Cherkasy factory. And in 2002, we became part of Imperial Tobacco.

Let us together have a look at this development.

Kiev Factory – 1994

In 1994 the Kiev Factory was equipped with old-fashioned and mainly non-filter machinery and the infrastructure and utilities were poor. Also, there was no possibility of extending the site.

New Kiev Site – 1996

In 1996 we took the decision to move out of the city and we bought the current plant building as an unfinished construction site.

New Kiev Site – construction and installations '96 -98

The conversion from a Soviet-style concrete plant into a modern tobacco factory started in Autumn 1996 and was completed in Summer 1998.

Kiev Factory – 2006

As you will have noticed it has been quite a transformation!

Kiev Factory 2006

As you will see shortly when we take you on a tour of the factory, this is what the inside looks like today.

The secondary facility has low and mid speed machinery which was mainly relocated from within the group and the state of the art primary was installed in 1998-99. The bottom two pictures show the automated end packing station and the filter rod making area.

Production Volumes

Now, let me turn to some numbers.

Our production volumes have fluctuated over the last 10 years. In the beginning, our production volume comprised of over 90% non-filter cigarettes. Since then, our factory has been gradually increasing the share of modern and more profitable international brands for domestic and export markets. Looking at the Kiev factory alone, the volumes have increased by almost 3 times.

Headcount Development

Regardless of the volume trends, improving efficiency is always one of our top priorities, and as you can see we have reduced our headcount progressively over the years.

Productivity Improvement

This chart shows our productivity improvements in the last 10 years.

Our production volume per employee has grown by over 300% and this has helped us to reduce our conversion costs as you can see from my next chart.

Conversion Cost Development

Since the year 2000 we have been steadily lowering our conversion cost per million cigarettes. This chart shows an index with 2000 as the base year at 100. By the end of our current financial year we will have reduced this to 81.

Focus on Working Capital

Despite growing volumes, we manage to keep our working capital on a minimum level. When compared to 1999, our stocks levels in 2005 had decreased by just under 4 times.

Tobacco Waste Reduction

We see waste rate reduction as one of the key factors in keeping tobacco costs low. Since the year 2000, we have managed to reduce tobacco waste by a quarter.

Kiev Factory Facts

This year, we expect our volumes to be around 26 billion cigarettes plus 5,600 tonnes of processed lamina and stems for our factory in Volgograd in Russia. The total area of the factory is 172,000 square metres with the production facility being around 43,000 of that. Our annual current capacity is around 30 billion sticks with an average headcount of 725 full-time equivalents. This makes us the second biggest cigarette factory in Ukraine.

Kiev Factory Today

Together with productivity improvements and cost savings, we focus on quality.

In 1995 we installed the first smoking laboratory in Ukraine and this was subsequently accredited by the state. In order to comply with group wide standards, we implemented ISO 9001 and 14000 in 2005. Since 2001, our factory has maintained its company grading at a Q1 quality level. As the lead factory of the region, we provide support for, and transfer best practices to, our satellite factories in Skopje and Bishkek.

Slide 18 – Complexity Challenge

To meet the market requirements for greater volumes and variety, we need to take the complexity challenge.....

Using over 500 non tobacco materials and 15 blends we produce 120 products and around half of these are for export.

Markets supplied

In terms of geography, 87% of our production volume is sold domestically and 13% is made for export. Our biggest export destinations are Taiwan and Iran.

Kiev Factory – our future

Continuing to generate investor value is tightly bound to successful management of increasing production volumes and complexity while maintaining the highest quality level.

And it's also about keeping our conversion costs low. Looking ahead, we will proactively adjust our capacities to meet the changing market and distribution demands.

Thank you ladies and gentlemen.