

Colin Matthews – Regional Director Africa & Middle East

Good morning ladies and gentlemen, my name is Colin Matthews and I would also like to welcome you to Morocco, which I am proud to say is a very important part of the Africa and Middle East region.

I have been Regional Director for Africa and the Middle East since 1996 and have seen some considerable positive changes in the dynamics of Imperial's business in the region over that time.

For the next 30 minutes or so I will provide you with an overview of our business in the Region. After this presentation, and any questions you may have, I will hand over to Larbi Bellaha and Martin Carroll who will present to you separately our Moroccan business.

Agenda

Given the size and diversity of the region, I will first provide a broad overview of our regional business and then its specifics, with a focus on some of our key markets. In Africa I will cover Cote D'Ivoire, Central Africa, Madagascar and Algeria, in the Middle East I will cover Saudi Arabia and Lebanon and we will also look at Turkey.

Regional Overview – organic growth and acquisitions

Initially our operations were export led but in 2001 we acquired Tobaccor and established a solid foothold in francophone West and Central Africa.

Then, in 2002 we acquired Reemtsma which had a relatively small presence in a few markets in the Middle East with Davidoff.

Finally, in January 2008 with the acquisition of Altadis, our position was significantly enhanced and consolidated particularly with our leading position in Morocco, our complementary presence in the Near and Middle East, and promising early sales in the other Maghreb countries.

In addition, the Altadis brands, Gauloises, Gitanes, Brilliant and Fine offer us very clear opportunities in the region not only in our pre-existing geographies, but also potential new ones.

Last year we added Turkey and Northern Cyprus to the region, so through a combination of strong organic growth and acquisitions, the region now represents around a fifth of Imperial's total cigarette volumes. As you can see, the volume split is fairly balanced with 53 per cent coming from Africa, including Morocco, and 47 per cent from the Middle East and Turkey.

Regional Overview – market specifics

The region can be a challenging one for numerous diverse reasons.

As you are all well aware the region can be in the headlines because of its political instability. There have been wars and civil unrest in numerous countries in the region in recent years including Iraq, Cote d'Ivoire, Chad and the Central African Republic. In some cases there has been a complete regime change almost overnight, as was the case in Madagascar earlier this year.

Operationally, our route to market regularly faces new challenges and sometimes uncertainties, not forgetting that on occasion there can be some economic fragility with government and personal incomes often linked to the price of natural resources and the success of crops.

Imperial has not only made outstanding progress with successful organic growth of both volumes and profits in this complex region, but we have also proved time and time again that we are able to meet all of the challenges and overcome them successfully, due to our strong business model, and an outstanding, motivated and dynamic management team which I am very proud to lead.

Regarding our ongoing performance, our brands are strong and continue to grow and have real equity

and consumer loyalty. Our strategy continues to be flexible, and, more importantly, appropriate for differing countries and cultures with every market having individual plans which are regularly updated.

Regional Overview – key economic indicators

Sub-Saharan Africa has the world's lowest human development index, the global system which ranks countries as developed, developing and underdeveloped by looking at various aspects including life expectancy, literacy and standard of living.

There are huge contrasts and differing challenges between countries from South Africa to Chad, but they retain a strong potential for economic growth.

Populations are growing as is GDP, which when combined with the relatively low current smoking incidence and increasing purchasing power means we are confident that there is plenty of potential for future growth across the region.

Regional Overview – key market indicators

Smoking is predominantly a male habit in most African and Middle Eastern countries.

While Middle East consumption levels are comparable to those of Western Europe, it is lower in our West and Central African markets with adult smokers consuming an average of around 7 sticks per day.

On regulation many governments either have already implemented the Framework Convention on Tobacco Control, or are in the process of doing so. Imperial of course respects and adheres to all regulatory requirements in all of our markets and I am pleased to say that we do have ongoing constructive dialogue with many governments as not only a respected industrial partner but also an important revenue provider and a well respected employer.

Lower relative taxation appropriate to each market plays a part in retail pricing, but it also serves to ensure the maximum tax revenues for governments.

Sensible taxation helps to make markets more orderly and plays a positive role in being detrimental for smuggling and counterfeit, which is a challenge for both governments and the industry together.

We are totally opposed to illicit trade and have a dedicated team of experts who work closely with our regional managers and governments around the world to combat smuggling and counterfeit product.

Regional Overview – our geographic footprint

We sell our products in 46 countries and we currently have 12 factories in Africa and one in Turkey. The Middle East is supplied on an export basis.

In sub-Saharan Africa, with its specific economic issues, we provide significant tax revenue to governments, support local economies through the value chain, and our factories are key local employers, all of which results in an ongoing constructive dialogue with many governments.

Regional Overview – our FMC market shares

As for market shares, as you can see, we have very strong positions in many African countries, with shares above 50 per cent in a number of them.

In the Middle East we have grown significantly in recent years. We are now the leading player in Iraq, and well placed in Syria, Lebanon, Kuwait, the UAE and Saudi Arabia, and our share continues to grow in the rest of the Gulf Cooperation Council countries and in the Levant. We are delivering growth in both the premium sector with Davidoff, and the mid price sector with both Gauloises and Gitanes.

Africa

Now that we have had a broad overview of the region, I would like to focus more on what we are doing in Africa including our future strategy.

Africa – Altadis Acquisition: great fit

The Altadis acquisition has proved to be a great fit with Imperial's existing business, both in terms of "bolt-on businesses" as in the case of Morocco but also with the addition of the Altadis brands to our portfolio to use as appropriate in our existing and new markets.

In Morocco our brands have a market share of 86 per cent and we currently manufacture or import and distribute for PMI, JTI & BAT.

In Algeria and Tunisia we have a strategic and growing presence with potential offered by both our Gauloises and Royale brand franchises.

Fine, which prior to the acquisition was formerly licensed by Altadis to Imperial, has shown consistent strong growth in Sub-Saharan Africa and this growth is expected to continue going forward. There is also good potential for other Altadis brands, in particular Gauloises and Gitanes, given the francophone consumer recognition.

Africa: Enlarged Group Footprint

We operate in 46 markets in the region and 30 of these are in Africa. You can see that there is volume growth in all of our key markets and it is particularly encouraging in Central and Western Africa which, given our existing strong presence, is very beneficial to us.

Africa: Market Dynamics

In Africa there are increasing restrictions with governments' FCTC commitments, and we are seeing some more limitations put on advertising and smoking in public places.

There is however relative price stability with, on the whole, sensible fiscal policies. The industry is regularly consulted on tax and I believe that over many years we have proven time and again that the regular dialogue between the industry and government has been constructive and has provided mutually beneficial results.

Competition is tough throughout the region, but that has always been the case. We have no doubt it will increase even further, with all of the industry players hoping to benefit from the expected volume growth to come. We are very well prepared and, I believe, very well placed to face all the challenges of competition going forward, and we are confident that the region will continue to deliver further positive growth.

Due to the current relatively low consumption levels in sub-Saharan Africa, there will be opportunities in the future for volume growth. We are well placed to benefit from all of these opportunities and we fully intend to do so.

Given the current world financial crisis there may be a short term risk of some consumer down trading. Our excellent and broad brand portfolio will ensure that our business will be very resilient should this occur.

Africa: Imperial's Performance

Taking a closer look at our performance and having already seen our strong market shares in many countries, our overall volumes in Africa have grown at a compound rate of over 5 per cent over the last three years.

Through our Altadis acquisition we have seen strong volume development in the Maghreb area,

particularly in Morocco, Algeria and Tunisia and this has been complemented by further solid growth in our markets of sub-Saharan Africa.

Africa: Brand Portfolio

On our brands and brand families sold in Africa, you can see that Marquise, Fine and Gauloises together represent over 50 per cent of our volumes. Whilst Fine and Gauloises are present in several markets, Marquise is sold for the moment only in Morocco, Excellence, Good Look and Mustang are all strong market leaders with strong brand franchises and very loyal consumers.

Africa: Brand Strategy

We continue to focus on consolidating and increasing the role of our key African brands including line extensions to meet the evolving tastes of consumers and to offer Davidoff selectively where we think there is a potential consumer base both now and in the future.

Additionally, we continue to ensure that all of our brand offerings are attractive and appealing in every way for all of our consumers in all of our markets. This slide highlights some of our recent developments.

Africa: Cote d'Ivoire

Looking at some of our individual markets, in Cote d'Ivoire, despite the political situation where the country was divided into two as a consequence of the civil unrest, we have maintained and run very successfully our factory in the north of the country without interruption. While sales were limited for some time to the southern part of the country we are very proud to have nevertheless been very successful in growing both our volumes and market share.

This has been an outstanding performance by the whole team in Cote d'Ivoire. Our market share has risen from 42 per cent in 2003 to over 87 per cent today. Fine and Excellence are the country's two leading brands, and the good news is the political situation has been stable since March 2007.

We are seeing continuing strong growth of our volumes and believe that the improved political situation will deliver further opportunities for growth.

Africa: Central Africa

In Central Africa, in the markets of Chad, Congo, Gabon, Cameroon and the Central African Republic we have grown robustly during the last few years. Our compound annual volume growth has been just over 10 per cent since 2006 and we expect this positive trend of growth to continue given the improvements in several economic factors in most of the countries.

With ongoing political and fiscal stability the outlook for many Central African countries is encouraging.

Africa: Madagascar

We have a very strong position in Madagascar with over 98 per cent market share, and this despite recent political unrest of which you are no doubt aware.

Our brand Good Look, is a national icon with over 70 per cent market share which, when combined with our other brands and significant route to market capabilities, gives us much confidence for the future.

Africa: Algeria

In Algeria, Gauloises Blondes has performed exceptionally well and represents a 33 per cent market share of the international sector thanks both to historical awareness and a strong brand franchise.

We, like our competitors, are in the process of transferring our production to Algeria, a pre-requisite of the Algerian government when they first authorised imports four years ago.

As we continue to grow our brands in Algeria we are also following very closely the potential privatisation of the state owned company, SNTA.

Corporate Responsibility (1)

As part of our corporate responsibility programme we have spent several million pounds since 2004 on community investment projects in Africa.

Projects have included ones of sustainable development, healthcare, homeless assistance, education and access to clean drinking water.

We will continue to support local communities in our markets going forward and we are very proud to be able to make a real difference to the lives of some people less privileged than ourselves.

By partnering governments and communities in the social and economic development of countries where we operate, we build long-term relationships based on reciprocal confidence to the benefit of all concerned.

Africa: Regional Challenges

So, what are our regional challenges going forward? Well one of them is right here in Morocco with the end of monopoly in December 2010. As Martin will highlight later we are well prepared to face the future with great confidence.

Counterfeit and contraband is not just an African problem but a worldwide one. It is a challenge, and in some countries our biggest competitor. We continue to work constructively with governments and law enforcement agencies throughout the region, and the world, in our efforts to eradicate illicit trade as much as possible.

Governments will continue to implement their commitments to the FCTC. Whilst we are pragmatic and always respect regulation we will continue to support the rights of well informed adult consumers and ensure our products are always available for them.

The world economic crisis may have an impact on purchasing power and consumption in the short-term, but as you have seen, we believe there remains very strong potential for market growth in our African markets. Some states may be tempted to raise taxes to compensate for loss of fiscal income elsewhere but our previous experience of sensible and constructive dialogue with governments has demonstrated that government income can be increased without creating a disorderly market.

Africa: Regional Opportunities

So, what about our opportunities in Africa?

Well, our portfolio combination is certainly one. The Imperial-Altadis brand portfolio mix provides us the ideal platform for future growth not to mention gaining on the geographical strengths of each of the companies.

We are well prepared in Morocco for 2011 post-monopoly with very strong distribution capabilities and point of sale presence, and a robust brand portfolio.

Algeria and Tunisia represent further potential for sales development in the Maghreb completing the "North Africa" footprint.

We will continue to consolidate our position in the sub-Saharan markets of Africa where we already have a very strong foothold, and we will also continue to explore viable expansion opportunities where we currently have limited or no presence, provided we can see the returns. Last but not least, we will continue to fight against contraband and counterfeit.

Middle East

Let us now move on to the Middle East.

Middle East – Altadis an excellent addition

The acquisition of Altadis was an excellent and substantial benefit to our existing business with the addition of strong volumes in the Levant area of Lebanon, Jordan and Syria as well as Iraq.

While Imperial had previously been focusing on and growing Davidoff very successfully in the premium and above premium sector of the Middle East, the three well-established Altadis brands of Gauloises, Gitanes and Brilliant have complemented perfectly our brand portfolio across all price segments and markets.

Middle East – enlarged group footprint

16 of the 46 Africa and Middle East markets are in the Middle East. The top 5 markets, Iraq, Turkey, Saudi Arabia, Syria and Lebanon, are of varying sizes with our combined share of these markets close to 14 per cent.

Middle East – market dynamics

In terms of market dynamics, increasing regulation is important, as it is elsewhere in the world.

This includes more anti tobacco legislation including, in some markets, the implementation of pictorial health warnings.

Smoking in public places restrictions are also part of some government agendas in the GCC area with the UAE and Jordan having recently introduced some restrictions. Turkey will follow shortly with smoking restrictions being introduced this summer.

Although taxation overall is relatively stable and sensible, the industry can expect some taxation changes in the GCC countries. This could provide an opportunity for manufacturers' price increases improving our overall profitability.

Middle East – Imperial's performance

Overall we have grown our Middle East volumes very strongly with an excellent 19 per cent compound annual growth rate over the last three years thanks to an outstanding performance by Davidoff throughout the region, aided by performances of the former Altadis brand portfolio in Iraq, Syria and Lebanon.

We have also performed very well in Turkey where, from a standing start in only 2005 we have now reached a spot market share in April this year of 4.3 per cent.

Middle East – brand portfolio

Our brand portfolio in the Middle East is very strong. It is the number one area in the world for Imperial for both Gauloises and Gitanes Blondes with both brands continuing to grow despite strong competition.

Davidoff performance has been spectacular over the last few years in the region, and Saudi Arabia is now the biggest market in the world for Davidoff sales.

Middle East – Davidoff performance

Specifically talking about Davidoff, Davidoff's growth in the Middle East is a record that my team and I, and I think everyone else in Imperial, is very proud of.

Our compound annual growth since 2003 has been 40 per cent and the brand now has an excellent premium franchise in many Middle Eastern markets, and it continues to grow. The Middle East now represents almost 5 billion sticks for Davidoff, and is almost a third of Davidoff worldwide volumes.

While Saudi Arabia is already the number one individual market for Davidoff worldwide, the ambition of my team and I is for the Middle East to be the leading region for Davidoff worldwide, like it is for Gauloises Blondes and Gitanes Blondes. This will no doubt spark some interesting internal competition with some of my colleagues here today, which can only be a good thing for the worldwide brand performance.

Middle East – Brand Strategy

Our brand strategy is relatively simple.

We are very focussed on developing all opportunities of the combined group's brand portfolio, as well as using all of our distribution strengths in all markets to grow sales and profits.

We have recently introduced several Davidoff Limited and Special Editions, and we know for certain that there remains even more potential for the brand given its premium consumer image in terms of quality and taste, and its fast growth over the last few years.

Middle East – Saudi Arabia

In Saudi Arabia the growth has been outstanding, compounding at 52 per cent since 2003, and this market now represents 17 per cent of Davidoff global volumes. This growth has been stimulated by our distribution strength coupled with brand innovation, limited editions and a strong consumer franchise.

Middle East – Lebanon

In Lebanon we have a balanced and complete portfolio with growing volumes and share.

A recent and welcome manufacturer's price increase will lead to increased profitability in a market which is fairly tolerant of communication with consumers.

Competition is intense in Lebanon, but we are confident of making further progress during the course of this year and beyond.

Middle East – regional challenges

In terms of regional challenges.

Iraq and life in Iraq is progressively coming back to normal. We have a strong position thanks to both Altadis brands' presence with Gitanes, Gauloises and Brilliant and also with Davidoff. We are seeing more competition and consumers who are becoming much more quality and brand conscious.

There will no doubt, like elsewhere, be growing regulatory pressure, but we believe we are well equipped to face these challenges with the knowledge and experience we have gained elsewhere.

Political instability could be an ongoing issue for some time to come, and it cannot be ruled out that any future unrest may impact upon all operators in the region.

As regards route to market, we believe we have some very robust distribution channels and proven and experienced partners, nevertheless the route to market and our distributors' ability to deliver our

products to our consumers will depend on the region's economic and political stability.

Middle East: Regional Opportunities

Our opportunities in this exciting region are many.

Our combined brand portfolio mix is very strong in the Middle East. The acquisition of Altadis has brought some very significant benefits and strengths to Imperial throughout the region.

Our Davidoff brand has much further to travel. We know consumers like the brand and all of its values. We intend to drive it strongly over the next few years through a combination of maintaining the strong and attractive brand image, brand extensions as well as further improving its distribution.

We will continue to focus on growing both Gauloises and Gitanes, and we have made an excellent start since the acquisition.

We will also seize all potential pricing opportunities to enhance profitability.

Stabilisation of the political situation in Iraq and elsewhere will support further business growth, and we will continue to foster our relationships with our excellent and dynamic distribution partners who have played a big role in our success.

Turkey

Turkey, in overall volume terms, is the biggest market in my region and one of the 10 biggest markets in the world.

Turkey – market dynamics

The trend is towards international brands and consumers are moving from local oriental blended brands to international American blend products.

There is an ongoing history of uptrading to more expensive brands from all sectors although we have noticed some recent downtrading due to the economic crisis. The uptrading trend is however expected to be maintained over the mid and long term as economic growth returns.

Turkey – market shares by manufacturer

PMI and BAT together have 75 per cent of the market.

Imperial only entered the market in 2005 through the construction of a new factory, but despite this recent entry from a standing start we now have a spot share in April of 4.3 per cent, which has been an excellent performance by the Turkish team.

Turkey: Brand Strategy

As for our brand strategy in Turkey, we will ensure that our portfolio meets consumer demands at all price levels.

We will continue to build on Imperial's strategic portfolio especially our international brands, Davidoff and West, and offer new SKUs of other existing Imperial brands as appropriate so as to both sustain and grow our volume and market share, as evidenced for example by the launch of a new West Ice pack design in March of this year.

Turkey – challenges

Like all markets, there are challenges in Turkey.

A new excise tax increase was announced recently. This will affect the whole market and will create interesting opportunities for price increases and/or some strategic brand decisions.

Our continued volume development is another focus area for us. We have already been successful with our sales increasing 18 per cent in the six months to March 2009 with Davidoff up 14 per cent, West up 15 per cent and Klasik up 24 per cent.

We intend to keep this good progress going while at the same time enhancing our profitability.

There is increasing regulation like everywhere else, but as I have said previously we have much experience at handling these issues challenges.

Turkey – opportunities

While the overall market is relatively stable, we have a growth opportunity in the medium term with Davidoff with consumers expected to upgrade over the mid to long term. We expect further upside to our margins from pricing and we expect to see market share gains in the value for money and low price segments.

AME Future Strategy

I hope the last thirty minutes or so has given you all a good flavour of our business and our performance in this exciting region.

I am proud to say we have had much success despite the challenges the region can sometimes pose. These challenges can be, and often are, very different to the ones we have in mature markets but I believe we are well placed and well prepared to face the future with great confidence.

In Africa we intend to consolidate our already strong positions in many markets.

We are going to use the advantage of our enhanced brand portfolio wisely and ensure we further develop geographically where it makes economic sense to do so.

We will concentrate on enhancing our North African footprint by developing further our businesses in the Maghreb region to add to our excellent business in Morocco.

And, here in Morocco, we are very well prepared for the end of the monopoly in 2010.

In the Middle East, we will of course ensure Davidoff continues its growth across all markets as well as leveraging on the excellent existing Altadis business and brand portfolio with all the benefits in distribution and route to market that it will bring.

In Turkey we intend to continue to leverage our brand portfolio and grow volume and share whilst improving our margins and profitability.

As for our brands, we will enhance our geographical presence and use our combined distribution strengths to improve relationships with trade and consumers alike across all of our markets profitably so as to ensure that Imperial will play a major role in our industry across the whole region for a very long time to come.

Thank you ladies and gentlemen, I'm happy to take any questions you have before handing over to Larbi and Martin to take you through their Moroccan market presentation.