

Who's Presenting

Good afternoon ladies and gentlemen my name is Laurent Chabanne and I am the Lead Factory manager here in Morocco. I started with the Group 17 years ago, holding positions in R&D and Production mainly in France, and I have now been in Morocco for three years.

I'd like to spend the next 15 minutes or so talking about the factory to help with your understanding and enjoyment of the tour which is taking place after lunch.

Our History

Starting with a few minutes on our history.

The first cigarettes of "La Régie des Tabacs" were produced in 1931 in Casablanca and 63 years later. The Ain Harrouda Factory started its production with only a soft packer and one shift.

In 2003, as part of the Altadis integration process the Casablanca factory was closed and all production was transferred to Ain Harrouda.

A very positive performance from Marquise meant that in 2005 the factory started running three shifts, and in 2006 we started production of international brands such as Fortuna and Gauloises.

In 2008, the integration process into Imperial commenced which coincided with our smoking laboratory obtaining the ISO 17025 accreditation for smoking measurements.

Earlier this year we signed an agreement with Philip Morris International which included a manufacturing licence for products sold in Morocco.

Manufacturing in Morocco

In Morocco, our operations are organised around four core activities.

Firstly, there is the development and support for tobacco growing, which was part of the deal with the Moroccan government. Altadis Maroc undertook a number of commitments, which run up until 2010, including the introduction of a new type of oriental tobacco and help farmers to achieve international quality standards.

Tobacco growing is mainly concentrated in the north of Morocco where the landscape is more favourable for this type of farming.

We will produce around 1,500 tonnes of tobacco this year and expect to reach more than 4,000 tonnes in 2011.

Secondly, there is El Moudzine which is 200 kilometres north of Casablanca where we carry out threshing of locally produced tobacco and also have a leaf and non-tobacco material warehouse.

Thirdly, we have our factory in Tetouan, which is on the Mediterranean coast around 70 kilometres from Tangier. This is our oldest active factory which was built in 1942 and specialised in production of unfiltered dark tobacco brands. Due to the decline in popularity of these brands, production volumes have been decreasing over the last few years.

And finally, where we are today, the Ain Harrouda factory, which is the newest cigarette production site in Morocco and it's on this factory that I would like to focus the rest of my presentation.

Production Volume – cigarettes

This bar chart represents the evolution of cigarettes production volumes for factories in Morocco for the last three years and our current forecasts for 2009 and 2010. The main points that I would like to draw to your attention are the decrease of Tetouan volumes in direct line with the evolution of dark cigarettes

sales and the fact that Ain Harrouda volumes have and will increase by an average of around 1 billion sticks per year.

Additionally, there was another big step in 2006 due to the start of production of Fortuna and Gauloises and there will be a further step up in 2010 with Marlboro and Marlboro Lights under the license agreement.

Productivity Improvement – cigarettes

You can see from the chart that the manufacturing headcount has been falling in recent years and we expect that by the end of our 2010 financial year it will be around 20 per cent lower than in 2006.

When combined with growing production volumes, we will deliver a productivity improvement of around 70 per cent between 2006 and 2010.

Ain Harrouda Key Facts

Now a few key facts on the Ain Harrouda factory, our current annual production volume is around 11.4 billion sticks.

This Factory is built on a 100,000 square meters of land, but as only 25 per cent of the total surface is covered, there is potential for extension. There are 509 employees who are working on two or three shifts 6 days a week.

Conversion Cost – cigarettes

Our conversion costs are following the same trend of improvement as productivity. You can see here an index representing the evolution of the conversion cost during the last 3 years and the levels we are targeting for 2010.

Tobacco waste reduction

We have also done a huge amount on tobacco waste reduction. We have reduced the percentage waste from 14 percent in 2006 down to 7 percent in the current financial year and are forecasting a reduction of 5 percent next year.

Quality Improvement

For us, the quality index represents the consumer perception of our products.

It's like a way of life now in Ain Harrouda and we see the results year after year. The quality index has improved dramatically up to the international standard. The Imperial system, known as the Product Quality Rating System, or PQRS is now implemented and we are working hard to reach Q1 level next year.

Integration into Imperial (1)

The first and biggest challenge for our team was to integrate the guidelines and the standards of the Group as quickly as possible in all basic fields.

The Moroccan team was very motivated to reach its targets and we are now all speaking the same language.

Please, let me give you some examples of achievements you will see during our factory tour.

Integration into Imperial (2) – Health, Safety and Environment

In our company, health, safety and environmental initiatives are critical.

The first stage was to have a clear picture of the actual situation and the improvements that we have to implement. To this end several audits have been performed during the last six months and a detailed action plan has been defined to obtain a global integrated management system certification.

Some actions have already been implemented and others are in progress such as topics around water & waste, etc.

We also have in mind some prospective items such as the as development of renewable energy.

Integration into Imperial (3) rearrangement of equipment (1/2)

Another very visible point is the rearrangement of our equipment in the factory.

In the primary, we have taken the opportunity of benchmarking within the group to align our processes to group standards and to simplify our tobacco processing line as much as possible.

Integration into Imperial (4) rearrangement of equipment (2/2)

In the secondary, the aim is to simplify our organisation to increase our productivity.

We have started to group the equipment in homogeneous structures to give more autonomy and responsibility to each operator team.

Additionally, new equipment has been installed to respond to the market requirements.

Integration into Imperial (5) – work Groups

“Moving the machines” is the first step, and we have also taken the opportunity to reorganise the way we work.

You can see on these pictures the evolution of the structure in a work group: a safer, clear and clean area which will help the teams be more productive.

Factory Tour – six stages to discover our processes

Just after the lunch, you will have the opportunity to tour the factory.

I would like to introduce you very quickly to the several areas you will see and to give you an overview of our process and what you will discover.

I have split our activities into three parts:

Warehouses, which include raw tobacco, non-tobacco materials and finished goods.

Primary, which covers the workshop where we prepare the cut rag.

And secondary, where we manufacture and pack the cigarettes.

We have arranged eight stopping points on the tour for you to see, smell and touch our processes.

Thank you for your attention and I would like to wish you a pleasant visit.