Larbi Bellaha, Chairman of the Management Board, Morocco

Good morning ladies and gentlemen, my name is Larbi Bellaha and I'm Chairman of the Management Board here in Morocco. I would also like to introduce Martin Carroll, our General Manager.

Welcome to Morocco

On behalf of Altadis Maroc management, we would like to extend a warm welcome to you at our Ain Harrouda factory and wish you a pleasant stay in Casablanca.

We are very pleased that Altadis Maroc, a subsidiary of Imperial, has been chosen to host this visit and we take pride in being a major contributor to the Group's success.

Given the fact that Martin is going to talk in detail about the Moroccan market, let me just point out some key facts.

Firstly, Altadis Maroc enjoys a strong position in the market thanks to its well established brands which account for 86 per cent of the duty paid market.

Secondly, our company has achieved outstanding results. From 2004 to 2008 we have doubled our profits and have strong margins.

Finally, I would like to conclude my brief talk by saying that despite the global economic climate the future looks promising thanks to the full commitment of the management, the effectiveness of our strategy, the favourable market environment and the continued support from the Group.

And now if I may, I'll ask Martin to give you a detailed overview of the market and our operations.

Martin Carroll, General Manager, Morocco

Thank you Larbi and good morning ladies and gentlemen. I have been the General Manager for Morocco since September 2008. I have worked at Imperial since 2003 and was previously based in Paris where I was the General Manager for France and Switzerland.

Background

Let me start by giving you a bit of background to our presence here in Morocco.

In 2001 the Moroccan Government decided to privatise the tobacco monopoly, Régie des Tabacs du Maroc, and appointed Larbi to the role of President to prepare the Company for privatisation.

In 2003 Altadis acquired 80 per cent of the monopoly, which, at the time of the deal, would remain a monopoly up to the end of December 2007.

In 2006, Altadis acquired the remaining 20 per cent of the Company and at the same time the Company's name was changed to Altadis Maroc, and in addition, an extension of the monopoly was agreed until the end of December 2010.

By virtue of Imperial's acquisition of Altadis in January 2008, we became the sole owner of Altadis Maroc and the Company continues to operate under that name.

Benefits of Altadis Acquisition

So what does the acquisition of Altadis Maroc mean for Imperial?

For starters, with Morocco being in the top ten most profitable markets for the Group, it establishes a major presence in North Africa, a geography where we were largely absent before.

It also gives us enough time to bed down our position before the end of the monopoly as well as presenting us with an opportunity to leverage additional brands to complement the Altadis portfolio. To date we have launched Davidoff and West.

From a practical point of view, we have a manufacturing monopoly with two factories. One here in Ain Harrouda, which is our principal manufacturing site, and one in the north of the country, in Tetouan, where dark cigarettes are produced.

We also have a threshing plant to process the crop of locally grown burley as well as virginia and oriental tobaccos.

Altadis Maroc also has a monopoly on tobacco distribution until the end of 2010 and as a result, there are no tobacco wholesalers in the country, retailers are supplied directly by us.

Key Macro Economic Data – demographics

I'd now like to give you a feel for the economic environment in which we operate.

Morocco has a population of 32 million, which is growing at an estimated 1.2 per cent per year. As you can see from the chart, the growth rate has been in decline over the last twenty years or so and is expected to continue to decline over the next 30 years, but the overall population will still grow.

Morocco has a much younger population than say, the UK with around 63 per cent of the population aged under 35.

Key Macro Economic Data – GDP

Morocco is a strong developing country but in absolute terms, its Gross Domestic Product is only 127 billion US dollars, which is significantly less than any European country. For example, the UK's GDP is some seventeen times greater.

When you compare individual purchasing power, Morocco's was 4,600 dollars per person in 2007 compared to 35,300 dollars in the UK; a ratio of 9:1, so therefore the purchasing power is still low.

This clearly shows that the country has a lot of economic potential, and over the past few years economic growth has been impressive with growth rates ranging from 2 per cent to 10 per cent per annum with a compound average of 3.6 per cent since 2000.

Economic Outlook

Morocco's three principal sources of income are: phosphates, for which it is the world's biggest producer, tourism where significant investments are being made, and remittances from Moroccan families abroad to their families at home.

The dirham is tightly controlled but the country is not totally exempt from the impact of the global economy. The effects are beginning to be felt as Moroccan's abroad suffer the employment impact of slowing economies, remittances fall and tourism is also being hit with less people visiting Morocco.

Nevertheless, despite the world economic crisis, Morocco's GDP is expected to grow by approximately 5.5 per cent in 2009.

Inflation is estimated at approximately two per cent this year and next and unemployment is expected to rise but, nevertheless, the country is politically stable.

Market Dynamics (1)

Total cigarette consumption is around 16.5 billion sticks, made up of 14.7 billion duty paid and 1.8 billion non-duty paid. After much work to reduce the levels of contraband, cross border non-duty paid product is now estimated at 11 per cent of total consumption, down from 27 per cent in 2003.

Like many markets, the dark segment is in rapid decline, falling at approximately 18 per cent per annum. This has created an opportunity to develop an international blond segment with brands such as Fortuna and Gauloises Blondes, which were introduced to compete against the well established Marlboro and Winston brands.

Altadis created a 10's segment where Fortuna and Gauloises Blondes have been present since 2005, which has contributed significantly to the development of these two brands.

Market Dynamics (2)

In terms of additional information regarding the market.

There are 3.8 million smokers, 15 brand families and 130 SKU's.

Individual stick consumption, by which I mean cigarettes sold singly rather than in packs, represents 38 per cent of the total market.

The trade is made up of 18,500 active retailers, 7,000 of which represent 70 per cent of total market volume.

There is low per capita consumption compared to some other markets and, cigarette retail pricing is high with an average pack price of 1.60 euro compared to 60 euro cents in neighbouring Tunisia.

Cigarette Price Segments

All dark cigarette brands are positioned in the economy or low price segment and are in steady decline with uptrading into the more profitable but similarly priced, blond segment, which in turn is losing consumers to the mid segment, where Gauloises Blondes and Fortuna sit.

The mid price segment has grown from a starting point in 2002 of zero to almost 12 per cent currently. Imperial brands make up the dark segment and as taste preferences change we are picking up a greater share of the growing blond sector than our competitors thanks to the strategic lower price positioning of Gauloises Blondes and Fortuna.

Smoking Incidence

Looking at smoking incidence, around 18 per cent of the adult population smoke. However, only 4 per cent of smokers are female, essentially in major cities, the typical Moroccan smoker is male around the age of 31 and lives in an urban area.

The average daily consumption is high by European standards at 17 sticks a day, compared to 14.5 in France.

Route to Market (1)

From the map you can see that we have a very strong physical presence, with us present everywhere from Agadir to Tangier and everywhere in between. Given this comprehensive infrastructure throughout the country it puts us in a strong competitive position.

This slide overviews the route to market we have in place.

Route to Market (2)

In terms of deliveries to retailers, we have 3 routes to market.

Firstly, 27 cash and carry's, which distribute 45 per cent of volume, these are supermarket-type shops where retailers come to us and buy product.

The second route is via van sales which represent approximately 10 per cent of distributed volume.

And finally truck sales, which are effectively mobile cash and carry's for rural areas. These trucks park in a town on a market day and sell directly to retailers. Their area of coverage ranges from 60kilometres to 350 kilometres from their cash and carry base and they represent approximately 45 per cent of overall volume.

Looking forward, we will focus our route to market principally on van and truck sales in order to improve efficiency, improve customer service, and be more cost effective.

Additionally, in order to improve distribution efficiency we will increase our telesales operations to enhance delivery capacity.

Cash Generation – business model

The levels of bank account ownership, or lack thereof, presents us with some issues.

The national average for account ownership is only around 24 per cent but much work has been done over the past two years and currently the tobacco retailer network is now up to 60 per cent with bank accounts, with the balance of our customers paying in cash.

Our business model is highly cash generative. There is no credit on tobacco products and given that the retailers are a licensed network, we are able to leverage this distribution system to distribute other high cash generating products like telephone cards.

Regulatory Environment

Looking at regulation now.

The Government introduced a law in 2006 to prevent any future price wars. Consequently, it is prohibited to reduce prices, and any new brands must be introduced at a price above the minimum official price.

A new anti-tobacco law has recently been passed by Parliament and awaits sign off by the King. The key elements are;

A ban on smoking in public places.

Requirements for bigger health warnings on the front of packs, and limiting consumer communications to point of sale.

In addition, although not yet ratified, Morocco is a signed up member of the Framework Convention on Tobacco Control.

We continue to monitor these developments and have plenty of experience across the Group to draw upon in making sure that we effectively manage these regulatory changes.

Market Leading Position

In terms of our market position, we are the market leader with a share of just under 86 per cent, driven by Marquise which accounts for around 62 per cent.

The remaining 14 per cent is split between PMI, which has 10 per cent with Marlboro, 4 per cent for JTI driven by Winston; and finally BAT which has a very small share. A key market dynamic, which I mentioned earlier, is the ongoing decline of the dark segment and it is encouraging to see our portfolio attracting a much higher level of consumer migration than our competitors.

Broad Brand Portfolio

Now looking at the brand split, 86 per cent of the market is mid-price and economy and we have a healthy share of the market in these price segments with brands such as Gitanes, Gauloises, Fortuna and Marquise.

74 per cent of the market sells at or below 17.50 dirhams or 1.60 euros per pack, and this is where

Marquise is priced, and our mid-priced brands are ideally positioned to benefit from the general uptrading trend between economy and mid.

In contrast, our competitor's primarily operate at the premium end of the market.

Strong International Brands – Fortuna and Gauloises

Fortuna and Gauloises have been major successes in the market.

Fortuna was launched in 2003 shortly after acquisition by Altadis and achieved immediate success as a mid-priced international brand. Fortuna 10s was launched in April 2005 providing the brand with further impetus and the pack was re-designed in May this year. Fortuna has a current market share of 5.3 per cent.

Gauloises Blondes was launched in April 2004 and began to gain traction in the market in mid-2007. This traction gained additional impetus with the introduction of Gauloises Blondes 10s in June 2007.

Gauloises current market share is 6.5 per cent and it is maintaining its growth momentum.

Strong International Brands – Fortuna

Here we have an example of a recent campaign for Fortuna playing to the brands Spanish heritage.

Strong International Brands – Gauloises

And here's an example of Gauloises playing to its French heritage and Liberté Toujours.

Moroccan Success Story (1) – Marquise : the market leader

Marquise is the market leading blond brand with over 60 per cent share.

It is positioned in the economy price segment at 17.50 dirham per pack and has grown in almost direct proportion to the decline in dark cigarettes, which are priced in the same segment.

You can see from the chart that the growth trend increased following the acquisition of the legal monopoly in 2003 but has slowed and started to reverse in the last year or so as uptrading to international brands increases.

Moroccan Success Story (2) – Marquise

Here you can see examples of the different brand variants: regular, light and menthol.

Other Products (1) – cigars and other tobacco products

In addition to cigarettes, we also have a broad range of other tobacco products such as cigars, cigarillos and fine cut tobacco.

In 2003, a major effort was made to improve our premium cigar offerings. Significant investment has been made in developing cigar specialty outlets called Casa del Habano and this is ongoing.

In addition, mass market cigars, or cigarillos, have been developed and market volumes are now twice those in 2003, principally led by our Fleur de Savanne range.

Other Products (2) – telephone cards

Altadis Maroc is a major distributor of telephone cards and has an exclusive arrangement with Maroc Telecom.

Phone cards are sold in 64 per cent of tobacco outlets, which account for around 15 per cent of total sales.

This service provides an excellent opportunity to influence the retailer network in order to maximise our category management opportunities.

Wafaa Programme

We have developed a retailer loyalty scheme called Wafaa, which is essentially a furniture program. This is a major strategic tool aiming at 70 per cent market coverage of the trade.

PMI Agreement

We have a long history of partnering with our competitors where there is mutual benefit, and in February, we were delighted to sign a long-term agreement with Philip Morris International. It covers manufacturing, distribution and merchandising of PMI brands in Morocco and the first packs of Marlboro will be produced here at Ain Harrouda later this month.

Until we have built up sufficient stock levels, we will continue to import Marlboro and it is intended that the Phillip Morris portfolio will be broadened over the duration of the contract.

Outlook – well positioned for the future

So, in conclusion, we have a terrific business in Morocco and with the monopoly ending in 18 months are well positioned to manage increasing competition.

We have a market leading position with a well-balanced portfolio of both domestic and international brands being underpinned by Marquise.

The Maroc Telecom and Philip Morris contracts are not only an endorsement of the effectiveness of our distribution system but also reflect the high regard in which we are held as a good business partner.

When Phillip Morris' volumes are combined with ours, we will be distributors of approximately 96 per cent of the market's cigarette volumes.

And finally, our broad product portfolio ensures that we are able to cover all aspects of the tobacco market, enabling us to continue to take advantage of evolving market dynamics.

Thank you ladies and gentlemen, I am happy to take any questions you may have.