

SUMMARY OF THE 2020 COMPENSATION REPORT

INTRODUCTION

Since the decline in the prices of fuels in 2015, subsidies have been considerably reduced to stand between 13.5 and 17.1 billion dirhams during the last five years, while it was between 29 and 56 billion dirhams between 2009 and 2014. This takes the pressure off public finance from a socially ineffective expenditure and provides the means necessary for the development of a better targeted social policy.

By only contributing to the cost of butane gas, sugar and a share of common wheat flour, the compensation system made it possible to keep the prices of these products at their past levels by covering the cost of their exceedances and the fluctuations in their prices on the international market.

In 2018, with an average world price of butane at \$ 522 / T, and generally regular price levels for raw sugar and common wheat, the compensation for these three products resulted in 17.1 billion dirhams, up 10% compared to 2017, mainly due to the world price of gas and the constant increase in national consumption.

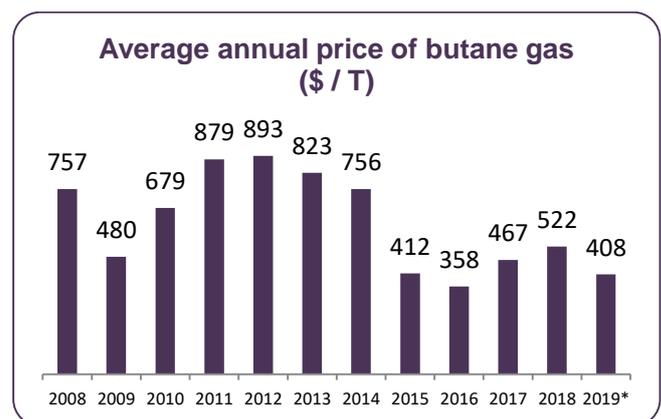
2019 was a relatively good year with a drop in the price of butane to \$ 408 / T for the period January-September compared to \$ 534 / T for the same period last year, and an average price of raw sugar generally similar between the two periods.

Pending the implementation of the Single Social Register which will allow all social aid to be

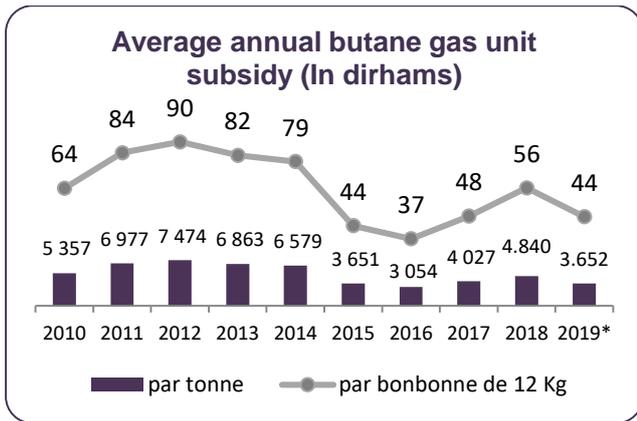
coordinated and restructured, the national prices of butane gas, sugar and flour will continue to be subsidized in 2020, up to a total of 13.640 million dirhams as part of the 2020 Draft Finance Law.

BUTANE GAS COMPENSATION

The average price of butane gas was \$ 408 / T at the end of September 2019, compared to an average of \$ 522 / T for the year 2018. As a result, the average unit subsidy of butane gas decreased from 4,840 dirhams / T in 2018 to 3,652 dirhams / T in 2019 (January-September period), i.e. 44 dirhams per 12 kg cylinder and 11 dirhams per 3 kg cylinder.

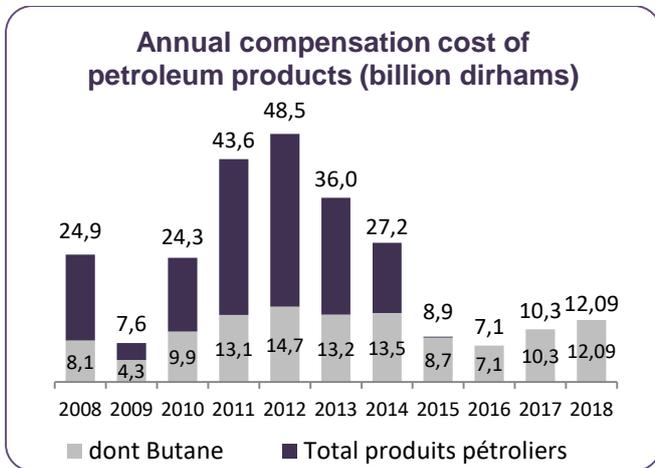


* At the end of September



The butane gas compensation cost was 12.093 billion dirhams in 2018 compared to 10.315 billion dirhams in 2017.

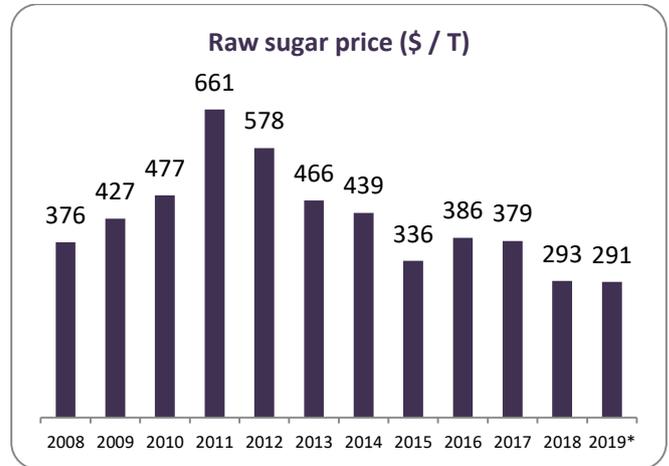
This increase is mainly due to the rise in the international price of butane which went from \$ 467 / T to \$ 522 / T from 2017 to 2018, and the increase in national consumption of 2.1%. The butane gas compensation cost includes 11.732 billion dirhams to support the price of gas cylinders and 361 million dirhams to cover the transport of butane in bulk between ports and filling centers, in order to guarantee national base price.



SUGAR COMPENSATION

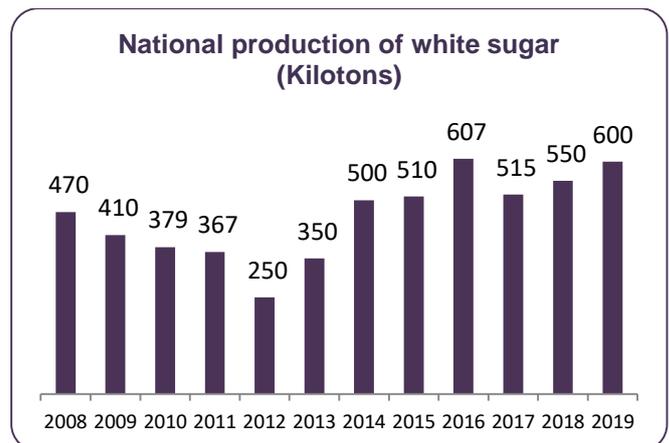
Apart from a slight recovery in 2016, the average price of raw sugar has decreased for a prolonged period in recent years, going from a peak of \$ 661 / T in 2011 to \$ 379 / T in 2017 and \$ 293 / T in 2018, and \$ 291 / T for the January-September period in 2019.

During this period, the price of raw sugar fluctuated between \$ 261 / T and \$ 321 / T, recording an average of \$ 291 / T, compared to \$ 298 / T for the same period of the previous year.



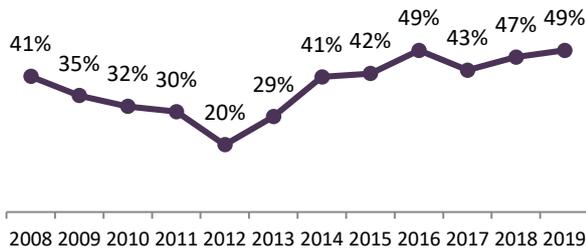
* At the end of September

Following the efforts made by the public authorities, particularly in terms of the revaluation of sugar crops on the one hand, and the strengthening of financial incentives from the Agricultural Development Fund on the other hand, as provided for in the framework of the 2013-2020 sugar sector program contract, national production of white sugar increased significantly from 250 Kilotons (KT) in 2012 to 607 KT in 2016 (record level), and is forecast to be 600 KT in 2019.



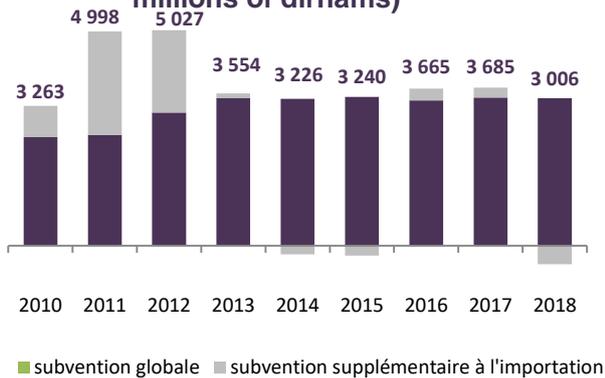
Thus, the rate of coverage of demand by national production increased from 20% in 2012 to 49% in 2016, and is expected to settle at 49% in 2019.

The rate of coverage of demand by national production



In 2018, the sugar compensation cost amounted to 3,437 million dirhams for the support of demand for refined sugar. As for the import subsidy, it turned into a refund to the state of 431 million dirhams, due to the low prices of raw sugar on the international market.

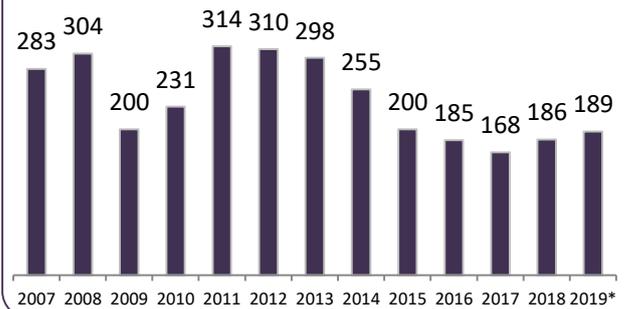
Sugar compensation cost (in millions of dirhams)



COMPENSATION OF COMMON WHEAT AND COMMON WHEAT FLOUR

The price of common wheat on the international market was on average \$ 189 / T during the period January-September of 2019 for common wheat of French origin. This is the 5th consecutive year in which the average price of common wheat is less than \$ 200 / T, while it was more than \$ 300 / T in 2011, 2012 and almost as much in 2013. The strengthening of the inventory between 2015 and 2018 helped keep the price of wheat below \$ 200 / T. However, the fall recorded in the last two years compared to 2017/2018 led to this slight increase in the average price from \$ 168 / t in 2017 to \$ 189 / t at the end of September 2019.

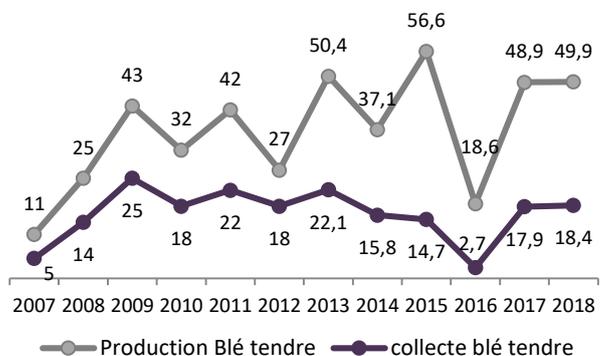
Average annual price for common wheat (Common wheat of French origin for reference (\$/T))



* January-September period

Production forecasts for the three main cereals for 2019 are estimated at 51.8 million quintals, down almost 50% from the previous season. By cereal species, the forecast production of common wheat is estimated at 26.8 million quintals followed by durum wheat at 13.4 million quintals then barley at 11.6 million quintals. Production would have been impacted by the poor seasonal rainfall distribution with a 23% drop in rainfall, causing the average cereal yield to be 14.4 quintals per hectare or 37% less compared to the previous season.

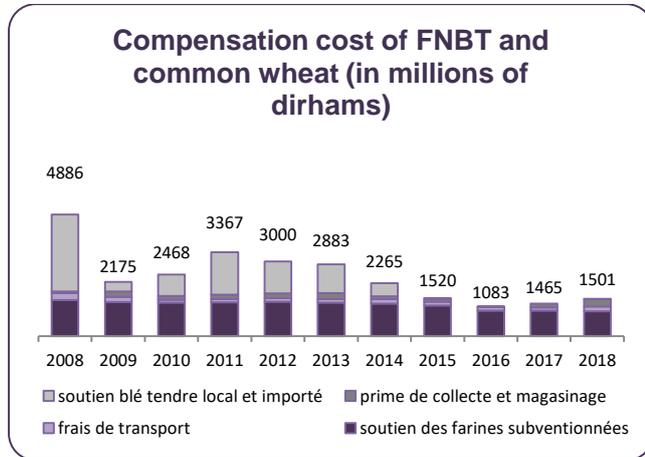
National harvest of common wheat



In 2018, the compensation cost for common wheat and flour amounted to 1,501 million

dirhams. The renewal of the national common wheat flour (FNBT) quota of 6.5 million quintals has made it possible to preserve practically the same level of subsidy from the FNBT (1 003 million dirhams).

the support of the prices of butane gas, sugar and national common wheat flour.



THE 2020 DRAFT FINANCE LAW

The 2020 Finance Law establishes an amount of 13.640 billion dirhams as compensation, for