



SUMMARY OF THE 2021 COMPENSATION REPORT

INTRODUCTION

The trend of the international market for subsidized products has shown deep reversals during the first months of 2020 in terms of supply, demand and global trade following the measures taken to manage the advent of the pandemic of COVID-19. As a result, the prices of mainly butane gas and sugar have undergone high volatility.

In this sense, the shaking of global demand for petroleum products has had a significant impact on the fundamentals of regional butane gas markets. Thus, during the containment period, the price of butane gas declined from March 2020 by more than 60 % compared to the level of January 2020. Subsequently, it showed a gradual recovery from May 2020 following the resumption of economic activity, while remaining at levels lower than those recorded at the beginning of year.

As a result, the average unit subsidy for butane gas contracted by almost 13 % for the period January-September 2020 compared to the same period of the previous year.

Regarding the sugar market, the collapse of ethanol production from sugar cane in Brazil following the collapse in crude oil prices has resulted in a surplus in the supply of raw sugar intended for domestic consumption. As a result,

the price of raw sugar in turn decreased by more than 20 % in the months of March and April 2020 compared to January 2020 and started to rise quietly during the post-lockdown period.

With regard to the common wheat market, in view of the increase in demand from most importing countries largely met by world supply, the prices of common wheat remained almost stable during the first months of 2020 despite the evolution of the COVID-19 pandemic.

In short, on the basis of current international market analyzes, the implications of the pandemic would result in a reduction in the estimated compensation burden for 2020, which could be down by more than 10% compared to 2019.

In addition, as part of the continued support for the purchasing power of citizens and pending the operationalization of the Single Social Register, the prices of butane gas, sugar and national flour will continue to be subsidized in 2021. Thus, , based on forecast data from the international market, a total budget of MAD 12,540 million has been programmed for this purpose as part of the 2021 Finance Law.

IMPACT OF THE COVID-19 PANDEMIC ON THE INTERNATIONAL MARKET FOR SUBSIDIZED PRODUCTS

Following the unprecedented health crisis linked to the spread of the COVID-19 pandemic, the subsidized products market has undergone significant dynamic changes.

For the oil market, aggregate demand has fallen sharply, the transport sector, representing more than half of global demand before the pandemic has been significantly impacted. Indeed, following mobility restrictions and the closing of borders between countries, the demand for fuels has dropped drastically. In addition, the price war between Saudi Arabia and Russia for the month of March 2020 and the overabundance of crude production and the fall in demand pushed storage capacities to their limits, which subsequently led to a decrease in world trade in the product in volume and value, and an unprecedented decline in prices having fallen from an average of \$59/bbl during the first two months of 2020 to an average of \$ 28/bbl for the period March-April, then at 40 \$/bbl for the period May-15 September 2020.

Thus, for the LPM (Liquefied Petroleum Market) market, world demand has seen an increase for domestic use and a decrease for industrial use and for transport. This change in demand faced with a production surplus has caused an upheaval in world flows. Consequently, the price of butane gas experienced strong disruptions, falling from an average of \$ 519/T for the first two months of 2020 to \$ 244/T for the period March-April (start of the crisis), and then improving to \$ 328/T for the period May-September 15 as a corollary of the economic recovery.

As for the sugar market, the closure of restaurants, cafes and public spaces, as well as the deceleration of industrial activities (especially for sugar products), reduced the demand for this product outside the home during the containment period. Thus, in response to this special situation and the collapse of crude oil prices, the major global balances in the sugar sector and the foreign trade policy of the major sugar-producing countries have undergone a significant change. It should be noted that the depreciation of the Brazilian currency has favoured the exports of this country, and has directed production

arbitrations towards sugar for domestic use to the detriment of ethanol.

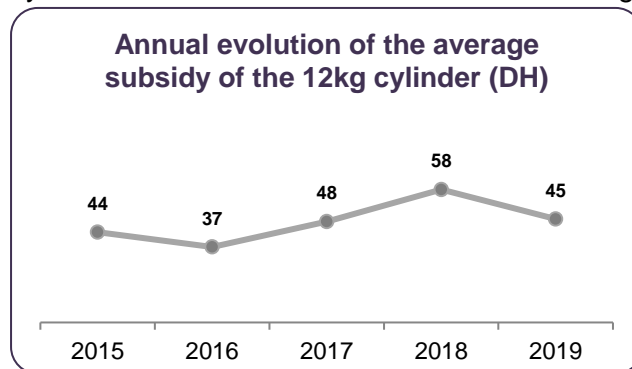
This situation resulted in a breakdown of prices having fallen from an average of \$ 347 / T for the period January-February 2020 to \$ 263 / T for the period March-April 2020, then to \$ 284. / T for the period May-September 15.

Concerning the cereals market, the indirect impacts of the pandemic, in particular a trade under pressure, and a changing structure of the international trading system, have caused a disruption of the periodic plans and normal supply circuits of the various countries in cereals. , mainly at the start of the crisis when most states turned towards securing stocks. However, faced with an excess supply of cereals for this season, the repercussions of the pandemic on the cereal sector have diminished considerably.

In general, the impact of COVID-19 on the price of French soft wheat was not as pronounced as other products. It fluctuated over the January-September 15, 2020 period between \$200.83/T and \$230.9/T, averaging \$218.5/T, with two appreciation points. in mid-March 2020, following the increase in trade flows due to the securing of stocks of some, and in early July 2020, following the deterioration of production potential in the Black Sea and the United States.

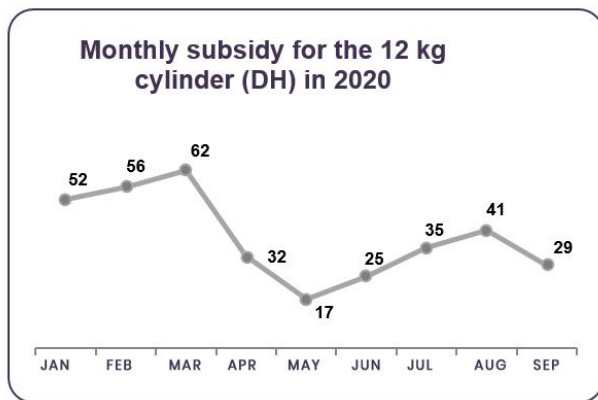
BUTANE GAS COMPENSATION

Following the fall in the price of butane gas, its average subsidy per tonne rose from 4840 DH in 2018, or 58 DH per cylinder from 12kg to 3699 DH/T in 2019 corresponding to 45 DH per cylinder of 12kg.



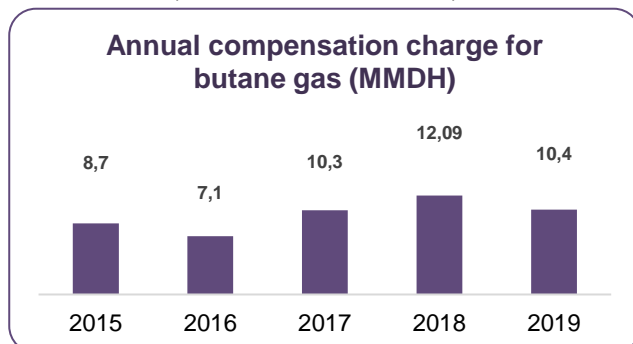
In 2020, the monthly subsidy of the butane gas cylinder recorded a high volatility reflecting the evolution of butane gas prices on the international market. It followed an uptrend during the first quarter, recording its highest level of 62 DH/cylinder in March. It then shifted to 17 DH/cylinder in May, which is the lowest level this year as a result of actions taken to stem the COVID-19 pandemic. Starting in June, and with the resumption of economic activity, the subsidy for the butane gas cylinder resumed its upward trend to 41 DH in August.

Thus, the subsidized share of butane gas recorded in May its lowest monthly level since



2010 before resuming its increase to reach 51% of the real price in August.

The compensation charge for butane gas recorded an amount of 10.4 billion dirhams in 2019 against 12.09 billion dirhams in 2018, a decrease of 14%. It should be noted in this regard that the increase in national consumption of 5.5% between 2018 and 2019 was offset by the fall in the average international price of butane which fell from \$ 522 / T to \$ 423 / T.

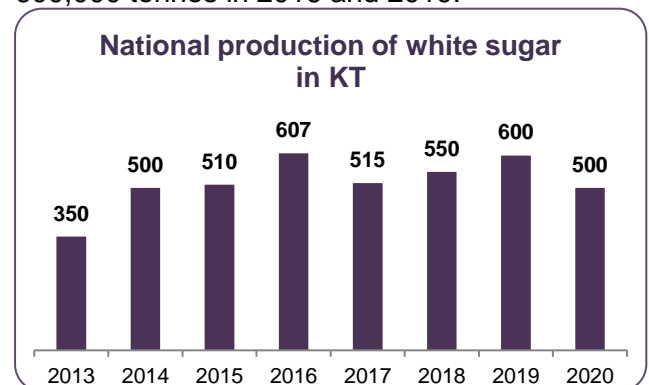


SUGAR COMPENSATION

At the end of 2019, international raw sugar prices

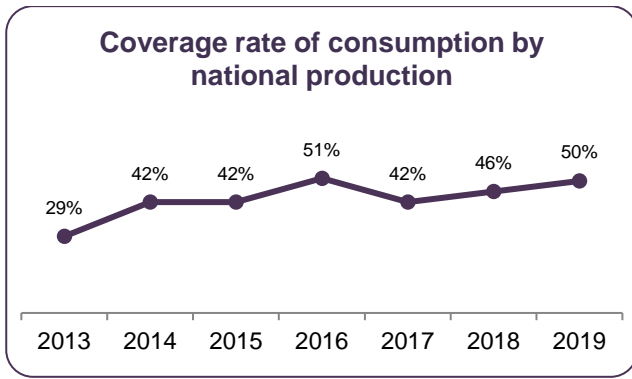
continued the contraction triggered since 2016, averaging \$ 295 / T against an average of \$ 367 / T over the past five years. Much of the decline is explained by massive overproduction in India, China, and Thailand. It should be noted that Chinese white sugar production reached its highest monthly level over 12 years, i.e. 2.52 Mt in December 2019. The consolidation of stocks constitutes an important downward component which cancelled the deficit estimated at the end of the 2019/2020 campaign.

The national production of white sugar has been able to cover in recent years more than 40% of the national need by exceeding the bar of 500,000 tonnes since 2014. It reached a peak of 600,000 tonnes in 2016 and 2019.

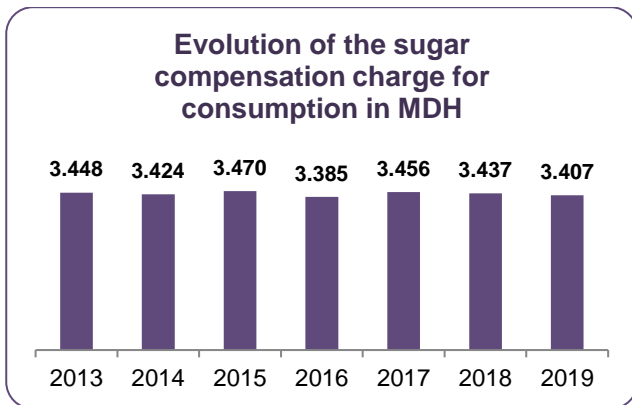


It should be noted that the slight decline in the production of white sugar recorded in 2020 is due to the drought experienced by the campaign, and subsequently a less favourable hydrological situation linked to the filling rate of the dams, which reached a level of 40.3% for the period January-August 2020 against 49% for the same period of the previous year, thus showing a deterioration of 18%. Knowing that sugar beet has high water requirements, a disruption of this process can negatively affect product yield as well as sugar.

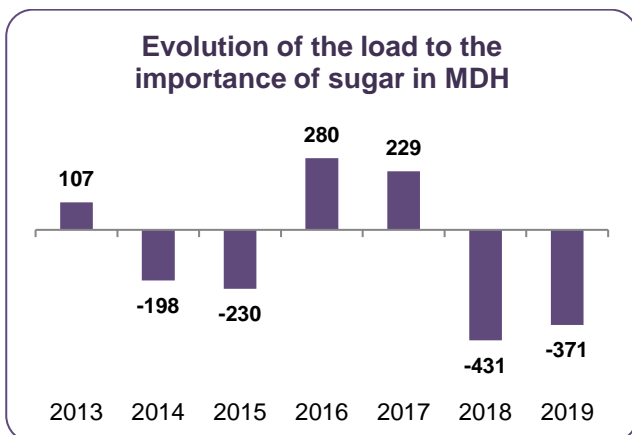
As a result, a net recovery in the coverage rate by national production was recorded, which rose from 29% in 2013 to 50% in 2019.



On the basis of a flat-rate subsidy maintained at 2847 DH/T/TTC, and consumption of the order of 1,197,000 tonnes, the compensation expenditure relating to the support of the price of sugar for consumption amounted to 3,407 million dirhams for the year 2019.



The import subsidy was subject in 2019, like in 2018, 2015 and 2014, to a refund in favor of the State of 371 million dirhams, due to the low prices of raw sugar on the international market.



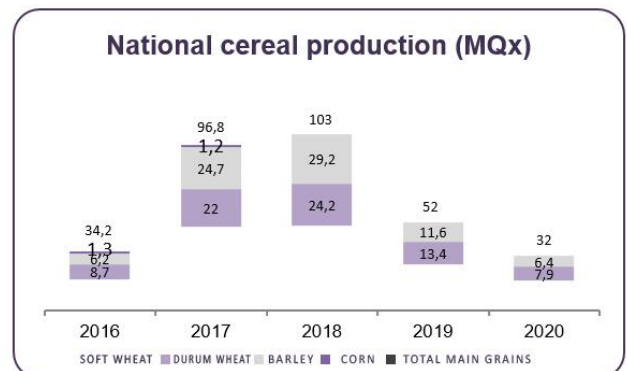
COMPENSATION FOR SOFT WHEAT AND SOFT WHEAT FLOUR

The price of French soft wheat closed the year 2019 with an average of 210 \$/T, a level

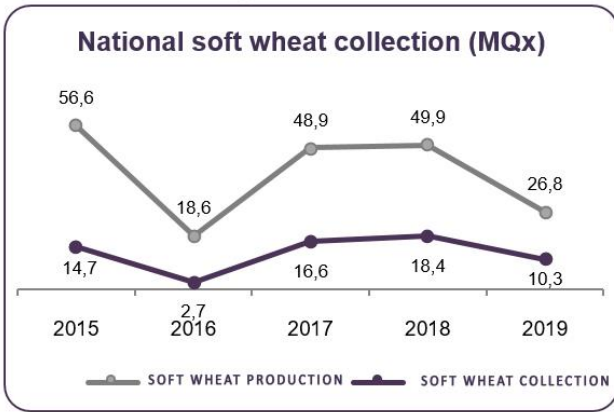
supported mainly by an abundant and good quality French production, which stood at 39.7 Mt, up 17 % compared to 2018, despite the water deficit and the two waves of heat waves that marked the said year. It should be noted that the consolidation of stocks between 2015 and 2018 made it possible to bring the price down to a lower level compared to 2011 and 2012 when the international price crossed the bar of \$ 300 / T.

The production of the three main cereals for the 2019-2020 season is estimated at 32 million quintals (MQx), marking a decline of 39% compared to the previous season. A deterioration mainly attributed to the unfavourable climatic conditions that marked the current season in terms of volume and distribution of precipitation. In fact, rainfall during the said campaign decreased to 239 mm against 295 mm for the previous campaign, ie a rate of decline of 19%.

By cereal species, production during the 2019-2020 campaign reached 17.7 MQx of soft wheat, 7.9 MQx of durum wheat and 6.4 MQx for barley.

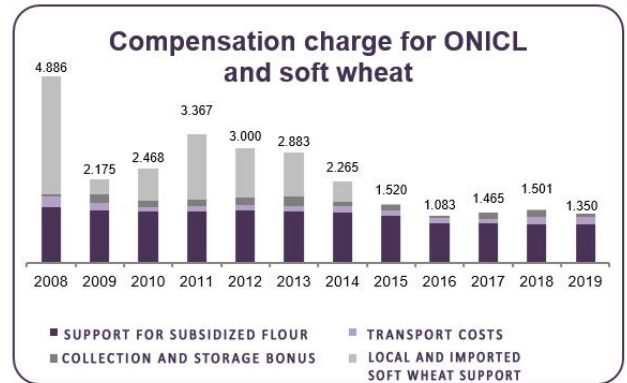


In 2019, the collected quantity of common wheat is estimated at 10.3 MQx, out of a total production of 26.8 MQx, i.e. a collection rate of 38% against a collected quantity of 18.4 MQx in 2018. Nearly 94 % of this quantity was collected during the primable period extending from June to September 2019, of which 82% was in the two regions of Fès-Meknes, and Casablanca-Settat, where there is a high concentration of the sector.



In 2019, the compensation charge for common wheat and flour stood at 1,350 MDH compared to 1,501 MDH in the previous year, a decrease of 10% due to the decrease in the premium for collecting and shopping for common wheat. It should be noted that the extension of the quota of the national common wheat flour (ONICL) of 6.5 million quintals has made it possible to preserve the same level of the expenditure

relating to the subsidy of the ONICL (1.008 MDH). Also, the relatively low price of soft wheat in 2019 encouraged the non-use of the soft wheat import refund system.



FINANCE LAW FOR THE YEAR 2021

The draft Finance Law for the fiscal year 2021 provides for a global allocation of 12.540 billion dirhams, intended to support the prices of butane gas and food products (sugar and wheat flour).