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11 November 2010

Dear Martin

You have asked for a response to your email of 9 November 2010. If you choose to publish or refer to the material included in that email please ensure you publish this letter of response in its entirety.

SABMiller is a major direct investor, employer and tax payer both globally and in Africa and our economic contribution to the continent is very significant. Compliance with tax laws underpins all of our corporate governance practices. We actively engage with revenue authorities and we are open and transparent with our affairs. We follow all transfer pricing regulations within the countries in which we operate and the principles of the OECD guidelines. We do not engage in aggressive tax planning.

Your email makes a number of assumptions, extrapolations and subsequent calculations which lead to incorrect conclusions in your analysis of why our corporate structure is as it is and the subsequent levels of tax paid by SABMiller. This is despite our meeting and three responses to your previous sets of questions. There are a variety of non tax-related historic business reasons why international brands may be owned in particular locations, and sound commercial reasons for why regionalised procurement may be based in a particular jurisdiction.

Avoiding substantial inefficiencies (avoiding double taxation, as incorporated in OECD principles) which would otherwise inherently flow from having operations which trade across borders, is a necessary and reasonable activity. International brands sit in certain locations for historic commercial reasons and sometimes, moving brand ownership enables a cash injection which assists the development of a local business. The use of intra-group financing enables us to invest in local economies to create jobs directly and indirectly through the multiplier effect, where local financing might otherwise not be available at acceptable rates. Aggregating certain procurement activities to enable our operations in small developing economies to get a better deal in their international procurement enables us to deliver a high quality and price competitive product to consumers. Indeed the bureaucracy and obstacles to doing business in Africa often

necessitate such aggregated procurement. Where we can we have established active local sourcing programmes to promote greater local economic growth.

Outside South Africa, all of our African markets have local partners and minority shareholders including governments or their investment agencies, who have expressly endorsed and approved our corporate structures including brand ownership, procurement and management agreements. These shareholders have representation on the boards of those companies, whose accounts are audited and presented to shareholders, which ensures transparency and governance over the activities of the companies. In addition in five African markets we have a local listing, which provides a platform for widespread retail investment and plays an important role in local capital market development. In three cases these listings followed the express wishes of the governments in Zambia, Tanzania and Mozambique.

We pay a very significant level of tax. In the year ended 31 March 2010, the group reported US\$2,929 million in pre-tax profit and group revenue of US\$26,350 million. During the same period our total tax contribution remitted to governments, including corporate tax, excise tax, VAT and employee taxes was just under US\$7,000 million, - this being over seven times that paid to shareholders. This amount is split between developed countries (23%) and developing countries (77%) and notably, in both Colombia and South Africa, we contributed over US\$1,000 million in taxation to each government's revenues. We make a very significant contribution to the government's total tax take in many of the countries in which we operate. We believe taxation should be fair and reasonable and that the broader view of the multiplier effects and long term economic benefits of the beer industry should be considered when setting tax policy.

SABMiller is proud to have grown from African origins to become one of the world's largest brewers, directly employing 75,000 people in 75 countries. We are clear that our business is not something separate from society. It is, at one and the same time, an employer, a customer, a supplier and a taxpayer. The interests of SABMiller, its shareholders and the wider community are therefore inextricably linked. We report in full our sustainable development performance, including both successes and challenges, on our website at www.sabmiller.com.

We realise that there is widespread and legitimate interest in the amount we contribute to economies both locally and globally, through direct employment, the economic multipliers of our supply chains and our contribution to government finances through taxation. Our business success depends in large part on the economic growth of the countries in which we operate and hence we have an extensive enterprise development programme which aims to support local economic growth as part of our day to day business around the world.

In 2009/10 we invested half a billion dollars in Africa and further expanded our operations with new breweries or acquisitions in Tanzania, Mozambique, Nigeria, Ghana, Southern Sudan, Uganda and Ethiopia. In South Africa, research published in 2010 shows that our subsidiary SAB Ltd's economy-wide contribution to South Africa's gross domestic product in 2009 amounted to R66.2 billion (US\$ 8.6 billion) or 3.1% of the country's GDP, and 355,000 jobs across the economy as a whole. The total taxes remitted to the South African government of R10.2 billion (US\$ 1.3 billion) represented 1.7% of the government's total tax income.

The impact of our supply chains can be very significant. Research published in 2009 by Professor Ethan Kapstein of INSEAD business school found that our business in Uganda, Nile Breweries, created US\$ 92 million added value for the Ugandan economy. For every job in Nile Breweries, Professor Kapstein found that 100 jobs are created in the supply chain and broader Ugandan economy.

SABMiller is committed to supporting economic growth, social development and environmental protection in all of the countries in which we operate. Indeed it is only by doing so that we will succeed as a business now and in the future.

We welcome interest from non governmental organisations in the role that major companies play in emerging and developing markets, but this must be based on open discussion of what are complex commercial and historic issues and not on arbitrary and unfounded assumptions. We reject your allegations of aggressive tax planning in Africa and invite you to consider the scale of the total contribution we make to the continent's economy.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Sue Clark'.

Sue Clark
Corporate Affairs Director

From: Martin Hearson
Sent: 09 November 2010 10:50
To: Andy Wales; Nigel Fairbrass
Subject: ActionAid tax report - right of reply - by Thursday 11th November

Dear Andy and Nigel,

As you're aware, Richard Brooks has been in touch with you on behalf of ActionAid with three sets of questions, beginning on 9th July. This is the fourth and final enquiry from ActionAid in advance of the publication of our research. In it we set out the provisional conclusions we've reached from our research, for you to comment on.

We are publishing a report, in which SABMiller features, discussing the ways in which developing countries lose revenue as a result of tax avoidance. Where appropriate, we will incorporate your comments from this response and previous emails into our report, but if you would also like to send a letter for us to publish alongside the research report on ActionAid's website, we would be willing to do so.

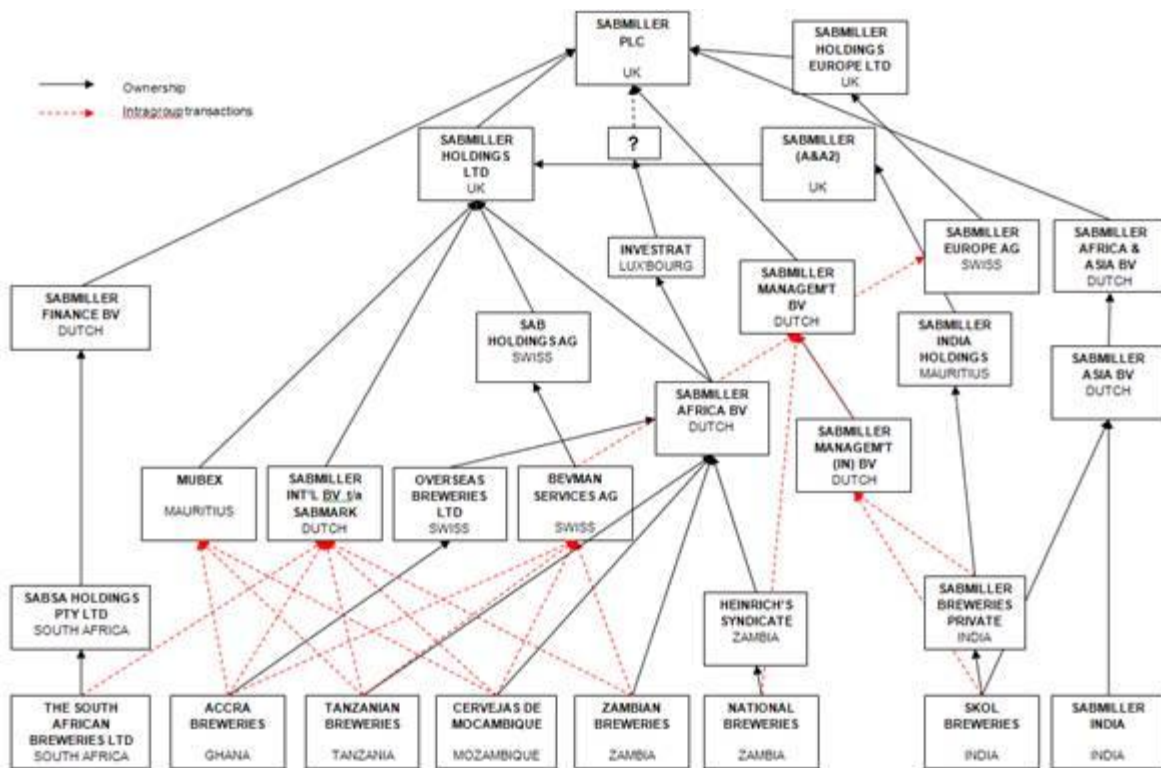
We need your response by 5pm on Thursday 11th November.

The research has not always been easy because we have not been able to obtain some of the most important information that we have asked for, but we have done our best to reach fair conclusions based on the evidence we have been able to obtain. Our findings on SABMiller's tax arrangements are summarised below.

Companies involved

Unless otherwise stated, the developing country subsidiaries to which we are referring are the following: Accra Breweries Ltd, Zambian Breweries Plc, National Breweries plc, Tanzania Breweries Ltd, Cervejas de Moçambique S.A., SABMiller Breweries Pvt. Ltd India (fka Fosters India Private Ltd), SKOL Breweries Ltd, The South African Breweries Ltd. The first five companies in this list are part of the company's Africa business segment. They had a combined turnover of £380m in 2008-9, which is 26% of the total for that segment. We have assumed that that total figures calculated from this sample can be scaled accordingly.

Below is a chart showing the ownership structure and some of the key destinations of payments from these companies, which we have assembled from the information in various subsidiary accounts:



1. Royalty payments

We have identified large royalty payments from all six African companies to a Dutch company, SABMiller International BV. In the most recent financial year for which accounts are available for each subsidiary, these payments totalled £24.6m, which we have scaled up to a continent-wide estimate of £43m.

Although SABMiller says that the majority of its “key brands...are held and owned by the domestic businesses where they are produced and distributed,” ActionAid has identified that a large number of trademarks for SABMiller’s African brands are registered in the Netherlands, as well as evidence of trademark ownership being transferred from Africa to the Netherlands (Chibuku), and of new brands registered in Ghana on behalf of a Dutch SABMiller company (Pony).

The payments will have resulted in tax losses to the governments in each country affected, which in each case are the corporation tax rate less the withholding tax rate applied on the transaction.

SABMiller International BV’s accounts show that by using flexible amortisation of the costs of acquiring trademarks (mostly from a sister company in 2005) it manages to pay very little tax. The trademarks owned include several that are recognised, and promoted, as "African". The effect is the avoidance of substantial amounts of tax in Africa.

2. Management fees

Another major source of tax loss is the payment of management fees by companies in developing countries to companies registered in Switzerland and the Netherlands – mostly to Bevman Services AG in Zug. Payments from Africa in the most recent years for which the information is available amount to £9.7m (scaled to an estimate of £38m) and from India £6.9m. The tax loss can be estimated in a similar manner to that for royalty fees.

It appears likely that Bevman is taxed at 7.8%, in which case most of the payments it receives are unlikely to be taxed further, since withholding taxes are applied at higher rates than this. A substantial proportion of the fees Bevman receives seem to end up, via a Dutch intermediary, with another Swiss company, SABMiller Europe AG.

You have told us that these payments are “in respect of a variety of services” including ‘financial consulting’, ‘personnel strategy’, ‘business advisory services’, ‘marketing’, and ‘technical services’. On visits To Accra Brewery and to the relevant Swiss and Dutch addresses, we struggled to find evidence that such services could have been provided directly from the Netherlands and Switzerland. In particular, Bevman was not known by SABMiller’s receptionist at the Swiss address, which was described to us on visiting as “just the European head office.” We were told by a receptionist at the Rotterdam address of the Dutch companies involved (and of 14 SABMiller companies in total) that there were just 10 staff at the office “managing the brands”.

You have explaining this arrangement to us as follows: “Costs are routed from the service-providers to the central management company. The management company, in turn charges the operating companies for the services in line with accepted transfer pricing principles.” Some of the listed services provided to African subsidiaries appear to be supplied from Johannesburg.

3. Procurement

We are also interested in the movement of procurement from the African hub in Johannesburg (Sabex) to Mauritius (Mubex). To state the obvious, it is geographically inconvenient and doesn't take delivery of goods. When we called the company's office we were told that there were just 15 people working at the company, “mostly on the job training”. Our research indicates that MUBEX is likely to be taxed at around 3%, which suggests a) that its location is motivated at least in part by tax planning, and b) that there is a large incentive to divert profits from 'normal' tax rate countries to Mauritius by adjusting transfer prices, which can be accomplished while staying within the arm’s length range.

Companies using MUBEX for procurement, notably in Ghana and Tanzania, reported significant falls in gross profit rate as soon as they began to use MUBEX for procurement. Tax losses from the use of Mubex cannot be assumed or estimated with accuracy, but it is possible that a proportion of this fall in gross profit is a result of an increase in prices to take advantage of Mubex’s tax position.

We obtained 2009-10 accounts for four African companies with a total turnover of £265m, and identified payments of £31m to Mubex. Based on this we estimate that Mubex may have been responsible for procurement of as much as £150m for the Africa business segment in that financial year.

4. Thin capitalisation

In the specific case of Accra Brewery Ltd, the company has become very 'thinly capitalised' following a large loan from Mubex to pay off accrued bills. The loan exceeds seven times Accra Brewery's equity. It's unlikely the brewery could have secured such a loan from a third party, and unclear why the company's accounts show that it is claiming the full tax benefit from the interest costs, when the debt-equity ratio exceeds the upper ceiling in Ghanaian thin capitalisation law.

We estimate that the annual interest costs will amount to £445,000. These payments will have the effect of suppressing future tax payments, a tax loss which can be calculated using the difference between the Ghanaian corporate income tax rate and the withholding tax rate on interest payments.

5. Total income tax paid in the Africa business segment

SABMiller's segment reporting does not appear to include a breakdown of income tax payments by segment. We have therefore estimated a figure by applying the group's 28.5% effective tax rate to its \$316m operating profit before exceptional items in 2010, giving an estimated income tax charge of \$90m.

We would be interested to know if SABMiller has estimated the reduction in this charge as a result of its tax planning arrangements in Africa, or indeed in India and South Africa.

6. Losses to local shareholders

The offshore payments described in 1-4 above end up in companies wholly owned by SABMiller. Meanwhile, in the case of a number of subsidiaries, a significant proportion is owned locally. For example, until recently 11% of Accra Breweries was owned by the Social Security and National Insurance Trust. Reduced profits are also likely to have reduced these shareholders' dividends, by an amount that can be estimated as these shareholders' proportion of the reduction in profits, after the tax saving estimated earlier.

7. Unprofitable companies

Accra Brewery, SABMiller Breweries Pvt. Ltd and SKOL Breweries Ltd have been unprofitable in recent years, and as a result have not paid any income tax (Accra brewery, for example, paid no income tax in three of the past four years). You have explained to us that Accra Brewery's poor profitability is a result of "the intensely

competitive nature of the local market, escalating input costs and a recent increase in excise tax which has depressed consumer demand,” and that in the Indian companies’ case they “relate primarily to the investment being made by the business ahead of anticipated growth in the beer industry, and to the substantial burden currently placed on our operations by excessive government regulation”. However, without the management fee and royalty payments described above, these companies would have been profitable.

8. Remittance of profits

SABMiller employs a number of well-established techniques, including upstream loans and profit importation schemes, to ensure that low-taxed profits are sent back to the corporate centre in the UK without attracting a UK tax charge that would otherwise arise (at least under tax laws for some of the years we looked at). Corporate tax payments in the UK are consequently very small.

The clearest example is revealed in the accounts for the Dutch company SABMiller Finance BV. Immediately it transferred its trademarks to SABMiller International BV in 2005, SABMiller Finance BV became UK tax resident, enabling it to pay out its accumulated profits to SABMiller plc as a dividend in 2009. This appears to have escaped any UK tax, since dividends from UK companies are tax-exempt for other UK companies.

We look forward to receiving any comments or additional information by 5pm on Thursday 11th November.

Best wishes,
Martin

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