SABMiller PLC

Quarterly Divisional Seminar: Africa

Africa in Context

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Okay. Good morning, everyone here at the Dorchester in London. Welcome to SABMiller's quarterly divisional seminar series. I'm Gary Leibowitz, Senior Vice President of Investor Relations at SABMiller PLC. And with us today is the management team from our Africa division whom I'll introduce in a moment, led by Mark Bowman.

Just to kick things off, as usual the presentation will, we hope, contain many forward-looking statements. And as usual we need to disclaim any obligation to update these outside of our normal seminar and reporting routines.

As usual, we'll kick off the seminar by putting the division at hand in the context of the broader Group. And there's been a suggestion by quite a number of you that it would be useful on these occasions to just give a reminder for the investment community of the core strands of the Group investment case. So we'll do that very quickly now and leave off to Mark with how Africa fits in with that.

As you know, SABMiller's the world's second largest brewer. And as you can see, the division between our volumes, our revenue and our EBITA is easily the most diversified of the global peer group in brewing and arguably in global beverages overall. Beyond being the most diversified it's also clearly the most exposed to higher-growth developing markets. And I think hopefully that's the last time I'll use the word exposure because for us the investment case is much more about what we do with our positions and how we've developed them in a uniquely bottoms-up, grassroots manner, with a very tight grip on all the aspects of operations, from local brand portfolios where we have the leading equities, across consumer goods, to sales and distribution, to local manufacturing, returnable bottle logistics and all sorts of other aspects of cost and local stakeholder management.

We're also the leading Coke bottler in Africa and Central America. And you can see along the bottom of the slide the significant partnerships we have to extend our reach in this strategy: Castel, which Mark and Jono will talk about within Africa; China Resources Enterprise as a partner, with CR Snow in China; the EFES Group most recently, extending our exposure into Central Asia and the former Soviet Union; and the Coca-Cola Company.

At the heart of the strategy and the local positioning for rapid growth are leading local mainstream brands, with deep local heritage and, as I mentioned, leading consumer equity across consumer categories, with diverse portfolios of these brands to target diverse consumers and occasions. Not looking at consumers in our core developing market countries as homogenous, but rather recognising that the size of the pie in both volume and profit pool terms is really maximised by recognising the differences with deep insights, segmentation, portfolio structuring and 360-degree through-the-line marketing.

Some of the leading brands from across the world are listed along the right, and Africa's well represented here. You can see Tanzania, Mozambique and Uganda. Every brand on this page is a very prominent household name in the country in question.

Our approach to segmentation is rigorous and insight-based. We have a global methodology for consistently mapping the types of consumers and the types of occasions that we want to target. This enables comparisons and brand solution sharing across markets. But at the end of the day the decision on which brands targeting to which consumers and in which structure is very much a local decision, and although there is some move towards centralisation for cost efficiency of certain back office functions, that localness of the commercial operations and the connection to consumers is not changing.

One of the principal targets as we do this is to grow beer's share of the overall alcohol pie. And, as most of you know, the traditional bulk of alcohol consumption in the developing world has been informal products, informal spirits in many cases, informal beer-like products in Africa in other cases, often non-commercial, often unpackaged, sometimes untaxed, illicit, illegal. And the chart here goes to show that we have a significant growth opportunity continuing to encroach on that. Nowhere more than in Africa, where some say as much as 80% of alcohol is still informal and subject to being commercialised as consumer incomes rise to be able to afford our products and as we use cheaper cost structures, more reasonably priced inputs locally to be able to reach down and offer lower price points, meeting the consumer half way, if you will, between where traditional lager has been priced and where traditional subsistence alcohol has been.

The financial algorithm that's resulted from all of this has been strong. This graph shows a six-year time horizon of nearly 7% volume CAGR, 11% just about on revenue and over 11%, nearly 12% at EBITA. We'll come back to Africa's contribution to that in a moment.

Turning to Africa though, you can see that the long-established base by and large was developed starting 20 years ago, so there's not a newness to this presence. We're far and away the most experienced operator on the continent. And as we began to build the positions and take a tight grip on operations, everything from brands to monthly cash flow management, starting in Mozambique, then in Zambia, then in Uganda and all the way up through a strategic milestone that was reached ten years ago through our alliance with Castel.

And so what we've now seen most recently over the past five years is something of an inflection point, with stronger infrastructure development, better governance, more investment across various sectors of the economy, leading to more growth opportunities that we have decided to bet on very significantly. And so we've seen in the last five years a period of real strong sowing and reaping in Africa. You can see a couple of example countries on the right, Tanzania and Uganda, where there can be no doubt as to our confidence in investing in growth in this continent, with CapEx as a percent of revenue going well up into the double digits, you can see in the teens in Tanzania, well up even into the 30s in Uganda, where you have a business that has fundamentally transformed itself in terms of its scale and its position in the economy, literally doubling over the last five years. EBITA going up about 60% over that time.

And broadly for Africa you see very strong growth, 80% cumulative growth over that period in revenue, nearly 50% growth in EBITA. And EBITA would keep up in many ways on a like-for-like basis, but we are expanding. And so EBITA growth and margins are somewhat diluted as we expand into new countries at lower initial levels of profitability, expand horizontally within existing countries, extending distribution, there's a cost to that. It's also worth noting that we're stepping up marketing expenditure from a fairly low base to the tune of half to a full point per year. And further to that we're at a high point in the commodity cost cycle. So the EBITA growth has been admirable and is set to do even better going forward from a margin perspective as we turn the corner and reap the benefits of higher scale.

With that I'm going to hand over to our speakers, starting with Mark Bowman, who's Managing Director of the region. Prior to that Mark had a long career going back just about 20 years in South Africa initially, then leading our soft drinks business in South Africa, moving to Europe to lead our largest volume and profit contributor there in Poland in 2006. Now it's been five years in Africa.

Mark will pass then to Jono Kirby, who joined, well, exactly 20 years ago in Africa throughout, with particular country positions in Botswana, as you can see, and then for quite some time now at the hub in Johannesburg. Mark, over to you. Sorry, over to Jono first and then to Mark.

Jonathan Kirby

Financial Director, SABMiller Africa

Thanks, Gary. And morning, all, and nice to see so many familiar faces. I guess this is probably my fourth or fifth version of doing these seminars, and I guess this time round the news is probably as good as it's ever been around the African continent. So I'm going to take you through where we see Africa, our position in Africa, setting Mark up for more then to describe how we're actually going to be winning at the point of purchase with our consumers and our customers and why we believe that we're going to beat the economic growth on offer and grow our division in excess of that.

In terms of news flow, I suppose if you think about Africa in the last five years, the news flow has never been better. There's a lot happening. There's a lot of opportunities that are being discussed. Many exciting opportunities in oil and gas and minerals across many of our markets. Nigeria on fire in terms of its economic growth. It's scheduled to become a huge market within the African context. So the opportunity is there and we've seen that as we tackle each of these markets.

And I guess the point I just want to make, a couple of quotes from others is that 12 out of the 25 fastest growing economies in the world are in Africa. McKinsey suggests that there'll be 38 million new consumer householders by the year 2020. There's going to be 72, or there could be 72 new wage-paying jobs by the year 2020. And the stats that you read around Africa are staggering, in a way compelling and perhaps in a way also quite daunting.

Gary has taken you through the history of how we got there. We've been at it for 20 years. We know our way round. We've got a balanced portfolio of businesses, and remembering that we're not just lager. This is also about soft drinks, water businesses and occasionally in the spirits arena.

This is quite an interesting slide in a sense because what we've got there on the right-hand side is our F12 results in terms of the African business and how it performed. And what's perhaps most gratifying and evidence of the fact that Africa is offering up growth and we are capturing it is the fact that 24 out of the 37 countries grew in excess of 5% in volume terms last year. But again what we've also got to stress, and that was a particularly good year. Africa is a portfolio of businesses and occasionally one or two of those countries will suffer setbacks, and we have seen that from time to time. But on balance we're saying we're calling out the continent's ability to grow and deliver ahead of expectation.

Our EBITA is keeping up with that growth. But as Gary correctly points out, we are in an investment phase. And in fact one of the things that we've been doing is we're now about to commission our sixth new greenfield brewery in Africa in the last three years. And I suppose one of the differences between the greenfield brewery and expanding - versus or relative to expanding existing sites is that one of the factors that comes with that is that you've got a brand new shift. You've got to move an entire workforce to actually staff and man that brewery. So instead of being an incremental build of an existing brewery, it is coming with an overhead - an initial overhead factor as we staff it up and man that brewery. And as a result you'll get a bit of a lag in terms of the returns that are on offer. But the point that we will make is that our returns on invested capital over time are going to return to their former glory despite the investments and the heavy investments in CapEx going forward.

We have spent heavily over the last number of years. And we're certainly not calling out any change to that strategy. As I said, we've built six breweries. And our expectation over the next two to three years is probably another three to four breweries will be built on a greenfield basis.

In terms of the portfolio of businesses and how they all stack up in terms of profitability, this is kind of a look at our businesses. And what we've got there is we've got two very substantial businesses in the form of Tanzania and Angola who are delivering over $100 million of EBITA to us. And then behind that we've got a number of growth businesses coming through, Ghana, Mozambique, Zambia, Zimbabwe and Botswana, all in excess of $50 million and growing off that base. Zambia this year is having a bit of a tough time because Zambia and Uganda we have called out are suffering from capacity constraints. The rate of growth in those markets we weren't able to keep up. We are investing as we speak. We'll be launching or commissioning the new Ndola brewery in November of this year. And in April of next year we'll be commissioning a brewery in Mbarara in Uganda.

I guess what is gratifying here is also if one stops and just reflects South Sudan is starting to deliver off a standing start. We built a greenfield there just three years ago. 2009 we commissioned it. We've subsequently doubled that capacity. And we have an expectation that that capacity will be fully utilised in the next six to eight months. So the case for doubling in Sudan is going to be there again.

Just a pictorial on Africa. It's perhaps a bit dramatic, but Africa's not for the faint-hearted. For those South Africans in the audience, you'll understand Africa's not for sissies. We call it a challenging environment, but at least we believe it's very predictable. Logistics, people, infrastructure remain the biggest challenges in Africa. But as we go around building our capability and our capacity, we've taken a view of self sufficiency as being a key differentiator of our business approach to Africa. So we're never surprised when the power goes off, the lights go off or we don't have water. We're able to manage against that.

In terms of working with our respective governments, we've enjoyed unrivalled success in this area. We've worked hard with our host governments in each of the countries we work with. We are relatively big fish in their lives. We are a material taxpayer. In fact, in terms of our tax contributions to the various African governments in which we operate, they certainly exceed our EBITA that we report on an annual basis. So the governments are in good shape in terms of their tax collections as a result of both product and corporate taxes that we pay. But we are able to actually partner with government and we've been able to convince them of our affordable strategy, which Mike will cover shortly, and the ability to work with us at varying levels of excise to grow the category and yet deliver more taxes to themselves.

One of the counter or contra-indicators is that scale is not always good in Africa. And what we've certainly developed is that as a result of the infrastructure being challenging and underdeveloped, we haven't taken an approach where we'll have one mega-brewery in one country. And rather, in Tanzania, if one calls that our as an example, or even Mozambique as we have here, we've got multiple breweries which service the markets and the environments across the country. Distribution is a major challenge. To move product from Dar es Salaam down to Mbeya can take up to five days. The cost of that is expensive. And so what we've done is as we've expanded our footprint and our capacity across Africa, we've done it closer to the markets.

The benefits of that have been clearly we've saved on the distribution cost on an annual basis, the time wasted in terms of taking our product, our fresh product across hot and dusty roads. And then it's also a system encapturing new consumers. Now if one calls out the Mozambique example, as we built the brewery in Nampula in the north, that region is now growing at double the national average in Mozambique. So we're able to capture new, probably previously underserviced consumer opportunities.

And in fact if one looks at the Mbeya brewery in Tanzania, that brewery itself is now going through a capacity expansion. We put it down in the south believing that the marketplace was there. We knew we were transporting beer down there. But we've really filled that capacity and we're now expanding that capacity.

I suppose the advantage of building six breweries is that we're getting better at it. We've got a very much modular approach to doing so. We use a single supplier in terms of equipment. [Civils] remain a challenge in Africa and remain a big cost factor as we go through it. But the point around the new breweries is that the improved efficiencies that we're getting out of these breweries are unrivalled and certainly they're exceeding the SABMiller average in terms of efficiency and usage of those breweries.

And the nice thing, I guess, about this fact is that each of the breweries is pretty much standardised. So as we've built in Mbeya and Nampula and most recently in Onitsha, the brewery's of exactly the same design and is easily scalable up to higher capacities.

This is quite an interesting slide, if you will, because it's the way we look at our brewing capacity across our breweries. And the red there depicts not a good place. We try to run our breweries at an 85% efficiency level, our brew houses. But you'll see there many of the challenges that we face across many of the markets. And what we've done, that was a year ago, and what we've done this year is we've actually systematically tried to take the stress out of that. We're calling out obviously that Zambia will be commissioned in November. Mbarara will only come on-stream in April of next year, but that will alleviate the constraints that we have there. But we're not yet out of the woods and we will continue to invest around the capacity footprint that's required for our businesses.

And I suppose the point, we're not only investing in the new markets, we're also investing in those markets that we've been in for many, many years. Mozambique is a 15-year-old investment for us. And the Nampula brewery up in the north has allowed us to actually grow that business dramatically. In fact, earnings and volumes have doubled over a five-year period, despite us having been there for 15 years.

And in terms of the new frontiers, Sudan is a happy case. We're at capacity. We're going to be adding further capacity. We don't yet know the size of that market. It's quite an interesting opportunity for us. We're first in. We're selling everything that we can produce. But we're making positive returns and the cash generation from that business is right up there with the rest of us, the businesses in Africa.

And our final area that we continue to look at, and I'll come back to this on the guidance notes shortly, is around total cost of manufacturing. Certainly we believe that as we spend this money in capacity and in efficiency we have to get better in terms of our returns. We have to bring down the total cost of beer so we can drive our affordable strategy and then equally price at or below CPI on an ongoing basis going forward.

And with that, I'm going to hand over to Mark to take us through the in-country activities.

Mark Bowman

Managing Director, SABMiller Africa

Thanks very much, and welcome again to everybody. You'll be pleased to note that part of my presentation is made up of videos which will give you the chance to rest between the more boring presentation that I'll be doing. And we do hope that the technology works though, so if it doesn't, we'll just have to go through it with myself.

My role is in essence to persuade you of our commercial capability in Africa. I think John has made a strong case for our ability to operate, but I think what we want to try and emphasise is that our commercial and marketing capability has been ratcheted up slowly but surely over the last number of years. And we believe that that will make a difference in allowing us to grow our beer businesses and collective businesses ahead of the rate of GDP.

Firstly I think some of you who've seen us before know of our simple philosophy, really the rallying call for Africa. It's an internal drive that is halving the price of beer, which is intended to focus on affordable to basically take our overall portfolio view and take a broader approach to trying to track consumers up out of informal alcohol into affordable beer.

The doubling the price of beer is very much the focus in our business on premium and the development of premium as an opportunity area which I think we've captured quite good value from in the last two to three years.

And then finally this concept of going farming, which is what we call enterprise development. And that's the localisation of our supply chains for a range of reasons which we think are good business for us and which I'll highlight in a moment.

So I'm going to cover briefly each of these categories, then talk a little about innovation, enterprise development and give you a short update on some interesting markets.

Firstly I think you will have seen this or versions of this across many publications. But the basic fact is that beer is very expensive in Africa. We talk about an average of about $1 a serve, which is anywhere between three and five hours of work for the average African. The challenge for us is to try and find what we believe is a sweet spot area of below two hours of work which will allow strong acceleration of beer growth above the rates that we've been used to.

What we've done is research in several markets, and we will do further research on an ongoing basis to try and understand the size and scale of the beer opportunity. And it's our view that we make up around 20% on average of our markets in terms of total alcohol. So the point really is that alcohol consumption in Africa is not different particularly from anywhere else in the world, but the bulk of it is made up from informal alcohol or illicit spirits in general. So this provides a significant opportunity. But clearly the key driver of this is affordability in the first instance and secondly the attractiveness of beer. And it's our view that beer is highly aspirational. And as the beer industry and ourselves collectively work towards improving the attractiveness of beer, the opportunity for us is significant.

What we've also done is consumer portraits across all of our different aspects of our business to try and understand exactly what the dynamics are, because clearly consumers don't operate only in one category; they operate across many. So many users of informal alcohol also drink beer on occasions. And we're trying to understand in more detail what their days and lives look like to allow us to deliver a portfolio opportunity to service them more effectively.

And in essence this is quite straightforward. Firstly, the main driver of our affordability strategy is driving down the cost of mainstream beer. And our philosophy here is quite straightforward and was honed in South Africa as we priced at around 90% of inflation, which over time will obviously drive affordability on an ongoing basis. So if we track our last five years, we believe we've done that in local currency terms, and beer is becoming more affordable and that, we think, has driven much of our growth.

We've also experimented with different pack sizes, draught and formats to allow the absolute price point that the consumer has to pay become more and more affordable.

Then we also have this concept of affordable beer as a category. And this is beer in essence that's supported with a lower excise regime. What we do is we negotiate with governments to try and persuade them to drop the excise regime for a product that's made with local grains, which most governments are quite supportive of. The idea here then is to try and create a win-win proposition, where we have a strong group of farmers contracted to producing grains for us of whatever form. The government gets a new source of revenue. We're not claiming this is moving excise from one category to another. This is attracting excise into an area where no excise is currently paid. And of course we win in that. We're able to open up this category and potentially bring consumers in earlier into the beer category than they otherwise would.

And the final one is then our traditional beer which I'll cover in a little bit of detail, which is basically a beer which is sold at a price point for a litre at about half of that of regular lager. And Chibuku or traditional beer fills a slightly different need in the consumer map in that it is a form of food as well as a low form of alcohol. And there's a social process that is involved that is slightly different to that of lager. So the level of competition is not direct but clearly there is a relationship between them.

Our newest innovation and something that I think our enterprise development team should be proud of is the development of a beer made from cassava. Now one can make beer from most forms of starch, but cassava has a range of problems associated with it in terms of one having to process it quickly. We've been able to overcome that. And the interesting thing about cassava from an African perspective is how prevalent it is and also the fact that it's basically totally non-commercial. So it's entirely a subsistence-type crop and we're creating quite a lot of interest when we engage with stakeholders on the development of this as a commercial crop. So the hope is that this project that we're developing in Mozambique will be just a small part of a potentially larger cassava operation servicing other needs, with us as really the flywheel that has created this.

We'll show you now a brief video just giving you an example of what this is about.

[IMPALA VIDEO PRESENTATION]

We have for you each an Impala, of course, to take home, put in your fridge and try. My main concern of the Impala is that it tastes too good. I was hoping that they would make the beer a little bit rougher because we have to be very careful that consumers move through Impala and into our mainstream. But our brewers of course always want to do the best they can. And I think you'll find that it does have a slightly distinctive taste but is highly acceptable as a lager. And it is told in Mozambique at 75%. So our margins are whole at a dollar and a percentage basis. So it's an attractive proposition for us and we expect it to be around 20% of that market in due course.

On the Chibuku side, interesting component of Chibuku is that we considered this for many years a sunset industry and had invested nothing in it. It makes up in the established markets two to three times the size by volume of total beer. The management team of this collective business came to us a few years ago and expressed the view that Chibuku could be expanded into other markets. We've done some pilot projects which have been successful in all the markets that we've launched them. So we will now move from five core markets to 12 markets during the course of this financial year, most of those markets going to what we call commercial scale production. So this is still early days but it's a very interesting opportunity in this product category where we have a level of expertise.

And then what has been particularly interesting about Chibuku, because it's a product that is sold in carton format and ferments in package, so it has a range of disadvantages: short shelf life, difficult to handle, etc., for many outlets. We now have a PT version, where we have been able to refine a process where the product's intrinsics are exactly the same, but the process is arrested at the perfect point of taste and alcohol. This gives you up to a 60 day shelf-life.

We have just launched, a couple of weeks ago in [Kitweir] a large scale PT operation to commercialise this at scale. We will do the same in Zimbabwe in three or four months’ time and we will do a smaller operation in Mozambique.

We believe from a Chibuku perspective the fact that we are developing an overall portfolio approach for this, which is quite novel for us, we saw Chibuku as a very basic product, I think gives distinctive opportunities. We of course have priced this up as well. So the packaging component of this is much the same as a carton, so we are getting significantly better margins out of the PT variant. I will show you a short video.

[CHIBUKU VIDEO PRESENTATION]

I think Anele Malumo our Chief Executive in Zambia makes a compelling case for investing in this product.

We have, as you can see, an example here, then an understanding or a view of a price ladder below mainstream lager, with in fact a whole portfolio of perhaps within this category different brands and offerings that allow us to reach different price points. And you can see that Chibuku, all of these products are available now in Mozambique. So, we are commercialising Chibuku in Mozambique at the moment in two parts of our business.

Impala, which we have launched there, draught, which drives affordability from a price point perspective, and we are about to launch a version of our [Doizem] in what we call a mini. So that is a 220ml version. And the idea then is to drive a specific price point. This would be more in high profile outlets, but we believe may be attractive in terms of driving affordability as well.

Moving onto mainstream, I think the engine of our business, and we have been very pleased for the last two to three years on a quarter by quarter basis, that this machine has been running quite smoothly. We attribute this to a much more deliberate focus on our brands. So, we are absolutely careful about the positioning of our brands, the continuity of what we are doing, ensuring that we are creating exciting and new news. And not ignoring these consumers who we had perhaps tended to take for granted historically.

In fact in places like Ghana the revitalisation of our brand Club has turned around entirely the fortunes of this business, to the point at which you saw earlier, we are increasing capacity. And, have increased our profitability from what was somewhat a marginal business historically.

Again, with mainstream we have a very clear consumer portrait, and this helps us to understand how to deliver our marketing from an above the line and below the line perspective, to consumers at different points in the day. So, we in essence try and follow the lives of our consumers and develop insights into what drives them, what motivates them, and ensure that we position ourselves properly.

So historically for a brand like Safari, which is shown here, we would have been involved in a whole range of sponsorships in different activities. These are now refined, and we are very careful, very deliberate to both properties over a long period of time which we believe will work for these brands.

We are not just doing this in a single market, we have a collaborative system in Africa, where we look at brands according to their positions in a holistic way, and try and apply learnings as quickly as possible. And, I think one of the major advantages we have in Africa is being part of the SABMiller Group, all of the activities that we are doing have been done elsewhere before. So, Eastern Europe, eight to ten years ago is in essence the process we find ourselves in now in terms of the evolution of our brands, where they find themselves in their consumer lifecycles. So, for us, the process of capturing the best practice and the experience of the Group is allowing us to leverage that quite efficiently.

So, what we have here for example is citizen John Mgwassa who has been applied in the same masculine award type position that we have for these brands across multiple markets.

We have also, from a mainstream brand perspective, spent time reminding consumers of the intrinsic proposition. And when one looks at many beer brands around you cannot tell why this beer should be consumed. And we have realised that one needs to reinforce all the time the intrinsic proposition, why is this beer so good? And one of the key properties in this regard is what we call refreshment, generally for our slightly lighter drinking beers, and we have applied these techniques in a consistent way.

Similarly, nationalism or pride in origins around beer brands is very powerful as a marketing tool in Africa. But we applied it somewhat simplistically in terms of the way that we first started. We had a pride in origin in terms of Truly Tanzanian a few years ago, which evolved to Tanzanian icons or the development of an intrinsic platform, so a more subtle approach to this pride in origins.

We have now moved on to something that we believe will create a stronger emotional connection with Tanzanians. So, not so much flag waving about, this brand is from here, but creating an emotional link with the consumer around things that are Truly Tanzanian. I will show an ad now which is intended to create a connection with the consumer around a young man in a bar, who is trying to attract the attention of a young lady. Only when he does the Truly Tanzanian style of dancing does he get her attention. We will move to the ad.

[KILIMANJARO PREMIUM LAGER TELEVISION ADVERTISEMENT]

I think you can see the feel good factor of that. We have a range of ads that capture things that are emotive but Truly Tanzanian that would be recognised immediately by Tanzanians.

Premium I think has been spoken about extensively in the beer industry. The premiumisation of beer and it is no different in Africa. In fact, 20% of our portfolio is what we consider premium, which is at a price of 110% to mainstream and above. We have had very good growth in this category. Again, it is important to understand that the rapid urbanisation and increase in wealth in cities in Africa is leading to a need for differentiation in terms of the brands that consumers choose.

What we have is three processes in essence, firstly our global brands, which is a slow, bold strategy. These are very high priced, imported. The idea here is to choose a small group of outlets and over time build a momentum around these brands, where we are making reasonable progress across the board.

Then we have at a normally 10% to 15% premium, what we call local premium. These are brands that have been developed with specific premium cues, mostly in intrinsics, in country. The example you see here is of Lesotho, where we took a brand, which was the only local brand in the country; all the other brands were South African brands. And we turned it into something that the people of Maluti can be truly proud of, and given a range of premium cues and took the price up. So, this has worked very, very well, and is the model we have applied in all of our markets.

We then have what we call regional premium. These are in essence South African heritage brands which have developed momentum in Africa. We have had tremendous momentum, we believe. The positioning of Castle is not the same positioning as the South African one, which is very much a localised one. We have a strong premium cues and an association with international football, which seems to be standing us in very good stead, so, good growth in Castle and good momentum in Castle Milk Stout as well.

Now, Castle Lite has proved to be a phenomenon, it is not something we fully anticipated. It has been very successful in South Africa, and that success seems to be replicated, with a slightly different positioning in Africa. So, we have had very, very strong growth, and it seems to work well in the markets that we have launched it in. So, we are optimistic that this brand will continue over the next year or two at the kind of rate of growth we have seen.

I will show you a little TV thing which covers partly an ad and some background as to Castle Lite's success.

[CASTLE LITE VIDEO]

In Africa, I suppose we believe we have the opportunity to innovate, because we can replicate quickly from one market to the next. So, by our definition of innovation, around 17% of our growth is attributed to this overall area we call category expansion. So a significant part of our growth and opportunity set and we see that continuing.

You would have seen earlier the innovation we have done around the affordable category. But the bulk of our innovation activities are driven around pricing and price premium and expansion of categories where we believe there are opportunities that are a Greenfield in terms of our expansion.

Of course, we also have a very strong non-alcoholic portfolio, around 37% of our total business. Our focus here is to ensure that the basket offering in terms of its support of beer and our ability to do the route to market effectively works well. That we drive up the margins and we target high teens as optimal margins for that, so slightly below beer, but certainly an attractive proposition, particularly in medium and small sized markets.

Malts, I just want to call out within this. Perhaps we had a blind spot on malts compared to some of our competitors, but we have tried to do a little bit of catching up. We expect to do almost 500,000 hectare litres from pretty much a standing start with launch on several markets, and some interesting and exciting products. This category I think has a lot of potential in Africa over time.

We also have a very deliberate go to market or route to market framework. This is part of a global approach. We have learned extensively from our Latin American colleagues who have a very powerful model in this regard. In essence, we believe that year on year we have made good progress. This area is tracked scientifically, and we have deliberate targets in place for each market to build ourselves capability in a way that is sustainable and gives us an advantage in terms of reaching the market that we would like to reach.

We also have done, in most markets, and will complete by the end of our financial year, an every dealer survey study. So, we will look at every single outlet in most of the areas of the country and then do a [inaudible] analysis around how to service it. Now, it may seem evident that we should have done this, but I think from time to time one needs to go and have a good look at the market and then determine actually what your optimum sales distribution organisation should look like, and your costs to serve that. So, in an overall sense our reach is increasing quite significantly.

The idea being to cut through the clutter in Africa, so in many outlets they look very cluttered, they are unpleasant places to sit and drink. But, the overall ambience in Africa, where 90+% of beer is sold through an on-premise outlet mostly with food, we believe provides an opportunity to create what we call a look of success. Where we add a pull to action rather than just plain branding on our brands which are carefully designed to try and create a pull by the consumer in that outlet, but at the same time to be sure that we are adding value to that outlet and professionalising its look. Moving from fairly bland environments to ones that are much more interesting for consumers to sit in and enjoy.

Moving onto just some updates, Zimbabwe; we have reported on this but Zimbabwe of course went through a terrible period up until about three years ago. After dollarization that business has invested ahead of the rest of the Zimbabwean industry with our support, and is now close to being able to meet its demand. We are still not in full supply, but we are getting there quite rapidly. And the business is delivering great results and a significant player on the local stock exchange in Zimbabwe. We now have 40% of that business, which is the maximum we are allowed under the current legislation.

In Castel I know there is always a lot of interest in our relationship with Castel, they are obviously a very private family. But our relationship with them is very strong and has got stronger over the last period. We did a transaction last year where we swapped out in essence the management of Angola and Nigeria. Now, Angola is a big business, but it is a very expensive place to do business, and there was significant overlap between the two of us. So, we had a Coke and a beer plant sitting next to each other operated by two sets of ex-patriots, which was expensive. So we believe there are significant synergies that are coming through, or there are significant synergies coming through and we expect more synergies. So this business should increase in profitability over the next period.

Similarly, in Nigeria to operate independently of one another did not make sense. So we have now acquired their Ilesha brewery and have a brewery footprint of three, which gives us a much stronger toe hold, or foot hold in the Nigerian market.

Moving onto Nigeria, we have not spoken about it before, we are trying to stay out of the limelight. We are very, very small in Nigeria, but in fact suddenly we are not as small as we thought we were. We now have 1.8million hectare litres of capacity. We just opened our brewery in Onitsha a couple of weeks ago, and we are in the final stages of further expansion in Ilesha, the brewery that we took over from Castel.

Our approach here is quite straightforward; we intend to run with local, regional brands, mainstream brands that service the local regions. And if you imagine the size of the populations in these different areas, we believe that those are markets that one can service effectively. Then, to move slowly but surely with our Castle family in essence, with the two brands you see there, and with malt, and try and develop those on a broader footprint across the country.

So, we are cautiously optimistic. Our business there seems to be on track and we are seeing good growth in volumes.

Here, just before the flooding came our brewery in Onitsha which about a week ago flooded our effluent plant. But luckily it looks like the brewery is safe. So the Niger has reached 80 year levels of flood lines and we were assured that that never got that high. But nevertheless we have opened the brewery, we are producing and we have had about six weeks of production under the belt.

Finally, I just want to spend a few minutes on enterprise development. This is the go farming piece. I think it is significant for us in terms of emphasis. Our view is that to operate effectively in Africa one needs to work with local stakeholders in very effective ways. This is about communication, relationships with government, but the biggest impact we can have is through the localisation of our supply chain.

To this end we believe it will save us money over time. It will localise our costs and it will win us friends. We have significant momentum in this regard, but we are much closer to the beginning than the end of this process.

Just an example, two years ago in Zambia we launched a pilot programme in terms of barley. Barley of course, as you may know, is not considered suitable for African environments. We are starting to find that you can grow barley in many parts of Africa with the correct agricultural husbandry and processes. We are now self-sufficient. This is saving us $3m a year. We are contemplating a maltings in Zambia. If we do that at the gross level we will save another $2m a year on top of that. So there are raw savings on top of the fact that clearly there are benefits to having several thousand farmers dependent on our business.

We are going to show a short video on farming better futures our brand in this regard.

[FARMING BETTER FUTURES VIDEO]

Thank you very much. Jon is going to now give you some sense of what we expect from the future.

Looking Forward

Jonathan Kirby

Financial Director, SABMiller Africa

Thanks, Mark. I suppose the way we look at the business and operate the business and challenge ourselves on an ongoing basis is just here. I think what we are saying is that the economics in Africa are favourable. It would be great ourselves to be able to sort of capture, niche that, and then perhaps present [inaudible]. Let me just try and put some numbers, we say on average that Africa will grow between 4% and 6% on an annual basis. Therefore we are expecting our volume growth to be around 7% to 8% on an ongoing basis.

Clearly, if we get a country that has a cracker year and grows by 12%, we are not saying we are going to grow our volumes by 20% in that country necessarily. But on balance, as a portfolio, that is the challenge.

Our pricing approach is, at or below inflation. I suppose just a point around that, is that in our sub Saharan and East Africa inflation is common, it runs between 8% and 11% on average in a year. So we will be pricing at 90% of that. And, depending obviously on coinage and the price points in the marketplace that will influence how we go about that pricing.

Castel, on the other hand, are in CFA franc zones, so therefore they are in a kind of a direct linkage with the euro and therefore inflation in their markets is much lower than we experience in our markets in Africa. So their inflation rates are 2% to 3% on average every year. As a result they price every second or third year. So, if you take the blend between ourselves and the Castel businesses our pricing, then we will sort of be not at the 7% to 8% of our [inaudible] just in our markets, but will be a blend between the two.

The production efficiencies, we are investing heavily. It is absolutely essential that we drive those efficiencies. This is to obviously head off the commodity cycles that we experience from time to time. This year in Africa we are having some commodity price head winds. Then, over time, we are obviously looking through our manufacturing footprint and the way that we approach the market to reduce distribution costs overall. But again, we are subject to oil prices etc.

But I guess what Mark has spoken about, about all the marketplace activities is what drives the 50%, core GDP plus 50% and I think one, we have delivered at that rate historically; two, we believe that that is sustainable going forward in the near-term. But I mean you will get blips. You will get blips and just to call out two issues. Uganda this year has got a capacity issue and a soft economy. It went through a torrid time a year ago in terms of very, very high inflation, very dramatic devaluation of the local currency and as a result, we’re kind of picking up the lag effect of that. There is consumer pressure. There was high wage inflation in Uganda as a result of that.

In Tanzania I suppose it is a phenomenon that governments are looking to increase their tax revenues. We are a softish target if you will. We’re a formal target. What happened this year, whilst we were expecting an excise increase at or around inflation in Tanzania, we got a 25% increase in excise. We had no opportunity. We had to pass it on, so in July we actually priced again. We priced in Tanzania in March in the normal cycle and we priced again in July and as a result, in Tanzania, which is a once off this year, that has had a negative effect in terms of our volumes for the half. So you will get those reactions in certain markets from time-to-time.

I've spoken about revenue in terms of the differential between SABMiller and the Castel pricing approach to that.

Cost management, obviously we're looking at the procurement as an opportunity. We're trying to replace expensive imported materials with local imports as Mark has taken us through.

Our Global Procurement division is up and running in the form of a company called Trinity. We're getting better at our global procurement practices, so on those imported raw materials we are seeing prices averaging down and then we're investing heavily. As I said to you, there is a bit of a lag between kind of opening a greenfield brewery and getting it up to scale. There are increased shifts. There are increased employees, wage headcounts. We're confident that that is kind of a short-term lag between sort of opening the investment and reaping the rewards.

Clearly, in terms of risks to expectations, yes, this is Africa. We will have occasions where some of our markets don't perform to expectation, but we do have a portfolio. We are in 37 countries and we're able I think, as a result of our position, to sort of offset some of those shocks that do come from time-to-time.

Currency, commodity cycles and then depending on the rate of growth in the various geographies that we operate in will influence obviously how the business develops.

So in terms of our three key metrics looking forward, in terms of volume growth, we're calling out the GDP plus 50% which we're going to say is high single digit volume growth on a medium term basis.

Revenue per hectolitre on a constant currency basis will be mid single digits and just calling out we'll be higher than that and Castel will be lower than that, so it will blend out to mid single digits on a per hectolitre basis.

And EBITA margin, as a result of our constant focus on cost and despite investing in marketing and in new equipment, we're looking to grow our margins of 50 to 80 basis points on an annual basis going forward.

I'm going to move now into Q&A and I'll return to over there and we'll take them as a team.

Q&A Session

Gary Leibowitz

Great. Okay, we're going to get our mics on here. We're going to start with the Q&A process here in London and then we're going to invite those on our conference line to join by phone and also, we may have some questions coming in for our web listeners. Let's start here in the room with Julian.

Julian Wentzel –Macquarie

I'm not sure if this question is either for Mark or for Jonathan. I suppose it's a twofold question looking at the profile of the business going forward and looking at your returns profile from both an income statement perspective and the balance sheet. If your traditional side of the business continues to grow at this pace, and as you said eloquently that there is a threefold potential growth in this part of the market, obviously your procurement component and the opportunity for procurement locally for that side of the business will grow exponentially so your local component servicing that segment will grow. You could maybe even get it to 90% ultimately over the next five years. How do you see the shape of the business changing as a result because I see this as a significant opportunity for returns and the change in the shape of return profile for Africa? I think there is a really untapped opportunity here. I would be interested to know how you see it because your capital returns on things like Chibuku, Impala etc are significantly higher than the organic lager business.

Mark Bowman

Yes, maybe I can comment on an element of that. I think the interesting thing about Chibuku clearly is that your cost of capital is much lower than for a brewery, so that's what's been interesting about it as a growth. But your revenue per hectolitre is much lower as well, so the amount of dollars you can extract from a business like that, while the margins are very high, the actual dollars are somewhat lower. With the PET that changes. So you get closer towards beer, but not at the same levels.

The Impala side is different because you have a brewery where you're selling mainstream and premium beer and you're also selling Impala, so there is a balance one must draw there. I suppose this internal debate that we run with around where is the right balance. Impala is more efficient. It goes through the brew house much more quickly. It's designed to be cost efficient. It's not designed to be the same as a mainstream beer. So there are some efficiencies but your basic costs are roughly the same.

There are opportunities. We don't want to call out a dramatic change in shift to our business it's still early days, so we would like to see. What has happened is that after a year of pilot projects in Chibuku and Lite and Impala in that we've seen good success. It's growing very strongly in Mozambique. We've got no firm plans anywhere else. We'll have a look at it. It may be significant, so we will have to bide our time and see what happens.

On the Chibuku side, those new markets will collectively now do half a million hectolitres this year so it is quite significant, but it's still small and whether that reaches the scale of the Zambian time where it is at twice the size of the regular beer we don't know. I don't know. Those are 40 years of history and so we're not expecting the shape of our business from a contribution perspective from the overall returns aspect to change.

Maybe in a year or two we'll have a better feel for that and we can give an indication, but at the moment we're sort of expecting the same level of growth across the portfolio unless we see specific changes starting to come through.

But we have, at the lower end on the Chibuku side, we're running that almost as a separate stream because we see it as a separate business. So it's part of the same infrastructure but a separate sales and management environment and if it works well, there's obviously a fair amount of potential there.

Gary Leibowitz

Let's go to Tony here.

Anthony Bucalo – Santander

Just thinking about the capital requirements of the business going forward, my question is twofold. One is that I think a few years ago you said that a new Chibuku facility had a payback period of about three years. Is that still the case?

Second, how do we think about CapEx because it looks like the demand for new breweries doesn't seem to end with this business? With a cold drink strategy, you've got another big pool of CapEx that needs to be spent. How do we think about your CapEx expenditure there over the next few years?

Mark Bowman

I think Jon can maybe clarify. We expect roughly the same level of spend for the next number and I suppose as our earnings grow, maybe on a percentage basis, we'll start to drift down a little bit. But in essence, assuming the Group supports it, we expect roughly the same level, so that's between $300m and $500m a year. So if you take an average of that, that's probably what we're looking at for the next number of years.

Chibuku won't make a material difference. Let's say our Chibuku PET line will be about $8m and our new Chibuku plant, a medium-size, is only about $6m or $7m. So those are quite cost effective. Most of the spend would be in let's say the expansion of our regular beer and soft drink businesses from a cost perspective.

Anthony Bucalo – Santander

So the new PET packaging doesn't really have an impact on your ability to improve?

Mark Bowman

Well we have two lines. So this year we would have put in sort of $15m, $16m on that. We could maybe do five or six small lines. We're not sure. I think this is still early days, but that would be the typical cost of a PET line which would be the same as a soft drink, which for our scale is about $7m to $8m in terms of capital cost.

Anthony Bucalo – Santander

It's not a huge amount?

Gary Leibowitz

No.

Anthony Bucalo – Santander

Thank you.

Gary Leibowitz

We're just going to go quickly to the website. One of our shareholders has posted in a question. How do we see the development of our position in Kenya going forward?

And secondly, related, in East Africa, following the merger between our former competitor Serengeti and EABL, how have we done competitively in that market over the last couple of years?

Mark Bowman

I think in Tanzanian we've gained share over the last period and I think that perhaps our competitor has been less organised as they've settled their own business down there. So we've been very pleased. They are somewhere of the order of 20% of the market. They acquired some 30, so they are down quite a bit. But my expectation is that that's probably the level that they will hold at and we hope that they don't recover, put it that way.

I'm not expecting that we will gain much more share because they have a series of brands that serve a purpose in that market. So we probably are reaching a market equilibrium in Tanzania.

In Kenya we have a very tiny position in the market and we obviously went through a process now where we're no longer in partnership.

We have a Water business there which is doing quite well. It's small and we're using that in essence as a platform for importation. We have sufficient capacity in Tanzania to export. Our brands don't have a strong position in Kenya so our processes over the next two to three years to build our brands in Kenya slowly but surely and to run our business profitably on a quarter by quarter basis. So we are making money in Kenya, but we are very, very small.

Gary Leibowitz

Okay, great. We've got a question at the back and then we'll come back forward.

From the floor

Thanks very much. Obviously a lot of focus on capital spend in Africa. Can you give us a feel for how the cost of building breweries has gone up over time and what you think going forward your $300m to $500m will get you?

Maybe could you explain a bit more, because obviously you build a brewery, there is obviously, I would imagine, investment around the brewery in terms of infrastructure that maybe makes it a high cost?

Then following on from that question with regard to Kenya, other big African markets, it's obviously becoming increasingly attractive as a market and capital is being sucked into Africa quite rapidly. There are obvious big markets that you're not in. Would we expect to see you go in organically there?

Mark Bowman

Yes, just on the markets, if you can give us any ideas of markets that are available we would be interested because we are prepared.

I think Africa is largely spoken for. Maybe it's a point to make that there are not many markets where either Castel or ourselves don't have reasonable positions, or one of the major other players. I think that one has to be circumspect in some of these smaller markets whether it's worth investing against a major competitor given the size of the market.

Perhaps Kenya obviously we have plans to develop our brands there. Whether that results in a brewery, I don't know. Certainly not in the short-term.

From a cost of breweries perspective, our breweries cost much more than anywhere else in the SABMiller world and I would say probably $100 a hectolitre all in - that's with buying glass population, getting trucks, getting some working capital loaded and the cost of the brewery for around a 650,000 hectolitre brewery.

The big challenge is actually the cost of civils. So the cost of a bag of cement and digging a hole in the ground seems to be insurmountable in terms of finding productivity, so that's the major challenge.

We have a very standardised formula and very competitive pricing. All the equipment is all German. We have very high-end guarantees from them in terms of efficiency and that's driven up our overall efficiency. But the cost of putting a brewery into the ground is quite high relative to say in India or China and we don't expect that to change. So I don't think that will go up, but it's not likely to go down. It seems to be locked in at those kind of levels.

From the floor

For the modular expansion centre.

Mark Bowman

Yes. I mean the key point to make is that we're probably going to start building slightly bigger breweries when we go green, so maybe 800 to 900 or a million to start and the expansion of all of these breweries is actually then quite cost effective. So you expand them in steps. So your first step is a doubling of the brew house which costs you around $20m. Then you put in another pack plant, that's $15m. So if you imagine a growth in that brewery that we've started say in Mbeya, two years or three years after you put it in you put in a new brew house that's $25m. A year later you put in another pack plant, it's $15m and then you can do that all again. So it's designed basically to go four times the size with ease. All of that is pre-built in so it's really just the cost of the kit and some minor additional work to expand. In fact, in Mbeya, that's exactly what we're doing at the moment. So the on cost then, because that's at the pre-design or the pre-engineering has been done is much lower. So if you look at the optimised cost, I would say that the brewery would probably be quite competitive once it's at two million hectolitres, but the start-up costs are somewhat more.

And bearing in mind of course we carry costs of effluent plants, power generation and water sourcing all as a natural part of our brewery which most other new breweries wouldn't carry. You would expect the utilities to be provided by the local authorities.

Gary Leibowitz

Okay, let's come up to Trevor here.

Trevor Stirling – Sanford C Bernstein

Two questions please Mark. The first one is the numbers, or the guidance implies value growth in each market well ahead of nominal GDP growth, so meaning that consumers are going to spend more and more money on beer every year as a proportion of their disposal income. So what is it that gives you the confidence that's going to continue to happen going forward?

The second question is when you think about your distribution strategy, I guess early stage a lot of it you are going through distributors, it's not directly sold. At what point do you reach a tipping point where you actually think it's worth and appropriate to SABMiller directly servicing and delivering to outlets?

Mark Bowman

I'll answer the second part and then Jon, if you can answer the first.

Just on the distribution, our model is generally to work through distributors which is quite different to many other parts of our business and mostly that's because that's where we found ourselves I suppose.

We have spent a lot of time and effort over the last two to three years tightening up our distribution system. So performance-based models, putting effort and time into ones that are likely to be successful, so we are perhaps a year or two away across Africa with being what we believe optimised which means having good distributors with good coverage.

Our general approach is to try and service about 20% to 25% of the market ourselves. So we would generally take the urban areas, but that would depend again on the situation in the market.

We don't want to end up in a position where we're beholden to large distributors and actually evolve on that and we've worked quite carefully to manage that. We don't have as specific objective to deliver more ourselves, or that we can do that more efficiently. On average, it would cost us the same and sometimes it's much more efficient to use a third party. So our investment is much more in the trade in terms of coolers, salespeople and more technology now to actually place orders through the system directly to give visibility of their channels as well.

Given let's say the relative unsophistication of Africa you would perhaps be surprised to see how sophisticated some of our capabilities in going through the channel and seeing where the beer actually ends up is starting to become. But that model we think is reasonably optimised, or getting towards that level.

Do you want to answer the first one?

Jonathan Kirby

As to why we're calling out growth ahead of GDP I suppose it's the whole market approach. Probably the big drivers of that would be our pricing. Mark called out the fact that beer is very expensive in Africa. One of the things we're looking to do and deliberately so is to bring that down over time. So even the mainstream category. So if it's now at a dollar per serve, for example, we want to, over time, drive that down to 90 cents and we've seen evidence in other markets. South Africa is a case in point where for 15, 20 years we priced at or below inflation deliberately and we doubled that market in that period in South Africa. So the evidence is there and I think that's what we're sort of calling out on a pricing front.

I think then secondly is really about the new news and the communication. It's just around the whole branding approach. We're getting a lot better at talking to the consumer, reminding him of his favourite brand, talking to the intrinsics of each where I think five years ago that wasn't the case. So I think we've actually come a long way in terms of kind of the communication strategy, the availability, the cooler investment, the route to market that Mark spoke about. So being in every outlet, every outlet that we want to be in that we're in, so I think it's the whole package I guess. That's why we're calling out the GDP plus 50%.

Mark Bowman

I think the plus 50% is in essence what we see as management activity. So the GDP would give us, let's say, we track GDP we would be doing what the market is doing, but everything above that is an expansion of the categories, the innovation, the marketing activities to reach the market ahead of time I suppose.

Maybe our philosophy has changed a little bit over the years because our original business model was based on the rehabilitation of breweries and servicing the available market and we were very conservative in terms of expanding. We are now in some markets putting quite a lot of capacity and we have changed the model to put pressure, more significant pressure on the sales teams to go find the volume and what we've found is that we don't really know where the depth level is. We haven't yet in any way reached markets that growth is likely to slow at this point. Perhaps Botswana or Swaziland aside, but there is quite a lot of opportunity.

There is no doubt that beer remains highly aspirational. So if people can afford it, or you get it to them in a place where they might want it, they will buy it.

Gary Leibowitz

Yes, I think it's worth reiterating on that question some points we made at the outset. Number one, a lot of the expansion, the growth does not equal all within these countries. There are areas within countries that are being newly penetrated, finding newly affordable price points. There is in-fill within markets rather than just like-for-like geographies in a particular country.

The other thing is a lot of this value growth, as we said at the outset, is transference of share of alcohol as opposed to alcohol growing share of wallet as much as that would otherwise imply.

Then there is the small but significant non-alcoholic contribution to all this which is a separate share of wallet if you will.

Trevor Stirling – Sanford C Bernstein

Just technically Gary, the Chibuku growth, will that be captured in lager volumes technically in the reporting or no?

Gary Leibowitz

No. It will be reported separately. Known as traditional beer internally and it's in our other line within our segmental reporting.

Just go to another one from the web at the minute. One of our analysts writing in, when you think about the volume growth prospects across Africa coming from the initiatives that you're talking about, do you see any differentiation between the growth rates that are feasible in your subsidiary territories versus Castel's opportunity in the likes of West Africa, Cameroon etc?

Jonathan Kirby

Historically, the rate of growth that we've experienced has been very similar. The Castel portfolio of countries and the SABMiller portfolio of countries have grown. We've looked at it for the last 11 years. They have grown at similar rates on average since we've been together.

There are economies that will grow ahead of that. We'll call out Angola I suppose there because the mid-2000s Angola was on fire. The economy was kind of finding itself if you will, so that grew in excess of say other economies. But on average, we tend to get very, very similar growth across our patch which is gratifying.

Gary Leibowitz

Go to Adam there and then we'll go to Ian.

Adam Spielman – Citi

Just following up on that question, when we last had a presentation on Africa I think you described Castel as being a sort of quite pragmatic operator whereas you had gotten into a much more marketing-led approach. I think you said that Castel felt operationally like where you were two or three years ago and I was wondering whether you've extended the gap or whether they've closed the gap in terms of sophistication of marketing and all the stuff we've heard about today.

Mark Bowman

I think their marketing capabilities are good. We have individuals that work across the team, so there is a sharing of ideas.

I think when we say pragmatic, I think in markets where they have very strong positions they perhaps spend a bit less, but in competitive environments such as Cameroon or Ethiopia, I think they're unrivalled. I mean they are excellent operators. We in fact are sharing some brand ideas, so we will launch brands that will be in our markets and their markets in the non-alcoholic space, so there is some interesting evolutions there.

I think that perhaps we benefit from exposure to the broader group. So we see things that they don't see, but we have now a specific forum where we share these ideas and some of them that we're applying. We're learning from them as well. Make no mistake, I think they're very good operators, but certainly on the marketing side where we have a deliberate process and what have you, we think that they will get some benefit from us.

Adam Spielman – Citi

So in short I think to summarise it, it slightly plays in the gap through sharing of ideas?

Mark Bowman

Absolutely. We have on one slide I showed we have a specific forum. That's their synergy forum where we sit. Rather than informally interact, we have a specific process where we target some ideas to create mutual value each year. We've got a full time person who drives that and that's at a technical level and at a marketing and operational level to find ideas that make sense.

So, for example, we've developed in SABMiller an idea in terms of improving the fermentation process through an agitation so you get a much more heat fermentation process which allows you to complete the fermentation a day earlier which saves time and money basically which we've now shared with them and they're experimenting with that as well. Obviously everyone is interested in ideas like that which can save specific benefit. Then the non-alcoholic brand that we're looking at it together in terms of some markets.

Gary Leibowitz

Julie, just stay while you're right there and then we'll go to Ian.

From the floor

In Nigeria you got 1.8 MHL in beer and malt. I understand the total formal capacity in Nigeria to be over 20 or so. Appreciating, respecting that you don't want to be too far above the radar in that country, could you tell us a little bit more about how you intend to develop there, what your ambitions are?

Mark Bowman

I think that we see ourselves as a regional player. We don't expect to ever be powerful in that market. You can't break that period of such a long history with such powerful positions that the two other players have. But it's a very big market. For example, our Onitsha brewery we believe will service a niche. That's a big enough town for a brewery. I think with a regional play we can develop a reasonable position. So we don't have a plan that says we're going to get to X percent share by this. What we want is we've actually structured our business in Nigeria so that each of the operations are somewhat independent and they run as their own and they've got to all make it on their own basically. So the idea is that you're a little island and you go out there and make it happen and try to put teams in place that are entirely self-reliant and then in the centre what we've done is try and move some of the brands around to make sure we get let's say a profit structured approach. But in essence, the businesses are designed to fight it out and survive and make money in each of their own little pockets.

We happen to be quite well positioned; I think more by coincidence than design. As the opportunities present themselves, we may consider further expansion as well, but we do have the ability clearly to expand our existing footprint on those three breweries.

Don't forget we have a Water business there which is chugging along quite well as well. The malt goes through the Water business and there is a range of other opportunities that are available to us.

Gary Leibowitz

While we're heading over to Ian, a related question online. In respect of Nigeria are we seeing any significant slowdown in beer market growth related to the economy there?

Mark Bowman

I don't think we're exposed to the whole economy in the way that the other players are because we are very much in specific areas. So I think that I'm guessing, but I would suspect that the issues in the north have impacted the other players quite significantly. We haven't seen that, so our businesses seem okay. Perhaps we're expanding still into our niches, so we don't have a view because we don't have a view on market share and we don't have a view on the overall economy, but our businesses seem to be growing either through the opening up or the rehabilitation of some of the brands that we've been developing, so they're doing fine at the moment.

Ian Shackleton – Nomura

Two questions. The margin guide you've given today is a bit less than we got last March when I think we were talking about 80 to 100bps. What was the key moving part there? Is it more of the focusing of affordability that you've talked about today, or just a comment on how input costs are still going up?

Mark Bowman

Yes, I think we got sort of caught a little bit. We didn't anticipate the relatively high input costs we got this year, so that has made it a little bit tougher for us.

I think on balance we are expecting over the next two to three years to improve margins. I suppose we're being reasonably cautious about what that would be. Then we're sort of expecting over a period of time to maybe get to what we think is reasonably optimal margins; the margins we had a few years ago and then we would probably expect very little growth from that period on unless we are able to significantly change the structure of our business to take further cost.

So I think that we're trying to call out that we have specific detailed programmes in place to ensure that, particularly in the markets where we're slightly suboptimal, that we are improving our cost base. So we've got very deliberate focus on costs. We have specific programmes in place to reduce manufacturing, to make structural changes to our manufacturing rather than through land. Let's say the serendipitous benefits of an improvement in the commodity cycle and I think over the next two to three years we expect to see quite good benefits from that. So we're quite confident in our ability to kind of wrestle a bit more value out of our business if you take the commodity cycle out of it.

Ian Shackleton – Nomura

So just to ask about excise duty across the region. One thing that strikes me, a year or two back you were very much focused on a brand like Eagle that was getting a tax benefit. The thrust seems to be slightly different now for affordability in terms of more local products. How do you see that tax outlook across the major markets?

Mark Bowman

Excise obviously is not directly in our control. I think that African governments are feeling pressure, so they will come to people like us. We saw that in Tanzania this year. But there are swings and roundabouts, but we don't expect dramatic movement because there is a very clear correlation between too much excise and volume performance and we've shown that to governments and what have you. So we expect let's say rational behaviour and we try and engage extensively on those and run with the debate as much as we can. So even though Tanzania has gone up quite significantly, it's still not out of line with the rest of Africa frankly.

On the affordable side, we've moved away from this thought that a lower excise for local and green beer is a temporary thing. We believe we've now built into the expectations that you have different excise levels for beer as a permanent thing so that two or three years after you launch Eagle the government just corrects it back up. We've baked in this idea that you have staggered excise rates for different types of alcohol in beer and our experience suggested that's been the case, so we hope that that will be maintained. We expect that that will be maintained.

Gary Leibowitz

We've got time for a couple of more. Simon there.

Simon Hales – Barclays Capital

Yes, thanks. A couple please. I wonder firstly could you talk about what proportion of your COGS are actually sourced in hard currencies now and perhaps going forward over the next two to three years, how big that local sourcing is going to become as a percentage of the total?

Then maybe just a follow-on, Jon, you mentioned obviously global procurement and the benefits of Trinity. How much of those benefits have we already seen in the margin already in Africa and how much is really to come through? Has the lion's share already dropped through or is there more to come through over the next two to three years?

Jonathan Kirby

I'll take the second question first. The benefits that we're calling out from Trinity are again, because of the way that we're actually transacting with Trinity and the currencies in which we are procuring, we've had some benefits but we're not seeing those this year. We will see some more next year in terms of the Trinity benefits on commodities.

In terms of proportion of local spin versus the imported, where we want to get to is effectively we want 70/30 local versus imported is kind of the aspiration if you will to move to that sort of level and we think that that's, bearing in mind clearly sort of water and utilities etc, etc are a big component of that, wages etc, so 70/30 is kind of where we want to get to. The exact proportion at the moment I don't have offhand, but over time things like Zambia, Tanzania and Uganda where we are delivering on this farming strategy is going to be a game-changer we think in terms of that sort of ratio in the medium-term, or the near-term as well.

Gary Leibowitz

Okay, Chris, one more.

Chris Pitcher – Redburn

A question on some of the capacity expansion that's currently underway. Can you give us a feel for, forgive me if I missed it earlier, but the phasing of new capacity coming on-stream this year and therefore, the likely impact on volumes say in Tanzania, Uganda and then in terms of your margin development, with your medium-term targets in the medium-term, I think this year we should expect margin expansion coming through as those capacities come on-stream or is this going to be significantly below?

Jonathan Kirby

In terms of kind of guidance this year, I mean in terms of organic businesses, the margin expansion is going to be modest I guess. What we're bringing on-stream this year is volume in Zambia in November. Unfortunately, it's a bit too late to impact materially the capacity shortage in that country. We needed to have that really in place by now September, October, in order to kind of feed the peak season.

And what we're doing in Zambia is that we are sourcing deliberately out of South Africa at reduced margins. So Zambia has a particular problem which will be overcome in the new year and it will cycle through certainly next year.

Uganda where we also are capacity constrained, the double-edged issue around the economy slowing down. I called out some rampant inflation and devaluation a year ago, big wage increases and huge utility cost increases. Power went up 40% in Uganda a year ago. Wages were settled in the 20%, 22% level. The devaluation of the local currency was a circa 27% at a point in time. Borrowing costs in the country are above 20%. So it's a tough economy and it's off its previous highs. It will come back. We're expecting that to cycle through certainly next year.

So Zambia, Uganda will certainly have an impact on our margin improvement this year. We're going to get some inorganic margin improvements out of the Castel transactions and we are capturing synergy out of the Castel transaction ahead of expectations, so that will actually drive reported margin improvement this year, but I just need to stress it's inorganic.

Gary Leibowitz

Great. Okay, with that I think we're going to wrap it up for today. Thanks to all of you here at the Dorchester and thanks to all of you who have been listening online. Just a few dates for your calendar coming up. Next week, 18 October we'll have our fiscal Q2 trading statement. 22 November is our half-year results day and for those of you listening in the US, we are regretting and aware that that is Thanksgiving Day and we will be holding our half-year conference call for the US investors and analysts the following Monday.

Following that, we are at the Consumer Analyst Group of New York Conference (CAGNY) on 19 February and the next in our quarterly divisional seminar series will be Europe division premiering Sue Clark there on 4 February, after which in the series will be Latin America and then Miller Coors next year.

Thanks very much. That concludes today’s presentation.

[End]