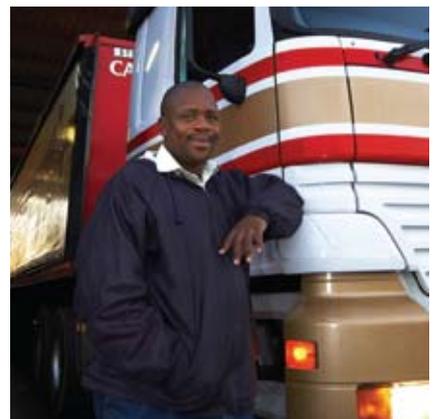
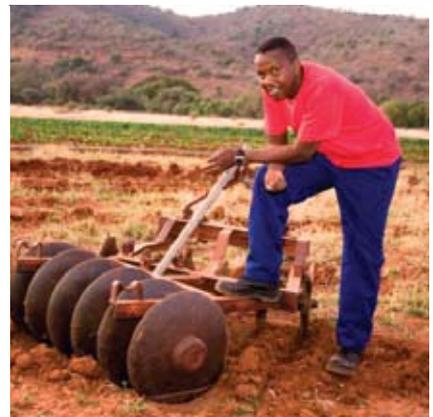




Enterprise Development Report

Making a difference through beer



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This report contains certain forward looking statements including those that relate to enterprise development initiatives with smallholder farmers and other community members at an operational level. Such statements involve a number of uncertainties because they relate to events and depend on circumstances that will or may occur in the future. As a result, actual results may differ from those anticipated in this report depending on a wide range of factors, including, for example, crop yields, consumer demand, excise duties and taxation policies, worldwide as well as local economic conditions, changes in laws and regulations and the development of new technology.

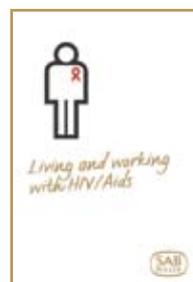
This report deals with activities of group companies around the world. References in this report to 'SABMiller', 'we', 'us' and 'our' refer collectively to the group of operating companies.

Our Reports

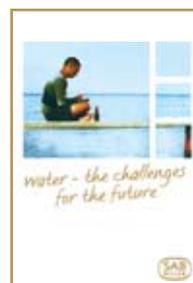
For more details and case studies on our sustainable development activities, please refer to the sustainable development section of our website www.sabmiller.com



Sustainable
Development Report
2008



Living and working
with HIV and Aids



Water – the challenges
for the future

About this report

This report demonstrates how we are working to make a difference throughout our beer value chain by creating sustainable economic opportunities for small entrepreneurs. We do this because there is greater potential for growth in an economic environment where small and medium enterprises flourish and where poor people have opportunities to earn more.

The report details how we are sourcing more and more of our high quality raw materials from local suppliers, rather than relying solely on large regional and international suppliers. The growth and development of these suppliers helps local communities, while our business benefits significantly from more direct and secure supply chains, improved quality, product innovations and the marketing opportunities that these relationships bring.



About SABMiller

SABMiller is one of the world's largest brewers, with interests and distribution agreements across six continents. Our brands include premium international beers such as Pilsner Urquell, Peroni Nastro Azzurro, Miller Genuine Draft and Grolsch. We also produce a range of market-leading local brands such as Aguila in Colombia, Miller Lite in the US, Snow in China and Tyskie in Poland, and we brew sorghum-based traditional beers in a number of our African markets. In 2007/08 our turnover was US\$21,410 million with an operating profit of US\$4,141 million.

Our interests extend beyond brewing as we bottle and distribute soft drink brands including Coca-Cola, Fanta, Sprite, Appletiser and Minute Maid. We are one of the biggest franchise bottlers and distributors of Coca-Cola products outside the United States, operating in 10 of our markets as bottlers of Coca-Cola products.



Brands produced in whole or in part with ingredients sourced from smallholder farmers.

Introduction



SABMiller has its roots in Africa – where 315 million people survive on less than a dollar a day – and 80% of our worldwide earnings come from emerging markets, where low incomes are the norm.

Given this presence in developing countries, we have a good insight into the challenges facing consumers, workers and communities, and we are acutely conscious of our role in supporting economic development to help alleviate poverty.

But how can we do this and really make a difference? At SABMiller, we believe the most effective way to fulfil our responsibilities is to maximise the success of our business. In short, good business is good for development. There is no contradiction between the two, so long as companies operate in a responsible and accountable manner. Businesses need healthy and prosperous communities, because they offer the opportunity for profitable growth. They enable companies to grow markets, promote new product development and improve productivity. In contrast, when local economies undergo economic hardship and contract, businesses are also impacted, reducing the ability of these businesses to provide employment and support suppliers.

These principles hold particularly true for SABMiller, because beer is a local product: brewed, sold and consumed locally. So for us, a healthy, growing economic environment in the communities where we operate is the key to achieving business success. It is therefore in our interests to invest capital in local economies, to use small enterprises to supply and distribute our products, and to create jobs for local people and develop their skills.

By running a successful business and taking these issues seriously, we also play our part in contributing to the achievement of the United Nations Millennium Development Goals – eight internationally agreed targets for reducing poverty and promoting health,

education and equality. Policy makers increasingly acknowledge that strong and sustained economic growth is an essential requirement for achieving these goals, and see private sector investment as a primary engine of that growth – alongside aid, tariff policies, debt relief and improvements to infrastructure.

According to the UK Department for International Development¹ 90% of all jobs are in the private sector, so business development and entrepreneurship are clearly central to improving incomes and reducing poverty. Governments can help business by collaborating with private-sector bodies to encourage investment. Indeed, as we emphasise throughout this report, partnerships are critical to the success of our enterprise development programmes, because by working closely with partners with complementary specialist skills we greatly enhance our impact and effectiveness.

We acknowledge the benefits that local suppliers, distributors and entrepreneurs can bring to our business. Importantly, supporting local businesses also has multiplier effects on development. When we employ people, we increase their ability to care for their families and invest in health and education for children. When we use the services of small local enterprises we enable them to grow and invest, employ more people and create more wealth for families. And when we share technology with our suppliers, we improve their efficiency, helping them increase productivity and profitability, gain more customers and create jobs.

For us the message is simple: by concentrating on what we do best and by focusing on our business success, we are maximising our ability to make a difference by stimulating economic development and therefore alleviate poverty.

Graham Mackay
Chief Executive, SABMiller plc

¹“Working with the Private Sector to Eliminate Poverty”, DFID, 2005

Commentary



The greatest and most sustainable contribution that any company can make to development and to the achievement of the Millennium Development Goals (MDGs) is through carrying out

its core business activities and investments in a profitable, responsible and inclusive manner. In particular, companies can develop what the United Nations Development Programme describes as 'inclusive business models', which explicitly aim to integrate the poor into corporate value chains in economically viable ways as entrepreneurs, suppliers, distributors, retailers, consumers, employees, or sources of innovation. Such models include the development of products and services that help the poor to meet basic needs. They also include business linkage initiatives that can help to increase economic opportunity by sourcing from, distributing through, or selling to small enterprises and farmers. Such initiatives have the potential to play a vital role not only in creating local jobs, improving livelihoods and enhancing economic options, but also in transferring skills, technologies, and sound business standards along value chains.

Yet surprisingly, these economic multipliers of large corporations have been one of the least analysed and reported aspects of corporate responsibility. If one views the typical CSR, sustainability or 'triple-bottom line' report, the economic contribution of business often gets far less coverage than social and environmental impacts, as important as these are. This report from SABMiller is one of a small but growing number of efforts to rectify this gap. It offers a useful and independently assessed overview of how a major corporation is extending its value chain to build business relationships with small farmers. It also illustrates the additional contributions a company can make through technical assistance and financing programmes to help develop local human capital, improve business skills, build institutional capacity and improve the broader enabling environment for small enterprise in developing countries.

In some situations these value chain linkages can be made commercially viable from the outset. In many cases, however, they require various forms of seed or venture funding, or ongoing public or donor support and public-private partnerships – especially

in situations where local capacity building and technical assistance is required. The experience of SABMiller is useful in illustrating some of the different models companies can adopt from vertical integration to partnering with both public and non-profit organisations.

The growing interest in inclusive business models within both the business and development community is due in large part to the potential for such models to achieve both corporate and development goals. Such win-win situations are not always possible, and developing new business models and non-traditional partnerships can be a challenging, and at times, costly investment. Yet these new approaches offer one of the most hopeful approaches for alleviating poverty and achieving other MDGs. They deserve increased attention, experimentation and analysis of what works and what does not.

In summary, it has become increasingly clear that the Millennium Development Goals cannot be achieved in the absence of a diversified and productive private sector. The economic growth and wealth creation that is essential for their achievement will come primarily from business. Most of the innovations in new technologies, new products, new financing mechanisms and new service delivery models necessary for tackling environmental challenges and including the poor as producers and consumers will also come from private enterprise - whether this is large multinational corporations, national companies, small and medium sized firms or social enterprises. While the private sector is by no means a panacea and while greater leadership than ever is needed on the part of governments, especially when it comes to achieving scale, there is no doubt that business is becoming an important development actor. The role of the private sector in poverty alleviation is one that needs to be better understood and enabled where appropriate. The following report and the independent findings that it shares from PricewaterhouseCoopers make a useful contribution to this process.

Jane Nelson

Director, Corporate Social Responsibility Initiative, Kennedy School of Government, Harvard University and Director, Business Leadership and Strategy, International Business Leaders Forum.

Enterprise development in context

A framework for sustainable development

For SABMiller, sustainable development is an integral part of our success as a global business, helping to create jobs and wealth in the communities where we work, protecting the environment and providing profit for our shareholders.

That's why we've identified 10 sustainable development priorities, to help us focus on the opportunities and risks that arise from our business activities. We are committed to pursuing each of these priorities and reporting annually on our progress. They are to:

1. Discourage irresponsible drinking
2. Make more beer while using less water
3. Reduce our energy and carbon footprint
4. Maintain a vibrant packaging reuse and recycling economy
5. Work towards zero waste operations
6. Maintain supply chains that reflect our own values and our commitment to sustainable development
7. Respect human rights
8. Bring benefits to the communities we serve
9. Contribute to the reduction of HIV/Aids within our sphere of influence
10. Be transparent in reporting our progress on our sustainable development priorities

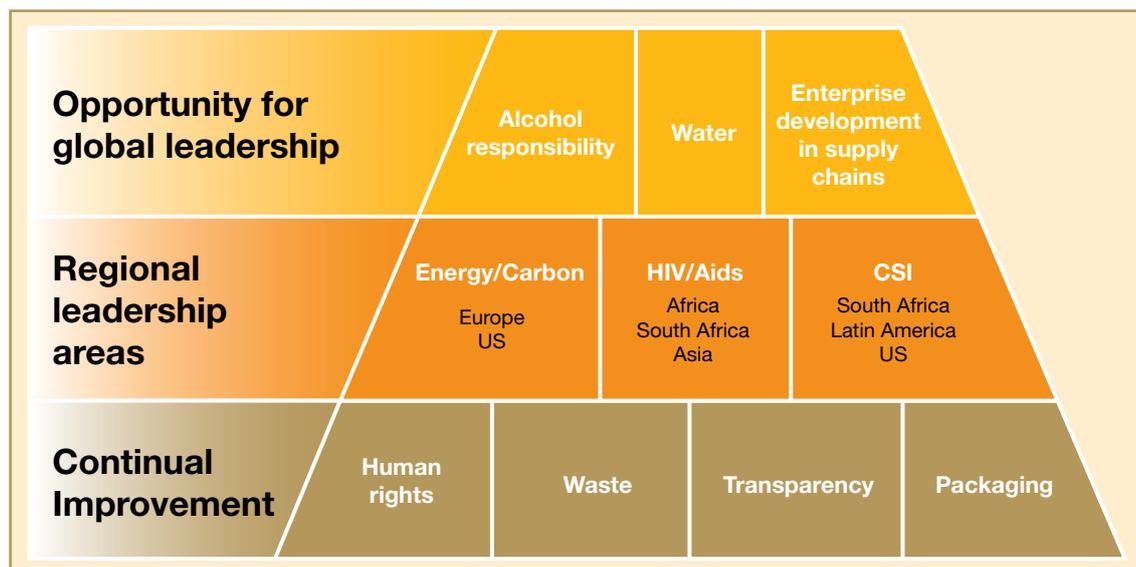
Our focus

Given the vast range of social and environmental issues with which businesses engage, it is vital that we concentrate our efforts where we can make the greatest, global impact. During 2007/8 we decided to focus particularly on three issues:

- Discouraging irresponsible drinking
- Making more beer while using less water
- Encouraging enterprise development in our value chains

This report covers our work under the last of these priorities, 'enterprise development'. Our activities in this area are numerous, well integrated into our day to day business around the world, and have grown out of ideas and leadership provided by our operational managers. The work has three main strands:

- Supporting smallholder farmers: our projects in our agriculture supply chain, particularly with smallholder farmers
- Investing in our value chain: our value chain initiatives which support local non-agricultural raw material suppliers and work with distributors and retailers of our products
- Developing entrepreneurs: our schemes to encourage entrepreneurship in local communities

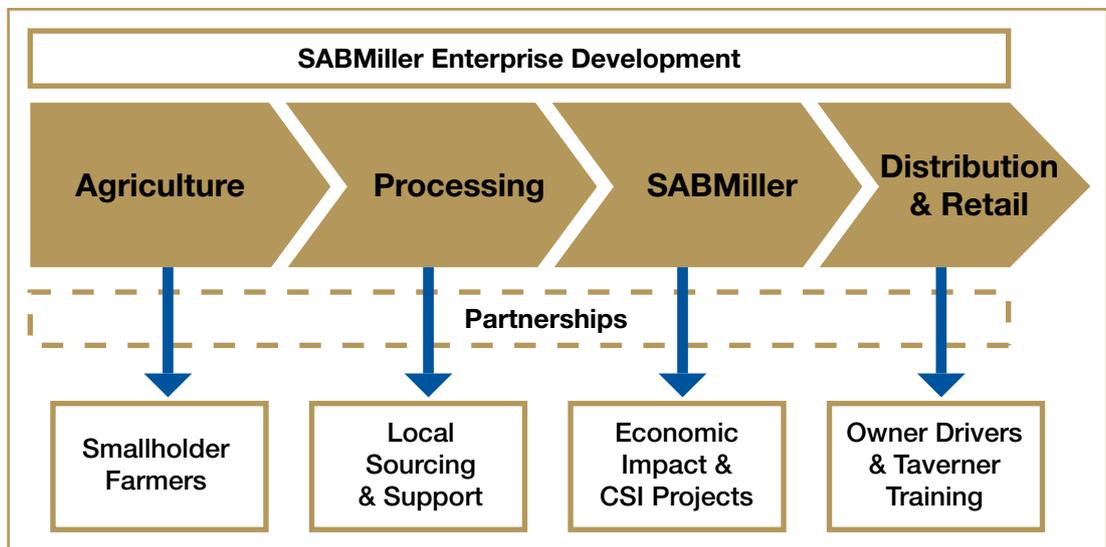


All three share a common theme of working in partnership with local suppliers and other businesses, building their capacity to deliver quality goods and services and enhancing their ability to grow.

This report explains our motivation for each of these strands, the activities we've undertaken, the benefits (both business and socio-economic) and the lessons we've learned.

where we operate – providing jobs and raising people's standards of living.

In Africa, for example, for every person we employ directly, we create up to 40 jobs in our supply and distribution chains. Given that we employ around 16,500 people in Africa, this means we have contributed to the creation of over half a million jobs in total across the continent. And we have a similar impact wherever we work. Last year alone,



Local versus global sourcing

In an increasingly global economy, multinational companies tend to rely on global supply chains, which offer economies of scale through a small number of high-volume suppliers. As a result, smaller, national, suppliers can potentially lose out.

However, there are factors that strengthen the case for local sourcing models, such as improved access to quality raw materials. At SABMiller, we manage our supply chains with a view to the long-term benefits to our operations. These include the availability of key brewing ingredients, such as malted barley, and the stimulus such purchasing gives to local economic growth. On this basis, we have invested extensively in small-scale supplier relationships where these are possible, particularly with smallholder farmers in Africa, India and, increasingly, Latin America, in order to build local agricultural capacity and secure supplies of raw materials. In doing so we bring benefits to our business, while at the same time enhancing our contribution to the development of the communities

we spent US\$10 billion on suppliers around the world, creating wealth and opportunity.

We recognise that all businesses operate in a changing social context. Therefore we continually monitor and adapt what we do to meet the needs of consumers, communities and our businesses. When we are aligned with governments' development priorities and our consumers' needs we really can make a difference. This report demonstrates our progress towards a future that is both sustainable and profitable.

In the following sections we explore our activities in the three strands of our enterprise development programme: supporting smallholder farmers, encouraging local value chains, and developing entrepreneurs. We also detail the net socio-economic benefits they bring, show how our programmes have provided business value for SABMiller and highlight some of the lessons we've learned.

Supporting smallholder farmers

The role of smallholder farmers in our value chain is very important to us and we review the effectiveness of our programmes in this field just as we would any other area of our business. Between January and May 2008, we commissioned PricewaterhouseCoopers (PwC) to carry out an assessment of our smallholder programmes in South Africa, India, Uganda, Zambia and Tanzania. The review covered the socio-economic impact of the programmes on local farming communities, benefits and costs to SABMiller, critical success factors in each country and recommendations for further action. In this section we provide an overview of the findings of this assessment.

What we've done

Our work with smallholder farmers is central to our sourcing strategies in a number of important markets. Since the 1990s our operations around the world have set up programmes to build our relationships with this often marginalised group. First of all we must be clear about our definitions: what is a smallholder? We mean farmers who grow small volumes of produce, depend on family members to do most of the work and hire casual labour only during land preparation and harvesting. The farmers typically only produce on relatively small plots of land (less than 10ha and often a great deal smaller). We work with them to improve the quality of their produce and the reliability of supply so that we can reduce our dependence on imports – and in the process we build employment and help alleviate poverty.

Each of our smallholder programmes has solid commercial objectives, ranging from improving the quality of grains supplied to identifying alternate crops for new innovative products. They also tend to vary widely depending on country or region. In South Africa promoting Broad Based Black Economic Empowerment (BBBEE), a longstanding concern of SAB Ltd, and aligning with the government's agenda in this area, is the main driver. In Uganda and Zambia, smallholder sourcing was central to the launch of a new brand offering, Eagle Lager, a quality sorghum based beer. In India, we are building the quality and security of supply needed to meet the growing demand for our products. While in Tanzania, our emphasis is on securing the supply of quality barley in the face of uncertain commodity prices, and on generating savings on import costs.

However, there are common elements to our strategy everywhere we operate. Typically, we incentivise farmers to grow a particular crop, such as sorghum or barley, by guaranteeing to buy their produce at a pre-negotiated price, usually higher than the prevailing market rate. We set up our first smallholder development programme in South Africa in the 1990s, where we wanted to encourage local barley production to reduce our reliance on imports. This helps around 150 farmers generate an income from barley in the very poor Taung region, where the agricultural infrastructure was underused.

Over 10,500
farmers engaged in our
smallholder programmes in 2007/08

Since 2002, our Ugandan subsidiary, Nile Breweries Ltd, has worked with Afro-Kai, a seed and commodity broker, to create long-term relationships with sorghum farmers. Uganda provides one of our most inspiring projects in this area because it led to the launch of a new innovative product, Eagle Lager, which is now our second largest African beer brand. We estimate that the number of farmers involved in supplying Nile Breweries with sorghum will be around 5,800 each year. However, in 2006/07 this was distorted by a bumper harvest which led to us buying from over 8,000 farmers, with a subsequent temporary reduction to around 1,000 farmers in 2007/08.

More recently, we have provided a new market for sorghum farmers in Zambia, where Eagle was launched in 2005. Our Zambian programme is operated through a contract with CHC Commodities, a grain dealer and brokerage firm, and also involved non-governmental organisations such as CLUSA-Shemp and CARE International in providing technical training to farmers. We were supplied by 2,600 smallholder farmers in 2007/8, up from 214 farmers in the programmes first year of inception in 2004/5.

Finally in Tanzania, our subsidiary Tanzania Breweries Ltd (TBL) sources barley from two categories of farmers: individuals who consist of around 66 medium to large scale farmers and Co-operative Societies with a combined membership of around 700 smallholder farmers. TBL advises farmers on the correct use of agricultural technology, and has started a pilot project to demonstrate the benefits

Smallholder farmers involved in SABMiller programmes

Smallholder programme	Farmers involved in programme (estimated supplemental or seasonal labour in brackets)								Estimated 2009
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
SAB Ltd ¹ South Africa	62 (930)	99 (1,485)	234 (3,510)	221 (3,315)	178 (2,670)	161 (2,415)	161 (2,415)	158 (2,370)	158 (2,370)
Nile Breweries ² Uganda				1,133 (7,933)	1,412 (9,883)	2,900 (20,300)	8,326 (58,283)	1,071 (7,500)	5,800 (40,600)
Zambian Breweries ³					214 (1,296)	3,570 (21,420)	4,000 (24,000)	2,600 (15,600)	2,685 (16,110)
Tanzania Breweries								686	686
SABMiller India						1,574	2,347	6,024	7,500
Total	62	99	234	1,354	1,804	8,205	14,834	10,539	16,829

1. Temporary positions created due to hire of labour during harvesting, from 10-20 per producer
2. Farm hands - involved in farming, harvesting/cleaning, and bulking – average of 7 dependents per farmer
3. Farm hands - involved in farming, harvesting/cleaning, and bulking – average of 6 dependents per farmer

of good practice. TBL also organises farmer days to facilitate information sharing and has arranged for the agricultural university to provide agronomic training.

In 2005 we moved beyond Africa to initiate our smallholder development programme in the Rajasthan region of India, where we launched a new project called Saanjhi Unnati ('Progress through Partnership'). Working initially with the Indian government, Cargill India Inc and the Morarka Foundation, this project improves the quality and volume of locally grown barley whilst providing opportunities for small-scale farmers to enter the supply chain. The programme has grown rapidly buying from over 6,000 farmers in 2007/08, with extensive further services offered to farmers including low cost seeds and agricultural advice. Currently 20% of SABMiller India's total barley usage comes from this programme.

Socio-economic benefits

Our smallholder programmes have created or improved employment and raised income levels among disadvantaged farming communities in Africa and India. We also offer financial and technical assistance, provide fertilizers and seeds, give advice, business and finance training, and support them throughout the farming process to ensure that they build capacity and sustainability. In some countries

we provide an active agricultural extension service and crop insurance to cover losses from natural disasters. As a result of our support, a number of farmers have been able to buy assets such as land, vehicles and farming equipment.

The above table shows the growth in the numbers of farmers involved in our programmes in recent years. We create additional jobs through temporary labour hire during harvesting. This extra job creation creates more demand for services from other local dealers and contractors.

Many of the farmers taking part in our smallholder programmes have been able to move from subsistence based agriculture to a small-scale agribusiness model and have more disposable income to improve their lives.



For example, those in our South African scheme have average incomes of around US\$12,000 a year, which is considerably higher than the income of other comparable farmers in that area. In South Africa the benefits go well beyond income though. We also provide additional financial and business support through interest-free loans and bookkeeping courses, on-the-job mentoring and coaching in improving agricultural techniques, help with securing suppliers and contractors at fair prices, and ensuring they get appropriate legal advice. We also play an advocacy role, often supporting farmers in their dealings with local government.

Our Ugandan farmers have received over US\$3.6 million through the programme over the past four years, providing an average supplemental income of around \$250 per farmer over and above their subsistence farming, with each farmer supplying an average of 1.4 tonnes of sorghum each year. These incomes have helped farmers to broaden their choice of food, homes and education for their children, ensure access to health services and to potentially invest further in their own businesses by buying more farming equipment. As well as supporting the farmers with loans, training and advice we have also financed entrepreneurial skills development for 66 farmers to help them develop their business acumen.

The Ugandan experience of a surplus sorghum harvest, when we honoured our contracts and therefore built up a major surplus, has taught us some valuable lessons. It demonstrates the need for thinking ahead and better planning when working with smallholder farmers. PwC's review



suggested that management issues such as this have frustrated farmers. Possible solutions to remedy this issue include selective distribution of seeds to limit harvests, identifying specific communities for long term supply relationships and more timely communication with farmers.

In India, we pay our farmers a preferential price, which in 2007/08 was around 5% higher than the open-market rate. Overall in the 2006/7 season the average farmer price has increased by about 15% since the start of the programme, which we believe has an impact on their disposable income.

Knowledge transfer plays a critical part of our programme in India. A series of workshops and field-level training sessions have been carried out which guide the farmers and provide them with knowledge on improved cultivation practices. Each Saanjhi Unnati Centre has two professional agriculturists, who visit and inspect the fields of the member farmers every 10-15 days and provide agri-consulting services to the farmers on the best practices for barley cultivation. Recommendations and instructions relating to seed treatment, time of irrigation, method of fertilizer application, weeding practices, time of harvesting and storage practices are given to the farmers. This advice is available to farmers outside of the scheme as well. In 2007/08, about 5,000 non-members have benefited from this service.

Business benefits

Generally, the business benefits of our smallholder schemes have exceeded the cost of the programmes, sometimes significantly. In India, for example, smallholder sourcing is a central pillar of our procurement strategy and has helped us secure the supply of barley needed to meet our growth targets. Having higher quality inputs has enabled our business there to reduce the cost of the brewing process, improve quality and extend the shelf life of our products, helping us build a market share of over 35% in one of the world's high-growth economies.

We have also improved our relationship with the Government of Rajasthan, which has been actively

involved in supporting the programme, particularly during 2005/06 and 2006/07 when it joined our in initial meetings with farmers.

In Uganda and Zambia, sourcing sorghum from smallholders qualifies us for low excise rates (20% in Uganda, compared with 60% for other beers, and 35% in Zambia, compared with 75% for other beers), allowing us to sell the product at a third less than lagers using imported barley. Therefore consumers on low incomes can move from informal alcohol to buying more, affordable, quality products through the formal system.



This has in turn generated sales revenue for Eagle Lager of around US\$43 million a year in Uganda. Through the lower excise rate a new market segment has been created, providing the Ugandan government with additional excise revenues of US\$6.8 million and VAT of US\$4.8 million in 2007/08. Other benefits include better understanding and stronger relationships with government agencies and departments and positive media coverage locally and internationally. In Tanzania, our subsidiary Tanzania Breweries Ltd has made a 25% saving on import duty by sourcing barley locally, and helped to streamline and secure our supply chain. This is particularly important in a volatile market where commodity prices can rise rapidly. We have also improved our reputation by creating jobs in the agricultural sector, which is seen as vital in tackling poverty throughout the country.

In South Africa the Taung smallholder programme has helped SAB Ltd achieve a score of 81% on the enterprise development component of its BBBEE scorecard, enhancing our reputation on this critical issue in South Africa. Meanwhile, we have established a sustainable local source of barley, which has reduced import duties and foreign exchange risks.

Summary of PwC findings

During January – May 2008 PwC interviewed a cross section of SABMiller management involved in our smallholder sourcing programmes, reviewed a selection of our management information and met with a sample of farmer representations, NGOs, government officials and other stakeholders.

Based upon the information we and others provided, PwC's findings included that:

- **Socio-economic benefits** delivered by the programmes have included over 10,000 jobs created, or improved in 2007/08 for farmers working in disadvantaged regions of Africa and India
- The schemes have also provided SABMiller with **business benefits** which in most cases appear to exceed, sometimes significantly exceed, costs of the programmes.
- As illustrated by the SABMiller India smallholder programme, conditions that illustrate a market's potential suitability for smallholder sourcing include **rapid sales growth** of our products, coupled with **under-supply of agricultural inputs**.
- Challenges and risk encountered included: developing good working relationships with the **full range of NGO, government and other stakeholders** needed for successful programmes; lack of participation of **micro-finance institutions** in programmes; and the need to ensure water scarcity risks are fully managed.

PwC also provided us with a range of observations as to how we might more fully integrate smallholder sourcing into our sourcing strategy development and core processes.

We reviewed these findings carefully, held workshops internally with relevant stakeholders and have already started to implement a number of their proposals. In doing so we aim to appropriately scale up smallholder sourcing in a way that generates commercial value for our business, and also improves the lives of those in the communities in which we operate.

Learning and areas for improvement

In July 2008 we invited a group of experts, including representatives of governments, non-governmental organisations and think tanks, to a review meeting at Chatham House, London, to discuss the findings of the PwC review and to make suggestions for further activity.

Through this work perhaps the most important thing we've learned is the importance of partnerships in maximising the success of our smallholder projects, as opposed to fully insourcing or fully outsourcing management of these relationships. The diagram below shows the range of arrangements we have in place in this regard for the programmes that were covered in the PwC review.

In South Africa, our first smallholder programme uses an almost entirely insourced approach. This allows a great level of control, but means that our managers have to carry out tasks that are not necessarily core competencies, which reduces efficiency. In Zambia, we use an almost entirely out-sourced model. This has the opposite effect – our managers don't always have sufficient control, making it more difficult to get to grips with problems and to engage directly with farmers.

Both of these programmes have therefore encountered difficulties. In South Africa the programme has not grown beyond a small number of farmers and without further government support to renew irrigation infrastructure is likely to decline further. In Zambia there has been some sourcing

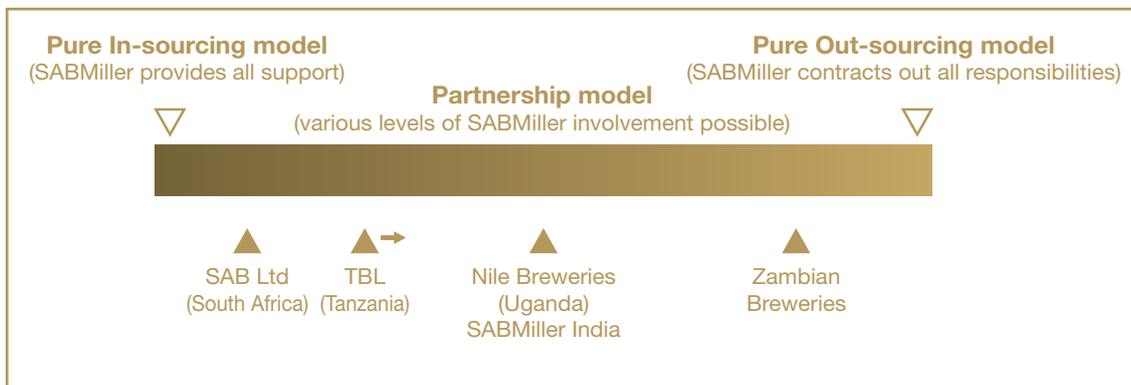
from commercial farmers rather than smallholder farmers: whilst sourcing from commercial farmers is neither good nor bad per se, given that the Eagle business model is explicitly a smallholder based sourcing model, this needs to be rectified.

In contrast, in both Uganda and India we use a partnership model, which offers the best mix of involvement and efficient and relevant participation from other organisations which offer complementary skills. Our programmes in these two countries have been more successful as a result, and we are now considering how best to apply their model to our other programmes. We already apply it in Tanzania, with partners performing key activities while we retain overall control.

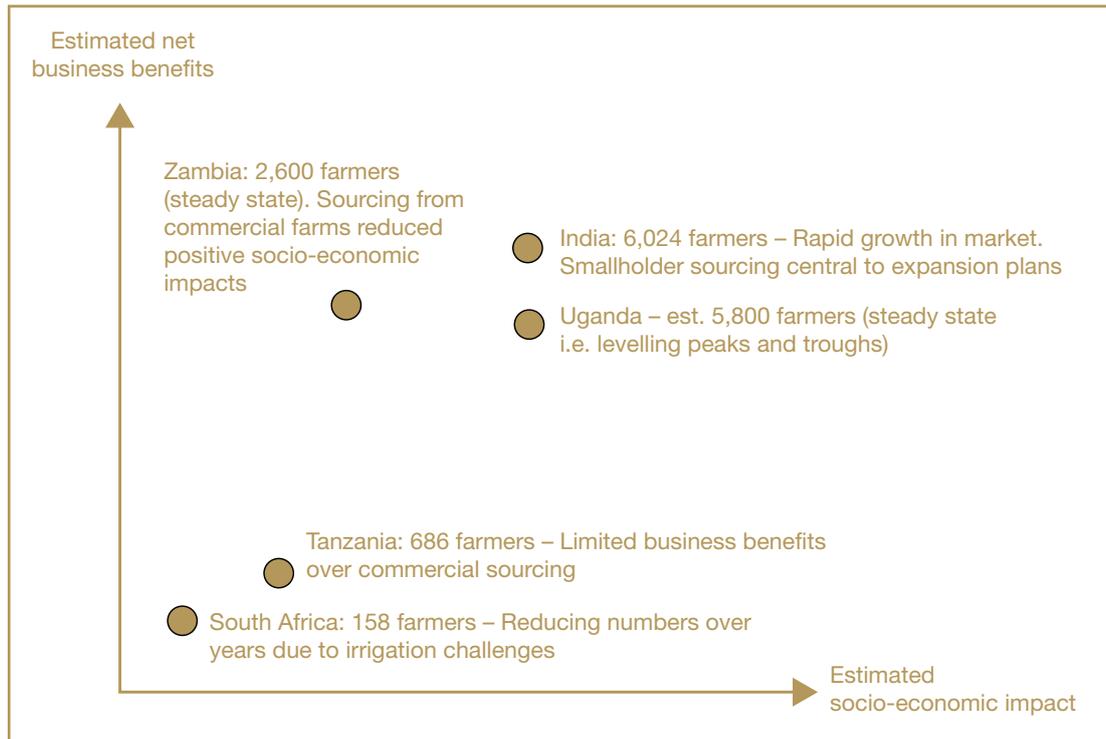
The diagram on the following page from PwC shows a high level analysis of the indicative business and socio-economic benefits of the programmes. When compared with the organisational structures discussed above it is clear that the partnership model offers the best solution for smallholder farming management.

To be able to establish and manage partnerships effectively our managers must have a complete understanding of the business benefits of initiating a smallholder programme, quantify them using a consistent methodology and make planning and investment decisions based on an analysis of their likely impact. They must also communicate the findings of this analysis to internal stakeholders and potential external partners.

Management approaches to SABMiller smallholder programmes



High level overview of smallholder programme performance



The quality of natural resources and the physical infrastructure in areas where our programmes operate are other critical success factors, especially in terms of irrigation, soil properties, electricity and transport. More broadly, we must develop a better understanding of how environmental challenges such as climate change and water availability might affect our long-term success.

Next steps and new countries

The strong sales of Eagle Lager have enabled us to greatly increase the amount of sorghum we source from local smallholders in Uganda and Zambia. In India, we are aiming to increase to 50% the amount of quality barley we source via direct partnerships, including smallholders, in order to support the expected growth in our sales.

While in Tanzania we plan to increase production significantly over the next few years, which will result in expanded markets for local farmers.

Our programme in Ghana makes increasing use of locally grown maize as part of its import substitution strategy, which has saved the business the equivalent of around US\$2.8 million in foreign exchange. To support this move to local sourcing, our operation there has assisted a local mill in establishing an out-grower scheme to supply the maize. The success of this programme has resulted in 4,000 smallholder farmers being active participants in the scheme while an additional 20,000 people are hired by the farmers as season field hands.

We are also considering other expansion opportunities for barley growing in Uganda and Tanzania, whilst evaluating the use of further crops such as cassava as a replacement to maize in our brewing operations.

Within the last year our Latin American operations have also begun to develop their own smallholder programmes. In Peru, we source maize from 120 local smallholder farmers, and our target is to source 10% of all the maize we use in the operation from them within a few years. In Ecuador we've begun a programme for rice production, and in Panama we're helping 46 smallholder milk farmers step up to become grade A producers by offering training and helping them obtain better equipment.

Sourcing Rice in Ecuador

Broken rice is used as a key raw material in a number of our operations in Latin America. Unfortunately a number of traditional rice farmers in the region have begun to move towards other crops used for the growing bio-fuels industry. As a result, in Ecuador, stock levels have dropped and associated costs of rice have risen significantly.

To address this, our local operation Cerveceria Nacional, working with government and local partners, has initiated a rice growing programme to help reduce reliance on imported crop and also stabilise rice prices in the local economy. The result of the partnership was the formation of a body known as "Inclusive Business" which is an entrepreneurial initiative that contributes to addressing poverty through the inclusion of poor members of the community.

The program has already begun to show good results with 1,970 tonnes of broken rice being produced on 2,347 acres of land. In addition the project has stimulated the creation of over 900 agricultural jobs in some of the more rural areas of the country.



Investing in our value chain

In addition to our smallholder programmes, we also explore other opportunities to source locally with the associated benefits of lower logistical costs, zero import duties, reduced inventory costs and shorter, more visible supply chains. The benefits to local industries can be substantial in terms of investments in our suppliers' capabilities and employment.

However, our local suppliers and distributors must be able to guarantee the quality and quantity of the raw materials and service that we need. To ensure that they do, we offer advice on quality management systems and provide technical, procurement, logistical and commercial support. We also train our local procurement teams to identify potential producers who can be integrated into our supplier partnering and development programme.

South Africa

South Africa provides many good examples of how our value chain investment is paying off. For instance, our subsidiary SAB Ltd is one of the few companies that can deliver its products to any area of South Africa within 24 hours of an order being



placed. This capability owes much to an Owner-Driver programme introduced in 1987, which aimed to improve the reliability and timeliness of deliveries, enhance customer service and productivity, and enable employees to become independent businesspeople. We've invested US\$312 million in the programme creating 1,000 jobs and establishing 248 sustainable businesses, which make 65% of all SAB deliveries.

Following the success of this initiative, SAB created two further schemes in its value chain. In 2003 it set up the Mahlasedi Taverner Training programme, to encourage unlicensed shebeen (bar or tavern)

owners to acquire licences, business skills and sell liquor responsibly. More than 12,000 taverners have been trained, and many have reported impressive and sustainable improvements in their business. Average monthly sales have increased by 30% and there's been a 29% reduction in debtors, with 40% growth in savings and investment. In 2004 the company created a Customised Delivery Service programme, which recruits successful entrepreneurs to run fleets of trucks to deliver beer to small bars and taverns.

3.3% of GDP

SAB Ltd's value chain contribution to the South African economy in 2007

At the other end of the supply chain, we also buy our bottle crowns from Johannesburg-based Coleus Packaging, actively promoting their services and securing additional business for them in Africa with our business partners, BGI - Castel. In addition, 40% of Coleus is owned by local black economic empowerment business, Nokusa Packaging, furthering the SAB's aims of supporting government programmes.

But this is just one part of our contribution to the South African economy. Independent research carried out by The Bureau for Economic Research (BER) shows that in 2007, in addition to directly employing 8,780 workers, 75% of whom are from disadvantaged groups, we also contributed to the employment of more than 378,000 people whose jobs are connected to the production and sale of our products. That's 3% of all the jobs in South Africa. Meanwhile, the total contribution of our value chain to South Africa's economy was R51bn in 2006, or 3.3% of GDP, and the taxes derived directly from the production and sale of our products amounted to US\$1.2 billion.

Africa

In Mozambique and Tanzania we became the first industrial sugar user to buy locally grown sugar instead of relying on imports, buying US\$6 million a year worth of sugar in these two countries. In Angola, we use local suppliers for the majority of our bottle supplies. To make the relationship as productive as possible, we offer technical, procurement, logistical and commercial support.



For the last eight years our subsidiaries in Uganda and Tanzania have sourced nearly all their labels, worth US\$5 million per year, from just two local companies: Graphic Systems Uganda Ltd and Tanzania Printers. To ensure these companies matched the standards we expect of our suppliers, we helped them set up appropriate business systems and recruit workers, and we carried out audits and training. We also assisted them in obtaining ISO9002 certification.

Latin America

In Peru, micro and small sized businesses form a large part of the country's economy. Unfortunately the majority of these, around 74%, operate in the informal economy. This situation has brought about a number of constraining factors hampering the growth of business such as the lack of and access to capital, low technological advancement and poor information flow.

As a response to the situation our local operation, Backus, has initiated the "Progresando Juntos" programme, which aims to promote and develop micro and small enterprises and integrate these into the company's value chain. Through this intervention, the company is attempting to improve the performance – in terms of efficiency, productivity and quality – of potential and existing suppliers in the agricultural and service sectors.

The programme, started in 2008, consists of four specific elements: Capacity Building, Consultancy, Certification and Access to Credit. The programme is run in partnership with a number of other partners such as: local municipalities; chambers of commerce; and respected local institutions (Instituto Peruano de Acción Empresarial and the Centro Ecumenico de Promoción y Acción Social) which provide capacity building and agricultural extension services.



In July 2007 we awarded a five-year contract to Nampak Southern Africa Holdings to set up a local can manufacturing plant in Angola, initially producing around 600 million cans a year and covering all our requirements in that country. This venture will bring around US\$15 million in savings for our local operations and contribute to local communities through job creation and skills training, as well as

the importation of world-class equipment and a reduction in the quantity of imported cans, which will all be beneficial to the Angolan economy.



The training for service and raw material suppliers is run over a ten month period during which delegates gain information on business structures, marketing, finance and accounting and quality. The first courses took place in the cities of Lima, Chiclayo, Cusco, Trujillo and Huancayo, with over 270 participants being trained.

Finally in order to address the issues of the informal economy, and complement the existing training, Backus is also working with both central and local governments to reduce red tape hindering development and the promotion of formal businesses.

Reviewing our progress

As with all our enterprise development schemes, our value chain programmes must be commercially viable and sustainable. For local suppliers to be able to flourish an effective business environment is needed, including good infrastructure and good corporate governance.

We have learned that, right from the outset of any project, we need to act as a mentor to our suppliers to ensure we share the same expectations – and to secure consistency and quality of supply, service and price. Our suppliers must be ready and willing to grow and adapt to our needs in terms of new products and technology. We believe there is still much potential to be unlocked through working with local suppliers, not only in terms of direct benefits to our own operations, but also the ability of these suppliers to broaden their customer base through becoming better managed businesses.

Developing entrepreneurs

If an economy is to grow and provide opportunities for companies like SABMiller, it needs to offer the right context for the creation of small and medium enterprises (SMEs). These enterprises are critical to economic growth, because they have an entrepreneurial role in meeting the needs of local consumers and larger businesses, creating jobs quickly and improving local incomes.

We have five main entrepreneurship initiatives – in South Africa, Hungary, Colombia, the United States and Botswana – through which we provide grants to hundreds of young entrepreneurs. The competitions are generally for young people aged between 18-35, and encourage them to transform their ideas and activities into self-sustaining, growing companies.

We've helped to set up hundreds of new businesses, which have spurred economic growth, while the entrepreneurs we've supported have been able to invest in housing, education and food security for their families and communities.

Supporting sustainable entrepreneurs

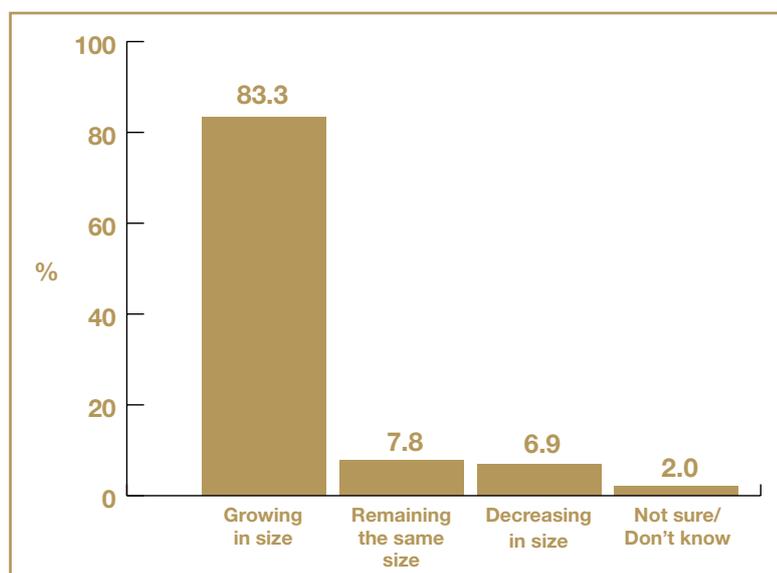
Applicants for these programmes have to satisfy several stringent conditions. For example, they must have a viable business idea that can create employment, generate income, help diversify the economy and be sustainable. We carefully review all the applications and give business training to

the most promising people, before carrying out interviews to determine those we will invest in. Successful applicants are given help in developing their business plans, and receive start-up capital, mentoring and assistance with such matters as financial performance, marketing and strategy.

Since 1999, the Miller Brewing Company, now MillerCoors, has run the Urban Entrepreneurs Series programme in America, focusing on Hispanic and African-Americans. Working with several community-based organisations across the country, this offers comprehensive business support services for urban entrepreneurs who are 21 and older. To date, the competition has awarded nearly US\$1 million in grants.

Our US\$5 million KickStart programme in South Africa has been supporting young entrepreneurs since 1995, becoming one of the private sector's largest entrepreneurship development projects. KickStart has given business skills training to more than 22,000 young entrepreneurs, enabling more than 2,200 fledgling small businesses to be set up across the service and manufacturing sectors. About 80% of these businesses are still growing, which demonstrates the success of our mentoring service.

SAB Ltd KickStart 5 Year Review (2001 - 2005) – Current status of businesses supported



In 2006, we launched Destapa Futuro (Uncover the Future) in Colombia – the biggest enterprise development programme in the country. Since then we have invested US\$4 million, with 120 entrepreneurs awarded with seed capital, 900 entrepreneurs trained on business plans and 800 new jobs generated thus far.

The programme's website also offers an important social exchange and networking opportunity for current and potential entrepreneurs. Through this programme we aim to generate 30,000 new jobs in the next 10 years in Colombia, creating significant socio-economic benefits for the country.

Destapa Futuro has also provided an important channel through which to engage key officials in government, investors and the public regarding the value of enterprise development in the economy.

Our programme has been endorsed by the Colombian President, Alvaro Uribe Velez, who hosted the first national awards in 2006 in the Presidential Palace. At the event he profiled Bavaria as an example of how a company can address socio-economic issues while at the same time still operate in a profitable manner.

In March 2008, our Hungarian operation, Dreher, announced the results of its second annual 'Young Entrepreneur of the Future' competition, where the winners received business support and a share of over US\$37,000 in prize money. The programme is aimed at college and university students taking economics and business studies courses. They compete for start-up capital and professional advice to help them to launch their enterprise.



Overview of SABMiller Entrepreneurial Development Programmes

Country	Name of Programme	Year Established	Total Budget 2008/09 (US\$)	Number of Grants Awarded 2008/09
Botswana	Kickstart	2004	186,200	5
Colombia	Destapa Futuro	2006	2,160,000	60
Hungary	Young Entrepreneur of the Future	2006	97,000	3
South Africa	KickStart	1995	937,300	35
USA	MillerCoors Entrepreneurs Series	1999	565,000	5
			3,945,500	108

Working with partners

As with the majority of our enterprise development programmes, our entrepreneur development programmes are supported by an array of business partners who not only lend credibility to the schemes but also ensure the best possible support is given to budding new business entrants.

The MillerCoors Urban Entrepreneurs series for example is supported by Flowers Communication Group, one of the largest multicultural marketing organisations in the US, making it well placed to execute the programme in ethnically diverse areas. In addition, MillerCoors has a number of other partnerships with organisations including: the Atlanta Business League, the Greater Harlem Chamber of Commerce and the University of Wisconsin. Similarly, Kickstart in South Africa partners with a number of leading forums such as the Black Management Forum, and the Women in Business Forum.

All our programmes make use of experts from the business community to act as mentors and/or judges on adjudication panels. This ensures we have a wide and diverse range of perspectives when evaluating applicants and that all plans are considered from a number of perspectives.

One of the main lessons from our entrepreneurship programmes is how we ensure that our programmes are best suited for changing national economic environments and government priorities. In South Africa we are adapting our strategy to deal with declining levels of youth entrepreneurship, and in Hungary we are considering expanding the programme to include students from a wider range of academic backgrounds.

Young entrepreneurship – the benefits for Hungary

Given the relatively recent transition from a controlled to a market economy in Hungary, encouraging young entrepreneurship is an important feature of economic development. Our programme, the only scheme of its kind in Hungary, created six brand-new businesses in its first year, five of which continue to go well while the other is still operating but dealing with some operational challenges. All six companies have received financial, marketing and tax advice as well as an initial grant.

Entrepreneurship in action – USA

The MillerCoors scheme enabled two entrepreneurs, Willie Bass and Majaliwa DeRamus, to set up DeBass Recycling (www.debass-recycling.com), a company that helps people protect the environment by recycling household waste in and around Dallas. For a small fee, the company picks up recyclables from the doorsteps of blocks of flats and other multi-unit dwellings – making it easier and more convenient for people to do their bit to protect the planet.



Destapa Futuro in action – Colombia

Destapa Futuro helped three young students from the Universidad de La Salle to set up the Ever Green Food Company, specialising in fruit processing. They used the US\$75,000 that Destapa Futuro gave them to purchase machinery and invest in product packing and marketing. The company is now providing plenty of business for fruit pulp and dehydrated fruit traders in the Colombian markets.



Our ongoing strategy

Our enterprise development activities are an important element of our overall business, so we evaluate our programmes in this area just as we do all other aspects of our work. Our objective is continually to improve the value added to our business and to communities, based upon comprehensive reviews of our activities.

We are developing a detailed plan for future action and we're already acting on a number of the findings made by PwC in its review of our smallholder programmes. These included:

- Quantifying the business case for our programmes more effectively
- Extending our data collection
- Improving the way we report our activities to stakeholders

Partnership will be a key component of our enterprise development programmes. We've learned that partnerships with other stakeholders – governments, non-governmental organisations, other companies and micro-finance institutions – provide the best route to success for our initiatives. They give us access to skills and knowledge that we don't necessarily have, greatly enhancing our impact and complementing our global reach, scale and technical expertise. We've learned that partnerships are most likely to succeed when they are based on a sound business case that can meet the needs and expectations of all parties, with each partner contributing expertise and resources.

We've also committed ourselves to a number of new initiatives which include expanding our existing programmes and spreading into new territories. To complement these new initiatives we are creating comprehensive toolkits for our operating companies, based on our learning from the PwC review and other internal and external resources. These will help them determine the viability of running their own enterprise development programmes, and give them guidelines on how best to set them up and improve existing programmes.

Increasing the number of farmers involved

In total we hope to expand the number of smallholder farmers from around 10,500 in 2007 to 30,000 in 2012. Over the next year, in conjunction with our partners, we will be identifying areas where we have the ability to increase the tonnage of crops under cultivation, and hence farmer participation, in a number of our markets.

In India, for example, we are looking at increasing barley cultivation by 35%, which would need the involvement of 1,400 more farmers.

35%
Planned increase in smallholder barley production in India

In Tanzania we are exploring sourcing an additional 40,000 tonnes of barley each year through programmes in the west Kilimanjaro area and the southern highlands. While our operations in Ecuador are similarly looking at expanding their rice growing programme with the aim of having 70% of the company's needs being met by local farmers by 2009.

Trialling new crops

Alongside expanding local sourcing into new markets we are also studying the feasibility of introducing new crops to our existing smallholder programmes, such as barley and cassava in areas that have grown only sorghum until now. In Uganda, our agronomists have visited a number of areas to decide whether barley can be cultivated, and initial results have been positive. We estimate that there is potential for around 10,000 acres of land that could be planted with barley. Our operation in Zambia will be reviewing the potential for cassava cultivation in that country as an alternate carbohydrate source required for the production of beer.

In Colombia we are assessing the potential for local maize farmers to supply our operations with 2500 tonnes of product per annum by 2010. In July we began running trials in the supply chain by procuring 90 tonnes of maize for quality trials.

Sourcing locally in more markets

To lessen our reliance on imported raw materials and reduce the direct impact of global commodity cost cycles, a comprehensive project has been launched to promote and extend smallholder agriculture initiatives in a greater number of countries in which we operate. This will not only maximise the supply of locally produced raw materials but also improve the socio-economic benefits.

Providing better extension services

Finally we will be looking at how we can extend services to some of our initiatives. In India for example our operation is looking into integrating further social development programmes into their barley sourcing programme. Activities include providing market linkages for dairy produce to women from member farmer families and providing education scholarships to young people from member farmer families. Our goal is to assist in the overall development of rural communities which have become important parts of our supply chains.



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