SABMiller plc

Our Approach to Tax 2016

Contents

About SABMiller

We are in the beer and soft drinks business. We bring refreshment and sociability to millions of people all over the world who enjoy our drinks. We do business in a way that improves livelihoods and helps build communities.

We are passionate about brewing and have a long tradition of craftsmanship in making superb beer from high quality natural ingredients. We are local beer experts. We have more than 200 local beers, from which we have carefully selected and nurtured a range of special regional and global brands.

During the year we sold a total of 331 million hectolitres of beverages, including 249 million hectolitres of lager. Our revenue was US$19,833 million with EBITA of US$5,810 million.

Taxation highlights

US$19,833m
Revenue
2015: US$22,130m

US$5,295m
Adjusted profit before tax
2015: US$5,642m

26.3%
Group effective tax rate
2015: 26.0%

US$9,507m
Total tax contribution
2015: US$10,639m

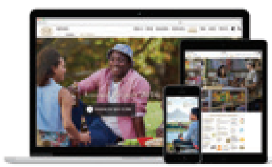
US$4,938m
Taxes on production
2015: US$5,596m

US$1,315m
Taxes on profit
2015: US$1,439m

The decline in amounts from 2015 to 2016 reflect the currency translation effect on our reported results of the depreciation of our key operating currencies against the US dollar. We do not include tax contribution information from our associates.

Further information

For more detailed information about SABMiller please refer to our website **www.sabmiller.com**



Key to further reading:

Read more online

Read more in the referenced report

Read more in this report

Foreword

We operate in more than 80 countries and our business activities and value chains contribute significantly to economic growth; by creating and sustaining jobs, supporting markets, and through the payment of taxes. We take a holistic approach to tax and aim to provide a responsible and sustainable outcome in the interest of all our stakeholders, aligned with our broader sustainable development vision.

Domenic De Lorenzo
Chief Financial Officer

In the year ended 31 March 2016, our total tax contribution was US$9,507 million, with some 70% paid in developing economies. Our contributions have broadly grown in line with the developments of our business and have also grown through higher statutory rates. Despite this, the translated effect of significantly depreciating local currency rates against the US dollar has resulted in a small overall decrease in our total reported US dollar contribution compared to last year.

Public scrutiny of corporate and individual tax arrangements has intensified with high levels of societal mistrust, in particular of 'big business'. The global tax landscape is complex and disjointed, and there is growing consensus about the need for a more coherent global system to serve an increasingly globalised economy. However, there is not yet agreement on exactly what this would look like or how it might be achieved.

It is essential that business in general engages to address these challenges and perceptions and that we proactively contribute to help to find a simpler, fairer and more sustainable global tax system. We welcome the increasing levels of focus and productive debate on tax. This report sets out both our approach to tax and our view on some of these critical issues, which we hope will make a meaningful contribution to these discussions.

We have worked with the Organisation for Economic Co-operation and Development (OECD), governments and other bodies to provide our perspective on the potential impact that changes to the international tax system would have on an organisation such as SABMiller.

We look forward to the OECD's forthcoming work on the remaining Base Erosion and Profit Shifting (BEPS) actions and more opportunities for the OECD, business and stakeholders to constructively engage. In our view, it is critical for any new regulations to be clearly defined and consistently implemented throughout the international tax system, to ensure transparency and balance. This equally applies to the EU Commission's recent announcement on European public country by country reporting.

Improvements in local tax administration and revenue collection capabilities are essential and we have sought to actively advance this. From extensive, multi-stakeholder conversations we have developed a view on areas requiring focus. These include tax audit administration, development of sound tax policy, and transparent and efficient tax processes. We believe a joint approach with other companies, in dialogue with other stakeholders such as non-governmental organisations and think tanks, is the best way for multinationals to engage and we are encouraged that this is happening through initiatives with which we are involved, particularly in the UK and South Africa.

Read more on page 17

We welcome the developing UK requirements for large businesses to publish their tax strategies. The publication of a clear tax strategy enables stakeholders, including governments, to better understand companies' approach to tax, creating a platform for more informed and productive discussions. We would welcome other countries adopting similar measures to encourage tax transparency.

The purpose of Our Approach to Tax is to enhance our tax disclosure and to publicly share information on how our approach is guided. However, we also believe that the contribution of business to development goes far beyond simply collecting and paying taxes. It is vital that tax is considered as part of business's wider contribution to sustainable development. Subsequent pages of this report highlight how our business activities are stimulating growth and supporting improved livelihoods in some of the countries where we operate.

Read more on page 6

This is our fourth voluntary report on our approach to tax; and each year we work to provide enhanced levels of transparency. The recognition we have received is supportive of the direction we have taken, and the impact this has in building public trust. We hope that this edition will continue to be helpful, but it is only a step in a complex and multi-faceted journey – the conversations and challenges are ongoing and we look forward to continued learning and engagement on these important issues.

Domenic De Lorenzo
Chief Financial Officer
June 2016

US$9,507m
Total amount of tax contributed around the world.

Our contribution to economic development

We want a thriving world where incomes and quality of life are growing.

In September 2015, world leaders formally adopted the United Nations' Sustainable Development Goals (SDGs), which set the agenda for sustainable development up to 2030. Unlike their predecessors, the Millennium Development Goals, the SDGs are explicit in the need for multi-stakeholder engagement, including a key role for the private sector.

Following the adoption of the SDGs a key challenge for national governments and multilateral organisations is that of financing the delivery of the SDGs. It is anticipated that much of this will come from strengthening domestic resource mobilisation to improve domestic capacity for tax and other revenue collection.

Our greatest impact on the SDGs will come from our core operations and our value chain – through the jobs we create and sustain, the economic growth and investment that we stimulate, the way we steward natural resources, and the high standards of responsible behaviour that we set for ourselves right across our business.

Businesses create jobs, develop markets, and stimulate economic growth. Yet too many people are excluded from the positive impact of economic growth. The SDGs seek to tackle poverty, but also broaden the concept of development to encompass the provision of decent work, enterprise development, women's empowerment, and reduced inequality.

Read more about SABMiller and the SDGs at **www.sabmiller.com/prosper-and-the-sdgs**

Generating economic value

Through our activities we generate economic value. Our value drivers are our people, our brands, our distribution capability and our ability to execute in market. These have created market leading positions which enable us to achieve economies of skill and scale. The value created from revenue we raise, our interest and dividend receipts, royalty income and proceeds from the sale of assets, is then distributed among our various stakeholders – to our suppliers for their operating inputs, to our employees for their labour, to our shareholders and lenders for their funds, to governments for the country infrastructure in which we operate and to communities to fund social investment activities. The remainder is kept within our business and reinvested to fund future growth.

Our economic distribution to governments is in the form of taxes generated from our activities.

Direct economic value generated[1]

Revenue of US$19,833m plus interest and dividend receipts, royalty income and proceeds from sale of assets

US$ 21,640m

> *Our value drivers are our people, our brands, our distribution capability and our ability to execute in market. These have created market leading positions which enable us to achieve economies of skill and scale."*

One of the most powerful contributions we make to these goals is through direct and indirect employment, and through the value we generate in our operations, our value chain, and local economies. In the year we generated US$21,640 million of economic value through our business activities, most of which was distributed to employees, shareholders, governments, and local communities.

We are committed to accelerating growth and social development through our value chain to support our business growth, and the communities around us.

Why it pays to think small

Small- and medium-sized enterprises (SMEs) account for nearly 70% of global employment[1]. The SDGs emphasise the critical role that these small businesses play in creating jobs and economic growth, especially in areas of high unemployment, poverty, and poor social mobility.

SABMiller buys from or sells directly to approximately 1.5 million small businesses worldwide. Our business relies on the ability of suppliers, farmers, distributors, and retailers to survive, grow, and prosper with us. That is why we have committed to support over 500,000 of these small businesses to enhance their growth and livelihoods. So far, we have reached over 175,000.

[1] International Trade Centre, 2015.

Economic value distributed					Economic value retained
Operating costs Costs of materials, services and facilities.	**Employee remuneration[2]** Cost of employees' salaries and benefits.	**Payments to capital providers** Financial payments made to the providers of the company's capital.	**Payments to tax authorities[3]** Tax paid, including remittance taxes and excise taxes.	**Community investments[4]** Voluntary contributions and investment of funds in the broader economy.	Value retained for corporate and operational purposes, including funding future capital expenditure and acquisitions.
US$ 7,923m	US$ 2,145m	US$ 2,672m	US$ 6,253m	US$ 28m	US$ 2,619m

[1] This table is constructed based on data contained in the SABMiller 2016 Annual Report and follows guidance recommended by the Global Reporting Initiative (GRI EC1). This table contains only subsidiary data
[2] Excludes share option charges, includes employer taxes and social security contributions
[3] Excludes VAT, indirect taxes and taxes borne by employees
[4] Includes cash donations, value of gifts in kind and time donated, and management costs of corporate social investment activity

Our contribution to economic development continued

Our Go Farming local sourcing strategy in Africa plays an important part, now reaching over 43,000 farmers directly.

Since its launch three years ago, our 4e Path to Progress programme in Latin America has provided over 20,000 small retailers – "tenderos" – with business and leadership training, in partnership with the Inter-American Development Bank (IADB) and FUNDES. Participating tenderos have reported a 13% average sales growth in the year post-training. This year, building on an approach pioneered by our Backus subsidiary in Peru, we broadened the programme to include access to micro-finance and technology. In Peru, providing tenderos with access to finance helped save the business over US$1.4 million in reduced cash-handling expenses.

During the year, we launched a region-wide retailer development programme in 13 African markets, learning from our experience in Latin America, and we piloted programmes in Europe.

Read more about how we are supporting retailers in Africa at **www.sabmiller.com/africaretailersupport**

Locally grown livelihoods

In rural Mozambique, more than half the population lives on less than $1.25 per day[1]. Cassava is a key crop and an important source of food, but despite an existing surplus and huge opportunity for increased production, it remains uncommercialised because it degrades very quickly after harvesting and must be processed almost immediately.

As Mozambique's leading brewer, Cervejas de Moçambique (CDM) had a unique opportunity to tackle multiple challenges through a single initiative: the launch of an affordable, cassava-based clear beer called Impala.

The first beer of its kind in the world, Impala uses cassava which is processed immediately after harvesting by a mobile unit, into a high quality 'cake' suitable for brewing.

The cassava is sourced from small scale farmers, making a direct and substantial contribution to farming livelihoods. The Mozambican government agreed to a 10% excise rate for cassava-based beers, instead of the standard 40%. This enables it to be priced at an affordable level, offering consumers a viable and safe alternative to informal home brews which are often poor quality and can pose serious health risks.

Between its launch in October 2011 and January 2016 around 140 million bottles of Impala have been sold, making it the third-most-popular beer in CDM's range.

By providing a market for their surplus cassava, Impala has so far benefitted 8,000 farmers and their families – around 40,000 people in total. Access to a stable market, coupled with support to deploy better agricultural techniques and supplies of improved cassava varieties has led to farmers increasing their yields and their incomes. Felicidade Chissico, a farmer in northern Mozambique, says "I managed to build my house, bought a bed, some chairs and I provide for my children, who can now go to school."

By January 2016, cassava sales to CDM had totalled 21,000 tonnes, generating income of around $1 million, and 148 million meticais (around $2.5 million) of incremental tax revenue for the government.

[1] Government figures.

Integrating into commercial engagement

There is no 'one size fits all' solution to support small businesses. We have learned, for example, that financial inclusion is a priority for many retailers and farmers in Africa and Latin America, while small retailers in Europe need more help to attract customers. We aim to provide our small business partners with a value proposition that helps to address the biggest constraints to their growth. This includes payment terms: we have amended our supplier payment terms policy to exclude certain small businesses from our standard terms when we know these would constrain their ability to operate and grow.

Making programmes more commercially-integrated enables us to have a more sustained impact. However, it does not make the challenge of measuring livelihoods impact any easier. This year, we partnered with CARE International to review how we apply social impact KPIs to existing initiatives, and how we can integrate the most useful KPIs into existing measurement systems. We piloted this approach in Colombia, India and Peru. In Africa, we developed a new technology platform to collect data on impact KPIs for our smallholder farming programmes, and to share critical agricultural data with farmers.

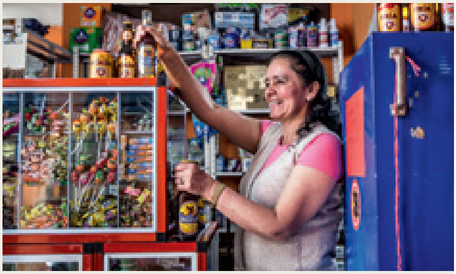
Enterprise and opportunity in Colombia

Small enterprises provide 98.7% of Colombia's jobs. These include more than 380,000 shopkeepers who sell our beer, and the 4,900 small and medium enterprises supplying our goods and services.

Each year, 85% of Bavaria's supplier spend is with Colombian suppliers and 70% with small and medium businesses. Our Small Supplier Improvement Programme helps suppliers improve quality and service, strengthening our relationships with them. Since launching in 2008, it has supported over 250 suppliers and 436 local barley farmers.

Our Destapa Futuro (Uncover the Future) initiative supports small businesses which have the potential to grow quickly and generate quality jobs that help reduce unemployment and poverty. Since 2006, the programme has trained 4,807 people and provided US$11 million in seed capital to 411 entrepreneurs, stimulating the creation of more than 8,000 jobs.

We are also proud to create opportunities in our value chain for unemployed and vulnerable people; particularly for the seven million



Colombians displaced by armed conflict in recent decades. As part of our 4e retailer programme, Tiendas de Paz (Peace Shops) works with communities that have recently relocated or returned home following violence. By supporting new shops to open or providing existing ones with business training, the programme generates jobs that help people rebuild their lives while increasing outlets for our products.

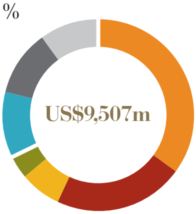
Bavaria's business has been built to help others prosper with us. These examples show what a thriving world can look like, improving livelihoods for many Colombians while strengthening our value chain.

Our contribution to government tax revenues

By running businesses successfully, we create employment, stimulate the local economies that supply us with crops, services and retail distribution, and generate tax revenues for the governments in each country where we operate.

Total tax contribution by region

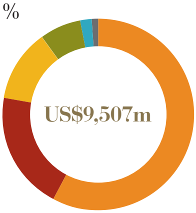
%



	2016	2015
Developing economies (US$6,536m)		
Latin America	35%	34%
Africa	22%	25%
Europe	7%	8%
Asia Pacific	4%	4%
Developed economies (US$2,971m)		
Asia Pacific	11%	12%
Europe	11%	9%
North America	10%	8%

Total tax contribution by category

%



	2016	2015
Taxes on production	58%	58%
VAT collected	20%	20%
Taxes on profits	12%	13%
Employment taxes	7%	7%
Tax withheld at source	2%	2%
Taxes on property	1%	0%

Including associates, 69% of our EBITA is from developing markets in Latin America, Africa, Europe and Asia Pacific. 68% of our total tax contributions is in developing markets.

How much we pay and where

For many of the markets in which we operate our tax contribution is significant. In the year ended 31 March 2016 our total tax contribution, including both our own taxes and those we collect on behalf of governments, was US$9,507 million (2015: US$10,639 million). These are cash taxes directly generated by our economic activity in each country and are a fair reflection of our tax footprint and what we contribute to government tax revenues. As well as corporate income tax on our profits, it also includes excise, value-added tax (VAT) collected from customers, employee taxes and other taxes.

Total tax contribution

	2016 US$m	2015 US$m
Payments to tax authorities	6,253	7,035
Payments by MillerCoors joint venture (our share) to tax authorities	640	657
Payments of VAT collected	1,817	1,959
Payments of employment taxes collected	650	703
Payments of other sundry taxes	147	285
Total tax contribution	**9,507**	10,639

We have used the categorisation in the International Monetary Fund's World Economic Outlook Report. As noted by the United Nations Statistics Division the designations developed and developing are intended for statistical convenience and do not necessarily express a judgement about the stage reached by a particular country or area in the development process. Total tax contribution is based on the cash payments in the financial year as opposed to the tax charge in the financial year.

68%
of the taxes we pay are in developing markets.

Total tax contribution

Tax by territory and region[1]

	2016 US$m	2015 US$m	Reported currency change %	Organic, constant currency change %
Colombia	**1,463**	1,773	(17)	15
Ecuador	**357**	314	14	14
El Salvador	**122**	114	7	7
Peru	**1,093**	1,177	(7)	5
Others[2]	**277**	212	31	39
Latin America	**3,312**	3,590	(8)	13
Mozambique	**158**	239	(34)	(13)
South Africa	**1,302**	1,665	(22)	3
Tanzania	**244**	301	(19)	1
Zambia	**96**	154	(38)	(7)
Others[2]	**337**	320	5	28
Africa	**2,137**	2,679	(20)	–
Australia	**1,029**	1,225	(16)	–
India	**385**	392	(2)	5
Others[2]	**15**	13	15	23
Asia Pacific	**1,429**	1,630	(12)	1
Czech Republic	**260**	288	(10)	3
Hungary	**98**	102	(4)	12
Italy	**215**	238	(10)	4
Poland	**468**	640	(27)	(14)
Romania	**138**	130	6	24
The Netherlands	**124**	127	(2)	12
United Kingdom	**315**	299	5	6
Others[2]	**110**	62	77	94
Europe	**1,728**	1,886	(8)	4
USA	**901**	854	6	6
North America	**901**	854	6	6
Total tax contribution	**9,507**	10,639	(11)	7

[1] This table includes our tax contribution from our subsidiaries and the MillerCoors joint venture.
[2] All amounts less than US$100 million individually.

Explanatory notes

Our tax contributions within each country are paid in local currency. The table alongside translates these amounts into US dollars for group reporting purposes. The percentage change reflects the impact of local currency depreciation against the US dollar on these amounts.

The three reductions in organic constant currency are explained below:

Our total tax contribution in Mozambique has reduced mainly due to the reduction in customs and excise duties as a result of the introduction of exemptions and reductions in duties on imported product from Southern African Development Community Countries (SADC). In addition, spirit sales reduced dramatically as a result of local business factors, which resulted in lower excise duty collections.

Our reduced total tax contribution in Zambia is mainly due to a reduction in custom duties due to less imported capital equipment in the year, compared to the prior year. In addition, the capital investment from the prior year resulted in increased wear and tear allowances in the year, which resulted in lower corporate income taxes.

Poland's total tax contribution reduced largely due to an overpayment of corporate income tax in the prior year, which resulted in a refund in the year. As noted on page 21 the tax charge differs from the tax paid as instalments are based on historical profits.

The flow of tax

This diagram shows how governments levy different taxes on the brewing of beer.

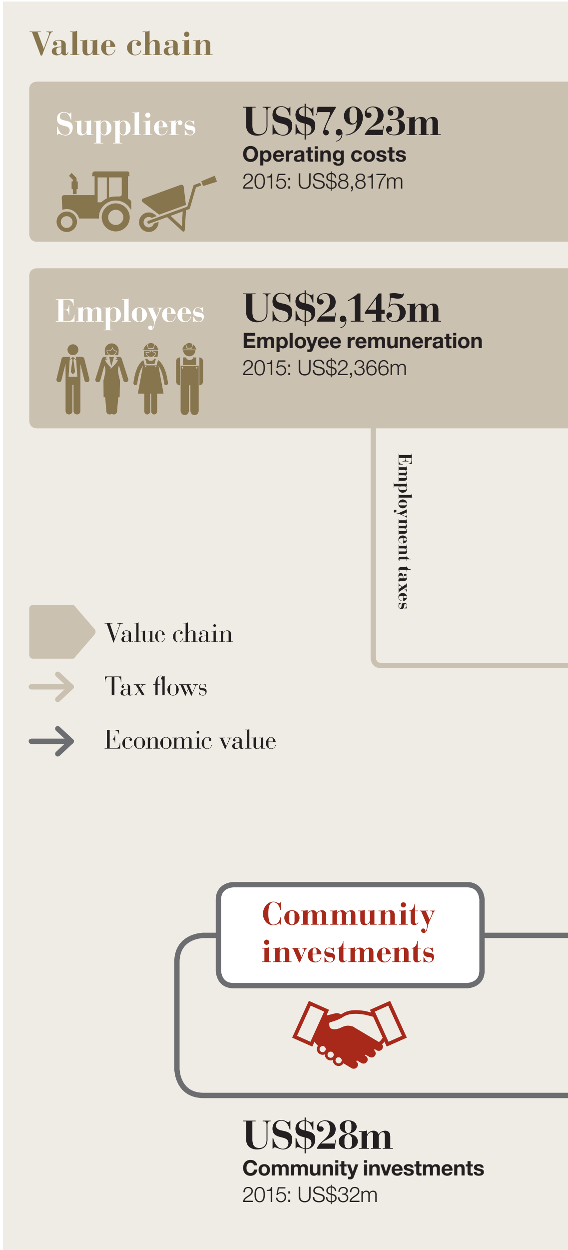
The main taxes involved are corporate income tax charged on our profits, excise duties levied on the production of beer, employment taxes and the VAT we collect from customers.

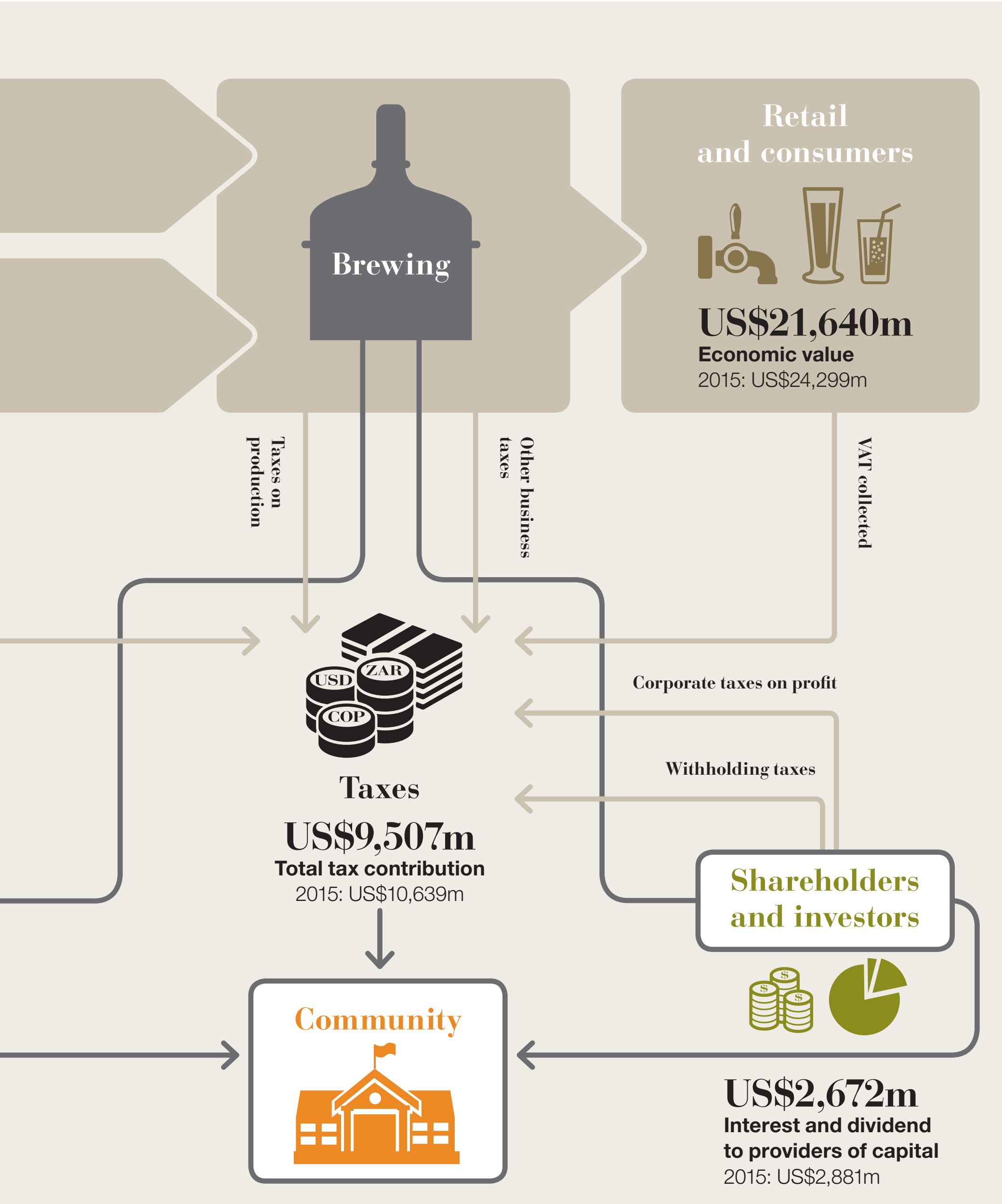
In addition to the taxes directly generated by our operations, they also produce a multiplier effect in the form of the tax contributions made by our suppliers and by the retailers, restaurants and bars that sell our products. These are taxes we generate indirectly and are not included in this diagram.

Taxes on production

Excise is a duty levied on production. Although the name of the duty and the basis of calculation varies by country (or even by state), it is levied in all of our countries of operation. Beer may be taxed on the volume of the finished product, the alcohol content, on a value attributable to the product, or in some cases via a combination of these methods. In some territories non-alcoholic beverages are also subject to these duties.

Although excise duty and other indirect taxes are generally regarded as being paid by the consumer (as an element of the selling price), our group companies, our wholesale partners and retailers will need to make a commercial decision about how much of the tax can be passed on in the price of the product to the consumer and how much is absorbed as a business cost.





Brewing
Retail
and consumers
US$21,640m
Economic value
2015: US$24,299m
Taxes on
production
Other business
taxes
VAT collected
USD
ZAR
COP
Corporate taxes on profit
Withholding taxes
Taxes
US$9,507m
Total tax contribution
2015: US$10,639m
Shareholders
and investors
Community
US$2,672m
Interest and dividend
to providers of capital
2015: US$2,881m

How we manage our tax affairs

Our tax strategy is to manage all taxes to provide a responsible outcome in the interests of all stakeholders. Operating alongside this, we have a set of detailed policies and guiding tax principles which govern our behaviours and the tax choices we make as part of our business operations.

Our guiding tax principles

- We commit to act responsibly in relation to our tax affairs, to fulfil our compliance and disclosure obligations, and to operate in accordance with all relevant laws and regulations.
- We aim to ensure that we pay the right and proper amount of tax in each country in which we operate; our economic contribution, of which tax forms a part, being very important to us.
- We seek to be efficient with our tax affairs and, in this context, will ensure that all tax planning is built on sound commercial business activity.
- We manage tax in line with our group governance framework and procedures; tax strategy, activities and uncertainties are documented and reported on a regular basis.
- We build constructive relationships with tax authorities; we encourage the building of tax administration capability and the promotion of efficient tax systems.
- We understand the value of our financial reporting to investors and society and work to provide enhanced and balanced disclosure in communicating our tax affairs.

Our global tax policies are aligned to our strategy and to our principles. These have been approved by the group's executive committee and its board of directors and have been applied across SABMiller for many years. The following pages explain our approach to a number of key areas of tax.

Tax governance

Tax governance within the group works through a set of documented standards and procedures. These describe the strategy, policies and operational aspects of tax. Tax policies are set and tax risk is managed by the group tax committee, which meets quarterly, and is chaired by the Chief Financial Officer, who is a member of the group's executive committee and board of directors. Policies are kept under continuous review and are revised in the light of factors such as material changes within the group or in tax legislation.

Each year, the group tax committee confirms to the board of directors that it has met the standard set by the group's tax governance framework.

In addition, the group audit committee receives a regular report from the Chief Financial Officer (CFO) on uncertain tax positions and through discussion and challenge, the committee assesses the appropriateness or otherwise of positions taken.

During the year the group audit committee reviewed with the CFO and the Director of Group Tax the group's tax policies and operating frameworks and revisions proposed to take account of evolving best practice and experience. After discussion, amendments updating the policies were agreed by the committee and endorsed by the board.

Tax responsibilities

Tax is part of our group finance function and is the managerial responsibility of the Chief Financial Officer. Day-to-day work is delegated to the Director of Group Tax and a team of full-time in-house professionals, who hold a combination of accounting, tax and legal qualifications. The Director of Group Tax reports directly to the Chief Financial Officer.

The tax function has a direct global reporting and management structure. This enables effective policy implementation, tax risk management and career planning. It also ensures a more holistic view of tax matters across the group and a consistent flow of information to the Director of Group Tax and the group tax committee.

Advisory and technical tax support is provided by a combination of large accounting firms, various legal firms and other smaller firms with the required skills. The use of advisory firms that are also our auditors is strictly controlled by, and regularly reported to, the group audit committee. We consciously monitor the use of advisory firms, to ensure there is an appropriate spread of work.

Transfer pricing

The vast majority of our business involves the local production and sale of local brands. Therefore, there are relatively low levels of intercompany cross-border sales, compared to many other multinational companies.

However, centralising professional expertise – for example in treasury, intellectual property management, back office activities, IT and procurement – leads to stronger businesses better able to compete in their local market and generating greater levels of profitability and tax. Centralisation enables us to achieve lower input costs, to focus energy on centres of excellence and to look after our assets better. It benefits consumers by allowing us to reinvest savings in our business to offer broader product offerings. This pooling of activity and resource is necessary in today's business environment, and is a growing factor in our group as it becomes more globally integrated. This creates intercompany service transactions.

For example, the globalisation of our procurement function to be led by deep subject matter experts has enabled us to reduce our input costs and to bring new value into our production and supply processes by identifying new materials and methods. This gives rise to intercompany procurement transactions.

Similarly, while the majority of our beer brands are owned within their markets of origin, it makes commercial sense to have a team of specialist trademark experts in one place to manage international rights. This gives rise to intercompany royalty payments. In the same way, centralised group functions provide other specialist services and guidance to promote best practice, and to enhance synergies across the business to ultimately increase local revenue and efficiency.

How we manage our tax affairs
continued

All of these examples demonstrate how value is created using specialists to complement and support that 94% of our total lager volume is from markets where we have a number one or number two national beer market position.

The group has grown historically by acquisition and this has, on appropriate occasions, been funded by debt. In addition the centralised treasury activities have supplied an efficient source of funding to subsidiaries for general corporate purposes. This gives rise to intercompany interest payments.

The core of all our transfer pricing is in compliance with both the OECD Transfer Pricing Guidelines for Multinational Enterprises and local domestic tax legislation. Compliance is supported through transaction-specific transfer pricing policies. We regularly review these policies for appropriateness.

94%

of our total lager volume is from markets in which we have number one or number two national beer market positions.

SABMiller uses the arm's-length principle, which is endorsed by most countries. This assumes that prices are based on an equitable and willing arrangement between two independent parties. Transactions are priced within an appropriate arm's-length range, which meets the often-stringent local compliance requirements in territories at both ends of each transaction. A number of our businesses are required to file separate related party transaction or transfer pricing schedules with the local tax authorities. We work with local tax authorities to provide them with full information with regard to any queries they may have around our transfer pricing policies or procedures.

Uncertain tax positions

Consistent with a group such as ours, tax management can involve a number of areas of uncertainty on which we have to make judgements. These arise in areas such as the application of tax law, assumptions on deferred tax recognition and the assessment of potential tax liabilities where matters are in dispute.

The group approach in this area is a conservative one. We assess matters through the application of levels of risk and exposure and make appropriate provision based on our policy.

We deal with judgements through the employment of skilled personnel, the use of professional advice, the application of standard tax policies and regular reporting on such matters to the group tax committee and the group audit committee. These committees consider and discuss the judgments made and apply additional levels of assessment in the context of the group's risk framework.

Tax havens

The SABMiller group has more than 300 subsidiaries. A small number are located in jurisdictions described as tax havens[1]. These have arisen either through acquisition activity (where we have inherited them) or where we have made location and investment decisions on sound business grounds.

Within these jurisdictions, 12 companies are operating entities – these include breweries, for example in Panama, and service companies performing a common group purpose, such as group employment and insurance entities. These entities are all staffed in-country with skilled, full-time management and support employees who perform essential commercial activities. Two entities are holding companies – which distribute all profits they receive to their own parent companies. A further 20 entities are dormant or near dormant. We keep these under review and seek to close them, where practical. All these entities are subject to disclosure, and are taxed, where appropriate, under the UK controlled foreign company rules.

In considering the location of any new business activity, we take account of all elements (of which tax is included). However, location is fundamentally determined by commercial factors and the available skills base.

Tax incentives

In most of the territories in which the group operates, government tax policy evolves and develops depending on the nature of the territory's economic position and its growth strategy. A number of territories offer tax incentives of various kinds. These are generally used by territories to attract business and investment or to influence business decision-making in particular ways.

In line with our objective of tax efficiency, we seek to make use of any incentives available, within the context of sound and sustainable business decision-making. Across our group there are likely to be a number of these incentives in operation at any one time. All are in the context of local policy and would generally be available to any business that meets the relevant criteria. These incentives are only one of a range of economic factors taken into account during business decision-making.

Incentives operating within the group include Cervecería del Valle in Colombia, which is located in a free trade zone with a reduced corporation tax rate of 15%. Similarly, in Ghana, one of our businesses, Voltic (GH) Limited, has a reduced corporate tax incentive (half the standard rate), due to its location. In the Canary Islands we support and participate in incentive programmes introduced by the government to promote local investments and local production, which include preferential taxation of products produced in the local territory of the Canary Islands.

[1] The OECD defines a tax haven territory as one that has a collection of the following factors – non-existent or nominal taxes, a lack of transparency, laws or practices that prevent the exchange of information, and an absence of a substantial activity requirement. Other bodies expand on these characteristics to varying degrees.

How we manage our tax affairs
continued

Production-based incentives

In some developing markets, production-based incentives are used to support the development of the agricultural economy and to address illicit trade. Reducing excise rates for beers brewed using locally-grown raw materials creates a number of opportunities: consumers are able to afford high quality, regulated beers and can move away from illicit or informal alcohol; demand for local crops creates a stable market for local farmers, improving their livelihoods and, in turn, the newly-expanded beer sector provides an additional excise revenue stream for governments. A preferential excise rate for sorghum-based beer in Uganda has improved our ability to support local farmers to progress from subsistence farming to profitable commercial enterprises. 20,000 farmers now directly supply our local business, with around 180,000 indirectly involved in the value chain. The initiative generates government tax revenues of around US$70 million per year – enough to run six large Ugandan districts. This model has been replicated in many of our African markets.

Meeting with tax authorities

We believe our dealings with tax authorities should be based on mutual respect and trust. We engage proactively with the authorities in the territories in which we operate.

We seek opportunities to meet regularly to ensure that our business dealings are understood and to exchange views and insights. We will aim to achieve an alignment of views but this does not always happen and in some cases, defending our perspective is the right business approach. This open, two-way communication with tax authorities is very important to us, and is a required practice in all our business units.

During the year we held a range of meetings with tax authorities. While some were in the course of regular audits and follow up questions, we engaged with authorities to provide updates and exchanges of information in Latin America, Africa, Asia Pacific and Europe.

As a specific example of our interaction with tax authorities, we have been working together with the local tax authorities in Colombia, Ecuador and Peru on the development of an electronic invoice initiative. Also, within the countries where we operate in Latin America, we have provided information to the tax authorities to assist them address illegal alcohol issues.

> *Africa Industry Tax Association (AITA) has continued to build a solid relationship with the Africa Tax Administration Forum (ATAF).”*

SABMiller was a driving force behind, and one of the co-founders of, the recently formed Africa Industry Tax Association (AITA), whose current membership consists of nine multinational companies, each of which has a substantial footprint in Africa. AITA was formed to create a formal and structured collective platform from which to create open lines of communication with African governments and revenue authorities on matters of common interest, and to promote fair, transparent, efficient and enforceable taxation systems and administration. AITA has continued to build a solid relationship with the Africa Tax Administration Forum (ATAF). Activities during the year of AITA included exclusive representation at the ATAF conference on cross-border taxation; attendance at the launch of the Africa Tax Research Network; sitting on an independent panel evaluating and awarding tax innovation by tax revenue authorities (driven by ATAF) and being invited by the Academy of Public Finance/ITIC to provide tax training to representatives of the African revenue authorities. These examples illustrate a solid contribution to the development of tax expertise and our contribution to the wider economy.

Tax disclosures

Our tax principles endorse our long-held aim that information about our business and tax affairs should be well understood by revenue authorities in all the countries in which we operate. As the global tax debate evolves, there are continued developments regarding the exchange of information beyond national borders.

We continue to closely monitor developments in the BEPS project and have actively contributed to action groups and consultations where we feel qualified and able to contribute meaningfully. In general, we support the OECD’s approach and the move to deal with areas of international tax law and regulation that do not align when taken in a multinational context. We look forward to the outcomes of the OECD’s work on profit splits in the forthcoming year; the principles and practice that emerge in this area will be widely used as tax payers and tax authorities may have different approaches to value creation. We hope that the OECD’s work meets this challenge and produces clear technical and practical guidelines.

> *We firmly believe that if country by country information is to be shared, it must be robust, sustainable, clear and provided within appropriate context.”*

How we manage our tax affairs
continued

Much of the current disclosure debate is around greater transparency and tax reporting. Whilst we support moves towards greater transparency, we firmly believe that if country by country information is to be shared, it must be robust, sustainable, clear and provided within appropriate context. The disclosure of limited information outside its context, could be misleading, and is unlikely to lead to greater clarity around the tax contribution and position of business.

We would like to see the OECD combining with financial reporting bodies to create aligned conditions and definitions for public country by country reporting. This will ensure there is consistency with financial reporting disclosures, should public reporting of this data become mandatory for all.

In the context of anticipated new country by country reporting requirements, we are prepared to deliver these to Her Majesty's Revenue and Customs (HMRC) from 2018, based on the OECD guidelines. During the year we have revisited our commercial functions to prepare our masterfile and articulate our drivers of business profit to explain our transfer pricing approach for our commercial operations. We are nearing readiness for these new disclosures.

In many countries, companies are required to file their financial statements with the authorities and these are on public record. In such cases, much of our tax information is freely available.

Refer to our related undertakings section with the annual report.

"We would like to see the OECD combining with financial reporting bodies to create aligned conditions and definitions for public country by country reporting."

UK tax strategy

We welcome the evolving UK requirements for businesses to publish their tax strategies. The publication of a clear tax strategy enables stakeholders to better understand companies' approach to tax, creating a platform for more informed and productive discussions and helps builds trust and confidence.

Our UK group is at the centre of our operations and, as the parent location, it sets the tone on tax for the rest of the group to follow. It follows that any principles which apply to our group are equally applicable to our UK operations.

Activities in the UK consist of the corporate head office, related group support services, a small craft brewing operation and a reasonably meaningful import and distribution business for our international brands. While we do not have significant brewing operations in the UK, these activities generate significant group services and financing activity, as well as employment for approximately 900 people.

The disclosures we have made in this document, including our guiding tax principles, apply fully to our UK group. The most pertinent of these in relation to the UK are set out below:

- The attitude of the SABMiller group towards tax planning is a conservative one. We seek to arrange our affairs on an efficient basis but with a strong commercial rationale at the core of decisions. We will always test our thinking against stakeholder expectations and a responsible business attitude.

- Our risk appetite is governed by a set of decision criteria based on professional judgement obtained in-house and through specialist guidance and support from advisers, where appropriate. This is articulated in a policy document, which has been in place for many years and evolved with best practice. A broad range of risks are considered in reaching any decisions.

- Our dealings with HMRC as the UK tax authority are based on mutual respect and trust. We engage openly and regularly and meet formally at least once a year to review our business activities and recent tax filing obligations. We have in the past sought tax clearances on various matters from HMRC and had dealings with some of the technical experts. We always ensure our Client Relationship Manager is aware of these engagements.

- Due to the head office nature of our UK business, and the size and extent of our subsidiary structure around the globe, our business operations and financing are complex. We aim to ensure these are fully explained to HMRC.

- Each year our Chief Financial Officer signs off the Senior Accounting Officer obligations. Material items concerning the UK are reported to the group audit committee and, where applicable, the board of directors.

“*We welcome the evolving UK requirements for businesses to publish their tax strategies.*”

Tax in the financial statements

Reconciliation to total tax paid[1]

		2016		2015	
		Taxes on production US$m	**Taxes on profit US$m**	Taxes on production US$m	Taxes on profit US$m
Excise duties (note 3)		**4,938**		5,596	
Current taxation (note 7)			**1,187**		1,591
Cash adjustments:					
Payments of Australia FDT			**–**		42
Other, including payment timing differences			**128**		(194)
Total tax payments		**4,938**	**1,315**	5,596	1,439
Reconciliation to adjusted tax charge					
Excise duties (note 3)		**4,938**		5,596	
Current taxation (note 7)			**1,187**		1,591
Deferred taxation (note 7)			**(35)**		(318)
Taxation expense in the consolidated income statement		**4,938**	**1,152**	5,596	1,273
Taxation items reflected elsewhere in the financial statements:					
Share of associates' and joint ventures' taxation (note 2)			**114**		157
Net tax credits on exceptional items (note 4)			**28**		(83)
Tax on amortisation of intangible assets (excluding computer software) (note 7)			**96**		117
Adjusted tax charge	a		**1,390**		1,464
Calculation of the group's effective tax rate					
EBITA (note 2)			**5,810**		6,367
Adjusted net finance costs (note 5)			**(442)**		(622)
Share of associates' and joint ventures' finance costs			**(73)**		(102)
Adjusted profit before tax	b		**5,295**		5,642
Effective tax rate	a/b		**26.3%**		26.0%

[1] All note references are to the consolidated financial statements included within the SABMiller 2016 Annual Report.

Tax in the financial statements

In the year ended 31 March 2016, the group recorded excise duties payable of US$4,938 million and corporate taxes of US$1,315 million, giving total taxes paid of US$6,253 million. These amounts are reflected in the consolidated financial statements and are analysed in the 2016 Annual Report. The information and analysis presented here are enhancements, not repetition, of these tax disclosures.

Tax charge compared with tax paid

There are a number of reasons why the tax paid in any year will not be the same as the tax charge. As tax instalments are generally based on historical profits, the amount of tax paid in any particular year may differ from the tax accrued on profits for the year. The tax charge also includes amounts for deferred taxation, representing timing differences between the accounting for transactions and when tax becomes due, and amounts for uncertain and unresolved tax positions.

The amount of corporate income tax paid in the year decreased from US$1,439 million in the prior year to US$1,315 million. One of the main reasons for this is that in the prior year, we were required to prepay tax (FDT) of approximately US$42 million to the Australian Tax Office. In 2016 there was no equivalent tax payment. The prepaid tax is recoverable against future corporate income tax liabilities. We have fully recognised the future benefit of the prepaid tax as an asset on our balance sheet. 2015 also included one-off payments in relation to a disposal, for which there was no equivalent impact in 2016.

Tax charge compared with the UK statutory tax rate

In most countries, the tax charge (from which the effective rate is derived) will be different to the statutory tax rate because, in calculating the tax charge:

- an individual country's financial reporting standards (as opposed to IFRS as adopted by the European Union) are applied;

- adjustments to profit before tax are unique to a country when calculating taxable profits; and

- differing tax allowances and incentives are periodically given which are specific to a country, an example being tax depreciation.

The statutory rate of corporation tax on profit in the UK for the year ended 31 March 2016 was 20%. The group's tax on profit for the year differed from the tax due at the statutory rate as a result of the differences overleaf. This reconciliation is different from the one in note 7 to the consolidated financial statements in that it reconciles adjusted profit before tax to the adjusted tax charge, as used in the calculation of the group's effective tax rate.

Tax in the financial statements
continued

Effective tax rate reconciliation

	2016 US$m	2015 US$m
Adjusted profit before tax	**5,295**	5,642
Tax at 20% (2015: 21%) calculated thereon	**1,059**	1,185
Reconciling items:		
Income which is exempt from tax	**(155)**	(194)
Expenses which are not deductible for tax purposes	**74**	108
Other incentive allowance	**(33)**	(43)
Withholding and other remittance taxes	**148**	157
Difference owing to foreign rates of tax being, on average, higher than the UK	**394**	355
Tax impact of associated companies	**(14)**	(6)
Adjustments in respect of prior periods	**(23)**	35
Initial recognition of deferred tax	**(53)**	(104)
Deferred tax not recognised	**(11)**	(46)
Other	**4**	17
Adjusted tax charge	**1,390**	1,464

Deferred tax

Deferred tax represents the proportion of a company's liability for taxes owed that has been postponed to future periods. Deferred tax primarily arises from tax legislation that permits companies to claim a tax deduction for expenses at a slower or faster rate than they are recognised in the financial statements and therefore creates either a deferred tax asset or liability.

For example, most governments seek to incentivise business investment by providing that the tax depreciation of property, plant and equipment is calculated over a shorter period than the useful economic life. Accounting standards require companies to recognise and account for deferred tax assets and liabilities in order to give a true and fair view of a company's assets and liabilities.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The majority of our net deferred tax composition (note 19 to the consolidated financial statements) is deferred tax liabilities which result from acquisition accounting. These are mainly in the Latin America and Asia Pacific regions and relate to intangible assets, primarily brands, recognised on acquisition. As the brands have significant useful economic lives, the underlying deferred tax liability has remained relatively stable in local currency since the acquisition dates, other than the effects of amortisation.

Our deferred tax assets are lower than our liabilities, with recognised assets primarily relating to tax losses, accounting provisions and accruals. These result from our commercial operations and the interaction of local accounting and local tax regulations.

Deferred tax liabilities of US$1,784 million (2015: US$2,013 million) are expected to fall due after more than one year and deferred tax assets of US$104 million (2015: US$115 million) are expected to be recovered after more than one year.

In addition, there are US$1,696 million (2015: US$1,690 million) of deferred tax assets that are not currently recognised on the group's balance sheet. US$1,477 million (2015: US$1,355 million) of these are tax credits that the group has received but is not expected to be able to use in the foreseeable future.

Tax losses

As within any group of companies, there may be times when various subsidiaries are in a tax loss position. Examples of tax loss situations within the group include the UK, Australia, India and the Netherlands (as discussed below). Where we have incurred losses but expect that there will be sufficient taxable profits in future years, we recognise a deferred tax asset in respect of the losses as we expect to fully recover the value of the asset.

- In the UK, historically the costs of operating our corporate headquarters have outweighed the profitability of our UK trading operation. More recently, however, the growth of our UK business and increasing activities within our corporate head office will change the shape of our UK tax profile. We have, accordingly, recognised an amount of deferred tax (US$53 million) to reflect this. As a result of our UK operations our total tax contribution in the UK was US$315 million, covering excise, VAT and other taxes (2015: US$299 million).

- In Australia, the losses reflect challenging market conditions which have impacted profitability over time and funding costs incurred by the business which are associated with the acquisition of the Foster's Group. However, we expect that the business in Australia will generate sufficient taxable profits in future years and therefore the deferred tax asset in relation to these losses has been recognised. As shown on page 9, our total tax contribution in Australia was US$1,029 million, covering excise and other taxes (2015: US$1,225 million).

- In India, we continue to operate in a challenging environment. We do not expect conditions to reverse in the medium term. In this situation, we have not accounted for a deferred tax asset on these losses.

- Our Netherlands business has brought forward tax losses. We expect to become tax-paying in the near future, once the losses have been utilised against future taxable income. We have recognised deferred tax assets in respect of these losses.

How this report was prepared

This report is intended to help SABMiller stakeholders and other readers to understand our group's approach to tax, and to provide a better perspective on how our business activities and revenues contribute to the economic and social development of the countries in which we operate.

The group is defined as being the parent, SABMiller plc, together with its subsidiaries and associated entities. A full list of subsidiaries, associates and joint ventures is given in the related undertakings section of the SABMiller 2016 Annual Report.

For accounting purposes, the group applies a principle of consolidating subsidiaries and equity accounting for associates and joint ventures. The MillerCoors joint venture is treated as a partnership for tax purposes and its profits are shared by its partners – SABMiller and Molson Coors. Tax is payable by each partner on its share of such profits.

This report sets out taxes paid by type and by relevant geographical segments, on the same basis as reported in the consolidated financial statements. The information and analysis presented are enhancements and not mere repetition of the tax disclosures in the financial statements.

Comparative data has not been restated for foreign exchange rate movements. It should be noted that some of the differences in comparatives within this report will be driven by these foreign exchange rate movements.

The data collected includes all taxes paid and contributed to governmental bodies during the year ended 31 March 2016, regardless of the year to which the payment related. Any prior year settlements are included but any interest and penalties are excluded.

To avoid unnecessary additional cost, this report has not been subject to separate attest or audit. However, the data used in its compilation is either the same data as in the group's consolidated financial statements or is from the same sources. The data is collected as part of the year-end financial process, with the directors responsible for its completion and accuracy.

In the case of an acquisition or a change in the level of effective ownership, the results are incorporated from the date of effective control or change in the level of effective ownership. Similarly, where an entity is sold or liquidated, the data includes all taxes paid up to the effective date of disposal or liquidation.

This report is presented to explain our approach to tax and to various tax matters across the group. It inevitably uses some technical tax terms. These are explained below, not as detailed definitions, but rather as guidance to what is meant. More detailed financial definitions are contained in our 2016 Annual Report.

Definitions

Adjusted profit before tax	This comprises EBITA less adjusted net finance costs and less the group's share of associates' and joint ventures' net finance costs on a similar basis
Corporate income tax (taxes on profit)	All taxes that are based on the taxable profits of a company
Excise tax (taxes on production)	Tax that is based on production and levied at the point at which the beer or other product is produced
Deferred tax	The corporate income tax due in respect of temporary differences between accounting values and tax bases, as defined in International Accounting Standard 12
EBITA	Earnings before interest, tax, amortisation of intangible assets (excluding computer software) and exceptional items, including the group's share of associates' and joint ventures' EBITA on a similar basis
Effective tax rate	The effective tax rate is calculated by expressing tax before tax on exceptional items and on amortisation of intangible assets (excluding computer software), including the group's share of associates' and joint ventures' tax on the same basis, as a percentage of adjusted profit before tax
FDT (Franking Deficits Tax)	The Australian tax system attaches tax credits to dividends paid by companies. This credit system eliminates the double taxation of company profits. A liability to pay FDT arises when an entity has a deficit in its franking account at the end of an income year. FDT is a prepayment of corporate income tax and results in a credit to an entity's franking account
Government	Any governing body of a nation, state, region or district but not including any commercial enterprises or financial institutions that may be controlled by a government
Indirect tax	Taxes such as VAT which are levied on consumption of specified goods rather than on income
OECD	Organisation for Economic Co-operation and Development
Tax	Any amount of money required to be paid to a government, whether by law or by agreement, including without limitation corporate income tax, excise duties, property taxes, employment taxes, sales taxes, stamp duties and any other required payments
Tax borne	Tax that a person or entity is obliged to pay to a government, directly or indirectly, on that person's or entity's own behalf

Further reports and contacts

1 Annual Report

For an overview of our markets and operations, please refer to our annual report.

www.sabmiller.com/annualreport2016

2 Sustainable Development Report

For an overview of our sustainable development approach and performance, please refer to our Sustainable Development Report 2016.

www.sabmiller.com/sdreport2016

3 Online

The Sustainable Development Report, further case studies and more information about our performance through the Sustainability Assessment Matrix (SAM) scorecards for our operations can be found online.

www.sabmiller.com/prosper

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Cautionary statement

This document includes 'forward-looking statements' including those that relate to SABMiller's plans and expectations relating to its future tax contributions, approach to tax and contributions to economic development. These statements contain the words 'anticipate', 'believe', 'intend', 'estimate', 'expect' and words of similar meaning. Such forward-looking statements involve a number of uncertainties because they are based on numerous assumptions regarding SABMiller's future business performance and tax liabilities, involving both known and unknown risks. These factors could cause the tax contributions and approach of SABMiller to be materially different from those envisaged in the forward-looking statements. Factors which may cause differences between actual results and those expected or implied by the forward-looking statements include, but are not limited to: the outcome of the proposed transaction with Anheuser-Busch InBev SA/NV; material adverse changes in the economic and business conditions in the markets in which SABMiller operates; taxation policies; excise duties; fluctuations in foreign currency exchange rates and interest rates; law and regulation; and consumer demand and preferences.

The paper used in the report contains 75% recycled content, all of which is sourced from de-inked post-consumer waste. All of the pulp is bleached using an elemental chlorine-free process (ECF).

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