FINANCIAL REVIEW

ACCOUNTING POLICIES

NBL's accounting policies comply with International Financial Reporting Standards and are consistent with those of the previous reporting year.

REVENUE

Consolidated revenue decreased by 0.3% from N$2 434 million to N$2 426 million for the year ended 30 June 2016. The decrease in revenue is primarily driven by the migration of volumes to South Africa, offset by the performance in the local market.

OPERATING PROFIT

The Group's operating profit for the year ended 30 June 2016 showed an increase of 6.7% over the previous reporting period. This translates into an operating margin of 22% compared with 21% reported for the previous financial year.

TAXATION

The corporate tax rate reduced from 33% to 32% during the year under review. The taxation charge for the year ended 30 June 2016 was N$135.6 million, while the previous reporting period reflected a slightly higher charge of N$136.1 million. The accumulated tax losses of the Group's wholly owned South African subsidiary have not been recognised, due to uncertainty regarding future taxable income.

PROFIT AFTER TAX AND EARNINGS PER SHARE

Profit attributable to shareholders increased from N$259 million in the previous financial year to N$372 million in the current year. This represents an increase of 43.8%, resulting in the earnings per share for the year ended 30 June 2016 increasing to 180.3 cents (2015: 125.4 cents).

FINANCIAL POSITION

The net debt to equity ratio increased from -14% in the previous financial year to 26% in the year under review, following the restructuring of the South African joint venture. The increase in the gearing ratio, creates an opportunity for the financing of the Group's expected investments in the 2017 financial year.

NAMIBIAN MARKET

The Namibian market continues to remain a significant contributor to total revenues and earnings, with *Tafel Lager* spear-heading the overall beer growth. *Tafel Lager* achieved more than 1 million hectolitres in 12 months for the very first time. Sales in the ready-to-drink category decreased compared with the prior year, however, the soft drink category maintained its double-digit growth.

SOUTH AFRICA

On 1 December 2015, the joint venture agreement for the South African joint venture, DHN Drinks (Proprietary) Limited, was terminated by mutual consent. A new agreement was entered into with Heineken International B.V. The operating loss from the equity accounted investments decreased during the period under review when compared with the prior year. Included in current year income, is an amount of N$89.2 million, being Namibia Breweries Limited's share of the deferred tax asset included in the Heineken South Africa (Proprietary) Limited accounts. Taking royalties and production margins into account, we continued to make positive returns from the operations of our South African business. Further details on the restructuring of the South African joint venture are included in notes 7 and 8 to the consolidated financial statements.

EXPORTS (EXCLUDING SOUTH AFRICA)

Total beer volumes sold to export markets declined by 5% in comparison with the prior reporting year. Tanzania continued its double-digit growth and outperformed expectations. Botswana's performance remained stable, while Mozambique disappointed and Zambia remains challenging due to currency devaluation.

CASH FLOWS

Net cash flow from operating activities decreased from N$466 million in the previous financial year to N$357 million in 2016. The decrease in cash flow was mainly due to less sales to South Africa. Net cash outflow from investing activities increased from N$254 million in the previous year to N$770 million in the 2016 financial year, due to the purchase of shares in the associate and an increase in capital expenditure. Net cash flow from financing activities increased from a net outflow of N$4 million in the previous financial year to a net inflow of N$347 million in the current year. The increase was mainly due to the medium-term loans raised during the current year. (See Annexure A to this Integrated Annual Report).