MANAGING **DIRECTOR'S REPORT**

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Marco Wenk
Managing Director

HIGHLIGHTS

- Second-half sales momentum delivered solid results
- Strong demand from South Africa stimulated volume growth
- Global awards and continued innovation
- New consolidated distribution and customer centre in Windhoek
- Exciting future prospects created by the Heineken transaction

CHALLENGES

- Rising inflation putting significant pressure on margins
- Consumers under pressure in terms of disposable income
- Supply chain disruptions affecting the availability of commodities such as malt and cans
- Long lead times on replacement and repairs

Our world in 2022

NBL recovered from a difficult first half of the financial year to cross the finish line in great form. We delivered a profit of N$539 million, 43% up on last year.

The financial year kicked off with two COVID-19 waves in July and December, which impacted our trading environment and overall consumption. During this time, we saw consumers changing their drinking behaviours by including wine and ciders in their repertoire of products consumed on a more regular basis, resulting in a slow and muted festive season for beer sales. This was to some extent driven by lingering pandemic after-effects, such as excess stock of higher alcohol products being dressed up as premium offerings and sold at low prices.

Our commitment throughout the height of the COVID-19 pandemic was to ensure we fully adhere to all related restrictions and ensure our general trade practices were scaled down so as to avoid putting our employees, consumers and customers at risk. The relaxing of several restrictions during early 2022 allowed NBL to engage our consumers again through responsible activations and events. We started the second half with a clear intent to ensure we maximise volume opportunities in the most responsible way possible. This approach had the desired effect, despite significant price competition and pressure on disposable income.

What made this turnaround remarkable was the fact that supply chain disruptions became even more pronounced with Russia's invasion of Ukraine, and inflation started spiking.

Fortunately, demand in the South African market was healthy and volumes accelerated towards the end of the financial year.

While navigating these obstacles, we also had the Heineken transactions to manage. Following the transaction announcement in November, we had to make sure that we provide certainty to our people and that our stakeholders had ample information to make a sound decision about our future.

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Brands and markets

Windhoek Draught maintained its strong #1 position as Namibia's leading beer brand. As restrictions on alcohol trading were lifted post lockdown, its growth trajectory continued, taking some market share from ***Tafel Lager***. The latter remains a strong contender in the mainstream segment, inter alia anchored by its sponsorship of the national soccer team, The ***Tafel Lager*** Brave Warriors.

Although ***Windhoek Lager's*** sales slowed, the brand serves pockets of strong and loyal consumers in various regions. ***Windhoek Non-Alcoholic*** and ***Windhoek Light*** suffered from a consumer revolt against lockdown-associated drinks, with the latter being temporarily discontinued.

We continuously assess the performance of our brands against market shifts and trends, and refine the variants and pack options to protect margins. This led to pack and range adjustments for brands such as ***Tafel Radler*** and ***Horizon***. ***Hansa*** managed to capture market share via its popular on-tap offering following the post-pandemic opening of the on-consumption channel.

King Lager is still showing good regional growth, tapping into consumers' need for a quality beer at an affordable price point. The brand holds the #1 position in the value segment and improved its profit margin.

McKane held its ground in a challenging year, and ***Heineken*** responded to lively demand in the premium category. ***Strongbow*** made a good recovery after some supply constraints in the prior year.

AquaSplash and ***Fruitree*** moved sideways in terms of volume growth, but remain important in terms of portfolio diversification.

Read more about the international awards that recognised the quality of our brands on the IFC.

A successful innovation this year was the introduction of a mobile beer-on-tap unit, tapping into the at-home and small group consumption trend. We recently launched this as a 10-litre ***Hansa Draught*** keg in a compact and convenient format.

In the South African market, growth was spurred by strong demand for ***Windhoek Draught***.

Export markets performed better than expected, despite logistics being a major challenge. Container shipping prices increased exponentially and exchange rates were fairly volatile over the reporting period.

Tanzania remains our biggest export market and our lead focus market. This year we did our first national consumer promotion outside Namibia and South Africa, in Tanzania. We are planning to invest more in the country as the market with the most growth potential for our ***Windhoek*** brand.

Kenya, which is also a focus market, struggled this year.

Last year we appointed a distributor in the Democratic Republic of the Congo (DRC) and started gaining good traction in this market. We introduced ***Urbock*** to a promising market segment which favours stronger, dark beer. This is the only market outside Namibia where ***Urbock*** is currently available.

Operational performance

We had our first scheduled and overdue plant shutdown in February 2022 to do maintenance and service equipment. Unfortunately, we faced extremely long lead times where we relied on international suppliers for some equipment replacements and technical support, but as always, the teams demonstrated how we are always learning and are open to new possibilities. We have a culture where we store old but still usable parts when we replace equipment, in case they can be repurposed.

During the year, we consolidated our distribution facilities and opened a new Central Distribution Centre (CDC) in Windhoek. The new centre is home to customer services for deliveries, call and collect operations, trade marketing and special events teams. We designed the facility around the experience that we wanted to create for our customers and consumers and look forward to welcoming them there. All major dispatches are now done directly from our brewery.

Our procurement team has been proactive in sourcing alternative packaging options in the past few years. This enabled us to keep the lines running with glass imported from Angola when our South Africa supplier ran out of stock and capacity this year. For a short period of time we also changed can sizes as our aluminium supplier battled with loadshedding and supply issues. This quick thinking by our teams ensured that our consumers continued to have access to their favourite brands.

Malt supply constraints became a serious concern all over the world, and affected us directly as beer volume requirements from South Africa exceeded our forecasts. Unfortunately, this situation was compounded by train transport challenges from the Walvis Bay harbour to Windhoek.

We keep a close watch on the availability of barley and malt in Europe. Even though our suppliers are not yet listed as high energy consumers and therefore at risk of having to curb operations due to gas and energy shortages, cost spikes are already evident. We have excellent supplier relationships that provide security of supply, but challenges in logistics and energy might create future obstacles to the optimum functioning of our supply chain and operations.

Financial performance

Volume increases have a direct positive impact on our bottom line. With overall volumes increasing by 12%, operating profit jumped by 8.9% to N$667 million this year. This is on top of a 35% increase last year compared to 2020. Revenue increased by 15.4% to nearly N$4 billion.

Namibia experienced a 1% sagging in volumes compared to last year, mostly due to the unusual seasonal sales pattern that affected first-half results.

Exports to South Africa increased by 60% and export volumes by 17%.

We faced unprecedented inflationary effects this year, bearing upon every single cost item from raw material and transport to packaging. This made two price increases, in February and May 2022, inevitable, with margins still impacted. Fortunately, higher South African volumes softened the impact for NBL as the transfer pricing model allows us to recover costs.

The excellent performance of the South African market resulted in a 35% increase in royalty income from Heineken SA, while the equity loss from associate of N$73 million last year turned into a profit contribution of N$54 million.

Debtor days remained in a healthy range despite an increase towards the end of the year as Heineken took up additional volumes. As our agreement is based on a 45-day payment window, the debtor days ratio ended on 26 days (2021: 16 days). Smaller SME customers are taking strain in terms of settling their accounts, but bigger customers such as key national redistributors remain solid.

Stock write-offs remained low and well-managed.

NBL is in a strong cash position as we have not been paying dividends due to the pending outcome of the Heineken transaction and related conditions in terms of dividends. Net cash flow from operating activities decreased to N$436 million (2021: N$542 million). Net cash outflow from investing activities of N$102 million was higher than N$98 million in 2021.

Capital expenditure amounted to N$139.3 million (2021: N$137.7 million) as previously delayed projects started coming on stream. Major projects are planned for the next financial year. At-home consumption affected the ratio of returnable bottles, which remain NBL's main capital investment item.

Read more about our efforts to ensure returns on page 48

The Heineken transactions

The Heineken transaction was a dominant theme for 2022. The transaction offers many potential synergies and benefits, with two opportunities standing out:

- Providing NBL with access to a multi-category portfolio of brands within the Namibian market while creating the opportunity to grow existing brands such as ***Windhoek*** beyond Namibia's borders.
- Using NBL's available production capacity and infrastructure to achieve higher economies of scale and efficiency, leading to improved profitability.

To unlock these potential opportunities, the successful integration of all the relevant businesses, systems and functions will be a deciding factor.

In planning for the possible integration, our people remain our priority. We have been communicating with them throughout the process to ensure that we address any questions and uncertainties. We also believe it is important for people to understand the opportunities which the proposed transaction can unlock both from a business as well as personal perspective.

Becoming part of Heineken, the second-largest brewer in the world, will allow us to better compete with other global players within and beyond our borders while creating significant opportunities for our core brands like ***Windhoek*** in Africa and beyond. Seeing our iconic ***Windhoek Lager*** brand being consumed in the rest of the world is a source of pride to any Namibian.

Outlook and priorities

Being the market leader means that we continuously have to defend and entrench our position. We do this through brands that remain relevant and increase their penetration. We plan to increase our investment in both premium as well as mainstream beers and will retain investment in elevated levels of visibility and engagement in trade.

The next year will see significant investment in upgrading and expanding our production facilities to be ready for future growth and demand.

We will continue future-proofing our people through upskilling while driving digital transformation in all aspects of the business. This includes further expanding our online storefront to expose customers to a wider variety of products and promotions.

The Heineken transaction will be a step-change for NBL. We expect new opportunities to optimise our supply chain, especially through the use of data, systems and processes. Regulatory compliance in the supply chain will be an important focus area, spanning requirements from fair competition to human rights, cybersecurity and potential areas for corruption.

We anticipate that all elements of the supply chain will be significantly affected by world events that are currently leading to high inflation, potential scarcity and continued logistical challenges.

Despite these obstacles, we are positive and energised by the changes that are coming, and the opportunities for NBL to become a regional player as part of a global group.

Appreciation

This year we experienced the love that consumers have for our business and brands first-hand. The wide concerns about NBL's roots and legacy, and the need to protect this, spoke to our hearts. We will continue to be a Namibian champion of which our employees, customers, consumers, suppliers and Government can be proud.

Thank you to all our customers and consumers who remained loyal, and every member of the NBL team who went beyond the call of duty this year. Our results confirm your valuable efforts.

Marco Wenk
Managing Director