

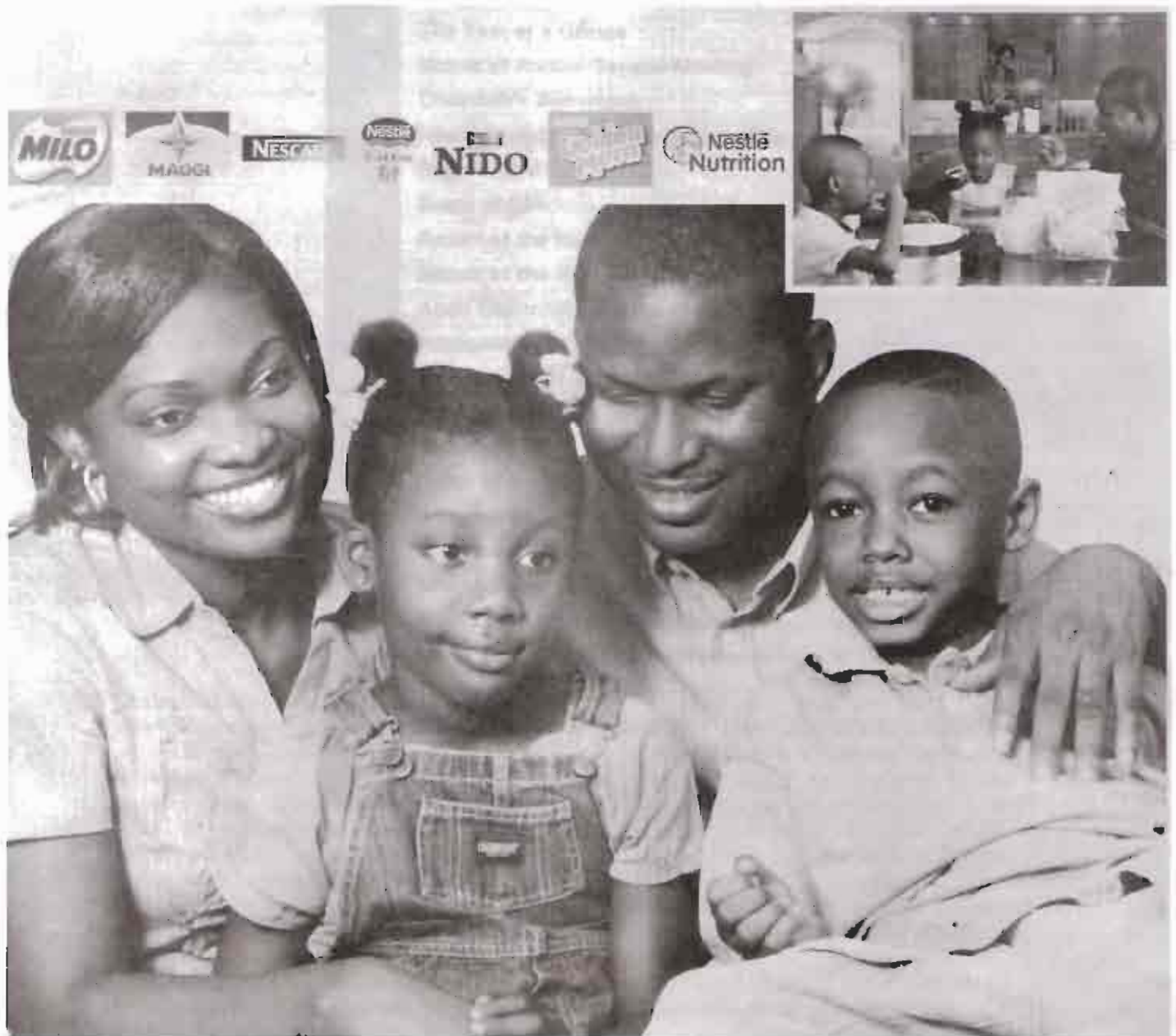


Nestlé

Good Food, Good Life

Annual Report & Accounts 2006

Welcome to Wellness



Enhancing the quality of life for all from infancy to old age

Nestlé Nigeria PLC
(INC 6349)

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Good Food, Good Life

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Board of Directors: Chief Olusegun Osunkeye - Chairman
Mr. Klaus P. Wachsmuth (German) - Managing Director/Chief Executive
Mr. Roger Stettler (Swiss)
Mr. Alexandre Cantacuzene (French)
Mr. Jacques Vauthier (Swiss)
Mr. David C. Ifezulike
Mr. Friedrich Mahler (Swiss)
Dr. Fiama D. Mshelia

Company Secretary: Mr. Solomon O. Folarin

Registered Office: 22-24 Industrial Avenue
Ilupeju, Lagos.
Tel: 01-4978720-4

Registrars: Union Registrars Limited
2 Burma Road, Apapa
Tel: 5803369, 5451399, 5803367

Auditors: KPMG Professional Services
22A, Gerrard Road
Ikoyi
Lagos

Members of the
Audit Committee: Otunba Thomas B. Adebayo - Chairman
Mrs. Flora O. Abayomi
Alhaji Kamorudeen A. Danjuma
Mr. Alexandre Cantacuzene (French)
Mr. Jacques Vauthier (Swiss)
Dr. Fiama D. Mshelia

Nestlé Nigeria is part of the Nestlé Group, the respected and trustworthy Food, Nutrition, Health and Wellness Company renowned world-wide for its high quality products. Nestlé Nigeria Plc began simple trading operations in Nigeria in 1961 and has today grown into a leading food manufacturing and marketing company. Nestlé Nigeria Plc was listed on the Nigerian Stock Exchange on April 20, 1979. As at December 2006, the number of Nigerian shareholders was almost 30,000. Today, sixty-two percent of the Company's equity is owned by Nestlé S.A. of Switzerland and Nestlé CWA Limited, Ghana.

The strategic priorities of the Company are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long-term growth. The company's turnover in year 2006 was N38.4 billion out of which the sum of over N2.5 billion was paid to the Federal Government as income taxes. In year 2006 the company's profit before tax was N8.2 billion and Profit after tax was N5.7 billion.

Nestlé Nigeria manufactures and markets an impressive array of high quality brands: Infant cereals-Nestlé NUTREND, Nestlé CERELAC; family cereals- Nestlé GOLDEN MORN; beverage drink Nestlé MILO; confectionery- Nestlé CHOCOMILO; bouillon MAGGI CUBE, MAGGI CHICKEN, MAGGI CRAYFISH, MAGGI MAXI CUBE; Sauce MAGGI MACHOP and table water-Nestlé PURE LIFE. Nestlé Nigeria also markets coffee-NESCAFÉ CLASSIC and NESCAFÉ 3-in-1, and full cream milk product-Nestlé NIDO.

These brands and products are the focus of continuous innovation so that they meet and exceed our consumers' expectations. The Company seeks to achieve a clear-cut advantage over competitors' products and to ensure that its products are available wherever, whenever and however the consumers want them.

Continuous attention is also given to developing the professional and leadership skills of staff at all levels so that they can directly contribute to growth and a higher level of performance.

To stimulate industrial growth, the company has a policy of long-term sustainable business practices. Over 75 percent of our raw materials are sourced

locally through farmers and suppliers. Our business supports an ever-increasing standard of living through employment generation, increased income, infrastructure improvements and a growing concern for the interest of the community here in Nigeria.

Nestlé adheres to a comprehensive set of business principles that reflect both the company's commitment to long-term successful business development and the necessity to improve short-term results.

Indeed, creating value for shareholders, consumers, employees and business partners as well as the local communities and the national economies in which Nestlé operates is central to Nestlé Corporate Business Principles and Nestlé Management and Leadership Principles.

Nestlé Nigeria fully supports the ten principles of the United Nations Global Compact on human rights, labour, the environment and corruption. Indeed, Nestlé is one of the first companies in Nigeria to support and advance the Global Compact principles within its sphere of influence. All ten principles of the Global Compact are an integral part of the Nestlé Corporate Business Principles, a set of core business principles, which deal with the primary impacts of the Nestlé value chain activities.

Nestlé recognizes that it cannot work alone and is building partnerships to address specific social problems that arise in its value chain, in its quest to create shared value for the business and society.

Nestlé S.A. Switzerland, parent company of Nestlé Nigeria, donated CHF3 million to the International Federation of Red Cross/ Red Crescent Society Africa Health initiative (ARCHI 2010 Project) in 2002 to prevent transmission of HIV through increased AIDS awareness in Nigeria. In the course of the 4-year programme, about 15 million people were educated; 1.2 million people received life-preserving information; 2,640 HIV/AIDS Peer Youth Educators were trained; 5,000 families were reached through the Home-Based Care Programme; 3 million condoms were distributed free of charge and about 10,000 lives were enhanced through comprehensive voluntary and confidential counseling and testing.

In furtherance of its cutting-edge, knowledge-based

and multi-stakeholder strategic approach to fight the HIV/AIDS scourge in Nigeria, Nestlé collaborated with the Nigerian Red Cross Society to produce series of educational materials on HIV/AIDS. The first brochure entitled *HIV/AIDS Questions & Answers* was produced in 2003. The second publication, *NUTRITION and HIV/AIDS: Basic Facts* was launched in 2004 while the third document, *CHILDREN AND HIV/AIDS* was published in 2005.

To further promote through the publications, greater involvement of civil society and ensure proper dissemination and better understanding of HIV/AIDS in the local community, Nestlé published all three brochures in three major Nigerian Languages: Hausa, Yoruba and Igbo.

Together with the Nigerian Red Cross Society, the publications were distributed extensively to some key target publics including: Schools; Youth groups; Parents; Counsellors; Community-based Organizations; Peer Educators and Teachers; Network of People living with HIV and AIDS in Nigeria; Faith-Based Organizations; Social Welfare Workers; Home Care Providers and Non Governmental Organizations; Nestlé Employees; Key Business Partners and Customers; Shareholders; Trade and Professional Associations and the Nigeria Business Coalition Against AIDS.

In 2006, we produced in conjunction with the Nigerian Red Cross Society, a book entitled: *Pathways to Managing HIV and AIDS: A Book of Readings*. The book was formally presented to the public in commemoration of the 2006 World AIDS Day Celebration.

The new book is the outcome of the Nigerian Red Cross and Nestlé strategic partnership aimed at truly making a difference in the quality of life of Nigerians and people living with HIV/AIDS.

It is expected to help counter the discrimination suffered by those infected and affected by HIV/AIDS.

The publication is a compendium of information on HIV and AIDS in pursuit of efforts to improve knowledge and understanding of HIV and AIDS and sexually transmitted diseases in Nigeria.

This book brings together in one volume, three brochures earlier published on HIV/AIDS by the Nigerian Red Cross Society in collaboration with

Nestlé Nigeria between 2003 and 2005.

Nestlé Nigeria continues to contribute to the development of sports and Creative Arts by sponsoring many sporting events and programmes: Nestlé MILO Secondary School Basketball Championship, Nestlé MILO Future Champions Tennis Clinic and the Nestlé MILO Friendly Schools Excellence Awards and Nestlé MILO Arts Competition.

The Company also promotes Nigeria food culture through the MAGGI Family Menu Television programme, a Television audience participatory cookery programme in local languages, MAGGI Women Forum and sponsorship of MAGGI Junior Chef Competition, in collaboration with an NGO, New Era Foundation.

Also, as part of its local community and social partnership initiatives, Nestlé Nigeria in collaboration with Search for Common Ground, a Washington based-non-profit organization, is sponsoring ground breaking Nigerian docu-reality television series, *THE ACADEMY* and *THE STATION*. The projects seek to promote positive role models and peaceful resolution of conflict among the nation's youths.

Furthermore, in pursuit of its commitment to nutrition education and awareness in Nigeria, Nestlé aired Nutrition Line on Radio, a five minutes daily nutrition tips.

Also, in furtherance of its commitment to technical education and manpower development in Nigeria, Nestlé donated Ten Million Naira in 2004 to the Institute of Industrial Technology towards the construction and completion of Nestlé Workshop on the Institute's permanent site.

Nestlé Nigeria is also sponsoring 15 students every year at the Institute at a cost of N = 150,000.00.

In pursuit of its Sustainable Agriculture Initiative (SAI), Nestlé Nigeria is involved in collaborative research with the University of Agriculture, Abeokuta (UNAAB) on popularization of soyabeans. The Company embarked on an on-the-farm adaptive research with UNAAB, which brought into being a selection of soyabean varieties with improved seed

colour, seed size and seed yield.

Some local farmers in the southwest region of Nigeria were encouraged to using sustainable farming techniques to plant the improved soyabean varieties. Nestlé donated Six Million Naira to the University of Agriculture, Abeokuta to procure modern soyabean threshing machines.

Nestlé is committed to environmentally sound business practices. The company integrates environmental policies, programmes and practices into each business as an element of management in all its functions. The company strives always to

minimize the impact of its operations on the environment through the utilization of packaging and manufacturing processes that are internationally recognized to have minimum impact on the environment.

With its historical root in nutrition, wide product portfolio, strong brands, research and development competence, skilled and motivated professionals and efficient management, Nestlé Nigeria is uniquely positioned to continue to contribute to the progress, prosperity, economic development and industrial growth of Nigeria.

	2006 N'000	2005 N'000	% Increase/ (Decrease)
Turnover	38,422,782	34,335,891	12
Profit before taxation	8,197,897	7,907,848	4
Profit after taxation	5,660,329	5,303,128	7
Interim dividend paid	1,056,875	1,056,875	-
Proposed final dividend	4,412,453	4,227,500	4
Declared Dividend during the year***	5,284,375	3,699,062	43
Share capital	264,219	264,219	-
Shareholders' funds	6,360,492	5,980,312	6
Per 50k Share Data			
Earnings per share	N 10.71	N10.04	
Dividend per share			
- Interim dividend paid	N 2.00	N2.00	
- Final proposed	<u>N 8.35</u>	<u>N8.00</u>	
	<u>N10.35</u>	<u>N10.00</u>	
- Declared during the year	N 10.00	N 7.00	
Net assets per share	N12.04	N11.32	
Stock exchange quotation at 31 December	N235.00	N187.00	
Market capitalisation at 31 December (N: million)	124,183	98,818	

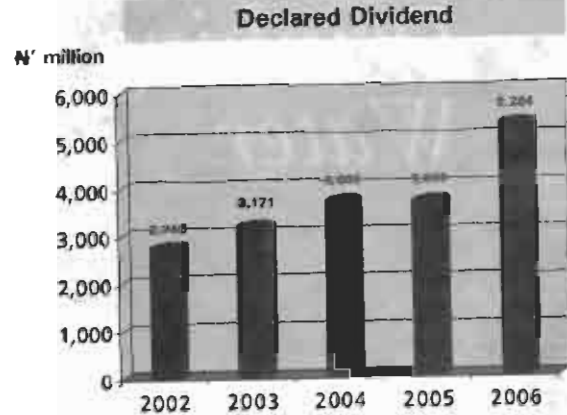
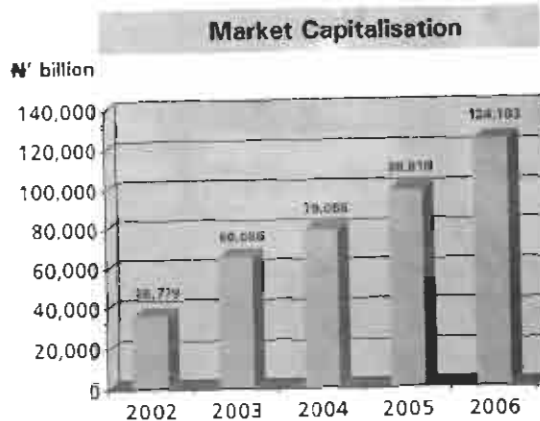
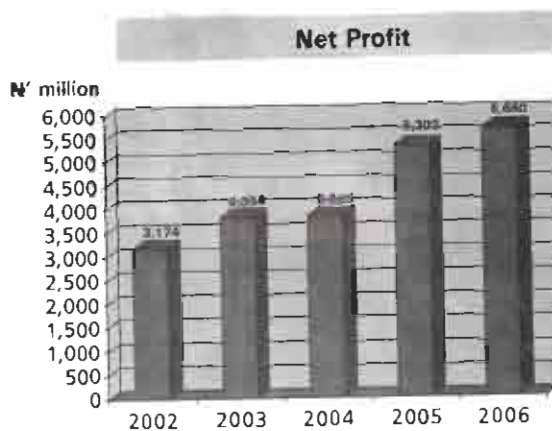
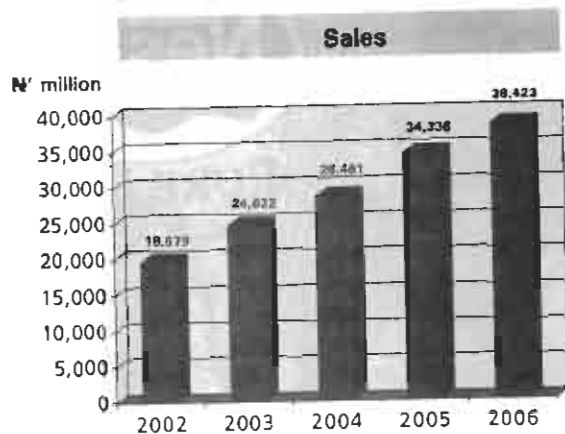
*** Declared dividend during the year represents the interim dividend declared and paid during the year plus the final dividend proposed for the preceding year but declared during the current year.

PURE LIFE[®]

*Premium
Drinking
Water*



Good Food, Good Life



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 38th Annual General Meeting of Nestlé Nigeria Plc will be held at the MUSON Centre, 8/9, Onikan, Lagos, on Tuesday, 24th April, 2007, at 11 o'clock in the forenoon, to transact the following business:

ORDINARY BUSINESS

1. To lay before the Meeting the Report of the Directors, the Financial Statements for the year ended 31st December, 2006, and the Report of the Auditors thereon.
2. To receive the Report of the Audit Committee.
3. To declare a Final Dividend.
4. To re-elect Directors.
5. To authorise the Directors to fix the remuneration of the Auditors.
6. To elect the members of the Audit Committee.

SPECIAL BUSINESS

7. To consider and if thought fit, pass the following resolutions as ordinary Resolutions:
 - (a) "That the Nominal Share Capital of the Company be and is hereby increased from N264,218,750 to N330,273,438 by the creation of 132,109,375 new ordinary shares of 50 kobo each ranking in all respects *pari passu* with the existing shares of the Company."
 - (b) "That pursuant to Article 122 of the Articles of Association of the Company, the Directors having so recommended, it is desirable to capitalise the sum of N66,054,688 from the retained earnings of the Company and accordingly that such sum be set free for distribution amongst the members on the Register of Members at the close of business on Friday, 13th April, 2007 on condition that the same be not paid in cash but be applied in paying up in full at par 132,109,375 new ordinary shares of 50 kobo each to be allotted and credited as fully paid to and amongst such members in the proportion of one (1) new ordinary share for every four (4) ordinary shares held by them at that date, the shares so distributed being treated for all purposes as capital and not as income, and on further condition that the shares so distributed shall not rank for dividend recommended by the Directors for the year ended 31st December,

2006, and the Directors shall give effect to this resolution on receipt of the necessary permission from the authorities.

SPECIAL RESOLUTIONS

8. To consider and if thought fit, pass the following as Special Resolutions:

"That consequent upon the passing of the Ordinary Resolution for the increase of the Company's share capital above,

 - (i) Clause 5 of the Company's Memorandum of Association be amended by deleting the first sentence therein and substituting in lieu, the following:

"The Capital of the Company is N330,273,438 divided into 660,546,875 shares of 50 kobo each."
 - (ii) The Company's Articles of Association be amended by deleting Article 5 and substituting in lieu, the following:

"The authorised Share Capital of the Company is N330,273,438 divided into 660,546,875 Ordinary Shares of 50 kobo each."

Dated 16th February, 2007.

By Order of the Board

S. O. Folarin
Company Secretary

Registered Office:
22-24, Industrial Avenue Ilupeju
LAGOS.

NOTES

- (i) **PROXY:** A member of the Company entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed herewith. Proxy forms must be completed and deposited at the office of the Company's Registrars, Union Registrars Limited, 2, Burma Road, Apapa, Lagos, P.M.B. 12717, Lagos not later than 48 hours before the time of the meeting.

**Notice of
Annual General Meeting (Cont'd)****DIVIDEND WARRANTS AND CLOSURE OF REGISTER OF MEMBERS:**

If the Dividend recommended by the Directors is declared, dividend warrants will be posted on Wednesday, 25th April, 2007, to the shareholders whose names are registered in the Company's Register of Members at the close of business on Friday, 13th April, 2007. NOTICE is therefore hereby given that the Register of Members and Transfer Books of the Company will be closed from Monday, 16th April, 2007, to Friday 20th April, 2007, both dates inclusive to enable the preparation and payment of dividend.

NOMINATIONS FOR THE AUDIT COMMITTEE:

The Audit Committee consists of 3 Shareholders and 3 Directors. In accordance with section 359 (5)

of the Companies and Allied Matters Act, 1990 any Member may nominate a shareholder as a Member of the Audit Committee by giving in writing, notice of such nomination to the Company Secretary at least 21 days before the Annual General Meeting.

UNCLAIMED DIVIDEND WARRANTS AND SHARE CERTIFICATES:

Several dividend warrants and share certificates remain unclaimed or are yet to be presented for payment or returned to the company for revalidation. A list of such members will be circulated with the Annual Report and Financial Statements. Members affected are advised to write to the Company Secretary or call at the Company's registered office during normal working hours.

TASTE IS EVERYTHING!

MAGGI
CUBE

MAGGI

MAGGI and me, the secret of goodness
MAGGI

Nestlé

Good Food, Good Life

Highlights

“

Our positive results were made possible by our highly skilled, well motivated and committed workforce...

”

“

The distributors of our products and those who supply various materials for our manufacturing operations have continued to contribute significantly to our company's growth and development.

”

“

We expect a peaceful and stable political and economic environment, which is needed to sustain the milestones already recorded on the economic front.

”

**Chief Olusegun Osunkeye - Chairman**

Distinguished Shareholders, my colleagues on the Board, ladies and gentlemen. It is my pleasure to welcome you to the 38th Annual General Meeting of our company and to present the Financial Statements and Report as well as a review of the performance of our company for the year ended 31st December 2006.

I am proud and delighted to inform you that in spite of the challenging economic and social environment, in which we operated in the year under review, our company was able to record good results and we have remained financially sound.

BUSINESS ENVIRONMENT

Measures to improve the business environment in 2006 have centered on privatization, banking consolidation and trade reforms. The privatization agenda remains ambitious. However, government effort to address pressing infrastructure deficit should be commended. We wish to note with delight, government accelerated capital spending, particularly on power plants through the National Integrated Power Project (NIPP) to ensure increased power generation with enhanced transmission and distribution. The investment which is expected to contribute about 4,500 MW (Megawatts) of the increased capacity will further boost private sector growth.

Owing to frequent power outages, manufacturers in Nigeria use oil-based generation to meet 70 percent of their power needs.

We also commend the government effort to improve transportation facilities through the construction of the East-West Highway in the Niger-Delta. We also note the dredging of the Niger River, combined with the construction of the ports and jetties aimed at easing the transportation of both goods and passengers. However, dualisation of Abuja/Lagos road and upgrading of infrastructures in Lagos are highly necessary for Federal Government to urgently address.

The banking consolidation activity is another important effort to improve the business environment in 2006. The exercise should help strengthen financial institutions, cause lower inflation and consequently stimulate economic growth.

Another significant positive development in 2006 was the administration of foreign exchange market. The parallel and official foreign exchange market was unified to increase the foreign currency supply and extend official market access to Bureaux de Change. The official rate in 2006 has remained broadly unchanged, reflecting a build up of foreign exchange reserves, which rose to US\$41 billion in October 2006 from just US\$7 billion in 2003, despite repayment of US\$12 billion to Paris Club of Creditors.

In regard to trade reforms, we are pleased to note that the concessioning of all major ports has already reduced the average import time between 2005 and 2006. However, further improvement is needed on the administrative side to speed up the handling processes and improve the competitiveness of Nigeria.

OPERATING RESULTS AND PERFORMANCE

It is my pleasure to announce that in spite of the challenges faced in 2006, your company recorded profitable business growth above the average rate in our industry. The impetus for our business in the year came from our strong and pro-active business model, an ever more efficient platform and a continued focus on driving efficiency across all our operations. Our positive results were made possible by our highly skilled, well motivated and committed workforce as well as our customers and suppliers.

DIVIDEND

In the spirit of the good performance recorded in 2006 and in line with our progressive shareholders relations' policy, the Board recommends for your approval a final dividend of N4,412,453,125 or N8.35 per ordinary share of fifty kobo each (as against N8.00 per ordinary share declared in 2005). It should be noted that this is in addition to the interim dividend of N1,056,875,000 or N2.00 per ordinary share (2005: N2.00 per share) declared and paid in November, 2006. The dividend is payable on Wednesday, 25th April, 2007 and is subject to deduction of appropriate withholding tax.

BONUS ISSUE

In addition to the proposed final dividend, a bonus issue of one new share for every four existing shares is being recommended for the approval of shareholders.

MARKETING, SALES AND PRODUCT PERFORMANCE

We recognize that food and beverages play an increasingly important role in people's lives-both in terms of personal health and nutrition and in terms of sociability and enjoyment. What people eat and drink affects the way they live their life and the pleasure they get from it. Increasingly, our consumers are benefiting from Nestlé products that go beyond taste and convenience. We are providing them with much more, integrating added benefits of Nutrition, Health and Wellness.

Our flagship brand, MAGGI, turned 40 in 2006. The brand, which has remained a major player in the seasonings market, won the best sales Promotion Award in the bouillon market. The award was given by the National Institute of Marketing of Nigeria. The brand recorded outstanding performance in 2006. Various brand-building events were held during the year to further stimulate top of mind awareness and promote better consumer communication: MAGGI Cook for Mama competition, MAGGI Junior Chef competition and MAGGI Women Forum to mention a few.

We continued our brand support efforts to reposition Nestlé GOLDEN MORN as all-family cereals. I am pleased to inform you that these efforts are yielding positive results as shown by the steady sales growth recorded by the brand. Because Nestlé brands are role models and communicate healthy living and wellness, we introduced a ground-breaking Nutrition education programme on TV- Golden Rockaz. The show is a two-pronged television programme, which communicates nutrition through choreographed dance. It is aimed at promoting a balanced lifestyle, rewarding creativity and encouraging teamwork amongst students.

The programme gives participating students an opportunity to showcase their talents in poetry (on a nutrition-based theme) and synchronized dance/choreography to Nigerian songs only. These are presented with a high level of decency, both in costume and presentation.

The programme has been widely acknowledged by nutritionists, schools, counselors, parents and the general public as a novel initiative that provides fundamentals of a healthy lifestyle.

Nestlé contributions to sport development, creative arts, tribal tolerance, teamwork, healthy spirit of sportsmanship and academic excellence remained unrivaled through its sponsorship of various sporting events and programmes.

The continued sponsorship of the following events: Nestlé MILO Secondary School Basketball Championship, Nestlé MILO Future Champions Tennis Clinic, Nestlé MILO Friendly Schools Excellence Awards and Nestlé MILO Arts Competition has further made Nestlé MILO the preferred choice in malt/chocolate drink.

The Nestlé MILO/Radar Hoops Top 50 Camp is fast becoming a traditional follow-up to the Nestlé MILO Secondary Schools Basketball Championship. Outstanding young basketball talents are camped and taken through sessions of drills on basic basketball skills by international and celebrated local coaches.

Nestlé ChocoMILO is also enjoying high visibility through strategic media and non-media campaign.

Based on consumer insight and the need to make Nestlé NIDO full cream milk more affordable, economical and easy to handle, we introduced Nestlé NIDO soft refill packs. The new refill format comes in 400 grams and 180 grams.

Nestlé NIDO in the soft pack is of the same nutritious quality as the one in cans. We have now provided a wide range of choice for our consumers depending on their pocket reach.

The launch has since been followed by trade briefings, market activations and awareness campaigns through the electronic, print, outdoors and other below-the-line product and marketing support.

We continued with our expansion of the scope of market activations and wet sampling of NESCAFÉ in schools, campuses, events and offices across the country. All these have further increased the demand for NESCAFÉ. We plan to sustain these activities as well as educate the consumers on the benefits of NESCAFÉ CLASSIC and NESCAFÉ 3 in 1 to promote the coffee drinking culture in Nigeria.

In demonstration of our commitment to the health

Chairman's Statement (Cont'd)

and well being of Nigerians especially infants and young children, Nestlé introduced a Developmental Nutrition Plan. The Plan identifies 4 major developmental stages of a baby and the need to provide the right nutrition at the right stage. It recognizes that each baby has his/her unique nutritional requirements. The Plan allows for convenience, enjoyment and ease of preparation of the Nestlé CERELAC varieties.

Nestlé believes that breastfeeding is the best Nutrition for babies and therefore we protect, promote and support exclusive breastfeeding.

In pursuit of our objective of continually strengthening our brands and developing value-added products, we introduced two new Infant Formula products during the period in review: Nestlé Pre NAN and Nestlé NAN Lactose Free.

Nestlé PURE LIFE has leveraged its healthy positioning to become the preferred bottled water brand for on-the-go, out-of-home and family-in-house consumption occasions.

Nestlé PURE LIFE anchored its entry into the Nigerian market in July 2005 in response to Nigerian consumers' quest for an ideal balance of safe, clean, healthy and a pleasant refreshing drinking water.

To meet increasing demand, we are increasing our production capacity and will expand the distribution network to make the brand available whenever and wherever our consumers want it.

Also, the brand will have a new visual identity to better convey its unique benefits.

DISTRIBUTORS AND SUPPLIERS

The distributors of our products and those who supply various materials for our manufacturing operations have continued to contribute significantly to our company's growth and development.

I wish to thank them on your behalf for their co-operation and the cordial business relationships. We will continue to strengthen the relationship so that the valued partnerships between Nestlé on the one hand and the distributors and the suppliers on the other hand would be mutually beneficial.

EMPLOYEES

Your company recorded a peaceful and favourable industrial relations environment in 2006. This contributed to the good results achieved.

As at 31st December 2006, our staff strength stood at 1492 comprising 1117 Junior Staff and 375 Senior and Management Staff.

At the end of 2006, we engaged a total of 173 new employees as a result of continuous business expansion and new opportunities.

Also, 67 employees attended various overseas courses, 100 external local training while 1369 staff improved their skills through various in-house training programmes organized by the company.

CORPORATE SOCIAL INITIATIVES

In regard to corporate social investment, we continue to make giant strides and create value for society.

During the third quarter, THE STATION, a groundbreaking docu-reality radio and television series on conflict resolution sponsored by Nestlé, was premiered on the Cable Network News (CNN) on September 30, 2006.

The programme featured a panel discussion by former President of the United States of America, Mr. Bill Clinton among other international figures.

THE STATION, a fictional drama series, seeks to tackle critical social issues identified by Nigerians as the main impediments to the country's development.

THE STATION does not aim to provide solutions to the problems Nigerians face in their daily lives, its aim is to make sense of the situation we all face, to ask questions on our behalf, and, most importantly, to move us in the search for solution.

The programme is one of the most ambitious productions ever undertaken in sub-Saharan Africa in terms of cast, crew, set design and filming style. To fully capture the complexity, dynamism and energy of television journalism, a 2,000 meter square dilapidated warehouse in Lagos was transformed into a world-class production studio that includes a CNN-style newsroom, domestic and office interior sets. Over 1,800 Nigerians were

involved in the production of the first 13 episodes. Audience response since the debut on Africa Independent Television (AIT) and later on the Network Service of the Nigeria Television Authority (NTA) has been very impressive.

Further, in pursuit of our cutting-edge, knowledge-based and multi-stakeholder strategic approach to fight HIV/AIDS disease in Nigeria, we produced in conjunction with the Nigerian Red Cross Society, a book entitled: *Pathways to Managing HIV and AIDS: A Book of Readings*. The book was formally presented to the public in commemoration of the 2006 World AIDS Day Celebration.

The new book is the outcome of the Nigerian Red Cross and Nestlé strategic partnership aimed at truly making a difference in the quality of life of Nigerians and people living with HIV/AIDS. The publication is a compendium of information on HIV and AIDS in pursuit of efforts to improve knowledge and understanding of HIV and AIDS and sexually transmitted infections in Nigeria. This book brings together in one volume, three brochures earlier published on HIV/AIDS by the Nigerian Red Cross Society in collaboration with Nestlé Nigeria between 2003 and 2005.

It would be recalled that the Nigerian Red Cross and Nestlé had in the last four years produced three brochures on HIV/AIDS entitled: *HIV/AIDS Questions & Answers in 2003*; *NUTRITION AND HIV/AIDS: Basic Facts in 2004* and *CHILDREN AND HIV/AIDS* in 2005. The three brochures were also published in the three main Nigerian Languages: Hausa, Yoruba and Igbo, for better understanding and involvement.

AWARDS

Our company received a number of awards and recognitions from various institutions, professional

bodies, associations and government agencies during the period in review.

Nestlé Nigeria received Nigeria's Most Respected Company for 2006 Award by Pricewaterhouse Coopers and BusinessDay. Nestlé was rated by CEOs of companies in Nigeria as a highly trusted company with great products and brands based on a strong understanding of consumers and a focus on people.

Other reasons given by the CEOs include: social responsibility, high ethical standards, excellent business culture, unique and excellent leadership skills, vision and innovation, human capital development, good corporate governance, high stakeholder value and good market performance.

FUTURE OUTLOOK

We expect a peaceful and stable political and economic environment, which is needed to sustain the milestones already recorded on the economic front. We believe a credible and peaceful electoral process would keep the economy on the path of economic progress. The security system should also be strengthened to reassure Nigerians on the safety of their lives and property.

We are positive that we are in a better position to achieve strong organic growth and sustainable margin improvement in 2007 through total quality performance in all our operations. This underpins our potentials for long-term, sustainable and profitable growth.

I thank you for your attention.

Chief Olusegun Osunkeye, OON

Chairman

16th February, 2007

Background

Nestlé Corporate Governance Principles

Nestlé Nigeria has since:

- built consumers' trust through the quality and safety of its products;
- respected the social, political and cultural traditions of Nigeria;
- taken a long-term approach to strategic decision-making, which recognizes the interests of its shareholders, consumers, employees, distributors, business partners and industrial suppliers.

The Nestlé commitment to sound Corporate Governance reflects and highlights our decision to ensure the highest level of responsible corporate conduct in all facets of our company's activities and operations.

Local Legislations and International Recommendations

Nestlé:

- ensures that the highest standards of conduct are met throughout the organization by complying in a responsible way with the *Nestlé Corporate Business Principles*, which guide our activities and relationships worldwide in each sector of business interest;
- is aware that increasing globalization is leading to the development of more international recommendations. Although, as a general rule, these recommendations are addressed to governments, in the long run they an impact on business practices. Nestlé takes such recommendations into account in its policies;
- generally endorses commitments and recommendations for voluntary self-regulation issued by competent sectoral organizations, provided they have been developed in full consultation with the parties concerned; these include the ICC Business Charter for Sustainable Development (1991), the OECD Guidelines for Multinational Enterprises (1976) and the OECD Principles of Corporate Governance (1999).

- ensures strict compliance with the Companies and Allied Matters Act 1990 particularly by:
 - Keeping proper accounting records
 - Ensuring adequate internal control procedures
 - Following all applicable accounting standards
 - Consistently applying suitable accounting policies and the going concern basis.
- ensures that taxes are promptly and regularly remitted to the three tiers of government federal, state and local authorities.
- complies with the provisions of code of corporate governance in Nigeria issued in 2003 by the Securities and Exchange Commission and the Corporate Affairs Commission. Also, Nestlé Nigeria has in place structures and mechanisms to enhance internal control while the effectiveness of measures for achieving operational and compliance control is constantly reviewed.

The Principles

They cover four areas:

1. The rights and responsibilities of shareholders
2. The equitable treatment of shareholders
3. The duties and responsibilities of the Board of Directors
4. Disclosure and transparency

Information Policy

Shareholder Relations- Guiding principles

Nestlé Nigeria is committed to managing an open and consistent communication policy with shareholders, potential investors and other interested parties. The objective is to ensure that the perception of those parties about the historical record, current performance and future prospects of Nestlé Nigeria is in line with management's understanding of the actual situation at the company.

The guiding principles of this policy, as it relates to shareholders, are that Nestlé gives equal treatment to shareholders in equal situations, that any price-sensitive information is published in a timely fashion and that the information is provided in a format that is as full, simple, transparent, engaging and consistent as possible.

Methodology

The Nestlé Nigeria communication strategy makes use of traditional and modern communication tools.

Printed material

Nestlé produces a highly detailed Annual Report and Accounts, which reviews the business and provides detailed audited financial statements for the year under review, according to relevant international and local standards and regulations. The document also outlines and discusses the latest social initiatives of Nestlé resulting from its commitment to the highest levels of corporate citizenship and environmental stewardship.

Nestlé publishes its full year figures. Press releases are issued regularly on our financial performance while press statements on any other non-financial information on the company is made public.

Personal Communication

In furtherance of its progressive and enlightened shareholder relation's policy, Nestlé Nigeria runs a business forum. The programme provides an opportunity for the Shareholders to take on the management of the company on recently announced financial results or corporate activity or on the longer-term strategy of the company.

Board of Directors

The Board of Directors is the ultimate governing body of Nestlé Nigeria. It is responsible for the overall supervision of the company.

The Board performs the following key functions:

- The ultimate direction of the Company, in particular the conduct, management and supervision of the business of the Company, and the provision of necessary directions;
- The determination of the Company's organization;
- The determination of accounting and financial control principles, as well as principles of financial planning;
- The appointment and removal of the Committee members
- The ultimate supervision of the Chairman with respect to the compliance with the law, the Articles of Association, the Board Regulations and instructions given from time to time;
- The discussion and approval of:
 - Corporate Governance principles of the Company
 - The review of and decision on any report submitted to the Board

- Any significant policy issue dealing with the Company's general structure or with financial, commercial and industrial policy

Time of first election and remaining term of office

Name	First election	Expiration of term
Olusegun Osunkeye	01/01/1973	2008
Klaus Wachsmuth	01/11/2002	N/A
Jacques Vauthier	01/10/2004	24/04/2007
David Ifezulike	22/12/2000	2009
Roger Stettler	02/05/2005	2008
Alexandre Cantacuzene	11/11/2005	2008
Friedrich Mahler	01/10/2004	24/04/2007
Fiana Mshelia	23/03/2001	24/04/2007

Allocation of tasks within the Board of Directors

Name	Remuneration Committee	Audit Committee
Olusegun Osunkeye	—	—
Klaus Wachsmuth	—	—
Jacques Vauthier	—	✓
David Ifezulike	—	—
Roger Stettler	✓	—
Alexandre Cantacuzene	✓	✓
Friedrich Mahler	✓	—
Fiana Mshelia	—	✓

Work methods of the Board of Directors and its Committees

The Board meets as often as necessary and on notice by the Chairman.

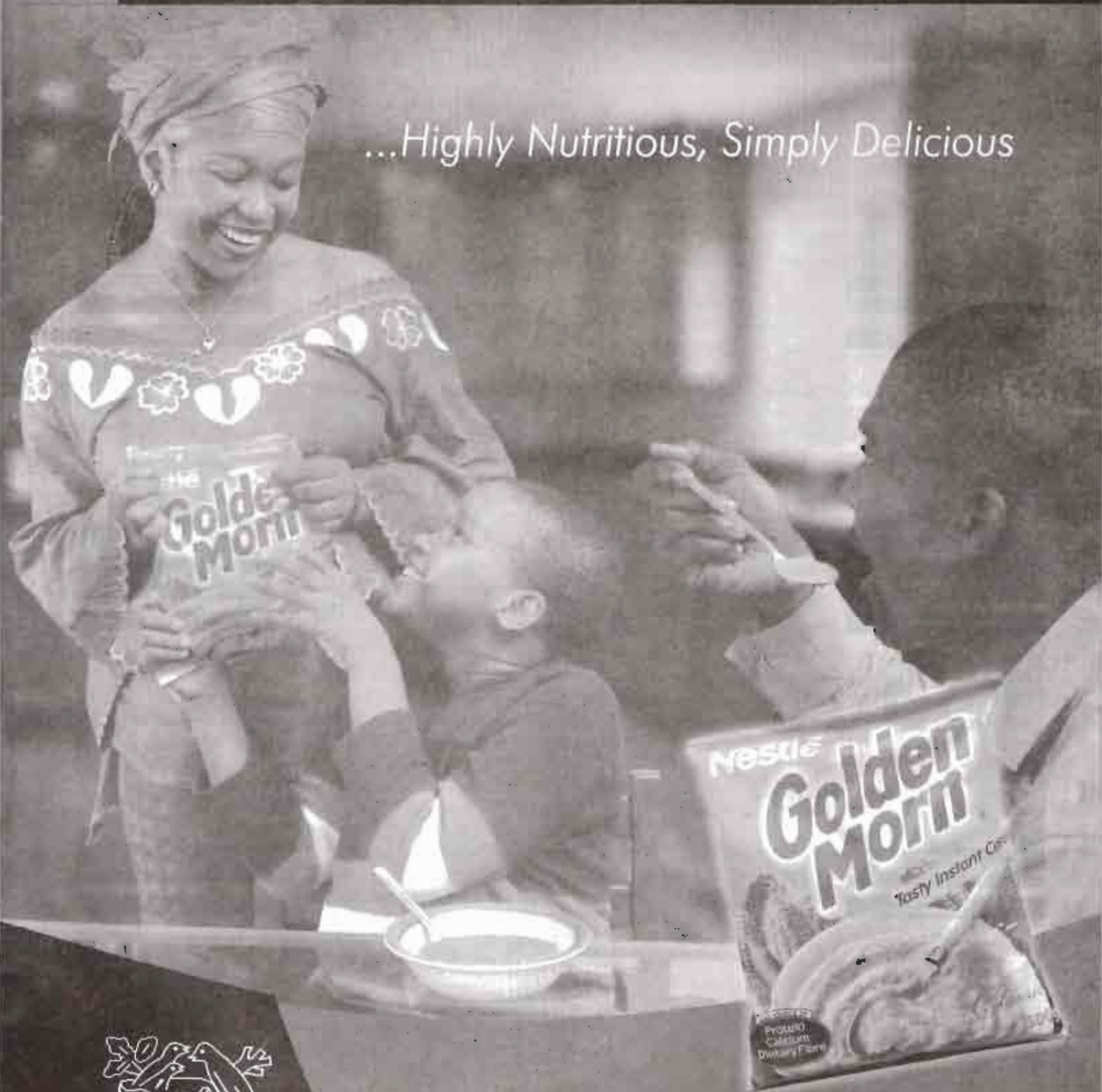
The following meetings were held in 2006:

- Board of Directors 4 times
- Audit Committee 2 times
- Remuneration Committee 2 times

Auditors

The lead auditor is KPMG.

...Highly Nutritious, Simply Delicious



Good Food, Good Life

Chairman

**Chief Olusegun Osunkeye**

Managing Director/CEO

**Klaus P. Wachsmuth**

Director

**Mr. Roger Stettler**

Director

**Mr. Alexandre Cantacuzene**

Finance/Control Director

**Mr. Jacques Vauthier**

Director

**Mr. David Ifezulike**

Director

**Mr. Friedrich Mahler**

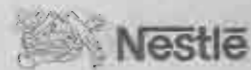
Director

**Dr. Fiama D. Mshelia****Nestlé**

Good Food, Good Life

Report of the Directors

For the year ended December 31st, 2006



Good Food, Good Life

Annual Report & Accounts 2006

1. Financial Statements

The directors present their annual report on the affairs of Nestlé Nigeria Plc ("the Company") together with the financial statements and the auditors' report for the year ended 31 December 2006.

2. Operating Results

The following is a summary of the Company's operating results:

	2006 N'000	2005 N'000
Turnover	38,422,782	34,335,891
Operating profit	8,012,581	7,641,636
Profit before tax	8,197,897	7,907,848
Profit after tax	5,660,329	5,303,128
Retained earnings, end of year	5,874,750	5,489,226

3. Dividend

The directors recommend the payment of a final dividend of N 8.35 per share having earlier declared and paid an interim dividend of N 2.00 per share totaling N 10.35 per share. (2005: N10.00 per share) on the issued share capital of 528,437,500 shares of 50k each. Withholding tax at the applicable rate was deducted at the time of payment.

4. Principal Activities

The principal activities of the Company continue to be the manufacturing, marketing and distribution of food products including purified water throughout the country and the manufacture of hydrolysed plant protein mix for Maggi cubes and other food products based on local agricultural raw materials.

5. Directors and Their Interests

(a) The directors who served during the year and their interests in the shares of the Company were as follows:

	Interest in the Ordinary Shares of the Company	
	2006	2005
Chief O. Osunkeye - Chairman	400,000	400,000
Mr. K.P. Wachsmuth (German) - Managing Director/ Chief Executive	Nil	Nil
Mr. R. Stettler (Swiss)	Nil	Nil
Mr. A. Cantacuzene (French)	Nil	Nil
Mr. J. Vauthier (Swiss)	Nil	Nil
Mr. D.C. Ifezulike	50,837	42,837
Mr. F. Mahler (Swiss)	Nil	Nil
Dr. F.D. Mshelia	2,500	2,500

(b) In accordance with Section 277 of the Companies and Allied Matters Act, 1990, none of the directors has notified the Company of any declarable interests in contracts with the Company.

(c) Messrs F. Mahler, J. Vauthier and Dr. F.D. Mshelia retire by rotation, and being eligible, offer themselves for re-election.

6. Directors' Responsibilities

In accordance with the provisions of the Companies and Allied Matters Act, 1990, the Directors are responsible for the preparation of annual financial statements, which give a true and fair view of the state of affairs of the Company and of the profit or loss for the financial year.

The Directors' responsibilities include ensuring that:

(a) appropriate internal controls are established both to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;

(b) the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which ensure that the financial statements comply with the requirements of the Companies and Allied Matters Act, 1990;

(c) the Company has used suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and

estimates, and that all applicable accounting standards have been followed; and

- (d) it is appropriate for the financial statements to be prepared on a going concern basis.

7. Analysis of Shareholdings

Shareholding Between	Number of		Number of	
	shareholders	%	shares	%
1 - 100	3,131	10.60	207,525	0.04
101 - 500	9,041	30.61	2,552,574	0.48
501 - 1,000	4,720	15.99	3,652,186	0.69
1,001 - 2,500	5,598	18.95	9,191,087	1.74
2,501 - 5,000	3,039	10.29	10,635,119	2.01
5,001 - 7,500	1,403	4.75	8,409,310	1.59
7,501 - 10,000	654	2.21	5,725,079	1.09
10,001 - 100,000	1,757	5.95	44,673,987	8.46
100,001 - 1,000,000	175	0.59	47,160,564	8.92
1,000,001 and above	18	0.06	67,006,621	12.66
	29,534	100.00	199,214,052	37.70
Nestlé S.A. Switzerland	1	0.00	200,973,448	38.03
Nestlé CWA Limited, Ghana	1	0.00	128,250,000	24.27
	29,536	100.00	528,437,500	100.00

8. Fixed Assets

Information relating to changes in fixed assets is given in Note 7 to the financial statements. In the opinion of the directors, the market value of the Company's fixed assets is not less than the book value.

9. Donations

The Company gave donations worth N3,031,479 (2005: N3,995,060) to the following charitable institutions and organisations during the year:

	2006
Association of Food, Beverage and Tobacco Employers (AFBTE)	1,000,000
Nigeria Police Force	738,540
Team Nigeria Trust Fund Ltd	250,000
Manufacturers Association of Nigeria	220,000
National Sports Festival	212,539
Committee for National Healthcare & Nutrition Conference & Exhibition	125,000
Committee of Wives of Lagos State Officials (COWLSO)	120,000
Institute of Capital Market Registrars	100,000
Nigerian Institute of Food Science and Technology	60,000
Nigerian Media Merit Award Trust	50,000
Donation to orphanage	50,000
Others	105,400
	3,031,479

In compliance with Section 38(2) of the Companies and Allied Matters Act, 1990 the Company did not make any donation or gift to any political party, political association or for any political purpose during the year under review.

10. Nestlé Products Limited ("NPL")

Nestlé Products Limited, a wholly owned subsidiary of the Company, was put into voluntary liquidation on 13 February 2003. Processes required to liquidate NPL were concluded during the year with the final approval from the Corporate Affairs Commission.

Accordingly, a liquidation dividend of N191.9 million has been declared from Nestlé Products Limited to the Company.

11. Nestlé Nigeria Trust Limited ("NNTL")

Nestlé Nigeria Trust (CPFA) Limited ('NNTL') previously called Nestlé Nigeria Provident Fund Limited has the sole object of conducting the business of a Closed Pension Fund Administrator. The National Pension Commission approved the issuance of the necessary license to NNTL during the year. Although NNTL is controlled by Nestlé Nigeria Plc, the financial statements of NNTL have not been consolidated with that of the Company as in the opinion of the directors, the business of the Company and that of NNTL are so different that they can not reasonably be treated as a single undertaking.

12. Local Sourcing of Raw Materials

The Company, on a continuous basis, explores the use of local raw materials in its production processes and has successfully introduced new products with very high local raw materials content.

13. Major Distributors

The Company's products are distributed through numerous distributors who are spread across the whole country.

14. Suppliers.

The Company obtains all its raw materials on a commercial basis from overseas and local suppliers. Amongst its overseas suppliers are companies in the Nestlé Group.

15. General Licence Agreement

The Company has a general licence agreement with Societe des Produits Nestlé S.A., Switzerland. Under the agreement, technological, scientific and professional assistance are provided for the manufacture, marketing, quality control and packaging of the Company's products, new products development and training of personnel abroad. Access is also provided to the use of patents, brands, inventions and know-how. The agreement is made with the approval of the National Office for Technology Acquisition and Promotion.

16. Acquisition of Own Shares

The Company did not purchase its own shares during the year.

17. Employment and Employees**(a) Employment of physically challenged persons:**

It is the policy of the Company that there is no discrimination in considering applications for employment including those of physically challenged persons.

The Company had 19 (2005: 17) physically challenged persons in its employment at 31 December 2006.

All employees whether or not physically challenged are given equal opportunities to develop their experience and knowledge and to qualify for promotion in furtherance of their careers. In the event of members of staff becoming physically challenged, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of physically challenged persons should, as far as possible, be identical with that of other employees.

(b) Health and safety at work and welfare of employees:

The Company invests its resources to ensure that the hygiene of its premises is of

the highest standard. In this regard, the Company has, on no fewer than three occasions, won the Manufacturers' Association of Nigeria's award for the best kept factory and on no fewer than two occasions won the Federal Environmental Protection Agency's environmental performance award as the most Environment-Friendly Company in Nigeria. The work environment is kept conducive and as safe as possible.

The use of safety shoes, goggles, earmuffs, etc is enforced in compliance with the Factories Act, 1990. The Company carries out safety and fire drills regularly. There is a written Safety Policy supported by systems and procedures for ensuring that safe working practices are followed in the performance of all Company functions. The Company has a corporate Safety Officer in place to monitor and guide compliance with safety regulations. In the event of accidents occurring in the work place, there are adequate provisions for medical care.

The Company operates its own clinics in order to provide quick health care to its employees. In addition, the Company retains a number of registered private hospitals run by qualified medical doctors, to whom serious cases of illness are referred for treatment.

Lunch is provided free to staff in the Company's canteen.

The Company caters for the recreational needs of the employees by providing them with games facilities such as Table Tennis, Draughts, etc.

(c) Employees involvement and training:

The Company places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company.

Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Report of the Directors (Cont'd)

For the year ended December 31st, 2006

Circulars and Newsletters are published in respect of significant corporate issues. In order to further facilitate the exchange of information, a house journal, 'Nestlé News' is published quarterly featuring contributions from, and about, employees of the Company.

Management, professional and technical expertise are the Company's major assets and the Company has continued the investment in developing such skills. The Company has in-house training facilities complemented when and where necessary with external and overseas training for its employees. This has broadened the opportunities for career development within the organisation.

18. Remuneration Committee

The remuneration committee, which consists of three non-executive directors namely Messrs. R. Stettler, A. Cantacuzene and F. Mahler, were appointed by the Board of Directors to submit the salaries of the executive directors for approval of the Board.

19. Audit Committee

In accordance with section 359(3) of the Companies and Allied Matters Act 1990, an audit committee of the Company was elected at the Annual General Meeting held on 25 April 2006, comprising three directors and three shareholders namely:

Otunba T.B. Adebayo - Chairman	Shareholder
Mrs. F.O. Abayomi	"
Alhaji K.A. Danjuma	"
Mr. A. Cantacuzene	Director
Mr. J. Vauthier	"
Dr. F.D. Mshelia	"

20. Auditors

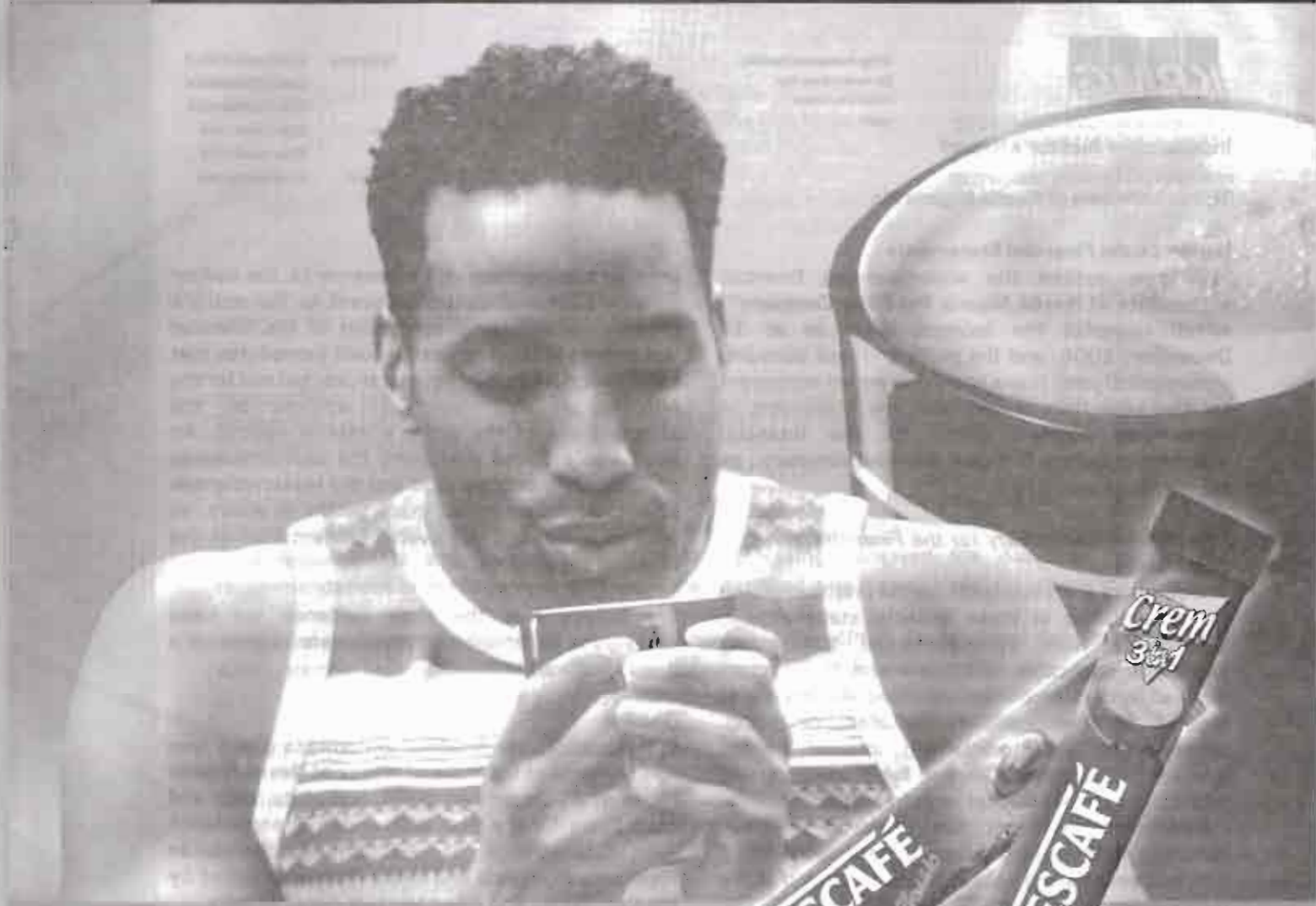
Messrs. KPMG Professional Services have indicated their willingness to continue in office as auditors in accordance with Section 357 (2) of the Companies and Allied Matters Act, 1990.

BY ORDER OF THE BOARD

22-24 Industrial Avenue
Ilupeju
Lagos



S.O. Folarin
Company Secretary
16 February, 2007



If you don't taste it...
...You can't understand it

NESTLÉ Taste the coffee side of life



Nestlé

Good Food, Good Life

Report of the Auditors

For the year ended December 31st, 2006



KPMG Professional Services
22a Gerrard Road, Ikeja
PMB 40014, Lagos
Lagos

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234(1)2694660-4
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Independent Auditor's Report

To the Members of Nestlé Nigeria Plc

Report on the Financial Statements

We have audited the accompanying financial statements of Nestlé Nigeria Plc ("the Company") which comprise the balance sheet as at 31 December, 2006, and the profit and loss account, statement of cash flows and value added statement for the year then ended, and the statement of accounting policies, notes to the financial statements and the five year financial summary, as set out on pages 28 to 47.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with Statements of Accounting Standards applicable in Nigeria and the manner required by the Companies and Allied Matters Act of Nigeria. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of Nestlé Nigeria Plc as at 31 December, 2006, and of its profit and cash flows for the year then ended in accordance with Statements of Accounting Standards applicable in Nigeria and in the manner required by the Companies and Allied Matters Act of Nigeria.

Report on Other Legal and Regulatory Requirements *Compliance with the Requirements of Schedule 6 of the Companies and Allied Matters Act of Nigeria*

In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of the Company's books. The Company's balance sheet and profit and loss account are in agreement with the books of accounts.



16 February 2007
Lagos, Nigeria



Audit Committee Report



Good Food, Good Life

Annual Report & Accounts 2006

For the year ended December 31st, 2006

22-24, INDUSTRIAL AVENUE, ILUPEJU
P.M.B. 21164, IKEJA, NIGERIA

TELEPHONES: 01-4934131, 4934080-4
4934105, 4978720-4
FAX: 01-4963033

REPORT TO THE MEMBERS OF NESTLÉ NIGERIA PLC

In accordance with the provisions of Section 359(6) of the Companies and Allied Matters Act, 1990, we have examined the Auditors' Report for the year ended 31st December, 2006. We have obtained all the information and explanations we required.

In our opinion, the Auditors' Report is consistent with our review of the scope and planning of the audit. We are also satisfied that the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices. Having reviewed the Auditors' findings and recommendations on management matters, we are satisfied with management responses thereon.

We acknowledge the cooperation of the Auditors, Messrs KPMG Professional Services (Chartered Accountants), Management and staff of the Company in performing our duties.

Dated this 13th day of February, 2007.

Lagos, Nigeria


~~Otunba T. B. Adebayo.~~
Chairman, Audit Committee.

Members:

Otunba T.B. Adebayo (Chairman), Mr. J. Vauthier, Mr. A. Cantacuzene, Dr. F. D. Mshelia, F.O. Abayomi (Mrs.), Alh. K.A. Danjuma

Statement of Accounting Policies

For the year ended December 31st, 2006

A summary of the principal accounting policies, all of which have been applied consistently throughout the current and preceding years (except as described in note (g) is set out below.

(a) **Basis of Accounting**

The financial statements are prepared under the historical cost convention, modified by the revaluation of buildings, plant and machinery, equipment and furniture and fittings.

(b) **Turnover**

Turnover represents the amount invoiced to external customers for goods supplied, net of value added taxation, in the ordinary course of business.

(c) **Fixed Assets**

Fixed assets are stated at cost or valuation less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life as follows:

Leasehold land and buildings	-	4% per annum
Plant and machinery	-	10% per annum
Motor vehicles	-	20% per annum
Furniture and fittings	-	20% per annum
IT equipment	-	33.33% per annum

Costs related to fixed assets under construction or in process of installation are disclosed as capital work in progress. The attributable cost of each asset is transferred to the relevant category immediately the asset is ready for use and depreciated accordingly.

Gains or losses on the disposal of fixed assets are included in the profit and loss account.

(d) **Shares in Subsidiary**

The Company's investment in its subsidiary's shares is stated at cost which is lower than the Company's share of the subsidiary's net tangible asset value at the year end.

(e) **Stocks**

Stocks are valued at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw and packaging materials,	
Engineering spares and	- purchase cost on a first-in, first-out basis, including
purchased finished goods	transportation costs
Work-in-progress and	- average cost of direct materials and labour plus a reasonable
manufactured finished goods	proportion of manufacturing overheads based on normal levels
	of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal.

Provision is made for obsolete, slow-moving or defective items where appropriate.

Statement of Accounting Policies (Cont'd)

For the year ended December 31st, 2006



Good Food, Good Life

Annual Report & Accounts 2006

(f) **Debtors**

Debtors are stated net of provision for debts considered bad or doubtful of recovery.

(g) **Provisions**

A provision is recognized only if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. This is a new accounting policy adopted in 2006 based on Statement of Accounting Standard No. 23 (SAS 23) issued by the Nigerian Accounting Standards Board on June 1, 2006. The effect of the adoption of this standard is shown in notes 5 and 12 to the financial statements.

(h) **Foreign Currency Transactions**

Transactions denominated in foreign currencies are recorded in Naira at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported in Naira at the rates of exchange prevailing at the balance sheet date.

Any gain or **loss arising** from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

(i) **Income Tax**

Income tax expenses / credits are recognized in the profit and loss account. Current income tax is the expected tax payable on the taxable income for the year, using statutory tax rates at the balance sheet date.

(j) **Deferred Taxation**

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) is calculated using the liability method. Deferred tax is provided on all timing difference at the rates of tax likely to be in force at the time of reversal.

(k) **Employees' End of Service Benefits**

The Company operates a gratuity scheme and pension fund scheme for the benefit of all its Nigerian employees.

i. **Gratuity Scheme:**

Lumpsum benefits payable to employees on retirement or resignation are fully accrued over the service life of the employees concerned. In previous years, the provision was based on current salary. In the current year, the provision is based on an independent actuarial valuation performed on a projected benefit obligation basis. Actuarial gains or losses arising are charged in full to the profit and loss account. The effect of this change is as shown in Note 17. Although, the scheme is not directly funded, the Company ensures that adequate arrangements are in place to meet its obligations under the scheme.

ii. **Pension Fund Scheme:**

The Company in line with the provisions of the Pension Reform Act 2004 has instituted a defined contribution pension scheme for its staff. Staff contributions to the scheme are funded through payroll deductions while the Company's contribution is charged to the profit and loss account.

Statement of Accounting Policies (Cont'd)

For the year ended December 31st, 2006

(l) **Unclaimed Dividend**

Dividends which remained unclaimed for a period exceeding twelve (12) years from the date of declaration are no longer actionable by the shareholders in accordance with Section 385 of the Companies and Allied Matters Act (CAMA) and are therefore written back to retained earnings.

(m) **Fixed Assets Revaluation Reserve**

Surpluses/(deficits) arising on the revaluation of individual fixed assets are (credited)/debited to a non-distributable reserve known as the fixed assets revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account.

On disposal of previously revalued fixed assets, an amount equal to the revaluation surplus attributable to that asset is transferred from the fixed assets revaluation reserve to retained earnings.

(n) **Cash and cash equivalents**

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, cash balances with banks and investments in money market instruments.

Profit & Loss Accounts



Good Food, Good Life

Annual Report & Accounts 2006

For the year ended December 31st, 2006

	Notes	2006 N'000	2005 N'000
Turnover	1	38,422,782	34,335,891
Cost of sales		<u>(23,717,479)</u>	<u>(21,115,729)</u>
GROSS PROFIT		14,705,303	13,220,162
Marketing and distribution expenses		(4,637,456)	(4,032,779)
Administrative expenses		(2,247,190)	(1,545,747)
Other Income	2	<u>191,924</u>	<u>-</u>
OPERATING PROFIT		8,012,581	7,641,636
Interest income		<u>185,316</u>	<u>266,212</u>
PROFIT BEFORE TAXATION	3	8,197,897	7,907,848
Taxation	4(a)	<u>(2,537,568)</u>	<u>(2,604,720)</u>
PROFIT AFTER TAXATION		5,660,329	5,303,128
Declared Dividend during the year	5	<u>(5,284,375)</u>	<u>(3,699,062)</u>
Profit transferred to reserves	12	<u>375,954</u>	<u>1,604,066</u>
Earnings per share	6	<u>N10.71</u>	<u>N10.04</u>
Declared Dividend per share	6	<u>N10.00</u>	<u>N7.00</u>

The accounting policies on pages 28 to 30 and the notes on pages 34 to 45 are an integral part of these financial statements.

Balance Sheet

As at December 31st, 2006

	Notes	2006 N'000	2005 N'000
FIXED ASSETS	7	7,336,015	6,183,324
SHARES IN SUBSIDIARY	15	-	340,000
CURRENT ASSETS:			
Stocks	8	5,704,845	4,633,929
Debtors and prepayments	9	1,523,353	849,208
Amount due from related companies		20,269	44,884
Foreign currencies purchased for imports		197,726	695,311
Bank balances and cash in hand		2,226,007	1,678,428
Short Term Deposits		1,900,000	2,450,000
		<u>18,908,215</u>	<u>16,875,084</u>
CAPITAL AND RESERVES:			
Share capital	10	264,219	264,219
Share premium		32,262	32,262
Fixed assets revaluation reserve	11	189,261	194,605
Retained earnings	12	5,874,750	5,489,226
		<u>6,360,492</u>	<u>5,980,312</u>
CURRENT LIABILITIES			
Trade Creditors		1,621,083	1,829,583
Other Creditors and accruals		1,582,866	1,360,103
Taxation	4(b)	2,451,565	2,103,477
Dividend payable	13	356,022	284,537
Amount due to related companies	14	1,313,653	1,128,007
Amount due to subsidiary	15	-	528,036
LONG TERM LIABILITIES			
Deferred taxation	16	819,799	701,253
Provision for gratuity	17	4,402,735	2,959,776
		<u>18,908,215</u>	<u>16,875,084</u>

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Chief O. Osunkeye



)

K. P. Wachsmuth



)

Directors

The financial statements were approved by the Board of Directors on 16 February 2007.

NOTE: The accounting policies on pages 28 to 30 and the notes on pages 34 to 45 are an integral part of these financial statements.

Statement of Cash Flows



Good Food, Good Life

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For the year ended December 31st, 2006

	Notes	2006 N'000	2005 '000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating profit before working capital changes	19	10,577,442	8,685,893
Working capital changes	20	(1,019,064)	498,245
Income tax paid	4(b)	(2,070,934)	(2,489,219)
Gratuity paid	17	(314,538)	(398,328)
Net cash inflow from operating activities		<u>7,172,906</u>	<u>6,296,591</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(2,167,286)	(2,855,217)
Proceeds from sale of fixed assets		15,307	14,795
Interest received		185,316	266,212
Net cash outflow from investing activities		<u>(1,966,663)</u>	<u>(2,574,210)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid	13	(5,208,664)	(3,624,383)
Net cash outflow from financing activities		<u>(5,208,664)</u>	<u>(3,624,383)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,421)	97,998
CASH AND CASH EQUIVALENTS, beginning of year		<u>4,128,428</u>	<u>4,030,430</u>
CASH AND CASH EQUIVALENTS, end of year		<u>4,126,007</u>	<u>4,128,428</u>

NOTE: The accounting policies on pages 28 to 30 and the notes on pages 34 to 45 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31st, 2006

1. Turnover

Turnover represents the invoiced value of goods sold to external customers in Nigeria net of value added tax.

2. Other Income

Other income represents a final liquidation dividend of ₦ 191.9 million from Nestlé Products Limited which was put into voluntary liquidation in 2003 (Note 15).

3. Profit before taxation

(a) Profit before taxation is stated after charging/(crediting):

	2006 N'000	2005 N'000
Depreciation of fixed assets	982,242	631,768
Staff costs (Note 3(b))	5,701,312	3,924,965
Auditors' remuneration	14,800	12,800
Directors' emoluments	58,262	46,064
Interest income	(185,316)	(266,212)
Loss/(Gain) on foreign exchange transactions	122,940	(232,776)
General licence fees	1,412,037	1,261,844
Loss on disposal of fixed assets	17,046	5,857

(b) Staff costs and directors remuneration

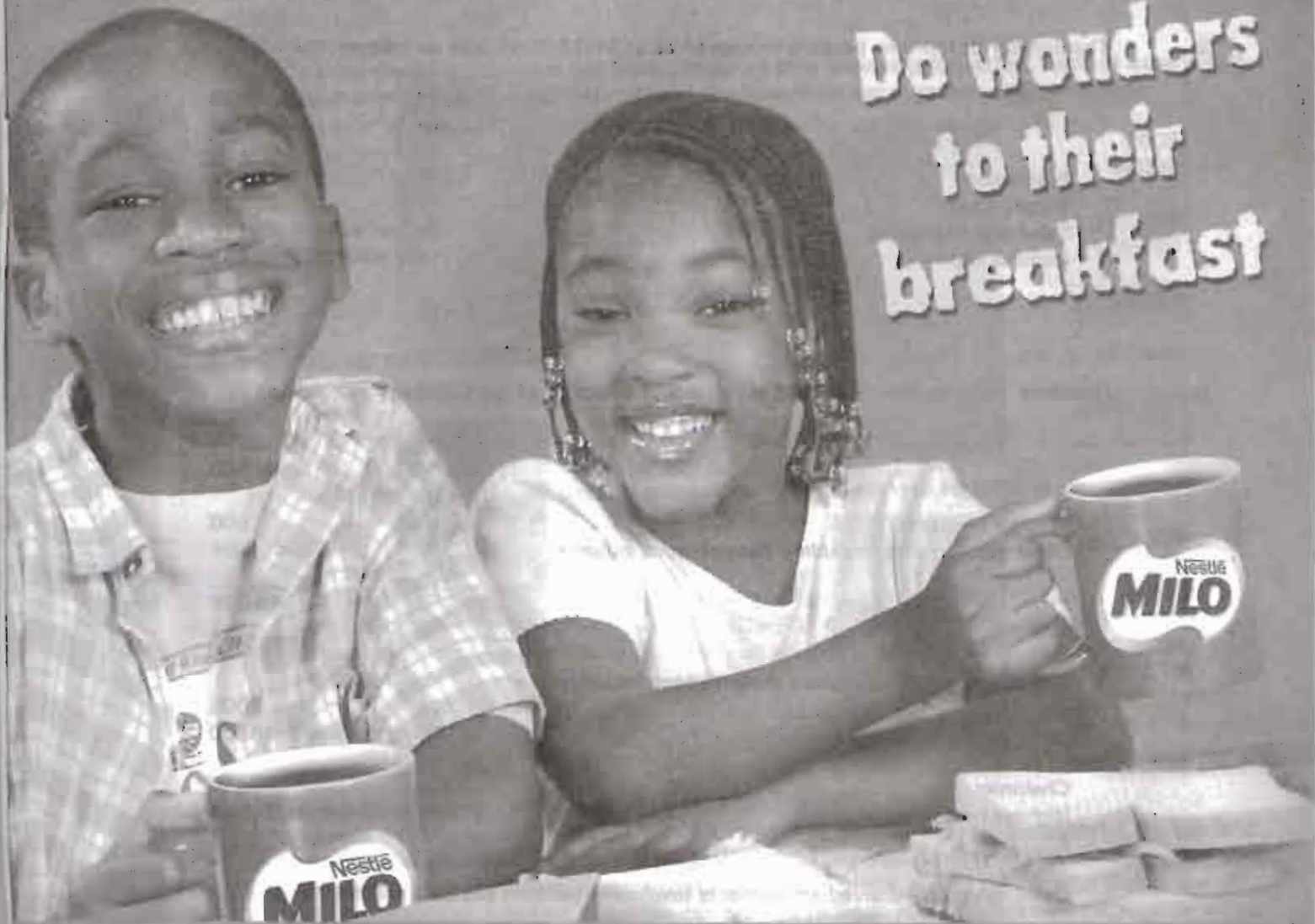
(i) Employees costs during the year amounted to:

	2006 N'000	2005 N'000
Salaries and wages	2,005,179	1,561,698
Welfare and end of service benefits	3,696,133	2,363,267
	<u>5,701,312</u>	<u>3,924,965</u>

(ii) Employees of the Company, other than directors, whose duties were wholly or mainly discharged in Nigeria, received remuneration (excluding pension costs and certain benefits) in the following ranges:

		2006 Number	2005 Number
N	N		
0	- 200,000	-	-
200,001	- 400,000	27	85
400,001	- 600,000	177	426
600,001	- 800,000	252	379
800,001	- 1,000,000	439	185
1,000,001	- 1,200,000	224	85
1,200,001	- 1,400,000	143	43
1,400,001	- 1,600,000	39	32
1,600,001	- 1,800,000	48	11
1,800,001	- 2,000,000	16	16
2,000,001	- 2,500,000	20	19
2,500,001	- 3,000,000	4	24
3,000,001	- 3,500,000	3	11
3,500,001	- 4,000,000	4	9
4,000,001	- 4,500,000	17	7
4,500,001	- 5,000,000	5	4
5,000,001 and above		72	29

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Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006

iii. The number of full-time persons employed as at 31/12/2006 was as follows:

	2006 Number	2005 Number
Production	1,171	1,074
Supply Chain	71	70
Sales and Marketing	136	116
Administration	114	108
	1,492	1,368

iv. Directors' remuneration was paid in respect of directors of the Company as follows:

	2006 N'000	2005 N'000
Fees as directors	750	500
Other emoluments (including pension contributions)	57,512	45,564
	58,262	46,064

The directors' remuneration shown above includes:

	2006 N'000	2005 N'000
Chairman	550	450
Highest paid director	26,392	20,568

Other directors received emoluments (excluding pension costs) in the following ranges:

N	N	2006 Number	2005 Number
Nil		3	3
10,001	-	1	1
9,000,001	-	-	1
10,000,001	-	1	-
15,000,001	-	-	1
20,000,001	-	1	-
		6	6

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006



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4. Taxation

(a) The tax charge for the year has been computed after adjusting for certain items of expenditure and income, which are not deductible or chargeable for tax purposes, and comprises:

	2006 N'000	2005 N'000
Income tax	2,232,057	1,977,190
Education tax	186,965	176,194
	<u>2,419,022</u>	<u>2,153,384</u>
Deferred taxation (Note 16)	118,546	451,336
	<u>2,537,568</u>	<u>2,604,720</u>

(b) The movement on the tax payable account during the year was as follows:

	2006 N'000	2005 N'000
Balance, beginning of year	2,103,477	2,439,312
Current year charge (Note (a))	2,419,022	2,153,384
Payments during the year	(2,070,934)	(2,489,219)
Balance, end of year	<u>2,451,565</u>	<u>2,103,477</u>

5. Declared Dividend during the year.

Statement of Accounting Standard No. 23 (SAS 23) on Provisions, Contingent Liabilities and Contingent Assets was issued by the Nigerian Accounting Standards Board on June 1, 2006 and became applicable for financial statements covering periods ending on or after December 31, 2006. Based on this standard, liabilities can only be recognized in the financial statements when an entity has a present obligation arising from a past event. In the case of proposed dividends, a present obligation only arises when such proposed dividends have been declared by the shareholders in general meeting. Accordingly, proposed final dividends which had previously been recognized as a liability in the financial statements of the financial year for which they were proposed will now only be recognized as a liability in the financial statements in the year in which they are declared. Only dividends recognized as distributions to shareholders during the period are shown on the face of the income statement while proposed dividend which had hitherto been shown on the face of the income statement is now shown in the notes.

This change in accounting policy has been recognized retrospectively and comparative figures for dividends, dividend per share, opening retained earnings and dividend payable are restated as shown below and in Notes 6, 12 and 13 respectively.

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006

	2006 N'000	2005 N'000
Interim dividend declared and paid	1,056,875	1,056,875
Final dividend proposed as previously reported	-	4,227,500
	<u>1,056,875</u>	<u>5,284,375</u>
Effect of adoption of SAS 23:		
- add/ (deduct) final dividend proposed for 2005 but declared in 2006	4,227,500	(4,227,500)
- add final dividend proposed in 2004 but declared in 2005	-	2,642,187
Declared dividend during the year	<u>5,284,375</u>	<u>3,699,062</u>

The directors propose a final dividend of ₦8.35 per share (2005: ₦ 8.00 per share) on the issued share capital of 528,437,500 shares of 50k each subject to declaration by the shareholders at the next annual general meeting.

6. Earnings and declared dividend per share

Earnings and dividend per share are based on profit after taxation for the year of 5,660,329,000 (2005: ₦5,303,128,000) and declared dividends of ₦ 5,284,375,000 (2005: ₦ 3,699,062,000) respectively and on 528,437,500 (2005: 528,437,500) ordinary shares, being the average number of ordinary shares in issue and ranking for dividend during the year.

7. Fixed assets

(a) The movement on these accounts during the year was as follows:

	Land & Buildings N'000	Plant and Machinery N'000	Motor Vehicles N'000	Furniture, fittings & IT Equipment N'000	Capital Work-In- Progress N'000	Total N'000
COST/VALUATION:						
At 1 January, 2006	1,486,349	6,196,531	477,783	1,114,070	316,263	9,590,996
Additions	151,849	1,044,725	110,194	208,186	652,332	2,167,286
Disposals	(16,836)	(124,649)	(54,262)	(122,980)	-	(318,727)
Transfers from WIP	224,159	17,092	-	71,115	(312,366)	-
At 31 December, 2006	<u>1,845,521</u>	<u>7,133,699</u>	<u>533,715</u>	<u>1,270,391</u>	<u>656,229</u>	<u>11,439,555</u>
ACCUMULATED DEPRECIATION:						
At 1 January, 2006	454,125	2,111,693	194,658	647,196	-	3,407,672
Charge for the year	51,192	657,119	96,286	177,645	-	982,242
On disposals	(4,703)	(116,887)	(42,136)	(122,648)	-	(286,374)
At 31 December, 2006	<u>500,614</u>	<u>2,651,925</u>	<u>248,808</u>	<u>702,193</u>	<u>-</u>	<u>4,103,540</u>
NET BOOK VALUE:						
At 31 December, 2006	<u>1,344,907</u>	<u>4,481,774</u>	<u>284,907</u>	<u>568,198</u>	<u>656,229</u>	<u>7,336,015</u>
At 31 December, 2005	<u>1,032,224</u>	<u>4,084,838</u>	<u>283,125</u>	<u>468,874</u>	<u>316,263</u>	<u>6,183,324</u>

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006



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(b) Buildings were last professionally revalued as at 30 June 1992 by Messrs Roxburgh and Partners, Chartered Quantity Surveyors and Valuers on a replacement cost basis. The other assets were valued by applying indices to the cost of the assets at that date and the new value was incorporated in the books at that date. The surplus arising on the revaluation was credited to the fixed assets revaluation reserve. Subsequent additions have been at cost.

(c) The net book values of the revalued assets included in the above are as follows:

	2006 N'000	2005 N'000
Land and Buildings	14,203	16,618
Plant and Machinery	1	1
	<u>14,204</u>	<u>16,619</u>

(d) The Company's capital expenditure commitments authorised by the board comprise:

	2006 N'000	2005 N'000
Capital expenditure		
- contracted	1,927,217	1,304,584
- not contracted	292,314	315,067
	<u>2,219,531</u>	<u>1,619,651</u>

8. Stocks

	2006 N'000	2005 N'000
Raw and packaging materials	2,645,212	2,163,329
Work-in-progress	90,355	99,010
Finished goods	992,819	873,365
Goods in transit and engineering spares	1,976,459	1,498,225
	<u>5,704,845</u>	<u>4,633,929</u>

9. Debtors and prepayments

	2006 N'000	2005 N'000
Trade receivables	513,931	425,592
Staff loans and advances	303,370	113,119
Other receivables	415,068	172,412
Prepayments	290,984	138,085
	<u>1,523,353</u>	<u>849,208</u>

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006

10. Share capital

	2006 N'000	2005 N'000
(a) Authorised:		
- 528,437,500 ordinary shares of 50 kobo each	264,219	264,219
(b) Allotted, called-up and fully paid:		
- 528,437,500 ordinary shares of 50 kobo each	264,219	264,219

A bonus issue of one new share for every four existing shares is being recommended for the approval of shareholders at the next annual general meeting.

11. Fixed assets revaluation reserve

(a) The movement on the account during the year was as follows:

	2006 N'000	2005 N'000
Balance, beginning of year	194,605	194,930
Transfer to retained earnings (Note (b))	(5,344)	(325)
Balance, end of year	189,261	194,605

(b) The transfer to retained earnings represents the portion of the revaluation surplus relating to assets that have been disposed.

12. Retained Earnings

The movement on retained earnings is as follows:

	2006 N'000	2005 N'000
Balance, beginning of year as previously stated	1,261,726	1,242,648
Effect of adoption of SAS 23 (Note 5):		
- Add final dividend proposed for the preceding year but declared in the current year	4,227,500	2,642,187
Balance, beginning of year as restated	5,489,226	3,884,835
Transfer from profit and loss account	375,954	1,604,066
Transfer from fixed assets revaluation reserve	5,344	325
Unclaimed dividends written back (Note 13)	4,226	
Balance, end of year	5,874,750	5,489,226

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006



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13. Dividend payable

Dividend payable represents unclaimed dividend (numbers 20 – 40) from prior years. The movement on the dividend payable account is as follows:

	2006 N'000	2005 N'000
Balance, beginning of year as previously stated	4,512,037	2,852,045
Effect of adoption of SAS 23 (Note 5): - less final dividend proposed but undeclared at beginning of year	<u>(4,227,500)</u>	<u>(2,642,187)</u>
Balance, beginning of year as restated	284,537	209,858
Interim dividend declared (Note 5)	1,056,875	1,056,875
Final dividend declared	4,227,500	2,642,187
Unclaimed dividends transferred to retained earnings (Note 12)	(4,226)	-
Payments during the year	<u>(5,208,664)</u>	<u>(3,624,383)</u>
Balance, end of year	<u>356,022</u>	<u>284,537</u>

Additional unclaimed dividends (numbers 40 - 43) amounting to ₦ 475,332,000 (2005: ₦292,949,346) are held by the Registrars.

14. Amount due to related companies

The Company has a general licence agreement with Societe Des Produits Nestlé S.A. for the provision of technical and other support. See also Note 3(a). The agreement is made with the approval of the National Office for Technology Acquisition and Promotion and payments are made to Societe Des Produits Nestlé S.A.

Amounts due to other related companies represent balances due on the current account with other companies in the Nestlé Group for the importation of raw materials and finished goods. In the opinion of the directors, such transactions are undertaken under commercial terms and conditions. Amount due to related companies is analysed as follows:

	2006 N'000	2005 N'000
Societe Des Produits Nestlé S. A.	92,739	90,486
Nestec Limited	1,555	1,525
Nestlé Cote D'Ivoire Plc	620,029	222,714
Nestlé Globe Centre AOA Limited	15,144	123,163
Nestlé Nederland B. V.	108,208	285,773
Nestlé Ghana Limited	86,560	13,024
Nestlé World Trade Corporation Limited	287,783	283,781
Nestlé Water France Limited	93,757	101,027
Others	7,878	6,514
	<u>1,313,653</u>	<u>1,128,007</u>

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006

15 Amount due to subsidiary

The Company's subsidiary, Nestlé Products Limited (NPL) was put into voluntary liquidation on 13 February 2003. Following the conclusion of processes required to liquidate NPL in the current year, balances due to NPL have been settled as follows:

	N'000
Amount due to NPL	528,036
Less: Value of shares in NPL	(340,000)
Liquidation dividend (Note 2)	(191,924)
Add: Net assets taken over from NPL (Note 20 (a))	3,888
Net balance	-

16 Deferred taxation

The movement on the deferred tax account during the year was as follows:

	2006 N'000	2005 N'000
Balance, beginning of year	701,253	249,917
Charged to profit and loss account (Note 4 (a))	118,546	451,336
Balance, end of year	819,799	701,253

17. Provision for Gratuity

The movement in the gratuity provision account during the year was as follows:

	2006 N'000	2005 N'000
Balance, beginning of year	2,959,776	2,951,472
Charged to profit and loss (Note 17(a))	1,757,497	406,632
Payments during the year	(314,538)	(398,328)
Balance, end of year	4,402,735	2,959,776

(a) As stated in the accounting policy, the Company changed the method of computing the provision for gratuity during the year. The provision is now based on an independent actuarial valuation performed on a projected benefit obligation basis. Had the provision been based on the previous method, the current year charge to the profit and loss account would have been ₦1.332 billion. Therefore the impact of the actuarial valuation is an additional charge in the current year of ₦ 425 million.

18 Nestlé Nigeria Trust (CPFA) Limited

Nestlé Nigeria Trust (CPFA) Limited ('NNTL') previously called Nestlé Nigeria Provident Fund Limited has the sole object of conducting the business of a closed Pension Fund Administrator. The National Pension Commission approved the issuance of the necessary license to NNTL during the year. Although NNTL is controlled by Nestlé Nigeria Plc, the financial statements of NNTL have not been consolidated with that of the Company as in the opinion of the directors, the business of the Company and that of NNTL are so different that they cannot reasonably be treated as a single undertaking.

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006



Good Food, Good Life

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19 Operating profit before working capital changes

	2006 N'000	2005 N'000
Profit after tax	5,660,329	5,303,128
Add back - Taxation expense	2,537,568	2,604,720
- Interest income	(185,316)	(266,212)
Operating profit	8,012,581	7,641,636
Adjustment for items not involving the movement of cash:		
- depreciation	982,242	631,768
- loss on disposal of fixed assets	17,046	5,857
- provision for gratuity	1,757,497	406,632
- liquidation dividend	(191,924)	-
	10,577,442	8,685,893

20 Working capital changes

	2006 N'000	2005 N'000
Increase in stocks	(1,070,916)	(806,745)
(Increase)/Decrease in debtors and prepayments	(674,145)	294,872
Decrease/ (Increase) in amount due from related companies	24,615	(17,683)
Decrease/ (Increase) in foreign currencies purchased for imports	497,585	(644,863)
(Decrease)/Increase in trade creditors	(208,500)	983,412
Increase in other creditors and accruals (Note 20(a))	226,651	634,364
Increase in amount due to related companies	185,646	54,888
	(1,019,064)	498,245

(a) The increase in other creditors and accruals for the purposes of the statement of cash flows comprises:

	2006 N'000	2005 N'000
Balance, end of year	1,582,866	1,360,103
Adjustment for net assets taken over from Nestle Products Limited not involving the movement of cash (Note 15)	3,888	-
Balance, beginning of year	(1,360,103)	(725,739)
Increase in other Creditors and accruals	226,651	634,364

Notes to the Financial Statements (Cont'd)

For the year ended December 31st, 2006

21. Guarantees and other financial commitments

(a) Employees' end of service benefits

The Company operates a gratuity scheme for the benefit of its employees. Under the scheme, employees are also entitled to gratuities, which vary with the employees' periods of service and which are payable on disengagement from service based on salaries at the time of retirement or resignation. In previous years, the accrual was based on current salary. In the current year, the accrual was based on an independent actuarial valuation performed on a projected benefit obligation basis. (See Note 17).

The Company also operates a defined contribution pension scheme in line with the Pension Reform Act, 2004. In this regard, Nestlé Nigeria Trust (CPFA) Limited (NNTL) has been licensed by the National Pension Commission to act as a closed Pension Fund Administrator (Note 18). The Company has undertaken to the National Pension Commission that the pension scheme shall be fully funded and that the pension scheme shall satisfy any additional requirements as may be prescribed by the National Pension Commission from time to time including ensuring that retirement benefits due to its employees are paid as and when due.

Included in other creditors and accruals is an amount of ₦43 million which represents employer and employee contributions for the month of December 2006 which had not been remitted to the Pension Fund Administrators at year end but was paid in January 2007.

(b) Litigation

The Company is engaged in lawsuits, which have arisen in the normal course of business. In the opinion of the directors, and based on independent legal advice, the Company is not expected to suffer any material loss arising from these.

(c) Contingent Liabilities

No provision has been made in the financial statements for the potential capital gains tax liabilities of ₦ 18,926,100 (2005: ₦19,460,500) which would arise should the revalued fixed assets referred to in Note 7 be disposed off at their enhanced values. However, it is not the directors' present intention to sell these assets.

Contingent liabilities at the balance sheet date arising in the ordinary course of business out of guarantees and agreements, amounted to ₦20,000,000 (2005: Nil). In the opinion of the Directors, no material loss is expected to arise from these guarantees and agreements.

(d) Financial commitments

The directors are of the opinion that all known liabilities and commitments have been taken into consideration in the preparation of the accounts under review.

22. Post Balance Sheet Events

There were no significant post balance sheet events which could have had a material effect on the state of affairs of the Company as at 31 December, 2006 which have not been adequately provided for.

23. Ultimate Holding Company

Nestlé S.A. Switzerland is the ultimate holding company of Nestlé Nigeria Plc. Nestlé S.A. holds 200,973,448 ordinary shares of 50 kobo each (38.03%) (2005: 62.30%) at year-end. During the year, Nestlé S.A. Switzerland transferred 128,250,000 ordinary shares of 50k each to one of its subsidiary Companies, Nestlé CWA Limited, Ghana which now holds

Notes to the
Financial Statements (Cont'd)

For the year ended December 31st, 2006



Good Food, Good Life

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24.27% (2005: Nil). No other individual shareholder held more than 5% of the issued share capital of the Company at 31 December 2006.

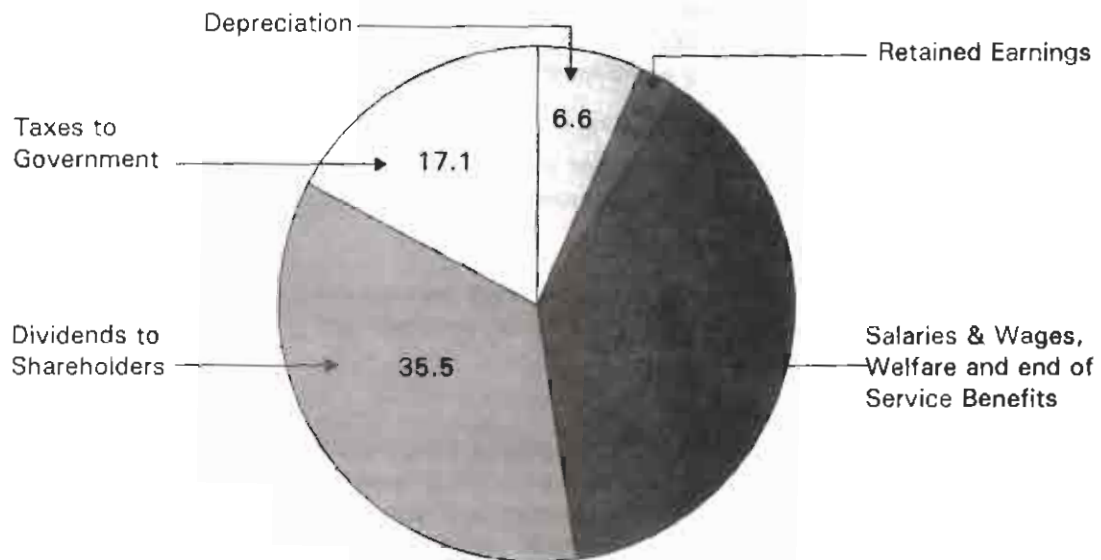
24. Comparative Figures

As indicated in Note 5, certain prior year comparative figures have been restated in line with the current year presentation.

Statement of Value Added

For the year ended December 31st, 2006

	2006 N'000	%	2005 N'000	%
Turnover	38,422,782		34,335,891	
Bought in goods and services:				
- Local	(14,581,555)		(13,377,759)	
- Imported	(9,145,092)		(8,759,763)	
Value added	<u>14,696,135</u>		<u>12,198,369</u>	
Interest income	185,316		266,212	
	<u>14,881,451</u>	100.0	<u>12,464,581</u>	100.0
Applied to pay:				
Employees as salaries and wages, Welfare and end of service benefits	5,701,312	38.3	3,924,965	31.4
Shareholders as dividends	5,284,375	35.5	3,699,062	29.7
Government as taxes	2,537,568	17.1	2,604,720	20.9
Retained in the business:				
- for replacement of fixed assets	982,242	6.6	631,768	5.1
- retained earnings	375,954	2.5	1,604,066	12.9
	<u>14,881,451</u>	100.0	<u>12,464,581</u>	100.0



Five Year Financial Summary



Good Food, Good Life

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	2006 N'000	2005 N'000	2004 N'000	2003 N'000	2002 N'000
FUNDS EMPLOYED					
Share capital	264,219	264,219	264,219	264,219	211,375
Share premium	32,262	32,262	32,262	32,262	32,262
Fixed Assets Revaluation reserve	189,261	194,605	194,930	197,330	234,845
Reserve for issue of bonus shares	-	-	-	-	52,844
Retained earnings (restated)*	5,874,750	5,489,226	3,884,835	3,746,004	3,075,000
	<u>6,360,492</u>	<u>5,980,312</u>	<u>4,376,246</u>	<u>4,239,815</u>	<u>3,606,326</u>
Shareholders' funds					
Current liabilities (restated)*	7,325,189	7,233,743	5,822,235	5,362,854	3,515,529
Long term liabilities	5,222,534	3,661,029	3,201,389	2,307,347	1,707,988
	<u>18,908,215</u>	<u>16,875,084</u>	<u>13,399,870</u>	<u>11,910,016</u>	<u>8,829,843</u>
ASSETS EMPLOYED					
Fixed assets	7,336,015	6,183,324	3,980,527	2,124,548	1,225,635
Shares in subsidiary	-	340,000	340,000	340,000	340,000
Current assets	11,572,200	10,351,760	9,079,343	9,445,468	7,264,208
	<u>18,908,215</u>	<u>16,875,084</u>	<u>13,399,870</u>	<u>11,910,016</u>	<u>8,829,843</u>
TURNOVER					
	<u>38,422,782</u>	<u>34,335,891</u>	<u>28,461,078</u>	<u>24,631,949</u>	<u>19,578,894</u>
Profit before taxation	8,197,897	7,907,848	6,100,281	5,846,923	4,683,388
Profit after taxation	5,660,329	5,303,128	3,835,493	3,804,114	3,174,080
Declared Dividend***	5,284,375	3,699,062	3,699,062	3,170,625	2,747,875
Per 50k share data (unadjusted):					
Earnings per share	N 10.71	N 10.04	N7.26	N7.20	N7.51
Declared Dividend per share***	N 10.00	N 7.00	N7.00	N6.00	N6.50
Net assets per share*	N 12.04	N11.32	N8.28	N8.02	N8.53
Per 50k share data (adjusted**):					
Earnings per share	N 10.71	N 10.04	N7.26	N7.20	N6.01
Declared Dividend per share***	N 10.00	N 7.00	N7.00	N6.00	N5.20
Net assets per share*	N 12.04	N 11.32	N8.28	N8.02	N6.82

* Restated to account for the retrospective adoption of SAS 23 (Note 5 to the financial statements)

** Based on 528,437,500 ordinary shares of 50 kobo each in issue at 31 December 2006.

***Declared dividend represents the interim dividend declared and paid during the year plus the final dividend proposed for the preceding year but declared during the current year.

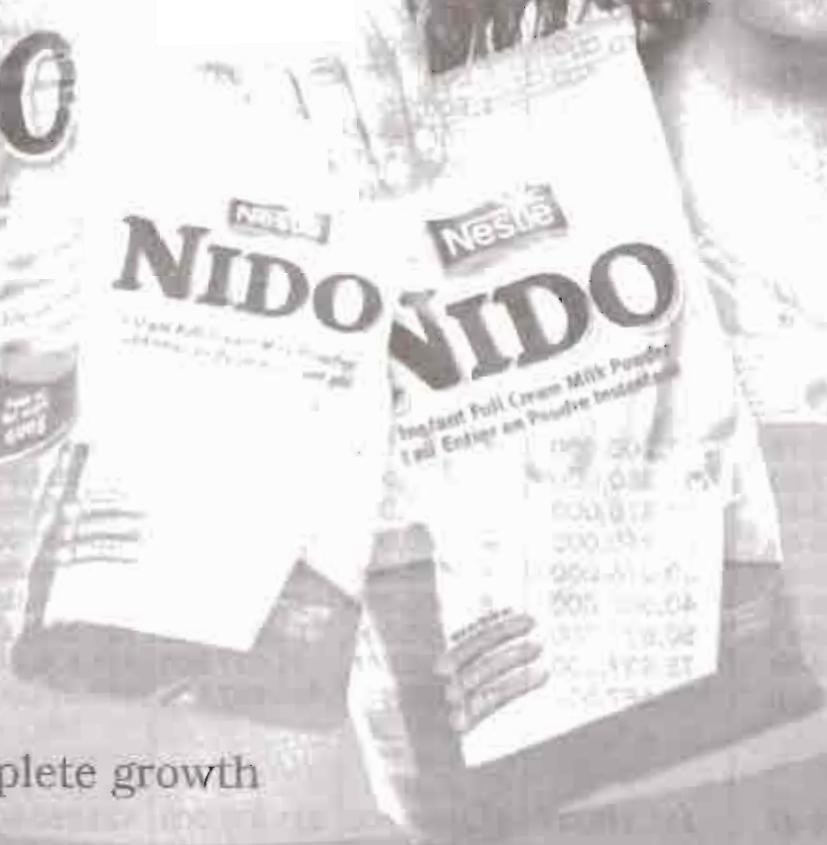
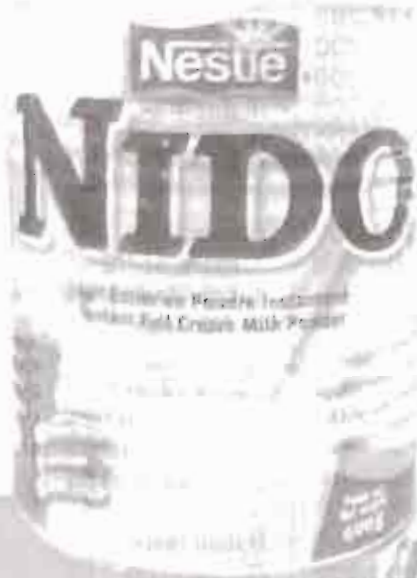
Shareholders' Information

TEN-YEAR DIVIDEND HISTORY

Year	Dividend No.	Profit After Taxation (N'000)	Dividend Paid (gross) (N'000)	Dividend Per Share (kobo)	Dividend Type
1997	25	710,161	211,375	50	Interim
	26		422,750	100	Final
1998	27	801,829	211,375	50	Interim
	28		507,300	120	Final
1999	29	1,250,550	211,375	50	Interim
	30		634,125	150	Final
2000	31	1,605,183	634,125	150	Interim
	32		951,188	225	Final
2001	33	2,526,450	634,125	150	Interim
	34		1,691,000	400	Final
2002	35	3,179,065	1,056,875	250	Interim
	36		2,113,750	500	Final
2003	37	3,804,114	1,056,875	200	Interim
	38		2,642,188	500	Final
2004	39	3,835,493	1,056,875	200	Interim
	40		2,642,188	500	Final
2005	41	5,303,128	1,056,875	200	Interim
	42		4,227,500	800	Final
2006	43	5,660,329	1,056,875	200	Interim
	44		4,412,453	835	Proposed Final

TEN-YEAR TURNOVER, PROFIT BEFORE TAX, TAXATION AND PROFIT AFTER TAX HISTORY

31 Dec.	Turnover (= N = '000)	Profit Before Tax (= N = '000)	Taxation (= N = '000)	Profit After Tax (= N = '000)
1997	5,104,326	815,768	105,607	710,161
1998	6,187,462	877,553	75,724	801,829
1999	7,724,503	1,616,840	366,290	1,250,550
2000	10,027,714	2,224,667	619,484	1,605,183
2001	14,146,932	3,699,334	1,172,884	2,526,450
2002	19,578,894	4,683,388	1,575,996	3,174,080
2003	24,631,949	5,846,923	2,042,809	3,804,114
2004	28,461,078	6,100,281	2,264,788	3,835,493
2005	34,335,891	7,907,848	2,604,720	5,303,128
2006	38,422,782	8,197,897	2,537,568	5,660,329


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