

**Nestlé Nigeria Plc**

**Annual Report and Financial Statements -- 31 December 2019**

**Together with Directors' and Auditor's Reports**

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<b>Board of Directors:</b>	Mr. David Ifezulike	Chairman
	Mr. Mauricio Alarcon (Mexican)	Managing Director/Chief Executive Officer
	Mr. Jagdish Singla (Indian)	Finance & Control Director
	Mr. Remy Ejel (French)	Non-Executive Director
	Mr. Ricardo Chavez (Mexican)	Non-Executive Director
	Mr. Gbenga Oyeboode	Independent Non-Executive Director
	Mrs. Ndidi Okonkwo Nwuneli	Independent Non-Executive Director (Resigned on 20/10/2019)
	Mrs. Juliet Ehimuan	Independent Non-Executive Director (Appointed with effect from 24/02/2020)
<b>Company Secretary/ Legal Adviser</b>	Mr. Bode Ayeku	
<b>Registered Office:</b>	22-24, Industrial Avenue Ilupeju, Lagos Tel: 01 – 2798184, 2798188, 2790707	
<b>Tax Identification Number</b>	00389604-0001	
<b>Registrars:</b>	Greenwich Registrars & Data Solutions Limited 274 Murtala Muhammed Way Alagomeji, Yaba, Lagos Tel: 01- 5803369, 5451399, 5803367	
<b>Independent Auditors:</b>	Deloitte & Touche Civic Towers Plot GA1, Ozumba Mbadiwe Avenue Victoria Island, Lagos Nigeria Tel: +234(1)9041700	
<b>Members of the Audit Committee</b>	Mr. Matthew Akinlade	Chairman
	Alhaji Kazeem Owonikoko Bello	Shareholders' Representative
	Mr. Christopher Nwaguru	Shareholders' Representative
	Mrs Ndidi Okonkwo Nwuneli	Directors' Representative (Resigned on 20/10/2019)
	Mr. Ricardo Chavez (Mexican)	Directors' Representative
	Mr. Gbenga Oyeboode	Directors' Representative
	Mrs. Juliet Ehimuan	Directors' Representative (Appointed on 24/02/2020)

## Financial Highlights

*In thousands of naira*

	2019	2018	Increase/ (decrease) %
Revenue	284,035,255	266,274,621	7%
Profit before income tax	71,123,824	59,750,846	19%
Profit for the year	45,683,113	43,008,026	6%
Declared dividend*	50,333,672	37,651,172	34%
Share capital	396,328	396,328	0%
Total equity	45,557,630	50,220,486	-9%

### Data per 50k share

Basic earnings	N57.63	N54.26
Declared dividend	N63.50	N47.50
Net assets	N63.36	N63.36

### Dividend per 50k share in respect of current year results only

Interim dividend declared	N25.00	N20.00
Final dividend proposed**	N45.00	N38.50

### Stock Exchange Information

Stock exchange quotation at 31 December in Naira per share	1,465.90	1,485.00	-1%
Number of shares issued ('000)	792,656	792,656	-
Market capitalisation at 31 December (N: million)	1,165,125	1,177,095	-1%

\* Declared dividend represents the interim dividend declared during the year (N25.00) and final dividend proposed for the preceding year but declared during the current year.

\*\* The directors proposed a final dividend of N45.00 (N32.50 from the profit for the year ended 31 December 2019 and N12.50 from the after tax profit for the year ended 31 December 2016 (2018:N38.50) per share on the issued share capital of 792,656,252 (2018:792,656,252) ordinary shares of 50k each, subject to approval by the shareholders at the Annual General Meeting.

## 1 Financial Statements

The directors present their annual report on the affairs of Nestlé Nigeria Plc ("the Company"), together with the financial statements and independent auditor's report for the year ended 31 December 2019.

## 2 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. The Company also exports some of its products to other countries within and outside Africa.

## 3 Operating Results

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

	2019	2018
	N'000	N'000
Revenue	284,035,255	119,857,682
Results from operating activities	72,062,046	33,593,790
Profit before income tax	71,123,824	33,629,007
Profit for the year	45,683,113	33,843,509
Total comprehensive income for the year	45,683,113	33,843,509

## 4 Dividend

The Directors recommend the payment of a final dividend of N45.00 (2018: N38.50) per share having earlier declared an interim dividend of N25.00 (2018: N20.00 from the profit of 2018) on the issued share capital of 792,656,252 (2018:792,656,252) ordinary shares of 50k each. The proposed final dividend of N45.00 is composed of N32.50 from the profit for the year ended 31 December 2019 and N12.50 from the after tax profit of the year ended 31 December 2016. If the proposed dividend of N45.00 is approved by the shareholders, it will be subject to deduction of withholding tax at the applicable rate.

## 5 Directors and Their Interests

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

	Appointed/ (Resigned)	Interest in the Ordinary Shares of the Company	
		2019	2018
Mr. David Ifezulike	- Chairman	56,255	56,255
Mr. Mauricio Alarcon (Mexican)	- MD/CEO	Nil	Nil
Mr. Jagdish Singla (Indian)		Nil	Nil
Mr. Remy Ejel (French)		Nil	Nil
Mr. Ricardo Chavez (Mexican)		Nil	Nil
Mr. Gbenga Oyeboode		Nil	Nil
Mrs. Ndidia Okonkwo Nwuneli	(20/10/2019)	Nil	Nil
Mrs. Juliet Ehimuan	24/02/2020	2,146	Nil

- (b) Mr. Gbenga Oyebo is the Chairman of CFAO Nigeria Plc, one of our vehicle suppliers. In accordance with Section 277 of the Companies and Allied Matters Act of Nigeria, he has notified the Company of his position with CFAO Nigeria Plc.
- (c) No share options were granted to the directors by Nestlé Nigeria Plc. However, Nestlé S. A., the ultimate parent company has a share based payment scheme offered to certain key management personnel including certain directors of the Company. Information relating to this share based payment scheme is disclosed in Note 23(a)(iv) to the financial statements.

## 6 Records of Directors' Attendance

Further to the provisions of Section 258(2) of the Companies and Allied Matters Act of Nigeria, the Record of Directors'

Attendance at Board Meetings held in 2019 is available at the Annual General Meeting for inspection.

## 7 Analysis of Shareholdings

			Number of shareholders	%	Number of shares	%
1	-	5,000	25,835	89.09	21,050,285	2.66
5,001	-	10,000	1,564	5.39	10,716,685	1.35
10,001	-	50,000	1,246	4.30	24,785,892	3.13
50,001	-	100,000	150	0.52	10,431,984	1.32
100,001	-	500,000	140	0.48	29,372,438	3.71
500,001	-	1,000,000	26	0.09	18,746,265	2.36
1,000,001	-	5,000,000	29	0.10	69,196,575	8.73
5,000,001		10,000,000	3	0.01	20,693,534	2.61
10,000,001		and above	5	0.02	63,103,135	7.96
			<u>28,998</u>	<u>100.00</u>	<u>268,096,793</u>	<u>33.82</u>
Nestlé S.A, Switzerland *			<u>1</u>	<u>0.00</u>	<u>524,559,457</u>	<u>66.18</u>
			<u>28,999</u>	<u>100</u>	<u>792,656,250</u>	<u>100</u>

\* Apart from Nestlé S.A, Switzerland, with 524,559,457 ordinary shares (representing 66.18%) and Stanbic IBTC Nominees Limited with 8.53%, no other shareholder held 5% or more of the paid-up capital of the Company as at 31 December 2019.

## 8 Property, plant and equipment

Information relating to changes in property, plant and equipment is disclosed in Note 15 to the financial statements.

## 9 Donations

The value of gifts and donations made by the Company during the year amounted to N42,905,415 (2018: N33,965,000 ) and analysed as follows:

	<b>2019</b>
	<b>N'000</b>
Nestle for Healthy Kids program (N4HK)	23,211
Makun High School, Sagamu-School renovation	11,732
Community water projects and Pedestrian Bridge Abaji	7,962
	<b>42,905</b>

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

In addition to the above mentioned donations, the Company continued with its strong focus on creating shared value initiatives.

Nestlé Nigeria invested in capacity development for farmers and in building technical and employability skills for youths. The Company also signed a Memorandum of Understanding (MOU) with an environmental group, Wecyclers, to tackle the challenge of plastic waste pollution in Nigeria in line with her vision that none of its product packaging, including plastics ends up in landfills, litters the environment, seas, oceans and waterways.

## 10 Nestlé Nigeria Trust (CPFA) Limited ("NNTL")

Nestlé Nigeria Trust (CPFA) Limited ('NNTL') previously called Nestlé Nigeria Provident Fund Limited, was incorporated by the Company and is a duly registered Closed Pension Fund Administrator whose sole activity is the administration of the pension and defined contribution gratuity scheme for both employees and former employees of Nestlé Nigeria Plc.

## 11 Local Sourcing of Raw Materials

On a continuing basis, the Company explores the use of local raw materials in its production processes and has successfully introduced the use of locally produced items such as soya bean, maize, cocoa, palm olein and sorghum in a number of its products.

## 12 Major Distributors

The Company's products are distributed through various distributors that are spread across the whole country as stated on page **xxxx** of the Annual report and financial statements.

## 13 Suppliers

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

## 14 General Licence Agreement

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

The Company obtained the approval of the National Office for Technology Acquisition and Promotion (NOTAP) with certificate No. CR 006577 for the remittance of General Licence Fees to Societe des Produits Nestlé S.A., Nestec S.A. and Nestlé S.A. The approval is for a period of three (3) years with effect from 1st January 2018 to 31st December 2020.

**15 Acquisition of Own Shares**

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

**16 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 17 (2018: 18) physically challenged persons in its employment as at 31 December 2019.

All employees whether physically challenged or not are given equal opportunities to develop their expertise and knowledge and 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 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 hygiene on its premises is of the highest standard. In this regard, the Company has, on three occasions, won the Manufacturers' Association of Nigeria's award for the best kept factory and on three 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 Company operates its own clinics which provide quick health care to its employees. In pursuit of efforts to improve health infrastructure and enhance the quality of care for the employees, the company has built a new ultra modern clinic at Agbara factory. The new clinic which is fully equipped with state-of-the-art medical facilities consists of three consulting rooms, one pharmacy, one laboratory and two observation rooms, amongst others.

The modernization of the medical facilities by the Company is in line with Nestlé Corporate Business principles of promoting safe and healthy work environment for the employee.

The Company caters for the recreational needs of its employees by providing them with a wellness center and other games facilities such as Table Tennis, Draughts, etc. Lunch is provided free to staff in the Company's canteen.

**(c) Employees involvement and training:**

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



Circulars and newsletters on significant corporate issues are published. Regular briefing sessions are also held at corporate and operational levels to enhance exchange of information.

Management, professional and technical expertise are the Company's major assets. The Company continues to invest 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 opportunities for career development within the organisation.

In addition, we have graduated five(5) sets of technical students from Nestle Technical Training Center (NTTC). The multi-skill engineering training runs for a period of 18 months. The total number of those who have so far completed the programme till date is seventy-nine (79). The cost of the training was fully paid by our Company. The success of the NTCC in our Agbara factory has spurred us on to replicate and adapt the NTCC model in our Nestle Waters factory in Abaji.

The content of the course was based on the syllabus of City and Guilds of London Technicians Examinations Certificates in Engineering, one of the world's leading vocational education organizations. To empower the trainees with relevant skills, the top five (5) students in the scheme were taken to Switzerland for further training within the Group's factories. In order to reduce unemployment, a total of sixty-eight (68) graduates made up of eight (8) of the thirteen (13) graduates from the first batch, thirteen (13) graduates from the second batch, all the twenty (20) graduates from the third batch and a total of twenty-seven graduates (27) from the fourth and fifth batches were given employment by our Company. The other eleven (11) graduates are in full time employment with other organizations.

The sixth batch of twenty students in Agbara factory comprising ten (10) males and ten (10) females and seventh batch of twenty students in Abaji factory comprising of 16 males and 4 females were admitted into the training school in July 2019 and January 2020 respectively, for another 18 months programme.

This NTTC program contributes to the increase in the overall technology know-how in Nigeria and the pool of employable technical persons as the students also act as technology ambassadors after they have completed their training programme.

#### **17 Nomination, Governance and Remuneration Committee**

##### **Composition of Board Committees**

The Nomination, Governance and Remuneration Committee is made up of three (3) directors appointed to make recommendations on the structure and composition of the Board and its Committees; governance issues and to submit proposals on the salaries of executive directors to the Board for approval. The members of the Committee are Mr. Remy Ejel, Mr. Ricardo Chavez and Mr. Gbenga Oyeboode

#### 18 Audit Committee

In accordance with section 359(4) of the Companies and Allied Matters Act of Nigeria, members of the audit committee of the Company were elected at the Annual General Meeting held on 28 May 2019. Members that served on the audit committee during the year comprise:

Mr. Matthew Akinlade (Chairman)	Shareholders' Representative	
Alhaji Kazeem Owonikoko Bello	Shareholders' Representative	
Mr. Christopher Nwaguru	Shareholders' Representative	
Mrs. Nididi Okonkwo Nwuneli	Directors' Representative	Resigned on 20/10/2019
Mr. Gbenga Oyeboode	Directors' Representative	
Mr. Ricardo Chavez	Directors' Representative	
Mrs. Juliet Ehimuan	Directors' Representative	Appointed on 24/02/2020

#### 19 Risk Management Committee

The Committee is to assist the Board in its oversight of the risk profile, risk management framework and the risk reward strategy. The Committee is to carry out periodic review of changes in the economic and business environment, including emerging trends and other factors relevant to the Company's risk profile. Messrs. Oyeboode, Chavez and Singla served on the committee. On 29 October 2019, the Board expanded the scope of the Committee and changed its name to Board Audit and Risk Management Committee. The members of the reconstituted Committee are Mr. Oyeboode, Mr. Chavez and Mrs. Juliet Ehimuan.

#### 20 Effectiveness of Internal Control System

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the assets of the Company. The system of internal control is to provide reasonable assurance against material misstatement, prevent and detect fraud and other irregularities.

There is an effective internal control and audit function within the Company which gives reasonable assurance against any material misstatement or loss. The responsibilities include oversight functions of internal audit and control risk assessment and compliance, continuity and contingency planning, and formalisation and improvement of the Company's business processes.

#### 21 Disclosures

##### a) Borrowings and Maturity Dates

The details of the borrowings and maturity dates are stated in Note 24 to the financial statements.

##### b) Risk Management and Compliance System

The directors are responsible for the total process of risk management as well as expressing their opinion on the effectiveness of the process. The risk management framework is integrated into the day-to-day operations of the business and provides guidelines and standards for administering the acceptance and on-going management of key risks such as operational, reputational, financial, market, technology and compliance risk. The directors are of the view that effective internal audit function exists in the Company and that risk management control and compliance system are operating efficiently and effectively in all respects.

The Company has a structured Risk Management process in place and undertakes at least annually a thorough Risk Assessment covering all aspects of the business. The Risk Assessment is based on the two criteria "Business Impact" and "Likelihood of Occurrence". For every identified Business risk, mitigating measures are implemented by the Company.

c) Sustainability Initiatives

The Company pays adequate attention to the interest of its stakeholders such as its employees, host community, the consumers and the general public. Also, the Company is sensitive to Nigerian's social and cultural diversity and promotes as much as possible national interests as well as national ethos and values without compromising global aspirations where applicable. The Company has a culture of integrity and zero tolerance to corruption and corrupt practices.

d) Related Party Transactions

The Company has contractual relationship with related companies in the ordinary course of business. The details of the outstanding amounts arising from related party transactions are stated in Notes 21,24,26,28 and 32 to the financial statements. In addition, the Company (and other operating companies of Nestlé in Central and West Africa) executed a Shared Services Agreement with Nestlé Central and West Africa Limited. The purpose of the agreement is to ensure the provision of common operational shared services to all members of the Nestlé Group of companies operating within the Central and West Africa Region, which each member company had previously provided to itself on standalone basis with the attendant duplication of functions, resources and costs. The allocation of the costs to each company is based on Activity Based Costing.

## 22 Report on Social, Ethical, Safety, Health and Environmental Policies and Practices

### Corporate Business Principles

Nestlé is a principle-based company, the Nestlé Corporate Business Principles (NCBP) form the foundation of all we do. NCBP consists of ten principles these are:

Consumers			& Labour Practices	Our People		Suppliers and Customers		The Environment	
1	2	3	4	5	6	7	8	9	10
Nutrition, Health and Wellness	Quality assurance and product safety	Consumer Communication	Human Rights & Labour Practices in our business activities	Leadership and personal responsibility	Safety and health at work	Suppliers and Customers relations	Agriculture and rural development	Environmental sustainability	Water

These financial statements are presented in Naira, which is the Company's functional currency. All financial information presented in Naira has been rounded to the nearest thousand except where otherwise indicated.

(a) Nutrition, Health and Wellness

We encourage Health and Wellness of our employees via Work-Life Balance, provision of gym and other recreational facilities on our premises, provision of baby room, extended maternity leave that is not annual leave consuming and paternity leave.

(b) Quality Assurance and Product Safety

Everywhere in the world, the Nestlé name guarantees to the consumer that the product is safe and of high standard.

(c) Consumer Communication

We are committed to responsible, reliable consumer communication that empowers consumers to exercise their right to informed choice and promotes healthier diets. We respect consumer privacy.

(d) Human Rights in Our Business Activities

We fully support the United Nations Global Compact's (UNGC) guiding principles on human rights and labour and aim to provide an example of good human rights and labour practices throughout our business activities.

(e) Leadership and Personal Responsibility

Our success is based on our people. We treat each other with respect and dignity and expect everyone to promote a sense of personal responsibility. We recruit competent and motivated people who respect our values. We provide equal opportunities for our employees' development and advancement. We protect our employees' privacy and do not tolerate any form of harassment or discrimination.

The long-term success of the Company depends on its capacity to attract, retain and develop employees able to ensure its growth on a continuing basis. We provide equal opportunity in our resourcing drive. The Nestlé policy is to hire staff with personal attitudes and professional skills enabling them to develop a long-term relationship with the Company.

(f) Safety and Health at Work

We are committed to preventing accidents, injuries and illness related to work, and to protect employees, contractors and others involved along the value chain. We recognise and require that everyone plays an active role in providing a safe and healthy environment, and promote awareness and knowledge of safety and health to employees, contractors and other people related to or impacted by our business activities by setting high standards.

We have Clinics in our Factories, Distribution Centre and Head Office. The Clinics at the factories operate 24 hours service. Also we have Hospitals listed on retainer basis with the company for our employees and their family use. Efforts are being made by the Management and the Safety, Health and Environment Officers at the various sites to avoid industrial accidents through increased training on safety to both staff and contractors. The target of the Company is to ensure that there is no major accident.

We provide basic HIV/AIDS training to our employees. Also, we provide training and basic information to staff on prevention and treatment of serious diseases. On periodic basis, we invite medical experts and health institutions to make available free screening exercise to enable employees know their status in respect of serious diseases and provide the treatment required. We do not discriminate against or disengage any employee on the basis of his or her HIV/AIDS status. The Company makes the above facilities available to staff through the retained clinics.

(g) Supplier and Customer Relations

We require our suppliers, agents, subcontractors and their employees to demonstrate honesty, integrity and fairness, and to adhere to our non-negotiable standards. In the same way, we are committed to our own

(h) Agriculture and rural development

We contribute to improvements in agricultural production, the social and economic status of farmers, rural communities and in production systems to make them more environmentally sustainable.

(i) Environmental sustainability

We commit ourselves to environmentally sustainable business practices. At all stages of the product life cycle, we strive to use natural resources efficiently, favour the use of sustainably-managed renewable resources and target zero waste.

We invest continuously to improve our environmental performance. The Nestlé Policy on Environmental Sustainability incorporates the United Nations Global Compact's three guiding principles on environment (Principle 7 on support for precautionary approach to environmental challenges; Principle 8 on the need to undertake initiatives to promote environmental responsibility and Principle 9 on the need to encourage the development and diffusion of environmentally friendly technologies). Our four priority areas are: water, agricultural raw materials, manufacturing and distribution of our products and packaging. We implement our policy through the Nestlé Environmental Management System. We believe that environmental performance is a shared responsibility and requires the cooperation of all parts of society. We are determined to always provide leadership within our sphere of influence.

(j) Water

We are committed to the sustainable use of water and continuous improvement in water management. We recognise that the world faces a growing water challenge and that responsible management of the world's resources by all water users is an absolute necessity.

(k) Number, diversity, training initiatives and development of employees

As at 31 December 2019, the staff strength of the Company was 2,219 (2018: 2,187). Our employees are made up of male and female from different parts of the country. Every employee is given equal opportunity for promotion purely on the basis of merit. We provide both experienced based learning and classroom trainings in Nigeria and overseas. Presently, we have 19 (2018: 18) of our staff on overseas' assignments in Ghana, Cote D' Ivoire, Switzerland and and Senegal in order to give them the required exposure to enable them take up higher responsibilities.

(l) Bribery and corruption

We condemn any form of bribery and corruption. Our employees must never, directly or through intermediaries, offer or promise any personal or improper financial or other advantage in order to obtain or retain a business or other advantage from a third party, whether public or private. Nor must they accept any such advantage in return for any preferential treatment of a third party. Moreover, employees must refrain from any activity or behavior that could give rise to the appearance or suspicion of such conduct or the attempt thereof.

## 23 Insider Trading

The directors of the Company and senior employees who are in possession of price sensitive information are prohibited from dealing with the shares of the Company in accordance with the provisions of the Investments & Securities Act 2007 and the Listing Rules of the Nigerian Stock Exchange. As required by law, the shares held by directors are disclosed in the annual report. Our Company has securities trading policy applicable and circulated to directors, insiders, external advisers and all employees that may at any time possess any inside or material information about our Company. The securities trading policy is also available on the website of the Company. Our Company has adopted a code of conduct regarding securities transaction by the directors on terms no less exacting than the required standard set out in the Listing Rules of the Nigerian Stock Exchange. The Company has made specific enquiry of all directors whether they have complied with the required standard set out in the listing rules and the Company's code of conduct regarding securities transactions by directors and the Company is not aware of any non-compliance.

## 24 Notable Awards received in 2019

As in previous years, Nestlé Nigeria distinguished itself in 2019 as best in class amongst its peers and received the following awards .

- i) Capital Market Correspondents Association of Nigeria (CAMCAN) Awards - Most profitable company (Consumer Goods Sector) on the Nigerian Stock Exchange
- ii) Performance Earnings and Returns Leadership awards (PEARL) Awards – Sectoral Leadership Awards - Consumer Goods Category and Market Excellence Awards - Return on Equity
- iii) International Chamber of Commerce – 20 years membership awards
- iv) SERAS Awards – Best company in provision of water and sanitation
- v) Brandcom Awards 2019 - Best Seasoning brand of the year 2019 (MAGGI)
- vi) Top 50 brands Nigeria - 2019 Top 50 brands in Nigeria awards
- vii) The Company Secretary of the Year Award was conferred on our Company Secretary, Mr. Bode Ayeku, by ESQ. Nigerian Legal Awards.

## 25 Independent Auditors

The firm of Deloitte and Touche served as independent auditor during the year under review. In line with the policy on rotation of external auditors, Deloitte and Touche will not continue in office as the company's independent auditor after the conclusion of the forthcoming Annual General Meeting.

Dated this 28th day of February 2020.

BY ORDER OF THE BOARD



Bode Ayeku  
Company Secretary/Legal Adviser  
FRC/2012/NBA/00000000637  
22-24, Industrial Avenue  
Ilupeju,  
Lagos.

## Statement of Directors' Responsibilities

### For the preparation and approval of the Financial Statements

The Directors of **Nestlé Nigeria Plc** are responsible for the preparation of the financial statements that give a true and fair view of the financial position of the Company as at 31 December 2019, and the results of its operations, cash flows and changes in equity for the year ended, in compliance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011.

In preparing the financial statements, the Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for:

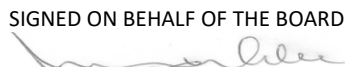

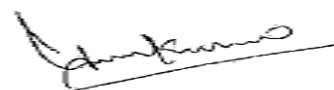
- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Nigeria and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

### Going Concern:

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

The financial statements of the Company for the year ended 31 December 2019 were approved by directors on 28th February, 2020

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <b>David Ifezulike</b> <b>(Chairman)</b> <b>FRC/2013/NIM/00000003355</b> <b>28th February 2020</b>	 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <b>Mauricio Alarcon</b> <b>(Managing Director)</b> <b>FRC/2017/NIM/00000016043</b> <b>28th February 2020</b>	 <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <b>Jagdish Singla</b> <b>(Finance &amp; Control Director)</b> <b>FRC/2018/ICAN/00000018560</b> <b>28th February 2020</b>
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AUDIT COMMITTEE OF  
**Nestlé Nigeria PLC** (RC 6540)



22-24, INDUSTRIAL AVENUE, ILUPEJU  
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2790707

**REPORT TO THE MEMBERS OF NESTLÉ NIGERIA PLC**

In accordance with the provisions of Section 359(6) of the Companies and Allied Matters Act, (CAP. C20), Laws of the Federation of Nigeria, 2004, we have examined the Auditor's Report for the year ended 31 December 2019.

We have obtained all the information and explanations we required.

In our opinion, the Auditor's 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 Auditor's findings and recommendations on Management matters, we are satisfied with management responses thereon.

We acknowledge the cooperation of the Auditor, Messrs. Deloitte & Touche (Chartered Accountants), Management and staff of the Company in performing our duties.

**Dated this 28<sup>th</sup> day of February, 2020**  
Lagos, Nigeria

  
Matthew Akinlade  
Chairman, Audit Committee.  
FRC/2013/ICAN 00000002111





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#### Independent Auditor's Report

To the Shareholders of Nestlé Nigeria Plc

##### Opinion

We have audited the accompanying financial statements of Nestlé Nigeria Plc which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flow for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Nestlé Nigeria Plc as at 31 December 2019 and the financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act Cap C20 LFN 2004 and the Financial Reporting Council of Nigeria Act, 2011.

##### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the requirements of the Institute of Chartered Accountants of Nigeria Professional Code of Conduct and Guide for Accountants (ICAN Code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the ICAN Code and in accordance with other ethical requirements applicable to performing audits in Nigeria. The ICAN Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

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

##### Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current year. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

100 of partners and associates are licensed public accountants in Nigeria.  
A member of Deloitte Africa, a member of Deloitte Touche Tohmatsu Limited



Key Audit Matter	How the matter was addressed in the audit
<p><b>Impairment of property, plant and equipment</b></p> <p>Impairment allowance amounting to N4.4 billion was recognised by the Company in prior year for three production plants. In the current year the Directors reassessed Abaji Plant for impairment using Value in Use (VIU) method in line with IAS 26 which resulted in the impairment of N3.3 billion. However, no impairment allowance was recognised in the current year because the allowance of N3.6 million, relating to Abaji Plant, made in the prior year was considered adequate. The carrying amount of the Abaji Plant, net of impairment allowance, as at 31 December 2019 was N1.2 billion.</p> <p>Significant judgements were made by Directors in assessing the impairment of property, plant and equipment, which was determined using Value in Use, based on the discounted cash flow model. The assumptions with the most significant impact on the cash flow forecast were:</p> <ul style="list-style-type: none"> <li>• The estimated cashflows which are based on growth rate assumptions. Growth rate is highly subjective because it is based on the directors' experience and expectations rather than observable market data. The growth rate are estimated for the products produced by the asset impaired.</li> <li>• The discount rate, which is based on the weighted average cost of capital. The calculation of the weighted average cost of capital is highly complex.</li> </ul> <p>Note 15 of the Financial statements has the details of the Company's Plant, Property and Equipment and disclosure on the Assets impairment.</p> <p><b>Other Information</b></p> <p>The directors are responsible for the other information. The other information comprises the Directors' Report, Audit Committee's Report, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.</p> <p>Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.</p> <p>Based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, if we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.</p>	<p>In evaluating the impairment of property, plant and equipment, we reviewed the value in use calculations prepared by the directors, with a particular focus on the growth rate, discount rate and cashflow projections. We performed various procedures, including the following:</p> <ul style="list-style-type: none"> <li>• We tested the entity's controls relating to the Company's Plant, Property &amp; Equipment impairment assessment.</li> <li>• Involving Internal Specialists to assist with the testing of the weighted average cost of capital and discount rate. The specialist's procedures included: <ul style="list-style-type: none"> <li>i) Assessing the appropriateness of the valuation methodology adopted by Directors for the purpose of assets impairment.</li> <li>ii) Testing of inputs into the cash flow forecast against historical performance and in comparison to the directors' strategic plans in respect of the assets being impaired.</li> <li>iii) Comparing the growth rates used to historical data regarding economic growth rates for the asset impaired.</li> <li>iv) Recomputation of the value in use of the asset being impaired.</li> <li>v) Performed sensitivity analyses on the discount rates to evaluate the extent of impact on the value in use.</li> <li>vi) Ensure appropriateness of the impairment disclosure in the financial statements.</li> </ul> </li> </ul> <p>The judgments, estimates and assumptions used by the Directors in the determination of the discount rate, growth rate and cash flow projections were found to be reasonable.</p> <p>Our audit review, including the review our firm's experts, in respect of the impairment assessment did not result any material misstatements. We considered the impairment disclosures to be appropriate.</p>

# Deloitte.

## Responsibilities of the directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act CAP C20 LFN 2004, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the Company's financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee and the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee and directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee and the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the benefits derivable by the public by such communication.



**Report on Other Legal and Regulatory Requirements**

In accordance with the Sixth Schedule of Companies and Allied Matters Act CAP C20 LFN 2004 we expressly state that:

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii) The Company has kept proper books of account, so far as appears from our examination of those books.
- iii) The Company's financial position and its statement of profit or loss and other comprehensive income are in agreement with the books of account and returns.

A handwritten signature in blue ink, appearing to read "Stella Mba".

Stella Mba ACA - FRC/2013/ICAN/00000001382  
For: Deloitte & Touche  
Chartered Accountants  
Lagos, Nigeria  
28 February, 2020



## Statement of Profit or loss and other Comprehensive Income

*In thousands of naira*

	<i>Note</i>	<b>2019</b>	<b>2018</b>
Revenue	9	284,035,255	266,274,621
Cost of sales	11(b)	(155,888,473)	(152,354,445)
<b>Gross Profit</b>		<b>128,146,782</b>	<b>113,920,176</b>
Marketing and distribution expenses	11(b)	(46,076,786)	(43,489,890)
Administrative expenses	11(b)	(10,007,950)	(9,789,555)
<b>Results from operating activities</b>		<b>72,062,046</b>	<b>60,640,731</b>
Finance income		1,328,872	1,716,889
Finance costs		(2,267,094)	(2,606,774)
<b>Net finance cost</b>	10	<b>(938,222)</b>	<b>(889,885)</b>
<b>Profit before income tax</b>	11	<b>71,123,824</b>	<b>59,750,846</b>
Income tax expense	13(a)	(25,440,711)	(16,742,820)
<b>Profit for the year</b>		<b>45,683,113</b>	<b>43,008,026</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>45,683,113</b>	<b>43,008,026</b>
<b>Profit for the year is attributable to:</b>			
Owners of the company		45,683,113	43,008,026
<b>Total comprehensive income for the year is attributable to:</b>			
Owners of the company		45,683,113	43,008,026
<b>Earnings per share</b>			
Basic earnings per share (Naira)	14 (a)	57.63	54.26
Diluted earnings per share (Naira)	14 (b)	57.63	54.26



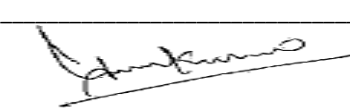
The accompanying notes to the financial statements and other National disclosures form an integral part of these financial statements.

## Statement of Financial Position

*In thousands of naira*

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>			
Property, plant and equipment	15	79,393,681	73,365,523
Right of Use Assets	15c	4,386,059	
Long term receivables	16	2,557,090	2,237,105
Long Term Prepayments	17	-	3,997,477
<b>Total non-current assets</b>		<b>86,336,830</b>	<b>79,600,105</b>
Inventories	19	33,278,944	23,124,020
Right of return assets	20	58,763	351,995
Trade and other receivables	21	65,820,188	42,175,062
Contract Assets			93,179
Prepayments	17	901,518	1,228,025
Cash and cash equivalents	22	6,978,071	15,762,036
<b>Total current assets</b>		<b>107,037,484</b>	<b>82,734,317</b>
<b>Total assets</b>		<b>193,374,314</b>	<b>162,334,422</b>
<b>Equity</b>			
Share capital	23 (a)(ii)	396,328	396,328
Share premium	23 (a)(iii)	32,262	32,262
Share based payment reserve	23 (a)(iv)	123,076	154,788
Retained earnings		45,005,964	49,637,108
<b>Total Equity</b>		<b>45,557,630</b>	<b>50,220,486</b>
<b>Liabilities</b>			
Loans and borrowings	24	5,516,384	5,921,494
Employee benefits	25	4,307,927	2,700,673
Deferred tax liabilities	18	12,456,944	11,374,268
<b>Total non- current liabilities</b>		<b>22,281,255</b>	<b>19,996,435</b>
Trade and other payables	28	78,400,058	60,384,454
Contract liabilities	29	5,974,399	3,858,793
Refund liabilities	20	107,082	615,211
Bank Overdraft	22	2,736,058	1,393,678
Current tax liabilities	13(b)	31,801,369	23,629,987
Loans and borrowings	24	4,958,904	1,026,458
Provisions	27	1,557,560	1,208,920
<b>Total current liabilities</b>		<b>125,535,430</b>	<b>92,117,501</b>
<b>Total liabilities</b>		<b>147,816,685</b>	<b>112,113,936</b>
<b>Total equity and liabilities</b>		<b>193,374,314</b>	<b>162,334,422</b>

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

David Ifezulike  
 (Chairman)  
*FRC/2013/NIM/00000003355*  
 Mauricio Alarcon  
 (Managing Director)  
*FRC/2017/NIM/00000016043*  
 Jagdish Singla  
 (Finance & Control Director)  
*FRC/2018/ICAN/00000018560*

The accompanying notes to the financial statements and other National disclosures form an integral part of these financial statements.

## Statement of Changes in Equity

### Attributable to equity holders of the company

*In thousands of naira*

	Note	Share capital	Share premium	Share based payment reserve	Retained earnings	Total equity
<b>As at 31 December 2018</b>		396,328	32,262	154,788	49,637,108	50,220,486
<b>Profit for the year</b>						
Profit for the year		-	-	-	45,683,113	45,683,113
Other comprehensive income		-	-	-	-	-
<b>Total comprehensive income</b>		-	-	-	45,683,113	45,683,113
<b>Transactions with owners, recorded directly in equity</b>						
Dividend to equity holders	24 (b)(i)	-	-	-	(50,333,672)	(50,333,672)
Unclaimed dividend written back	24 (b)(ii)	-	-	-	19,415	19,415
Share based payment contribution	24(a) (iv)	-	-	97,100	-	97,100
Share based payment recharge		-	-	(128,812)	-	(128,812)
<b>Balance as at 31 December 2019</b>		<b>396,328</b>	<b>32,262</b>	<b>123,076</b>	<b>45,005,964</b>	<b>45,557,630</b>
<b>Balance as at 31 December 2017</b>		<b>396,328</b>	<b>32,262</b>	<b>147,236</b>	<b>44,302,351</b>	<b>44,878,177</b>
Adjustment on initial application of IFRS 9, net of tax					(10,100)	(10,100)
Adjustment on initial application of IFRS 15, net of tax					(89,162)	(89,162)
<b>As at 1 January 2018 (restated)</b>		<b>396,328</b>	<b>32,262</b>	<b>147,236</b>	<b>44,203,089</b>	<b>44,778,915</b>
<b>Profit for the year</b>						
Profit for the year		-	-	-	43,008,026	43,008,026
<b>Total comprehensive income</b>		-	-	-	43,008,026	43,008,026
<b>Transactions with owners, recorded directly in equity</b>						
Dividend to equity holders	24 (b)(i)	-	-	-	(37,651,172)	(37,651,172)
Unclaimed dividend written back	24 (b)(ii)	-	-	-	77,165	77,165
Share based payment contribution	24(a) (iv)	-	-	80,326	-	80,326
Share based payment recharge		-	-	(72,774)	-	(72,774)
<b>Balance as at 31 December 2018</b>		<b>396,328</b>	<b>32,262</b>	<b>154,788</b>	<b>49,637,108</b>	<b>50,220,486</b>

## Statement of Cash Flows

*In thousands of naira*

	Note	2019	2018
<b>Cash flows from operating activities</b>			
Profit for the year		45,683,113	43,008,026
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	15	7,450,643	11,354,763
Net foreign exchange differences	10	37,356	96,069
Net finance cost/(income)	10	900,865	793,815
Equity settled share based payment transactions	23a(iv)	97,100	80,326
Provisions for other long term employee benefits	25	2,000,074	699,084
Loss/(Gain) on disposal of property, plant and equipment		218,735	358,819
Income tax expense	13(a)	25,440,711	16,742,820
		<u>81,828,597</u>	<u>73,133,722</u>
Changes in long term receivables		(319,985)	(315,873)
Change in Long term prepayments		-	(3,763,307)
Change in inventories		(10,154,924)	786,284
Change in right of return assets		293,232	(209,526)
Change in trade and other receivables		(23,645,126)	(10,833,138)
Change in contract asset		93,179	(50,002)
Change in prepayments		(101,926)	563,151
Change in trade and other payables (excluding dividend payable)		16,704,652	21,696,280
Change in contract liabilities		2,115,606	471,532
Change in refund liabilities		(508,129)	372,116
Changes in provisions		348,641	310,052
<b>Cash generated from operating activities</b>		<u>66,653,813</u>	<u>82,161,291</u>
Income tax paid	13 (b)	(16,186,651)	(7,195,394)
Other long term employee benefit paid	25	(392,820)	(274,332)
Share based payment recharge paid	23a(iv)	(128,812)	(72,774)
<b>Net cash in flow from operating activities</b>		<u>49,945,530</u>	<u>74,618,791</u>
<b>Cash flow from investing activities</b>			
Finance income	10	1,328,872	1,716,889
Proceeds from sale of property, plant and equipment		105,685	26,138
Acquisition of property, plant and equipment	15	(13,763,370)	(12,727,302)
<b>Net cash used in investing activities</b>		<u>(12,328,813)</u>	<u>(10,984,275)</u>
<b>Cash flow from financing activities</b>			
Proceeds from loans obtained -- Bank loan	24 c	10,000,000	-
Repayments of borrowings -- Intercompany loan	24 c	(75,353)	(12,543,788)
-- Bank loan	24 c	(6,451,105)	(1,114,742)
Finance cost paid		(2,213,299)	(2,478,200)
Dividends paid	23(b)	(49,003,305)	(44,554,195)
<b>Net cash used in financing activities</b>		<u>(47,743,062)</u>	<u>(60,690,925)</u>
Net increase/(decrease) in cash and cash equivalents		(10,126,345)	2,943,591
Cash and cash equivalent at January 1		14,368,358	11,424,767
<b>Cash and cash equivalent at December 31</b>	22	<u>4,242,013</u>	<u>14,368,358</u>

The accompanying notes to the financial statements and other National disclosures form an integral part of these financial statements.



## Notes to the financial statements

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## 1 Reporting entity

Nestlé Nigeria Plc ("the Company") is a Company domiciled in Nigeria. The address of the Company's registered office is at 22-24, Industrial Avenue, Ilupeju, Lagos. The Company is listed on the Nigerian Stock Exchange.

The principal activities of the Company continue to be the manufacturing, marketing and distribution of food products including purified water throughout the country. The Company also exports some of its products to other countries within Africa.

## 2 Basis of accounting

### (a) Statement of Compliance

These financial statements have been prepared in accordance with IFRS. They were authorised for issue by the Company's Board of Directors on **28 February 2020**.

### (b) Basis of measurement

The financial statements have been prepared on historical cost basis except for the following;

- Liabilities for equity-settled share-based payment arrangements.
- the present value of the defined benefit obligation relating to long service awards.
- Inventory at lower of cost and net realisable value.

### (c) Functional and presentation currency

These financial statements are presented in Naira, which is the Company's functional currency. All financial information presented in Naira has been rounded to the nearest thousand except where otherwise indicated.

### (d) Changes in accounting policies and disclosures

The Company applied IFRS 16 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described in Note 4.1.

This change in accounting policies was applied in accordance with transitional requirements of IFRS 16 (Leases)

## 3 Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements. Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

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**a) Foreign currency transaction**

Transactions denominated in foreign currencies are translated and recorded in Naira at the actual exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the rates of exchange prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**b) Financial instruments**

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies on Revenue from contracts with customers.

**l) Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

**Classification of financial assets**

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### **Amortised cost and effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item.

#### **Foreign exchange gains and losses**

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in the statement of profit or loss.

#### **Impairment of financial assets**

The Company recognises a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortised cost (trade receivables and short-term deposits). The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

**(i) Significant increase in credit risk**

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

**(ii) Definition of default**

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 60 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**(iii) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

**(iv) Write off policy**

The Company writes off a financial asset when there is sufficient information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when all economic attempts to recover the outstanding amount have failed or when the period within which the debt can be legally enforced has expired or unable to locate debtor or debtor passed away leaving no asset, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

**(v) Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

#### ***Derecognition of financial assets***

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## **II) Financial liabilities**

### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

### **Subsequent measurement**

All financial liabilities are measured subsequently at amortised cost using the effective interest method.

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities measured subsequently at amortised cost.

Financial liabilities that are not:

- (i) contingent consideration of an acquirer in a business combination,
- (ii) held-for-trading, or
- (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

#### **Loans and borrowings**

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

#### **Foreign exchange gains and losses**

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

#### **Derecognition of financial liabilities**

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

- (1) the carrying amount of the liability before the modification; and
- (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

#### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

### **III) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### **c) Property, plant and equipment**

##### **1. Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2011, the Company's date of transition to IFRS, was determined with reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Items of property, plant and equipment under construction are disclosed as capital work-in-progress. The cost of construction recognised includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.



Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss.

## **II . Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

## **III. Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment which reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case the assets are depreciated over the useful life.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	25 - 35 years
• plant and machinery	10 - 25 years
• motor vehicles	5 years
• furniture and fittings	5 years
• IT equipment	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Capital work-in-progress is not depreciated. The attributable cost of each asset is transferred to the relevant asset category immediately the asset is available for use and depreciated accordingly.

Land has unlimited useful life so it is not depreciated.

Items of PPE classified as Independent Power Plant (IPP) consists of certain asset classes as specified above and depreciation has been charged on the same basis as stated above.

### **d) Intangible assets**

#### **I. Software**

Purchased software with finite useful life is measured at cost less accumulated amortisation and accumulated impairment losses.

#### **II. Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

### III. Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative periods is as follows:

#### Computer software

5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### e) Leases

The company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

#### Policy applicable from 1 January 2019

##### *The Company as a lessee*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-to-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed Lease Payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depends on an index or rate, initially measures using the index or rate at the commencement date
- The amount expected to be payable by the lessee under residual guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset)

-The Lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

-The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a discount rate at the effective date of modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying assets to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use assets, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying assets. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use assets is depreciated over the useful life of the underlying asset.

The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property Plant and Equipment'

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'other expenses' in profit or loss

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components; and instead account for any lease and associated non-lease components as a single arrangement. The company has not used this practical expedient. For a contract that contain a lease component and one or more additional lease or non-lease components, the company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease components and the aggregate stand-alone price of the non-lease components.

*The Company as lessor*

The Company was not part of any lease agreement as a lessor in 2019

**Policies applicable prior to 1 January 2019**

Leases are classified as finance leases whenever the terms of the lease transfer substantially, all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

*The Company as a lessee*

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between the finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefit from the leased asset are consumed.

**f) Inventories**

Inventory is measured at the lower of cost and net realisable value. The cost of inventory includes expenditure incurred in acquiring the inventory, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost incurred in bringing each product to its present location and condition is based on:

Raw and packaging materials and purchased finished goods	-	purchase cost on a first-in, first-out basis including transportation and clearing costs.
Products-in-process and manufactured finished goods	-	weighted average cost of direct materials and labour plus a reasonable proportion of manufacturing overheads based on normal levels of activity.
Engineering spares	-	purchase cost on a weighted average cost basis, including transportation and clearing costs.
Goods-in-transit	-	purchase cost incurred to date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of conversion and selling expenses.

Engineering spares are classified as inventory and are recognised in the profit and loss account as consumed.  
Allowance is made for obsolete, slow moving or defective items where appropriate.

**g) Impairment of Non-financial assets**

***1. Financial assets (including receivables)***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit (CGU). For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets (excluding Goodwill for which impairment loss is not reversed), impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

#### **h) Employee benefits**

##### ***1. Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the period during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company has the following defined contribution plans: defined contribution gratuity scheme and pension fund scheme.

##### **1 Defined contribution gratuity scheme**

The Company has a defined contribution gratuity scheme for its Nigerian employees, which is funded. Under this scheme, a specified amount in accordance with the Gratuity Scheme Agreement is contributed by the Company and charged to the profit and loss account over the service life of the employees. These employees' entitlements are calculated based on their actual salaries and paid to Nestlé Nigeria Trust (CPFA) Limited ("NNTL") each month.

NNTL previously called Nestlé Nigeria Provident Fund Limited was incorporated by the Company and is a duly registered closed pension fund administrator whose sole activity is the administration of the pension and defined contribution gratuity scheme for employees of Nestlé Nigeria Plc.

## 2 Pension fund scheme

In line with the provisions of the Pension Reform Act 2014, the Company instituted a defined contribution pension scheme for its entire Nigerian Staff. Staff contributions to the scheme are funded through payroll deductions while the Company's contributions are charged to the profit and loss account. The Company's contribution is 10% for all senior staff, junior staff and temporary staff while employees contribute 8% of their monthly emolument (basic, housing and transport).

### **II. Other long term employee benefits (long service awards)**

Long service awards accrue to employees based on graduated periods of uninterrupted service. These benefits accrue over the service life of the employees. The charge to the profit and loss account is based on independent actuarial valuation performed using the projected unit credit method. PricewaterhouseCoopers Limited (FRC/2013/IODN/00000002010) was engaged as the independent actuary in the current year. Actuarial remeasurements are recognised in the profit and loss in the year in which they arise.

### **III. Termination benefits**

Termination benefits are recognised as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

### **IV. Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### **V. Share-based payment transactions**

Nestlé S.A., the ultimate holding company of Nestlé Nigeria Plc operates an equity incentive scheme, Restricted Stock Unit Plan (RSUP) for its management employees whereby it awards shares to deserving employees.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity as a capital contribution from Nestlé S.A., over the period that the employees unconditionally become entitled to the awards.

A recharge arrangement exists between Nestlé S.A. and Nestlé Nigeria Plc whereby vested shares delivered to employees' are recharged. The recharge transaction is recognised as an intercompany liability with a corresponding adjustment in equity for the capital contribution recognized in respect of the share-based payment.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment arrangements in which the Company receives goods or services and has no obligation to settle the share-based payment transaction are accounted for as equity-settled share-based payment transactions, regardless of the equity instrument awarded.

**i) Provisions**

A provision is recognised 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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**j) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are only disclosed and not recognised as liabilities in the statement of financial position.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

**k) Statement of cash flows**

The statement of cash flows is prepared using the indirect method. Changes in statement of financial position items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items, have been eliminated for the purpose of preparing the statement. Dividends paid to ordinary shareholders are included in financing activities. Finance cost is also included in financing activities while finance income received is included in investing activities.

**l) Revenue**

**Revenue from contracts with customers**

***Sale of goods***

The Company is into manufacturing, marketing and distribution of food products including purified water. Sales are recognized when control of the products is transferred, being when the products are shipped to the customer. Sales occur when the products have been shipped and either the Distributor has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.



**(i) Variable consideration**

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and trade incentives. The rights of return and trade incentives give rise to variable consideration.

**- Rights of return**

Certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

**-Trade Incentives**

The Company provides incentives to all customers on the achievement of the performance criteria on the signed incentive guide. Incentives are credited to the customer's account, available for purchase of products. To estimate the variable consideration for the expected future incentives, the Company applies the maximum achievement criteria of set targets. The Sales thresholds contained in the signed incentive guide primarily drive the selected method that best predicts the amount of variable consideration. The Company then applies the requirements on constraining estimates of variable consideration and recognizes a liability for the expected future incentives.

**(ii) Significant financing component**

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

**Contract balances**

***Trade receivables***

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets.

#### **Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

#### **Assets and liabilities arising from rights of return**

##### ***Right of return assets***

Right of return asset represents the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

##### ***Refund liabilities***

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Company ultimately expects it will have to return to the customer. The Company updates its estimates of refund liabilities and the corresponding change in the transaction price at the end of each reporting period. Refer to above accounting policy on variable consideration.

#### **Cost to obtain a contract**

The Company pays sales commission to its employees for certain contracts that they obtain for sales of products. The Company has elected to apply the optional practical expedient for costs to obtain a contract which allows the Company to immediately expense sales commissions (included under personnel expenses) because the amortisation period of the asset that the Company otherwise would have used is one year or less.

#### **m) Advance payment to contractors**

Advance payments represents payments made to contractors for ongoing construction projects as the year end date.

#### **n) Finance income and finance costs**

Net finance cost includes interest expense on borrowings as well as interest income on funds invested. Net finance cost also includes other finance income and expense, such as exchange differences on loans and borrowings and unwinding of the discount on provisions.

Foreign currency gains and losses are reported on a net basis.

#### **o) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates statutorily enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been statutorily enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**p) Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

**q) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's Board of Directors (BOD) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Company's primary format for segment reporting is based on business segments. The business segments are determined by management based on the Company's internal reporting structure.

Segment results, assets and liabilities, that are reported to the BOD includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated items comprise mainly corporate assets (primarily the Company's head office), head office expenses and income tax assets and liabilities, net finance cost and amortisation of intangible assets.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets.

**r) Dividends**

Dividends are recognised as a liability in the period they are declared.

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

**s) Government grants**

Government grants are recognised at fair value when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received. Grants related to income are recognized as deferred income and allocated into profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grant is intended to compensate.

The benefit of a government loan at below market rate of interest is treated as a government grant related to income.

The fair value of the government loan at below market rate of interest is estimated as the present value of all future cash flows discounted using the prevailing market rate(s) of interest for a similar instrument with a similar credit rating. The benefit of the government grant is measured as the difference between the fair value of the loan and the proceeds received.

**t) Related parties**

Related parties include the holding company and other group entities. Directors, their close family members and any employee who is able to exert a significant influence on the operating policies of the Company are also considered to be related parties. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

## Notes to the financial statements

### 4 Changes in accounting policies and disclosures

#### 4.1 Changes in accounting policies and disclosures from new and amended standards adopted in current year

The Company applied IFRS 16 leases from 1 January 2019. A number of new standards were also effective from January 2019 but they do not have a material effect on the Company's financial statements. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at January 1 2019. Accordingly the comparative information presented for 2018 is not restated-i.e. it is presented as previously reported under IAS 17 and related interpretations. The nature and effect of the changes as a result of adoption of this new accounting standard is described below;

##### i Impact of application of IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

Movement in the statement of financial position as result of applying IFRS 16

	Property, Plant and Equipment	Prepayment	Total
<i>In thousands of naira</i>			
Balance as at 31 December 2018	-	5,225,502	5,225,502
Balance transferred from prepayments to Right of Use as at 1 January 2019	4,425,910	(4,425,910)	-
<b>Balance as at 1 January 2019</b>	<b>4,425,910</b>	<b>799,592</b>	<b>5,225,502</b>

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

##### *Leases previously classified as finance leases*

As at the time of transitioning, the Company had no lease classified as finance lease, hence, there was no impact in the financial statements.

##### *Leases previously accounted for as operating leases*

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The Company also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of N4,425,910,000 were recognised and presented separately in the statement of financial position.
- Long Term Prepayments of N3,997,477,000 related to previous operating leases were derecognised.
- Prepayments of N428,433,000 related to previous operating leases were derecognised.

#### **Summary of new accounting policies**

Set out below are the new accounting policies of the Company upon adoption of IFRS 16, which have been applied from the date of initial application:

##### **• Right-of-use assets**

The Company assesses whether a contract is or contains a lease at inception of the contract. This assessment involves the exercise of judgment about whether it depends on a specified asset, whether the company obtains substantially all the economic benefits from the use of that asset, and whether the company has the right to direct the use of the asset.

The Company recognizes a right-of-use (ROU) asset and a lease liability (where applicable) at the lease commencement date, except for short term leases of 12 months or less which are expensed in the income statement on a straight-line basis over the lease term.

At inception, the ROU asset comprises the initial lease liability, initial direct costs and the obligations to refurbish the asset, less any incentives granted by the lessors. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator for impairment, as for owned assets.

ROU assets are included in the heading property, plant and equipment.

##### **• Short-term leases and leases of low-value assets**

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Amounts recognised in the statement of financial position and profit or loss**

	<b>Right-of-use assets</b>		
	<b>Land N'000</b>	<b>Building N'000</b>	<b>Total N'000</b>
As at 1 January 2019	4,102,547	323,363	4,425,910
Additions (Note 15)	-	401,936	401,936
Disposals	-	(155,069)	(155,069)
Depreciation expense	(104,700)	(182,017)	(286,716)
<b>As at 31 December 2019</b>	<b>3,997,847</b>	<b>388,213</b>	<b>4,386,059</b>

#### 4.2 Other New and amended Standards effective in the current year

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

##### **Amendments to IAS 28: Long-term interests in associates and joint ventures**

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests.

Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

##### **IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

– If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

– If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

##### **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted.

There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements.

##### **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

#### **IAS 12: Income Taxes**

The amendments clarify that the company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the company originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

#### **IAS 23: Borrowing Costs**

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

#### **IFRS 3: Business Combinations**

The amendments clarify that when the company obtains control of a business that is a joint operation, the Company applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

#### **IFRS 11: Joint Arrangements**

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Company does not remeasure its PHI in the joint operation.

### **4.3 New and revised IFRS Standards in issue but not yet effective**

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however the company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the company's consolidated financial statements.



#### **IFRS 17: Insurance Contracts**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supercedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features described as the variable fee approach.

The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market rates and the impact of policyholders' options and guarantees.

The standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure drafts *Amendments to IFRS 17* addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the standard and the transition date is the beginning of the period immediately preceding the date of initial application.

#### **IFRS 10 and IAS 28 (amendments) Sale or Contributions of Assets between an Investor and its Associate or Joint Venture**

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

#### **Amendments to IFRS 3: Definitions of a business**

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

#### **Amendments to IAS 1 and IAS 8: Definition of material**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS standards. The concept "obscuring" material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020 with earlier application permitted.

#### **Amendments to References to the Conceptual Framework in IFRS Standards**

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32.

Not all amendments, however, update those pronouncements with regard to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised conceptual framework.

The amendments, where they are actually updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

## Notes to the financial statements

### 5 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The management of the Company revises its estimates and assumptions on a regular basis to ensure that they are relevant regarding the past experience and the current economic and political environment. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The accounting for certain provisions, certain financial instruments and the disclosure of financial assets, contingent assets and liabilities at the date of the financial statements is judgmental. The items, subject to judgment, are detailed in the corresponding notes to the financial statements.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are discussed below:

#### 5.1 Critical accounting judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

##### 5.1.1 Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- *Determining method to estimate variable consideration and assessing the constraint*

Certain contracts for the sale of products include a right of return that gives rise to variable consideration. In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Company determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

- *Determining the timing of satisfaction of sales of goods*

The Company concluded that revenue for sales of goods is to be recognised as a point in time; when the customer obtains control of the goods. The Company assess when control is transfer using the indicators below:

- The Company has a present right to payment for the goods;
- The Company has transferred physical possession of the asset ;
- The customer has the significant risks and rewards of ownership of the goods; and
- The customer has accepted the asset

## **5.2 Key sources of estimation uncertainty**

### **5.2.1 Provisions for employee benefits**

The actuarial techniques used to assess the value of the defined benefit plans involve financial assumptions (discount rate, rate of return on assets, medical costs trend rate) and demographic assumptions (salary increase rate, employee turnover rate, etc.). The Company uses the assistance of an external independent actuary in the assessment of these assumptions. For more details refer to note 25.

### **5.2.2 Estimated useful lives and residual values of property, plant and equipment**

The Company's management determines the estimated useful lives and related depreciation charge for its items of property, plant and equipment on an annual basis. The Company has carried out a review of the residual values and useful lives of property, plant and equipment as at 31 December 2019 and that has not highlighted any requirement for an adjustment to the residual values and remaining useful lives of the assets for the current or future periods. For more details refer to note 3c.

### **5.2.3 Impairment testing**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available unobservable inputs that are developed based upon the best information available under the circumstances, which might include the Company's own data less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next fifteen years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs is disclosed and further explained in Note 15b.

### **5.2.4 Provision for expected credit losses (ECL) of trade receivables**

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 31(a)(ii).

### **5.2.5 Estimating variable consideration for returns**

The Company estimates variable considerations to be included in the transaction price for the sale of goods with rights of return and trade incentives.

The Company developed a statistical model for forecasting sales returns. The model used the historical return data of each year to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company's expected trade incentives are analysed on a per customer basis. Determining whether a customer will be likely entitled to trade incentive will depend on the customer's historical incentive entitlement and accumulated performance to date.

The Company applied a statistical model for estimating expected trade incentives. The model uses the historical purchasing patterns and incentive entitlement of customers to determine the expected incentive percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and incentive entitlements of customers will impact the expected incentive percentages estimated by the Company.

## 6 Operating segments

### (a) Basis of segmentation

The Company has two reportable segments, as described below, which are the Company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's Board of Directors (BOD) review internal management reports on a quarterly basis. The following summary describes the operations in each of the Company's reportable segments:

Segment	Description
Food	This includes the production and sale of Maggi, Cerelac, SMA, Nan, Lactogen and Golden Morn.
Beverages	This includes the production and sale of Milo, Milo energy cube, Nescafe, Milo ready-to-drink (RTD) and Nestlé Pure Life.

The accounting policies of the reportable segments are the same as described in Notes 3.

Information regarding the results of each reportable segment is included in Note 7. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Company's Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

## Notes to the financial statements

### 7 Information about reportable segment

*In thousands of naira*

	Food		Beverage		Unallocated		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
External Revenues	176,087,166	168,171,774	107,948,089	98,102,847		-	284,035,255	266,274,621
Interest income	-	-	-	-	1,328,872	1,716,889	1,328,872	1,716,889
Interest expense	-	-	-	-	(2,267,094)	(2,606,774)	(2,267,094)	(2,606,774)
Depreciation	(4,611,873)	(4,442,657)	(2,838,770)	(2,463,630)	-	-	(7,450,643)	(6,906,287)
Impairment loss	-	(1,036,584)	-	(3,411,892)	-	-	-	(4,448,476)
Reportable segment profit before income tax	47,035,839	43,396,546	25,026,207	17,244,185	(938,222)	(889,885)	71,123,824	59,750,846

Assets and liabilities by reportable segments are not presented to the Chief Operating Decision Maker (Board of Directors) on a regular basis. Therefore, information on segment assets and liabilities has not been presented.

In 2018, the reportable segment profit before income was reported by sharing the total impairment on both segments. In 2019, the reportable segment profit before income tax reported in 2018 has been restated by sharing the impact of impairment directly attributed to each segment.

#### Reconciliation of reportable segment revenue, profit or loss, assets and liabilities and other material items

*In thousands of naira*

##### Revenues

There are no significant reconciling items between the reportable segment revenue and revenue for the year.

##### Profit or loss

*In thousands of naira*

	2019	2018
Total profit or loss for reportable segments	72,062,046	60,640,731
Other corporate expenses and income	(938,222)	(889,885)
Profit before income tax	71,123,824	59,750,846

##### Other material items 2019

There are no significant reconciling items between other material items for the reportable segments and Company total.

## 8 Geographical information

*In thousands of naira*

	2019		2018	
	Revenue	Non-current assets	Revenue	Non-current assets
Nigeria	279,052,086	86,336,830	262,804,669	79,600,105
Niger	-	-	1,481,007	-
Togo	-	-	66,463	-
Ghana	1,989,479	-	1,686,124	-
Burkina Faso	2,942,872	-	66,462	-
Guinea	-	-	-	-
Other countries	50,818	-	169,896	-
Total revenue from contracts with customers	284,035,255	86,336,830	266,274,621	79,600,105

Total revenue from contracts with customers

In presenting information on the basis of geography, segment revenue is based on the geographical location of the customers and segment assets are based on the geographical location of the assets.

In 2019, the revenue from Burkina Faso was added to other countries. In 2019, the company has disclosed the revenue of Burkina Faso due to the significance in the total export value and has reflected 2018 comparative figures.

### Major customer

Revenue from one customer does not represent up to 10% of the company's total revenue. Therefore, information on major customers is not presented.

## 9 Revenue

Revenue for the year which arose from sales of goods comprise:

*In thousands of naira*

	2019	2018
Nigeria	279,052,086	262,804,669
Export	4,983,169	3,469,952
Total Revenue	284,035,255	266,274,621

### 9.1 Disaggregated revenue information

	For the year ended 31 December 2019		
	Food	Beverage	Total
Goods transferred at a point in time			
Total revenue	176,087,166	107,948,089	284,035,255

### Disaggregation of revenue—quantitative disclosure

The Company has assessed that the disaggregation of revenue by operating segments is appropriate in meeting this disclosure requirement as this is the information regularly reviewed by the chief operating decision maker (CODM) in order to evaluate the financial performance of the entity.

The Company determines that the categories used in the investor presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 114 of IFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

## 9.2 Contract balances

	2019	2018
<i>In thousands of Naira</i>		
Trade and other receivables (Note 21a)	65,820,188	42,175,062
Contract liabilities (Note 29)	5,974,399	3,858,793

Trade receivables are non-interest bearing and are generally on terms of 14 to 45 days. In 2019, N544,697 was recognised as provision for expected credit losses on trade receivables.

Contract liabilities include incentives yet to be paid to customers and advances received from cash customers

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

## 9.3 Performance obligations

Information about the Company's performance obligations are summarised below:

### **Sale of goods**

The performance obligation is satisfied upon delivery of the product and payment is generally due within the customers credit days . Some contracts provide customers with a right of return and incentives which give rise to variable consideration subject to constraint.

## 10 Net finance cost

<i>In thousands of naira</i>	2019	2018
Interest income on bank deposits	1,328,872	1,716,889
Finance income	1,328,872	1,716,889
Interest expense on financial liabilities	(2,229,738)	(2,510,705)
Net foreign exchange loss	(37,356)	(96,069)
Finance expense	(2,267,094)	(2,606,774)
Net finance cost	<b>(938,222)</b>	<b>(889,885)</b>

Included in interest expense on financial liabilities measured at amortised cost is interest expense on intercompany loan amounting to approximately N570 million (2018: N1,130 million ) excluding the impact of foreign exchange differences.

## 11 Profit before income tax

(a) Profit before income tax is stated after charging or (crediting):

<i>In thousands of naira</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
Depreciation	15(a)	7,450,643	6,906,287
Impairment	15(a)	-	4,448,476
Auditor's remuneration		38,000	35,000
Directors' remuneration	12 (c)	328,702	313,438
Personnel expenses	12 (a)	25,937,349	23,506,644
Loss/(Gain) on property, plant and equipment disposed		218,735	358,819
Net foreign exchange loss	10	37,356	96,069
General licence fees	32(b)	10,737,120	9,934,947

(b) Expenses by nature

<i>In thousands of naira</i>	<i>Note</i>	<b>2019</b>	<b>2018</b>
Depreciation	15(a)	7,450,643	6,906,287
Impairment loss on property, plant and equipment	15(a)	-	4,448,476
Auditor's remuneration		38,000	35,000
Personnel expenses	12(a)	25,937,349	23,506,643
General licence fees	32(b)	10,737,120	9,934,947
Raw materials and consumables		110,714,113	104,147,275
Distribution expense		11,308,109	9,761,273
Advertising		4,954,981	4,491,770
Sales Promotion		15,454,353	13,488,566
Factory overheads		15,864,309	15,028,619
Other expenses		9,514,233	13,885,034
		<b>211,973,210</b>	<b>205,633,890</b>
Summarised as follows:			
Cost of Sales		155,888,473	152,354,445
Marketing and distribution expenses		46,076,786	43,489,890
Administrative expenses		10,007,950	9,789,555
		<b>211,973,210</b>	<b>205,633,890</b>



## 12 Personnel expenses

(a) Personnel expenses for the year comprise of the following:

*In thousands of naira*

		2019	2018
Salaries, wages and allowances		12,536,952	12,300,255
Contributions to compulsory pension fund scheme		1,271,089	1,142,803
Contributions to defined contribution gratuity scheme		1,179,217	1,107,927
Employee short term bonus		1,294,473	944,879
Training, recruitment and canteen expenses		1,218,147	1,421,360
Medical expenses		617,602	572,134
Equity-settled share-based payment transactions	23(iv)	97,100	80,326
Other personnel expenses		7,722,769	5,936,960
	11	<b>25,937,349</b>	<b>23,506,644</b>

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

N		N		2019	2018
				Number	Number
1,400,001	-	1,600,000		-	-
1,600,001	-	1,800,000		24	20
1,800,001	-	2,000,000		1	-
2,000,001	-	2,500,000		27	74
2,500,001	-	3,000,000		30	98
3,000,001	-	3,500,000		219	119
3,500,001	-	4,000,000		109	264
4,000,001	-	4,500,000		215	408
4,500,001	-	5,000,000		373	158
5,000,001	-	7,000,000		670	567
7,000,001	and	above		551	479
				<b>2,219</b>	<b>2,187</b>

The number of full-time persons employed per function as at 31 December was as follows:

	2019	2018
	Number	Number
Production	1,686	1,674
Supply chain	61	65
Sales and marketing	355	313
Administration	117	135
	<b>2,219</b>	<b>2,187</b>

(c) Directors remuneration

Remuneration paid to directors of the Company was as follows:

*In thousands of naira*

**Directors' Emoluments:**

Non Executive directors

Executive directors

	2019	2018
	29,204	28,200
	299,498	285,238
	<b>328,702</b>	<b>313,438</b>

The directors' remuneration shown above includes:

*In thousands of naira*

Chairman

Highest paid director

	2019	2018
	13,500	13,500
	218,081	210,478

Other directors received emoluments in the following ranges:

		2019	2018
N	N	Number	Number
-	1,000,000	2	2
1,000,001	25,000,000	2	2
25,000,001	35,000,000	-	-
Above 35,000,000		1	1
		5	5

**13 Taxation**

**(a) Income tax expense**

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:

*In thousands of naira*

**Current tax expense**

Current year income tax

Current year tertiary education tax

Reversal of over-provision of prior year tax

	2019	2018
	22,709,572	15,008,378
	1,736,514	1,266,327
	(88,053)	(547,994)
	24,358,033	15,726,711

**Deferred tax expense**

Origination and reversal of temporary differences

**Total income tax expense**

	1,082,678	1,016,109
	<b>25,440,711</b>	<b>16,742,820</b>

**(b) Current tax liabilities**

*In thousands of naira*

Movement in current tax liabilities account during the year was as follows

	2019	2018
At 1 January	23,629,987	15,098,670
Charge for the year	24,358,033	15,726,711
Payments in the year	(16,186,651)	(7,195,394)
At 31 December	<b>31,801,369</b>	<b>23,629,987</b>

**(c) Reconciliation of effective tax rate**

*In thousands of naira*

	2019	2019	2018	2018
Profit for the year		45,683,113		43,008,026
Total income tax expense		25,440,711		16,742,820
Profit excluding income tax		71,123,824		59,750,846

Income tax using the Company's domestic tax rate	30.00%	21,337,147	30.00%	17,925,254
Non-deductible expenses*	3.37%	2,394,821	0.36%	213,970
Tax exempt income	(0.48%)	(338,740)	(0.68%)	(407,322)
Tax incentives	(0.33%)	(235,593)	(0.24%)	(140,827)
Recognition of previously unrecognised tax items	1.46%	1,037,010	(2.23%)	(1,334,516)
Other income related taxes	2.44%	1,736,514	2.12%	1,266,327
Prior year (over)/under provision of CIT	(0.12%)	(88,053)	(0.92%)	(547,994)
Other tax differences	(0.57%)	(402,394)	(0.39%)	(232,072)
	35.8%	25,440,711	28.02%	16,742,820

**14 Earnings and declared dividend per share**

**a)** Basic earnings and declared dividend per share are based on profit attributable to the owners of the Company for the year of N45,633,114

(2018: N43,008,026) and declared dividend of N50,334million (2018: N37,651 million) respectively and on 792,656,252 (2018: 792,656,252)

ordinary shares of 50 kobo each, being the weighted average number of ordinary shares in issue and ranking for dividend during the year.

	<i>Note</i>	2019 N'000	2018 N'000
Earnings from continuing operations for the purpose of basic earnings per share		45,683,113	43,008,026
Earnings from continuing operations for the purpose of diluted earnings per share		45,683,113	43,008,026
Weighted average number of ordinary shares as at 31 December	23	Number ('000) 792,656	Number ('000) 792,656
Basic (Naira)		57.63	54.26
Diluted (Naira)		57.63	54.26

**(b)** Diluted earnings per share of N57.63 (2018: N54.26) is based on the profit attributable to ordinary shareholders of N45,683,114 (2018: N43,008,026), and on the 792,656,252 (2018: 792,656,252) ordinary shares of 50 kobo each, being the weighted average number of ordinary shares in issue and ranking for dividend during the current and preceding years after adjustment for the effects of all dilutive Nil (2018: Nil) potential ordinary shares.

**15 Property, plant and equipment (PPE)**

(a) The reconciliation of the carrying amount is as follows:

*In thousands of naira*

	Note	Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fittings	IT Equipment	Capital Work in Progress	Total
<b>Cost</b>								
Balance at 1 January 2018		31,879,120	62,674,207	2,823,927	8,128,949	1,192,957	5,780,835	112,479,995
Additions		380,365	1,350,095	711,490	1,379,449	172,982	8,732,921	12,727,302
Disposals		(297,618)	(219,697)	(265,124)	(61,648)	(185,701)	-	(1,029,787)
Reclassification		632,821	2,356,469	247,649	1,698,536	220,640	(5,156,114)	-
Balance at 31 December 2018		32,594,688	66,161,074	3,517,942	11,145,286	1,400,878	9,357,642	124,177,510
Balance at 1 January 2019		32,594,688	66,161,074	3,517,942	11,145,286	1,400,878	9,357,642	124,177,510
Impact of IFRS 16 on leases		-	-	-	-	-	-	-
Additions		191,682	3,378,216	994,164	857,872	190,807	7,748,693	13,361,434
Disposals		-	(877,433)	(392,608)	(101,101)	(5,934)	-	(1,377,076)
Reclassification		498,251	3,597,242	81,569	627,084	200,153	(5,004,299)	-
Balance at 31 December 2019		33,284,621	72,259,099	4,201,067	12,529,141	1,785,904	12,102,035	136,161,868
<b>Accumulated depreciation and impairment losses</b>								
Balance at 1 January 2018		5,645,971	25,724,018	1,619,024	6,091,795	1,021,245	-	40,102,053
Depreciation	11 (a)	819,408	4,141,967	507,644	1,244,304	192,965	-	6,906,287
Impairment		1,867,843	2,575,092	-	5,541	-	-	4,448,476
Disposals		(813)	(136,768)	(260,894)	(60,822)	(185,533)	-	(644,830)
Balance at 31 December 2018		8,332,409	32,304,309	1,865,774	7,280,818	1,028,677	-	50,811,986
Balance at 1 January 2019		8,332,409	32,304,308	1,865,774	7,280,818	1,028,677	-	50,811,986
Depreciation	11 (a)	850,700	3,802,999	643,139	1,471,098	267,171	-	7,035,106
Impairment		-	-	-	-	-	-	-
Disposals		-	(595,324)	(387,009)	(95,070)	(1,500)	-	(1,078,904)
Balance at 31 December 2019		9,183,109	35,511,983	2,121,902	8,656,846	1,294,348	-	56,768,187
<b>Carrying amounts</b>								
At 1 January 2018		26,233,149	36,950,189	1,204,903	2,037,154	171,712	5,780,835	72,377,942
At 31 December 2018		24,262,279	33,856,765	1,652,168	3,864,468	372,201	9,357,642	73,365,523
At 31 December 2019		24,101,513	36,747,116	2,079,165	3,872,295	491,556	12,102,035	79,393,681

**(b) Impairment loss recognised in property, plant and equipment**

**(i) Abaji Factory**

In 2018, due to the low capacity utilisation of the Abaji water Factory when compared to the forecast, the Company tested the entire Factory for impairment and recorded an impairment loss of N3.4 billion in respect of the assets in the cash generating unit (CGU). Accordingly, management estimated the recoverable amount of the CGU in the year. The recoverable amount was estimated based on the value in use of the asset using a discount rate of 17.2% . This impairment loss was recorded in the cost of goods sold in the statement of profit or loss and other comprehensive income. In the current year, the assets have been re-assessed for impairment and no additional impairment was recorded as the results were not significant.

**(ii) Extruder**

In 2018 the impairment of this asset was triggered by the low capacity utilisation of the asset. The Company tested the CGU for impairment and an impairment loss of N995 million was recorded. The recoverable amount was determined based on its value in use using a discount rate of 19.5%. This impairment loss was recorded in the cost of goods sold in the statement of profit or loss and other comprehensive income. In the current year, the assets have been re-assessed for impairment and no additional impairment was recorded as the results were not significant.

<b>(c) Right of Use Assets</b>	<b>Land N'000</b>		<b>Building N'000</b>	<b>Total N'000</b>
<b>Gross Book Value Balance</b>				
As at 31st December 2018	-		-	-
<b>As at 1 January 2019</b>				
Transferred from Prepayments	4,102,547		323,363	4,425,910
Additions	-		401,936	401,936
Disposals	-		(155,069)	(155,069)
<b>Balance as at 31st December 2019</b>	<b>4,102,547</b>	<b>-</b>	<b>570,230</b>	<b>4,672,777</b>
<b>Depreciation and impairment</b>				
As at 1 January 2019	-		-	-
<b>Depreciation for the year</b>	<b>104,701</b>		<b>182,017</b>	<b>286,718</b>
<b>Balance as at 31st December 2019</b>	<b>104,701</b>	<b>-</b>	<b>182,017</b>	<b>286,718</b>
<b>Carrying amount</b>				
As at 31 December 2018	-		-	-
<b>As at 31 December 2019</b>	<b>3,997,846</b>	<b>-</b>	<b>388,213</b>	<b>4,386,059</b>

**(d) Capital commitments**

Capital expenditure commitments at the year-end authorised by the Board of Directors comprise:

*In thousands of naira*

	<b>2019</b>	<b>2018</b>
Approved and contracted	10,454,559	3,422,287
Approved but not contracted	4,299,401	11,106,471
	<u>14,753,960</u>	<u>14,528,758</u>

**16 Long term receivables**

Long term receivables represent long-term portion of loans granted to the Company's employees and amount receivable from customers on the trade assets deployed which are expected to be paid after one year from the date of the financial statements. This is analysed below:

	<b>2019</b>	<b>2018</b>
Long term Staff receivable	2,293,175	1,989,120
Amount receivable from Customers on account of trade assets deployed	263,915	247,985
	<u>2,557,090</u>	<u>2,237,105</u>

**17 Prepayments**

Prepayment comprises:

*In thousands of naira*

	<b>2019</b>	<b>2018</b>
Rent prepaid	52,433	4,497,437
Insurance prepaid	645,564	517,837
Other prepayment	203,521	210,228
	<u>901,518</u>	<u>5,225,502</u>

Prepayments are analysed into short and long term assets based on the period covered by the prepayment:

	<b>2019</b>	<b>2018</b>
Current Asset	901,518	1,228,025
Non-current Asset	-	3,997,477
	<u>901,518</u>	<u>5,225,502</u>

Other prepayment represents payments made for goods and services which will be consumed within the next financial year. The movement in Non-current asset prepayments Nil (2018: N3.997 billion) represents the amount transferred to Right of Use Assets in line with IFRS 16 requirements.

## 18 Deferred tax liabilities

### Recognised deferred tax (assets)/liabilities

Deferred tax liabilities are attributable to the following:

*In thousands of naira*

	Assets		Liabilities		Net	
	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
Property, plant and equipment	-	-	14,362,211	12,760,600	14,362,210	12,760,600
Employee benefits	(1,378,537)	(864,215)	-	-	(1,378,537)	(864,215)
Unrealised exchange loss	(223,437)	(472,585)	-	-	(223,437)	(472,585)
Share based payment	(39,384)	(49,532)	-	-	(39,384)	(49,532)
Total trade spend allowance diff.	(263,906)				(263,906)	
Tax (asset)/liabilities	(1,905,264)	(1,386,332)	14,362,211	12,760,600	12,456,944	11,374,268
<b>Net tax liabilities</b>	<b>(1,905,264)</b>	<b>(1,386,332)</b>	<b>14,362,211</b>	<b>12,760,600</b>	<b>12,456,944</b>	<b>11,374,268</b>

### Movement in temporary differences during the year

*In thousands of naira*

	Balance 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2018	Effect of adoption of new accounting standards	Balance 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2019
Property, plant and equipment	13,647,062	(886,462)	-	12,760,600		12,760,600	1,601,610	-	14,362,210
Employee benefits	(728,295)	(135,920)	-	(864,215)		(864,215)	(514,321)	-	(1,378,537)
Unrealised exchange difference	(2,479,992)	2,007,407	-	(472,585)		(472,585)	249,148	-	(223,437)
Share based payment	(33,904)	(15,628)	-	(49,532)		(49,532)	10,148	-	(39,384)
Total trade spend allowance diff.							(263,906)		(263,906)
	<b>10,404,871</b>	<b>969,397</b>	<b>-</b>	<b>11,374,268</b>	<b>-</b>	<b>11,374,268</b>	<b>1,082,678</b>	<b>-</b>	<b>12,456,944</b>

At 31 December 2019 (2018: Nil), there was no unrecognised deferred tax asset or liability.

## 19 Inventories

<i>In thousands of naira</i>	2019	2018
Raw and packaging materials	7,243,196	8,112,500
Product in process	1,016,895	841,045
Finished products	9,023,827	6,797,789
Engineering spares	4,677,194	4,141,920
Goods in transit	11,317,832	3,230,766
	<b>33,278,944</b>	<b>23,124,020</b>

The value of raw and packaging materials, changes in finished products and product in process consumed during the year and recognised in cost of sales amounted to N110.714 billion (2018: N104.147 billion). In 2019, the write-down of inventories to net realisable value amounted to N2.652 billion (2018: N2.295 billion) and the movement is included in cost of sales.

## 20 Right of return assets and refund liabilities

<i>In thousands of naira</i>	31 December	
	2018	
Right to returned goods asset	58,763	351,995
<i>Refund liabilities</i>		
Arising from rights of return	107,082	615,211

The right to returned goods asset represents the Company's right to recover products from customers where customers exercise their right of return under the Company's 180-day returns policy. The Company uses its accumulated historical experience to estimate the number of returns in a year using the expected value method.

## 21 Trade and other receivables

<i>In thousands of naira</i>	Note	2019	2018
Trade receivables	21(a)	21,214,923	18,897,443
Loans to key management personnel		32,662	17,181
Staff loans		2,833,807	2,469,219
Trade receivables due from related parties	32(e)(i)	3,525,020	2,533,699
Deposit with Company registrars for dividend	23(b)ii	2,690,660	2,154,383
Allowance for expected credit losses	30(a)(ii)	(4,211,748)	(3,709,060)
		26,085,324	22,362,865
Advance payment to suppliers		22,239,480	11,778,913
Deposit for Import		18,882,050	9,365,047
Other receivables		1,170,424	905,342
		<b>68,377,278</b>	<b>44,412,167</b>
Non-current - reclassified to long term receivables	16	2,557,090	2,237,105
Current		65,820,188	42,175,062
		<b>68,377,278</b>	<b>44,412,167</b>



**21(a) Trade receivables**

*In thousands of naira*

		<b>2019</b>	<b>2018</b>
Receivables from third-party customers		21,214,923	18,897,443
Allowance for expected credit losses	30(a)(ii)	<u>(4,211,748)</u>	<u>(3,705,991)</u>
		<u>17,003,175</u>	<u>15,191,452</u>

The Company's exposure to credit and market risks, and impairment losses related to trade and other receivables are disclosed in Note 31.

For terms and conditions relating to related party receivables, refer to Note 34.

**22 Cash and cash equivalents**

*In thousands of naira*

		<b>2019</b>	<b>2018</b>
Cash and bank balances		2,676,520	10,898,112
Short term investment		4,301,551	4,863,924
Cash and cash equivalents in the statement of financial position		<u>6,978,071</u>	<u>15,762,036</u>
Bank overdrafts used for cash management purposes		<u>(2,736,058)</u>	<u>(1,393,678)</u>
Cash and cash equivalents in the statement of cash flows		<u>4,242,013</u>	<u>14,368,358</u>

The Company's exposure to credit risk for cash and cash equivalents and impairment losses related to short-term investment are disclosed in Note 31.

**23 Capital, reserves and dividends**

**(a) Ordinary shares**

**(i) Authorised ordinary shares of 50k each**

*In number of shares*

	<b>2019</b>	<b>2018</b>
At 31 December	<u>792,656,252</u>	<u>792,656,252</u>

**(ii) Issued and fully paid ordinary shares of 50k each**

*In number of shares*

	2019	2018
At 31 December	792,656,252	792,656,252

Nominal value (In thousands of naira)

	396,328	396,328
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Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company.

**(iii) Share premium**

*In thousands of Naira*

	2019	2018
The premium on the 792,656,252 ordinary shares of 50 kobo each is as follows:		
Share premium	32,262	32,262

**(iv) Share based payment reserves**

The Company's ultimate holding company, Nestlé Switzerland (Nestlé S.A.) operates an Equity Incentive Scheme for its management employees around the world known as the Performance Share Unit Plan (PSUP). Under the PSUP, Nestlé S.A. awards Performance Stock Units (PSU) to employees that entitle participants to receive freely disposable Nestlé S.A. shares or an equivalent amount in cash at the end of a three-year restriction period.

**Terms and conditions of the Restricted Share Unit Plan**

The terms and conditions relating to the grants of the PSUP are as follows;

<b>Grant date/employees entitled</b>	<b>Number of instruments</b>	<b>Vesting Conditions</b>
Shares awarded to key management on 1 March 2017	3,442	3 years' service
Shares awarded to key management on 1 March 2018	4,028	3 years' service
Shares awarded to key management on 1 March 2019	3,771	3 years' service

The fair value of the PSU is determined on the basis of the market price of Nestlé S.A. shares at grant date, adjusted for the present value of dividends that participants are not entitled to receive during the restricted period of 3 years. The weighted average fair value at the date of exercise of the restricted stock units granted in 2019 is N83,854,817 (2018: N118,500,287)

Total share based payment expense recognised in the profit or loss for the year amounted to N97,398,773 (2018: N80,326,199 ).

The share based payment reserve comprises the cumulative weighted average fair value of performance stock unit plan granted to deserving employees which have not vested at the end of the year.

The movement in share based payment is as follows:

<i>In thousands of naira</i>	2019	2018
At 1 January	154,788	147,236
Share based payment contribution	97,100	80,326
Share based payment recharge	(128,812)	(72,774)
At 31 December	123,076	154,788

**(b) Dividends**

(i) The following dividends were declared by the Company during the year:

	<b>2019</b>		<b>2018</b>	
	<b>Per Share (N)</b>	<b>N'000</b>	<b>Per Share (N)</b>	<b>N'000</b>
Final dividend	38.50	30,517,266	27.50	21,798,046
Interim dividend	25.00	19,816,406	20.00	15,853,126
	<b>63.50</b>	<b>50,333,672</b>	<b>47.50</b>	<b>37,651,172</b>

Total dividends represents the interim dividend declared during the year plus the final dividend proposed for the preceding year, but declared in the current year.

After the respective reporting dates, the following dividends were proposed by the board of directors. The dividends have not been recognised as liabilities and there are no tax implications.

	<b>2019</b>	<b>2018</b>
Naira per qualifying ordinary share	N45.00	N38.50

**(ii) Movement in dividend payable**

<i>In thousands of naira</i>	<b>Notes</b>	<b>2019</b>	<b>2018</b>
At 1 January		5,574,373	12,554,561
Declared dividend		50,333,672	37,651,172
Unclaimed dividend transferred to retained earnings		(19,415)	(77,165)
Payments		(49,003,305)	(44,554,195)
At 31 December	28	<b>6,885,325</b>	<b>5,574,373</b>

As at 31 December 2019, N2.691 billion (2018: N2.154 billion) of the total dividend payable is held with the Company's registrar, Greenwich Registrars and Data Solutions Limited Registrars Nigeria Limited. The balance of 4.194 billion represents unclaimed dividend (2018: N3.420 billion) which was returned to the Company by the Registrar and has been invested in treasury bills.

**24 Loans and borrowings**

(a) This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For information about the

Company's exposure to interest rate, foreign currency and liquidity risks, see note 31.

Loans and borrowing as at 31 December is as follows:

<i>In thousands of naira</i>	<b>2019</b>	<b>2018</b>
Unsecured bank loans	4,896,294	1,347,399
Loans from related party	5,578,994	5,600,553
	<b>10,475,288</b>	<b>6,947,952</b>

Loans and borrowings are analysed into short and long term liabilities based on the time the repayment obligation falls due as follows:

	<b>2019</b>	<b>2018</b>
Current liabilities	4,958,904	1,026,458
Non-current liabilities	5,516,384	5,921,494
	<b>10,475,288</b>	<b>6,947,952</b>

**Terms and debt repayment schedule**

(b) Terms and conditions of outstanding loans were as follows:

<i>In thousands of naira</i>	Notes	Currency	Nominal interest rate	Year of maturity	2019		2018	
					Face Value	Carrying amount	Face Value	Carrying amount
Loan from related party	(i)	USD	LIBOR + 7.83%	2024	5,578,994	5,578,994	5,600,553	5,600,553
Unsecured bank loan	(ii)	NGN	11.25%	2020	4,500,000	4,500,000		
Unsecured bank loan	(iii)	NGN	10%	2020	396,294	396,294	1,347,399	1,347,399
<b>Total Interest bearing liabilities</b>					<b>10,475,288</b>	<b>10,475,288</b>	<b>6,947,952</b>	<b>6,947,952</b>

The bank loans are secured by a negative pledge on the Company's assets in line with their relative exposures.

- (i) An additional US\$ 30 million was approved for the Company by Nestle S.A. in 2017 of which only US\$15.2 million was drawn down as at 31 December, 2017. The loan has tenor of 7 years (inclusive of moratorium period of 2 years on interests payment only) commencing from April 2017. The facility which is unsecured attracts interest at 3 months USD Libor plus a margin of 783 basis points.
- (ii) A working capital loan facility of NGN 10 billion was obtained from Stanbic IBTC bank in December 2019 with a tenure of three months. The loan was fully drawn down whilst NGN 5.5 billion out of it was repaid before 31 December 2019.
- (iii) A N5.7 billion facility under the Bank of Industry (BOI) Scheme with a tenure of 7 years (inclusive of a moratorium period of 1 year on principal only) commencing from May 2013. The facility was priced at 10.0%. The facility was fully drawn down in 2013.

(c) Reconciliation between opening and closing balances of the loan and borrowings is shown below

	2019	2018
<b>At 1 January</b>	6,947,952	20,477,910
Addition	10,000,000	-
Repayment -- Intercompany loan	(75,353)	(12,543,788)
Repayment -- Bank loan	(6,451,105)	(1,114,742)
Accrued Interest	62,610	75,353
Exchange (Gain) loss	(8,816)	53,219
<b>At 31 December</b>	<b>10,475,288</b>	<b>6,947,952</b>
Analysed as follows		
Current	4,958,904	1,026,458
Non-Current	5,516,384	5,921,494
	<b>10,475,288</b>	<b>6,947,952</b>

## 25 Employee Benefits

### Other long term employee benefits

Other long term employee benefits represents the present value of unfunded long service award given to deserving members of staff of the Company.

The movement in the present value of the other long term employee benefits during the year was as follows:

#### *In thousands of Naira*

	2019	2018
Balance at 1 January	2,700,673	2,275,921
Expense for the year	2,000,074	699,084
Payments during the year	(392,820)	(274,332)
Balance at 31 December	<u>4,307,927</u>	<u>2,700,673</u>

#### Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages) fall under three broad categories. These assumptions depict management's estimate of the likely future experience of the Company.

#### Financial Assumptions

	2019	2018
Long term average Discount rate (p.a.)	11%	16%
Average Pay Increase (p.a.)	12%	12%
Benefit awards inflation (p.a)	7%	-

In prior years, the increase in non-salaried benefits was held constant however this was adjusted in 2019 by 7% based on the Company's estimated inflation on these benefits.

#### Demographic assumptions

Assumptions regarding future mortality are based on published statistics and mortality tables.

##### Mortality in Service

The rates of mortality assumed for employees are the rates published in the A67/70 Ultimate Tables, published jointly by the Institute and Faculty of Actuaries in the UK. This is due to unavailability of published reliable demographic data in Nigeria.

Sample age	Number of deaths in year out of 10,000 lives	
	2019	2018
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

##### Withdrawal from Service

Withdrawal from service means retirement; voluntary or compulsory disengagement from service.

Age Band	Rate	
	2019	2018
Less than or equal to 30	1.0%	4.0%
31-34	2.0%	4.0%
35 – 39	4.0%	3.0%
40 – 54	7.0%	2.0%
55 – 59	2.0%	1.0%

#### Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the employee benefit obligation by the amount shown below.

#### 31 December 2018

*Effect in thousands of Naira*

	<b>Employee benefit obligation</b>	
	Increase	Decrease
Benefit awards inflation (1% movement)	33,684	(30,560)
Discount Rate (1% movement)	(273,421)	307,518
Future salary growth (1% movement)	289,752	(261,600)
Mortality Experience (1 year movement)	(123,465)	133,985

The table below indicates the maturity profile for defined benefit obligations:

*In thousands of Naira*

	<b>2019</b>
Within the next 12 months (next annual reporting period)	408,304
Between 2 and 5 years	1,495,884
Beyond 5 years	3,364,887
Total expected payments	<b>5,269,075</b>

#### 26 Pension payable

The balance on the pension payable account represents the amount due to the Pension Fund Administrators which is yet to be remitted at the year end. The movement on this account during the year was as follows:

*In thousands of Naira*

	<b>2019</b>	<b>2018</b>
Balance at 1 January	11,790	15,266
Charged for the year	2,417,403	2,244,733
Payments during the year	(2,397,353)	(2,248,209)
Balance at 31 December	<b>31,840</b>	<b>11,790</b>

Pension Payable is included in other payables and accruals in Note 29

#### 27 Provisions

*In thousands of naira*

#### Tax

Provisions represent management's estimate of the Company's probable exposure to tax and other liabilities at the end of the year.

	<b>2019</b>	<b>2018</b>
Balance at 1 January	1,208,920	898,868
Provisions made during the year	414,384	422,284
Provisions used during the year	(65,744)	(112,232)
Balance at 31 December	<b>1,557,560</b>	<b>1,208,920</b>
Current	<b>1,557,560</b>	<b>1,208,920</b>

## 28 Trade and other payables

*In thousands of naira*

	<i>Note</i>	<b>2019</b>	<b>2018</b>
Trade payables		47,210,454	27,086,058
Other payables and accruals		18,532,514	15,926,161
Trade payables due to related parties	32(e)(i)	5,771,765	11,797,862
Dividend payable	23(b)(ii)	6,885,325	5,574,373
		<u>78,400,058</u>	<u>60,384,454</u>

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

## 29 Contract Liabilities

Certain liabilities arose as a result of the Company's contract with the Customers in line with IFRS 15 as analysed below.

	<b>2019</b>	<b>2018</b>
<i>In thousands of naira</i>		
Customer's down payment	1,522,255	1,154,109
Trade incentives	4,452,144	2,704,684
	<u>5,974,399</u>	<u>3,858,793</u>

## 30 Financial Instruments

### (a) Financial Risk Management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk (see (a)(ii))
- liquidity risk (see (a)(iii))
- market risk (see (a)(iv))
- operational risk (see (a)(v))

### (i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to both senior Management and the Audit Committee.

**(II) Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

The Company's principal exposure to credit risk is influenced mainly by the individual characteristics of each customer.

In order to minimise credit risk, the Company has tasked its Credit Management Committee to develop and maintain the Company's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the Credit Management Committee uses other publicly available financial information and the Company's own trading records to rate its major customers and other debtors. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Management has established a customer/distributor activation process under which each new customer is analysed individually for credit worthiness before the Company's distributorship agreement standard payment and delivery terms and conditions are offered to seal the distributorship arrangement. The Company's review includes external ratings, when available, and in some cases bank references.

Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the National Sales Manager (NSM); these limits are reviewed quarterly. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a cash or prepayment basis. The Company's payment and delivery terms and conditions offered to customers provide various credit limits based on individual customers.

The Company also initiated a financing tripartite agreement with the Company's bankers and some selected customers. The objective of this agreement is to ensure consistent cash inflow from customers for goods purchased. The Company's most significant customers have been activated on this financing scheme for over two years and this has reduced losses incurred on trade receivables.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

Trade and other receivables relate mainly to the Company's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the commercial manager, and future sales are made on a cash or prepayment basis.

The Company has no significant concentration of credit risk, with exposure spread over a large number of parties. Cash and cash equivalents are placed with banks and financial institutions which are regulated.

The Company has an order approval matrix which provides guidelines for the various approval authorisation limits for customers, based on the risk grading of the customer and the percentage by which the customer exceeds his credit limit. The approval responsibility is allocated to the Financial Accounting Manager, Finance and Control Director and other Senior officials.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Credit risk from balances with banks and financial institutions is managed by Nestle Treasury Center in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed periodically, and may be updated at any point in the year subject to approval of the Asset and Liability Management Committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The carrying amount of financial assets represents the maximum credit exposure.



i Exposure to credit risk

The maximum exposure to credit risk at the reporting date was:

<i>In thousands of naira</i>	<i>Note</i>	<b>Carrying amount</b>	
		<b>2019</b>	<b>2018</b>
Trade and other receivables	21	26,085,324	22,362,865
Cash	22	6,978,071	15,762,036
		<b>33,063,395</b>	<b>38,124,901</b>

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counterparty was:

<i>In thousands of naira</i>	<i>Note</i>	<b>Carrying amount</b>	
		<b>2019</b>	<b>2018</b>
Distributors	21	17,003,175	15,191,452
Related parties	21	3,525,020	2,533,699
Loans to key management personnel	21	32,662	17,181
Staff loans and advances	21	2,833,807	2,469,219
Registrar	21	2,690,660	2,154,383
		<b>26,085,324</b>	<b>22,365,934</b>

The Company's most significant customer accounts for N920.5million (2018: N714 million) of the trade and other receivables carrying amount at 31 December 2019 .

ii Impairment losses

*Trade receivables*

For trade receivables, the Company applied the simplified approach in computing ECL. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses (ECL). The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 30(ii). The Company does not hold collateral as security.

Set out below is the information about the credit risk exposure on the Company's trade receivables as at 31 December 2019 using a provision matrix:

**31 December 2019**

31 December 2019

	Trade receivables						
	Days past due						
<i>In thousands of naira</i>	Current	1-30 days	30 -60 days	61 - 90 days	91 - 120 days	>120 days	Total
Expected credit loss rate	0.4%	0.4%	30.0%	70.0%	80.0%	100.0%	
Estimated total gross carrying amount at default	10,838,966	5,554,909	854,281	122,547	220,630	3,623,590	21,214,923
Expected credit loss	(47,124)	(22,109)	(256,284)	(85,937)	(176,704)	(3,623,590)	(4,211,748)
	<b>10,791,842</b>	<b>5,532,800</b>	<b>597,997</b>	<b>36,610</b>	<b>43,926</b>	<b>-</b>	<b>17,003,175</b>

**31 December 2018**

31 December 2018

	Trade receivables						
	Days past due						
<i>In thousands of naira</i>	Current	1-30 days	30 -60 days	61 - 90 days	91-120 days	>120 days	Total
Expected credit loss rate	0.1%	0.1%	0.1%	50.4%	75.6%	100.0%	
Estimated total gross carrying amount at default	9,914,792	5,098,978	166,779	31,428	63,450	3,622,016	18,897,443
Expected credit loss	(13,242)	(6,721)	(217)	(15,847)	(47,947)	(3,622,016)	(3,705,989)
	<b>9,901,550</b>	<b>5,092,257</b>	<b>166,562</b>	<b>15,581</b>	<b>15,503</b>	<b>-</b>	<b>15,191,453</b>

Set out below is the movement in the allowance for expected credit losses of trade receivables:

<i>In thousands of Naira</i>	2019	2018
Balance as at 1 January 2019	3,705,991	3,534,022
Provision for expected credit losses	544,657	199,860
Write-off	(38,900)	(27,891)
Changes in credit risk parameters	-	-
Balance at 31 December 2019	<b>4,211,748</b>	<b>3,705,991</b>

The impairment loss as at 31 December 2019 relates to several customers that are not expected to be able to pay their outstanding balances, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due are still collectible, based on historical payment behavior and extensive analysis of the underlying customers' credit ratings. The impairment loss is included in administrative expenses.

Write offs are made based on management's assessment that all realistic prospects of recovery have been explored. They may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

### (III) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

#### 31 December 2019

*In thousands of naira*

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Secured bank loans	4,896,294	4,896,294	(4,896,294)	(396,294)	-	-	-
Unsecured intercompany loans	5,578,994	5,578,994	-	-	-	(5,578,994)	-
Trade and other payables	78,400,058	78,400,058	(78,400,058)	-	-	-	-
	<b>88,875,346</b>	<b>88,875,346</b>	<b>(83,296,352)</b>	<b>(396,294)</b>	<b>-</b>	<b>(5,578,994)</b>	<b>-</b>

#### 31 December 2018

*In thousands of naira*

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Secured bank loans	1,347,399	1,347,399	(475,553)	(475,553)	(396,294)	-	-
Unsecured intercompany loans	5,600,553	5,600,553	-	-	-	(5,600,553)	-
Trade and other payables	60,384,454	60,384,454	(60,384,454)	-	-	-	-
	<b>67,332,406</b>	<b>67,332,406</b>	<b>(60,860,007)</b>	<b>(475,553)</b>	<b>(396,294)</b>	<b>(5,600,553)</b>	<b>-</b>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### Sensitivity analysis

A strengthening of the Naira, as indicated below, against the Euro and US Dollar at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed for USD and Euro being the most significant currency risk the Company is exposed to and on the same basis for 2018, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

<i>Effect in thousands of Naira</i>	<b>Equity</b>	<b>Profit or loss</b>
<b>31 December. 2019</b>		
Euro (10 percent strengthening)	(1,023,278)	(1,023,278)
USD (10 percent strengthening)	(1,048,332)	(1,048,332)
<b>31 December. 2018</b>		
Euro (10 percent strengthening)	(868,971)	(868,971)
USD (10 percent strengthening)	(828,158)	(828,158)

#### ii Interest rate risk

The Company adopts a policy of ensuring that a significant element of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into loan arrangements with mixed interest rate sources. Variable interest rates are marked against the ruling LIBOR rates to reduce the risk arising from interest rates.

Interest rate risk comprises interest price risk that results from borrowings at fixed rates and the interest cash flow risk that results from borrowings at variable rates. The Board of Directors is responsible for setting the overall duration and interest management targets. The Company's objective is to manage its interest rate exposure through careful borrowing profiling and use of heterogeneous borrowing sources.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

<i>In thousands of Naira</i>	<b>Carrying Amount</b>	
	<b>2019</b>	<b>2018</b>
<b>Fixed rate instruments</b>		
Financial assets	4,301,551	4,863,924
Financial liabilities	4,896,294	1,347,399
	<b>9,197,845</b>	<b>6,211,323</b>
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	5,578,994	5,600,553
	<b>5,578,994</b>	<b>5,600,553</b>

Fair value sensitivity analysis for fixed rate instruments.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2018.

	<b>Profit or loss</b>		<b>Equity</b>	
	<b>100 BP</b>	<b>100 BP</b>	<b>100 BP</b>	<b>100 BP</b>
	<b>increase</b>	<b>decrease</b>	<b>increase</b>	<b>decrease</b>
<b>31 December 2019</b>				
Variable rate instruments	(55,790)	55,790	(55,790)	55,790
Cash flow sensitivity (net)	(55,790)	55,790	(55,790)	55,790
<b>31 December 2018</b>				
Variable rate instruments	(56,006)	(56,006)	(56,006)	(56,006)
Cash flow sensitivity (net)	(56,006)	(56,006)	(56,006)	(56,006)

#### (V) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risks is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for the appropriate segregation of duties, including the authorisation of transactions
- requirements for the reconciliations and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remediation action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance when it is effective

Compliance with the Company's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

**(b) Determination of fair values**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(I) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value for short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and for disclosure purposes, at each annual reporting date.

**(II) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**(III) Share-based payment transactions**

The fair value of the restricted stock unit plan is measured based on market prices of the awarded shares on the grant date adjusted for the present value of dividends that participants are not entitled to receive during the restricted period of 3 years.

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

**Assets measured at fair value**

There are no financial assets and liabilities that are carried at fair value. As such the fair value hierarchy has not been disclosed.

**Financial assets measured at amortized cost**

*In thousands of naira*

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Long term receivables	2,557,090	2,557,090	2,237,105	2,237,105
Loans and receivables	23,528,234	23,528,234	20,125,760	20,125,760
Cash Balance	6,978,071	6,978,071	15,762,036	15,762,036
	<b>33,063,395</b>	<b>33,063,395</b>	<b>38,124,901</b>	<b>38,124,901</b>

*In thousands of naira*

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities measured at amortized cost</b>				
Unsecured intercompany loan	5,578,994	5,578,994	5,600,553	5,600,553
Secured bank loans	4,896,294	4,896,294	1,347,399	1,347,399
Bank overdraft	2,736,058	2,736,058	1,393,678	1,393,678
Trade and other payables	78,400,058	78,400,058	60,384,454	60,384,454
	<u>91,611,404</u>	<u>91,611,404</u>	<u>68,726,085</u>	<u>68,726,085</u>

The fair value of the financial assets and liabilities are determined based on level 3 inputs of the fair value hierarchy. At year end, the carrying amounts of loans and receivables and trade and other payables reasonably estimated their fair values.

**(c) Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company's debt to capital ratio at the end of the reporting period was as follows:

*In thousands of naira*

	2019	2018
Total liabilities	147,816,685	112,113,936
Cash Balance	(6,978,071)	(15,762,036)
Net Debt	<u>140,838,614</u>	<u>96,351,901</u>
Total Equity	45,557,630	50,220,486
Debt to capital ratio at December 31	<u>3.09</u>	<u>1.92</u>

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

**(IV) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company manages market risks by keeping costs low to keep prices within profitable range, foreign exchange risks are managed by maintaining foreign denominated bank accounts and keeping Letters of Credit (LC) facility lines with the Company's bankers. Also interest rates are benchmarked to NIBOR (for local loans) and LIBOR (for foreign denominated loans) with a large margin thereof at fixed rates while not foreclosing the possibility of taking interest rate hedge products should there be need to do so. The Company is not exposed to any equity risk.

**i Currency risk**

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of Company, primarily the Naira. The currencies in which these transactions primarily are denominated are Euro, US Dollars (USD), Pounds Sterling (GBP) and Swiss Francs (CHF). The currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

The Company monitors the movement in currency rates on an ongoing basis to mitigate the risk that the movements in the exchange rates may adversely affect the Company's income or value of their holdings of financial instruments.

The Company manages the transactional exposures in accordance with specific principles which are in line with the Company's business needs. These include balancing the sources of financial instruments. Exchange difference recorded in the statement of comprehensive income represented a gain of N6.5 million ( 2018: N96.1 million). They are allocated to the appropriate headings of expenses by function.

Financial instruments analysed by currency is as follows

- USD
- Euro Euro
- GBP Pounds Sterling
- ZAR South African Rand
- SGD Singaporean Dollar
- XOF Ivorian CFA
- CHF Swiss Franc
- JPY Japanese Yen



*Amounts in thousands*

31 December 2019										
	NGN	Euro	USD	CHF	XOF	ZAR	SGD	GBP	GHS	XAF
Unsecured intercompany loans	-	-	(15,373)	-	-	-	-	-	-	-
Amount due from related parties	954,331	4,559	1,369	83	-	-	-	-	-	-
Amount due to related parties	(2,826,495)	(5,734)	3,003	(4,129)	(298,598)	(1,527)	(52)	75	-	(9,573)
Trade payables	(29,332,843)	(23,986)	(17,885)	(470)	(11,663)	-	-	(59)	-	(3,778)
Net exposure	(31,205,007)	(25,161)	(28,886)	(4,516)	(310,261)	(1,527)	(52)	16	-	(3,778)

*Amounts in thousands*

31 December 2018									
	NGN	Euro	USD	CHF	XOF	ZAR	SGD	GBP	GHS
Unsecured intercompany loans	-	-	(15,200)	-	-	-	-	-	-
Amount due from related parties	80,485	2,960	3,269	-	-	-	-	16	-
Amount due to related parties	(93,842)	(14,130)	(14,103)	(1,544)	-	-	-	(6)	(20,466)
Trade payables	(22,071,658)	(13,604)	(985)	(1,133)	(1,285,315)	-	-	(88)	-
Net exposure	(22,085,016)	(24,774)	(27,020)	(2,677)	(1,285,315)	-	-	(77)	(20,466)

The significant exchange rates applied during the year is as follows:

Euro  
United states dollar (USD)

Average rate		Year end spot rate	
2019	2018	2019	2018
404.93	426.62	406.69	415.84
361.49	361.92	362.92	363.50

### 31 Contingencies

#### (a) Pending litigation and claims

The Company is engaged in lawsuits that have arisen in the normal course of business. The contingent liabilities in respect of these pending litigations amounted to N289 million as at 31 December 2019 (2018: N514 million). While the contingent assets in respect of pending litigations amounted to N782 million for the year ended 2019(2018:N584 million), 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 claims. Thus no provision has been made in these financial statements.

#### (b) Financial commitments

In the normal course of business, the company uses letters of credit to import materials. The total value of open letters of credit as at 31 December was N163.4 million (2018: N354.8 million). The Company also obtained a bank guarantees with a value of N559.8 million (2018: N423.1 million).

### 32 Related parties

#### (a) Parent and ultimate controlling party

As at the year ended 31 December 2019, Nestlé Switzerland (Nestlé S.A.), the ultimate holding Company owned 66.18% (2018: 66.18%) of the issued share capital of Nestlé Nigeria Plc.

#### (b) Transactions with related parties

##### General License Fee Agreement

Nestlé Nigeria Plc has a general license fee agreement with Societe Des Produits Nestlé S.A., for the provision of technical and other support services. The agreement was made with the approval of the National Office for Technology Acquisition and Promotion and payments are made to Societe Des Produits Nestlé S.A. The agreement was renewed in 2018 for a period of three (3) years, with effect from January 1, 2018. The technical fee recognised in the current year was N10.737 billion (2018: N9.935 billion). See Note 11a and 11b.

##### Shared Service Agreement

Nestlé Nigeria Plc also has an agreement with Nestlé Central and West Africa Limited (Nestlé CWA) whereby Nestlé CWA provides and charges for certain common shared services to the Company at a service cost. Service cost as defined by the terms of the contract means: all direct and indirect expenses charges, overheads and administration costs reasonably incurred by Nestlé CWA from time to time during the term of the agreement in providing the shared services, plus a 4% on the reimbursable cost of Nestlé Business Services and Operational and Commercial Services as allocated among the various countries in the region. The services provided by Nestlé CWA includes transactionary services as well as planning and management functions.

##### Sourcing of Raw Materials and Finished Products

Additionally, the Company sources part of its raw materials and finished products through companies related to its ultimate holding company, Nestlé S.A., incorporated in Switzerland.

##### Agency and Administration Service Agreement

Nestlé Nigeria Plc has an agreement with Cereal Partners Nigeria Limited (CPNL) for the importation, warehousing and distribution of breakfast cereal. Nestlé Nigeria Plc provides these functions to CPNL and obtains re-imbursement for all costs incurred in respect of these functions.

**(c) Transactions with key management personnel**

**Loan to key management personnel**

New loan of N29.0 million was issued to key management personnel during the year ended 31 December 2019 (2018: N10.4 million) which include interest and non-interest bearing facilities and the loans are repayable in full over the agreed repayment period which could be short or long term. As at 31 December 2019, the balance outstanding was N32.7 million (2018: N17.1 million) and is included in trade and other receivables. (See note 22)

**(d) Key management personnel compensation**

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined contribution plan on their behalf. In accordance with the terms of the plan, directors and executive officers are entitled access to the fund when they retire.

Executive officers also participate in the Company's long service awards programme. This programme awards a certain sum of cash benefit which accrues to the recipient on graduated periods of uninterrupted service.

Key management personnel compensation comprised:

<i>In thousands of naira</i>	<b>2019</b>	<b>2018</b>
Short-term employee benefits	189,796	135,841
Contribution to compulsory pension fund scheme	9,860	8,567
Defined contribution gratuity scheme	11,413	9,456
Other long term benefit	-	17,934
Share based payments	128,812	72,774
	<b>339,881</b>	<b>244,572</b>

**(e) Other related party transactions**

Amount due to other related companies represents balances due on current accounts maintained with companies in the Nestlé Group for the importation of Property, plant and equipment (PPE), raw materials, finished products and services. The aggregate value of transactions and outstanding balances relating to these entities were as follows;

**(i) Intercompany payables**

<i>In thousands of naira</i>	<b>Nature of transaction</b>	<b>Transaction value Year ended 31</b>		<b>Balance outstanding as at 31</b>	
		<b>December</b>		<b>December</b>	
<b>Related Party</b>		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Nestlé Ghana Limited	Finished goods	1,528,315	2,001,528		811,516
Nestlé World Trade Corporation Limited	PPE/ Services	23,717,712	5,964,140	18,309	-
Nestlé Netherlands	Finished goods	2,604,904	-	861,728	1,905,122
Nestlé France Limited	Finished goods	114,764	698,045	516,852	980,819
Societe Des Produits Nestlé S.A	Services	9,200,611	8,626,137	2,966,832	3,515,539
Nestlé Central and West Africa	Services	6,484,353	6,596,605	1,214,744	1,694,434
Wyeth Nutritional Singapore	Finished Goods	944,136	1,785,706		1,305,650
Others		9,720,719	7,967,831	193,300	1,584,782
		<b>54,315,514</b>	<b>33,639,993</b>	<b>5,771,765</b>	<b>11,797,862</b>

Amount due from other related companies represents balances due on current accounts maintained with companies within the Nestlé Group for the export of finished goods and provision of services. Prior year amounts have been regrouped to align with current year presentation. This does not have any impact on the results. The aggregate value of transactions and outstanding balances relating to these entities were as follows;

**(ii) Intercompany receivables**

*In thousands of naira*

Related Party	Nature of transaction	Transaction value Year ended 31 December		Balance outstanding as at 31 December	
		2019	2018	2019	2018
Nestlé Burkina	Finished goods and Services	3,477,805	1,729,361	1,823,672	1,354,744
Nestlé Togo	Finished goods and Services		66,463	-	-
Nestlé Ghana	Finished goods and Services	2,053,595	1,686,124	459,614	136,881
Nestlé Niger	Finished goods and Services		1,481,007		110,781
Nestlé Senegal	Finished goods and Services	3,630	11,221	9,243	-
Nestlé Cameroun	Finished goods and Services	10,583	9,558	25,052	-
Nestlé Middle East	Services	-	-		27,848
CP Nigeria	Services	116,831	263,865	756,520	617,814
Others	Finished goods and Services	833,825	208,809	450,919	285,631
		<b>6,496,269</b>	<b>5,456,408</b>	<b>3,525,020</b>	<b>2,533,697</b>

All outstanding balances with these related parties are to be settled in cash within six months of the reporting date. None of these balances are secured nor interest bearing.

**(iii) Nestlé Nigeria Trust (CPFA) Limited**

Nestlé Nigeria Trust (CPFA) Limited ('NNTL') previously called Nestlé Nigeria Provident Fund Limited, was incorporated by the Company and is a duly registered Closed Pension Fund Administrator whose sole activity is the administration of the pension and defined contribution gratuity scheme for both employees and former employees of Nestlé Nigeria Plc.

Nestlé Nigeria Trust (CPFA) Limited is an unconsolidated structured entity licensed by the National Pension Commission (PENCOM) to conduct the business of a closed pension fund administrator. The activities of Nestlé Nigeria Trust (CPFA) Limited are regulated by the National Pension Commission (PENCOM) rather than by voting rights and the funds are managed in accordance with the PENCOM guidelines. The benefits arising from the activities of Nestlé Nigeria Trust (CPFA) Limited accrue principally to members of the provident, pension and defined contribution gratuity schemes and the company has no exposures to variable returns arising from its involvement.

The Company's residual interest in Nestlé Nigeria Trust (CPFA) Limited is immaterial. The funds and assets of the provident, pension are held by an independent licensed pension fund custodian in line with the Pension Reform Act, 2004.

The company supports the sourcing of resources to Nestlé Nigeria Trust (CPFA) Limited and intends to continue to provide support into the future.

**33 Going Concern**

The financial statements have been prepared on a going concern basis which assumes the Company will be able to realise its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company's Current Liabilities were higher than the Current Assets as at 31 December 2019. This is owing to management's efforts to minimize stock covers and receivables. The Company has an open and unutilized credit line of NGN 24.9 billion which can be used as at 31st December 2019

**34 Events after the reporting date**

There are no significant subsequent events which could have had a material effect on the state of affairs of the Company as at 31 December 2019 that has not been adequately provided for or disclosed in the financial statements.

## **Other National Disclosures**

## Value Added Statement

*In thousands of naira*

	<u>2019</u>	%	<u>2018</u>	%
Revenue	284,035,255		266,274,621	
Brought in materials and services				
- Local	(80,363,348)		(93,662,012)	
- Imported	(98,221,869)		(77,110,471)	
	<u>105,450,038</u>		<u>95,502,138</u>	
Finance Income	1,328,872		1,716,889	
Value Added	<u><b>106,778,910</b></u>	<u><b>100</b></u>	<u><b>97,219,027</b></u>	<u><b>100</b></u>
Distribution of Value Added:				
To Employees:				
- Employees as wages and salaries and end of service benefits	25,937,349	24	23,506,644	24
To Providers of Finance:				
- Finance Costs	2,267,094	2	2,606,774	3
- Company tax	24,358,033	23	15,726,711	16
Retained in the business:				
- Depreciation of tangible assets	7,450,643	7	6,906,287	7
- Deferred tax	1,082,678	1	1,016,109	1
- Impairment loss on tangible assets	0	-	4,448,476	5
- Profit transferred to reserves	45,683,113	43	43,008,026	44
	<u><b>106,778,910</b></u>	<u><b>100</b></u>	<u><b>97,219,027</b></u>	<u><b>100</b></u>

“Value added” is the measure of wealth the company has created in its operations by “adding value” to the cost of products and services. The statement above summarises the total wealth created and shows how it was shared by employees and other parties who contributed to its creation. Also set out above is the amount retained and re-invested in the company for the replacement of assets and the further development of operations.

## Financial Summary

<i>In thousands of naira</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Funds Employed</b>					
Share Capital	396,328	396,328	396,328	396,328	396,328
Share Premium	32,262	32,262	32,262	32,262	32,262
Share based payment reserve	123,076	154,788	147,236	126,480	150,466
Retained Earnings	45,005,964	49,637,108	44,302,351	30,323,005	37,428,018
Shareholder's Fund	45,557,630	50,220,486	44,878,177	30,878,075	38,007,074
Current Liabilities	125,535,430	92,117,501	79,680,495	121,033,434	59,731,857
Non-current Liabilities	22,281,255	19,996,435	22,245,456	17,674,423	21,476,122
	<b>193,374,314</b>	<b>162,334,422</b>	<b>146,804,128</b>	<b>169,585,932</b>	<b>119,215,053</b>
<b>Asset Employed</b>					
Non Current assets	86,336,830	79,600,105	74,299,175	71,849,777	70,500,367
Current assets	107,037,484	82,734,317	72,504,953	97,736,155	48,714,686
	<b>193,374,314</b>	<b>162,334,422</b>	<b>146,804,128</b>	<b>169,585,932</b>	<b>119,215,053</b>

<i>In thousands of naira</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>	284,035,255	266,274,621	244,151,411	181,910,977	151,271,526
Profit before income tax	71,123,824	59,750,846	46,828,682	21,548,408	29,322,477
Profit for the year	45,683,113	43,008,026	33,723,730	7,924,968	23,736,777
Other comprehensive income, net of tax	-	-	-	-	-
Declared dividend*	50,333,672	37,651,172	19,816,406	15,060,469	21,798,049
Per 50k share data:					
Basic earnings per share	57.63	54.26	42.55	10.00	29.95
Diluted earnings per share	57.63	54.26	42.55	10.00	29.95
Declared dividend per share	63.50	47.50	25.00	19.00	27.50
Net assets per share	57.47	63.36	56.62	38.96	47.95

\* Declared dividend represents the interim dividend declared during the year (N25.00) and final dividend proposed for the preceding year but declared during the current year.

Earnings per share (basic and diluted) are based on profit after taxation and the weighted average number of issued and fully paid ordinary shares at the end of each financial year.

Net assets per share are based on net assets and the weighted average number of issued and fully paid ordinary shares at the end of each financial year.

The financial information presented above reflects historical summaries based on International Financial Reporting Standards.