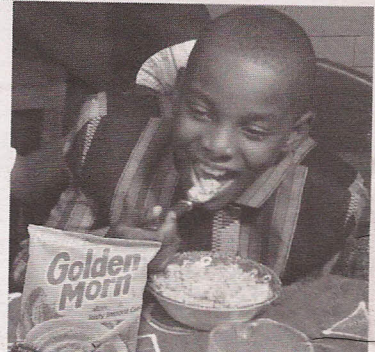
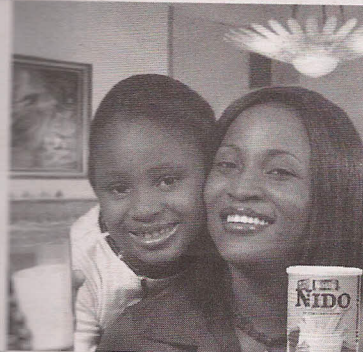
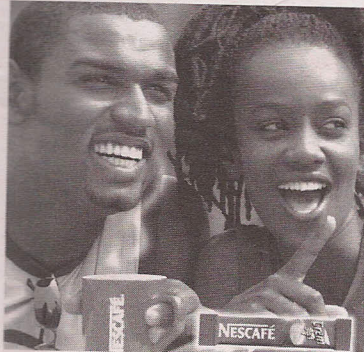


 **Nestlé**
Good Food, Good Life



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Board of Directors:	Chief Olusegun Osunkeye	-	Chairman
	Mr. Klaus P. Wachsmuth (German)	-	Managing Director/Chief Executive
	Mr. Michael W.O. Garrett (British)	-	(Up to 2-5-2005)
	Mr. Roger Stettler (Swiss)	-	(Effective 2-5-2005)
	Mr. Dominique Dupont (Swiss)	-	(Up to 11-11-2005)
	Mr. Alexandre Cantacuzene (French)	-	(Effective 11-11-2005)
	Mr. Jacques Vauthier (Swiss)		
	Mr. David C. Ifezulike		
	Mr. Friedrich Mahler (Swiss)		
	Dr. Fiama D. Mshelia		

Company Secretary: Mr. Solomon O. Folarin

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

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

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

Members of the Audit Committee:	Otunba Thomas B. Adebayo	-	Chairman
	Mrs. Flora O. Abayomi		
	Alhaji Kamorudeen A. Danjuma		
	Mr. Dominique Dupont (Swiss)	-	(Up to 11-11-2005)
	Mr. Alexandre Cantacuzene (French)	-	(Effective 11-11-2005)
	Mr. Jacques Vauthier (Swiss)		
	Dr. Fiama D. Mshelia		

Nestlé Nigeria is part of the Nestlé Group, the respected and trustworthy Food, Nutrition, Health and Wellness Company renowned world-wide for its top quality products. Nestlé Nigeria Plc began simple trading operations in Nigeria in 1961 and has today grown into a leading food manufacturing and marketing company. Nestlé Nigeria Plc was listed on the Nigerian Stock Exchange on April 20, 1979. As at December 2005, the number of Nigerian shareholders was almost 30,000. Today, sixty-two percent of the Company's equity is owned by Nestlé S.A. of Switzerland.

The strategic priorities of the Company are focused on delivering shareholder value through the achievement of sustainable, capital efficient and profitable long-term growth. The company's turnover in year 2005 was N34.34 billion out of which the sum of over N2.60 billion was paid to the Federal Government as income taxes. In year 2005, the company's profit before tax was N7.9 billion and Profit after tax was N5.3 billion.

Nestlé Nigeria has an impressive array of top quality brands: infant cereals - Nestlé NUTREND; Nestlé CERELAC; family cereals - Nestlé GOLDEN MORNING; beverage drink - Nestlé MILK; confectionery - Nestlé CHOCOMILO; bouillon - MAGGI CUBE, MAGGI CHICKEN, MAGGI CRAYFISH, MAGGI MANI CUBE; Sauces - MAGGI MACHOP and table water - Nestlé PURE LIFE. Nestlé Nigeria also markets coffee - NESCAFÉ CLASSIC and NESCAFÉ 3-in-1, and full cream milk product - Nestlé NIDO.

These brands and products are the focus of continuous innovation so that they meet and exceed our consumers' expectations. The Company seeks to achieve a clear-cut advantage over competitors' products and to ensure that its products are available wherever, whenever and however the consumers want them. Continuous attention is also given to developing the professional and leadership skills of staff at all levels so that they can directly contribute to growth and a higher level of performance.

To stimulate industrial growth, the company has a policy of long-term sustainable business practices. Over 75 percent of our raw materials are sourced locally through farmers and suppliers. Our business supports an ever-increasing standard of living

through employment generation, increased income, infrastructure improvements and a growing concern for the interest of the community here in Nigeria.

Nestlé adheres to a comprehensive set of business principles that reflect both the company's commitment to long-term successful business development and the necessity to improve short-term results. Indeed, creating value for shareholders, consumers, employees and business partners as well as the local communities and the national economies in which Nestlé operates is central to Nestlé Corporate Business Principles and Nestlé Management and Leadership Principles.

Nestlé Nigeria fully supports the ten principles of the United Nations Global Compact on human rights, labour, the environment and corruption. Indeed, Nestlé is one of the first companies in Nigeria to support and advance the Global Compact principles within its sphere of influence. All ten principles of the Global Compact are an integral part of the Nestlé Corporate Business Principles, a set of core business principles, which deal with the primary impacts of the Nestlé value chain activities. Nestlé recognizes that it cannot work alone and is building partnerships to address specific social problems that arise in its value chain, in its quest to create shared value for the business and society.

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

In furtherance of its cutting-edge, knowledge-based and multi-stakeholder strategic approach to fight the HIV/AIDS scourge in Nigeria, Nestlé collaborated with the Nigerian Red Cross Society to produce series of educational materials on HIV/AIDS. The first brochure

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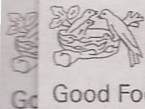
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Nestlé

Good Food, Good Life

Company Profile

Annual Report & Accounts 2005

entitled *HIV/AIDS Questions & Answers* was produced in 2003. The second publication, *NUTRITION and HIV/AIDS: Basic Facts* was launched in 2004 while the third document, *CHILDREN AND HIV/AIDS* was published in 2005.

To further promote through the publications, greater involvement of civil society and ensure proper dissemination and better understanding of HIV/AIDS in the local community, Nestlé published all three brochures in three major Nigerian Languages: Hausa, Yoruba and Igbo. Together with the Nigerian Red Cross Society, the publications were distributed extensively to some key target publics including: Schools; Youth groups; Parents; Counsellors; Community-based Organizations; Peer Educators and Teachers; Network of People living with HIV and AIDS in Nigeria; Faith-Based Organizations; Social Welfare Workers; Home Care Providers and Non Governmental Organizations; Nestlé Employees; Key Business Partners and Customers; Shareholders; Trade and Professional Associations and the Nigeria Business Coalition Against AIDS.

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

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

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

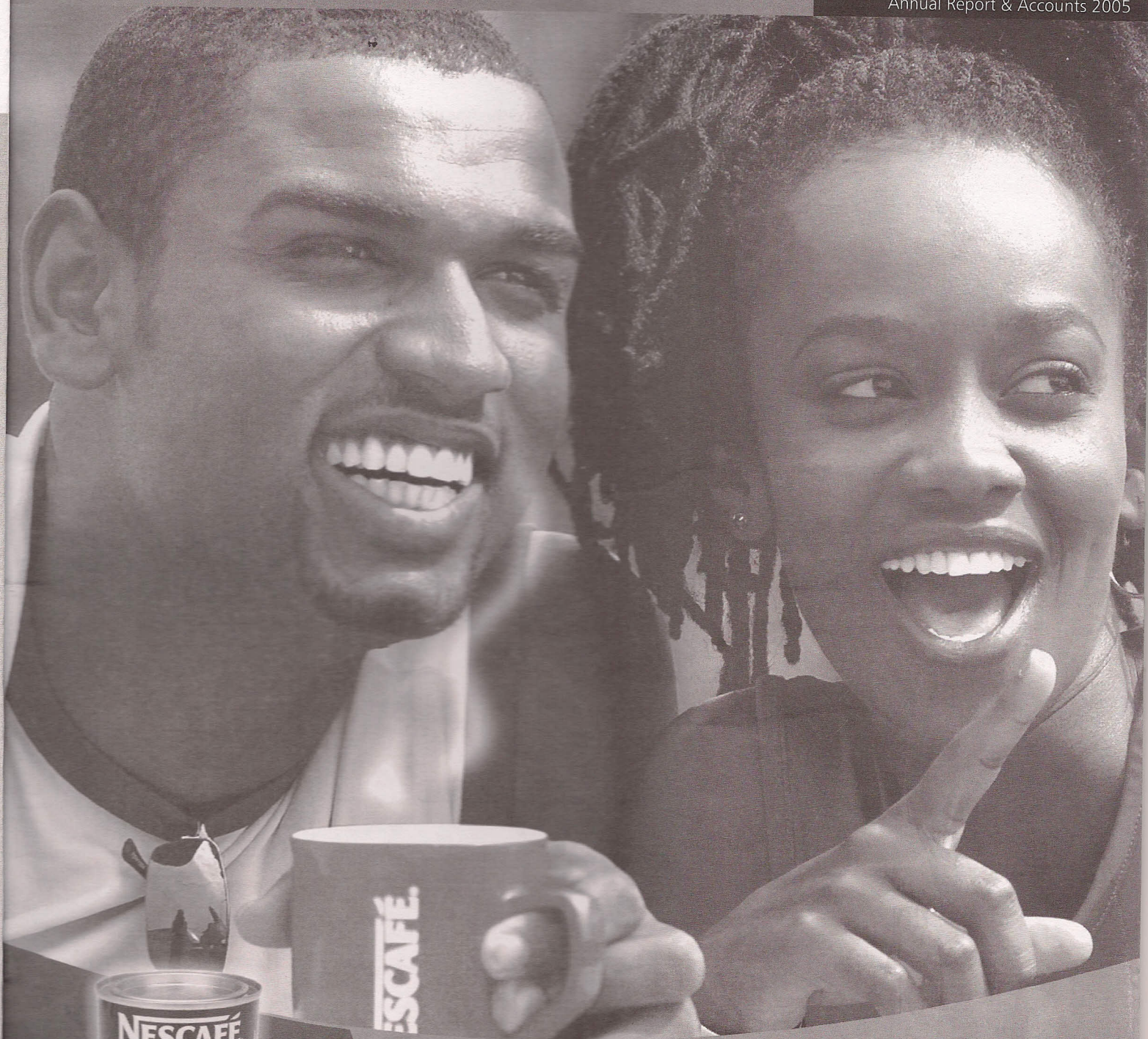
Furthermore, in pursuit of its commitment to nutrition education and awareness in Nigeria, Nestlé aired Nutrition Line on Radio, a five minutes daily nutrition tips.

Also, in furtherance of its commitment to technical education and manpower development in Nigeria, Nestlé donated Ten Million Naira in 2004 to the Institute of Industrial Technology towards the construction and completion of Nestlé Workshop on the Institute's permanent site. Nestlé Nigeria is also sponsoring 15 students every year at the Institute at a cost of ₦150,000.00.

In pursuit of its Sustainable Agriculture Initiative (SAI), Nestlé Nigeria is involved in collaborative research with the University of Agriculture, Abeokuta (UNAAB) on popularization of soyabeans. The Company embarked on an on-the-farm adaptive research with UNAAB, which brought into being a selection of soyabean varieties with improved seed colour, seed size and seed yield. Some local farmers in the southwest region of Nigeria were encouraged to using sustainable farming techniques to plant the improved soyabean varieties. Nestlé donated Six Million Naira to the University of Agriculture, Abeokuta to procure modern soyabean threshing machines.

Nestlé is committed to environmentally sound business practices. The company integrates environmental policies, programmes and practices into each business as an element of management in all its functions. The company strives always to minimize the impact of its operations on the environment through the utilization of packaging and manufacturing processes that are internationally recognized to have minimum impact on the environment.

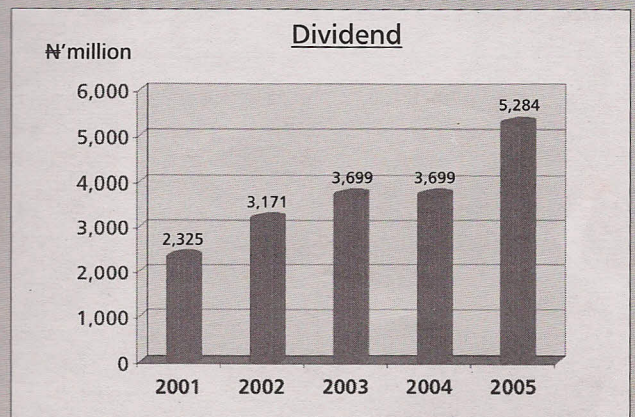
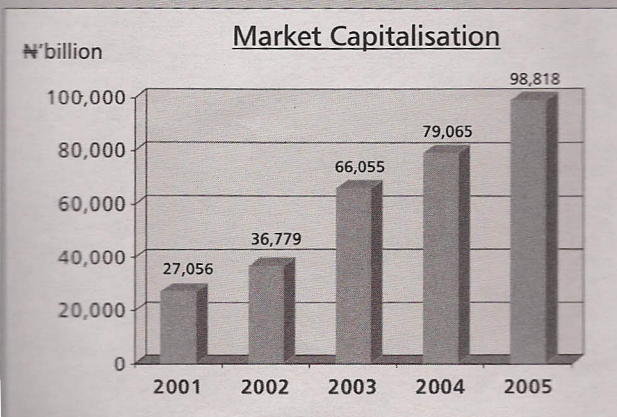
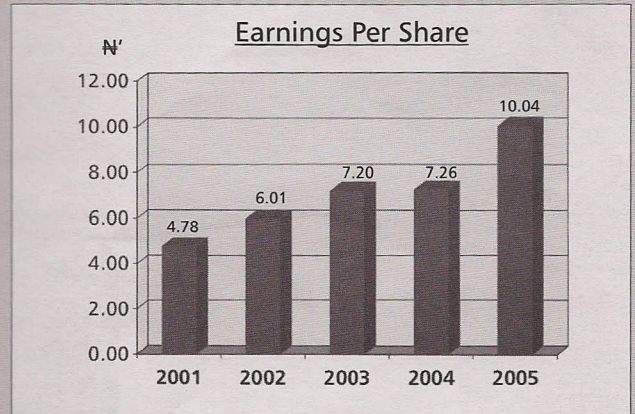
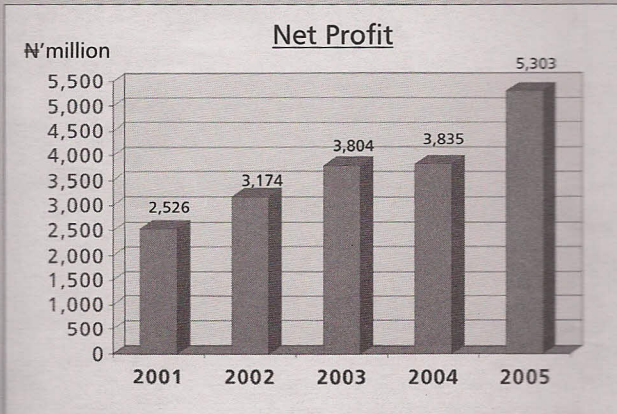
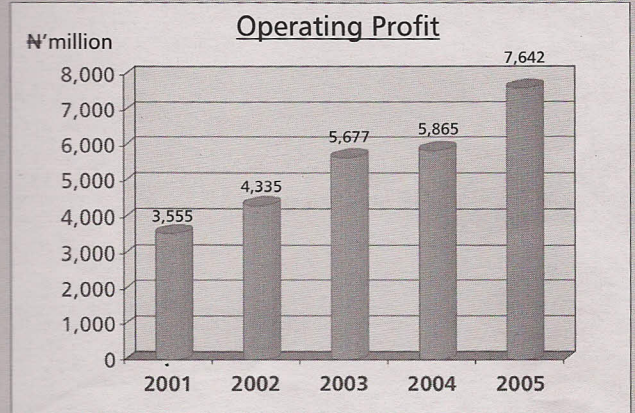
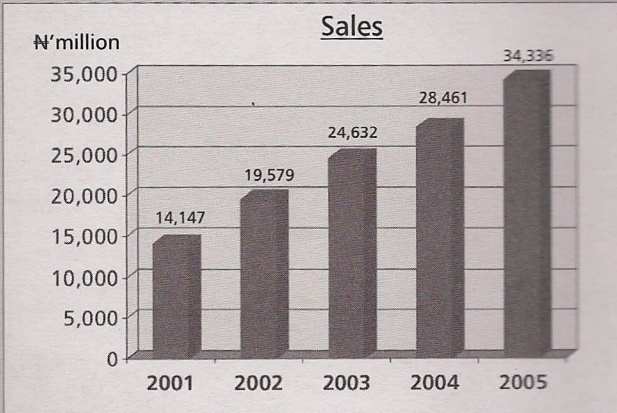
With its historical root in nutrition, wide product portfolio, strong brands, research and development competence, skilled and motivated professionals and efficient management, Nestlé Nigeria is uniquely positioned to continue to contribute to the progress, prosperity, economic development and industrial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



Good Food, Good Life

NESCAFÉ *Taste the coffee side of life*

	2005 N'000	2004 N'000	% Increase/ (Decrease)
Turnover	34,335,891	28,461,078	21
Profit before taxation	7,907,848	6,100,281	30
Profit after taxation	5,303,128	3,835,493	38
Dividend	5,284,375	3,699,062	43
Share capital	264,219	264,219	-
Shareholders' funds	1,752,812	1,734,059	1
Per 50k Share Data			
Earnings per share	₦10.04	₦ 7.26	
Dividend per share	₦10.00	₦ 7.00	
Dividend cover (times)	1.0	1.04	
Net assets per share	₦3.32	₦3.28	
Stock exchange quotation at 31 December	₦187.00	₦149.62	
Market capitalisation at 31 December (₦: million)	98,818	79,065	



“ Nestlé Nigeria has a dedicated workforce that once again proved its ability to achieve outstanding performance in this challenging market....

Your company completed its investment in the production of bottled water called Nestlé PURE LIFE which is already known as the trusted quality water in Nigeria. ”

Chief O. Osunkeye
Chairman



Distinguished Shareholders, my colleagues on the Board, ladies and gentlemen. It is both a pleasure and an honour to welcome you to the 37th Annual General Meeting of our company and to present the Financial Statements and Report as well as a review of the performance of the company for the year ended 31st December, 2005. I am particularly delighted to inform you that despite the challenges posed by the difficult economic environment in the year under review, our company recorded remarkable improvement in all the key indices.

BUSINESS ENVIRONMENT

In 2005, the Government demonstrated its commitment to the implementation of the reform in the Banking Sector within the time frame by its refusal to extend the deadline of 31st December, 2005 for the re-capitalization of Banks. The attention of Government, the public and stakeholders in the Banking Sector was concentrated on the re-capitalization process.

In the whole year, most of the weak banks were not liquid and depositors found it difficult to obtain money for their economic activities. This had negative impact on business in particular and adverse multiplier effects on the economy in general. It is hoped that the banks that satisfied the new capital requirement would now be willing to support the various sectors of the economy and businesses so that the purpose of the reform in the Banking Sector could be achieved. However, I am pleased to confirm that the money of your company was not trapped in any of the failed banks due to the fact that at all times we deposited your money with first class banks.

The Government strived in 2005 to reduce the interest rate on loans granted by financial institutions by keeping the Minimum Rediscount Rate (MRR) between 13-15%. However, the desired result could

not be achieved because the lending rate was generally high thereby increasing unnecessarily the cost of doing business.

The increase in the prices of petroleum products which are very essential to every sector of the economy, and in particular the industrial sector, increased the prices of goods and services, reduced the purchasing power of consumers with the consequent reduction in demand. There was significant reduction in the profit margin of manufacturing companies due to substantial increase in overheads and consumer resistance to any increase in the prices of goods.

We are hopeful that the promise of the Government not to increase fuel prices in 2006 will encourage a favourable business climate and stability of prices of goods and services.

It should be noted that the imposition of 50% duty on imported packaging materials impacted negatively on the economy. This is due to the fact that local manufacturers could not produce the quality and quantity of packaging materials required owing to the use of outdated technology. Consequently, the capacity utilization in the real sector reduced considerably while the inefficiency increased the cost of finished products.

The Common External Tariff (CET) Act became effective from 1st October, 2005. The decision of the Government that industrial machinery will attract zero (0%) duty rate for one year is commendable. However, we strongly appeal to the Government to extend the period of the concession so that investors would be encouraged to increase their investment with the importation of needed industrial machinery thereby creating more employment and positive stimulation of economic activities.

In order to prevent sub-standard goods from entering the country, the Standards Organisation of Nigeria Conformity Assessment Programme (SONCAP) was introduced on 1st December, 2005. SONCAP is to ensure verification of product compliance with Nigerian Industrial Standards.

To facilitate the successful implementation of the programme, we recommend that Standards Organisation of Nigeria (SON) should approve more foreign laboratories so that verification and certification of products to be imported could be done without delay. This will also ensure that the lead-time of companies importing raw materials for their operations is not disrupted. It is also in the interest of the country that the certification fees be substantially reduced, as this is an additional financial burden.

The imposition of multiple taxes by the three tiers of Government continued in the year under review with its attendant adverse impact on business operations. There is the urgent need for taxes to be streamlined by the various tiers of Government and administered carefully so that the business community would be convinced of the commitment of the Government to provide a conducive environment for business.

It is our humble view that the reforms introduced by the Government should be carefully coordinated and constantly reviewed to address any observed lapses that could prevent the achievement of the desired result. It is pertinent to note that the efficiency of the Ports is one of the pre-requisites for the successful operation of the real sector of the economy. Consequently, we appeal to the Government to ensure practical and quick implementation of the Ports reform.

OPERATING RESULTS AND PERFORMANCE

I am pleased to inform you that despite the challenges

stated above, your company was able to achieve its fundamental objective of consistent and sustained profitable growth above the average rate in the food industry. This was made possible by the innovative and result oriented strategies adopted in the production, marketing and sales of our reputable brands by the highly skilled and committed management and staff. Nestlé Nigeria has a dedicated workforce that once again proved its ability to achieve outstanding performance in this challenging market.

In 2005, the turnover of our Company increased by 21% from N28.46 billion in the previous year to N34.34 billion. We achieved a Profit before tax of N7.91 billion representing an increase of 30% over the N6.10 billion recorded in 2004. There was an increase of 38% in our Profit after tax from N3.84 billion achieved in the previous year to N5.30 billion in 2005.

I acknowledge the fact that the good results achieved were made possible by the remarkable contributions made by all the stakeholders. Whilst thanking you for past contributions, I also appeal to you to continue to support Nestlé in all ramifications.

DIVIDEND

With the good performance recorded in 2005 and in keeping with our tradition of making you, our shareholders, the ultimate beneficiaries of our business growth, the Board recommends for your approval a final dividend of N4,227,500,000 or N8.00 per ordinary share of fifty kobo each (as against N5.00 per ordinary share declared in 2004). It should be noted that this is in addition to the interim dividend of N1,056,875,000 or N2.00 per ordinary share (2004: N2.00 per share) declared and paid in November 2005. If you approve the dividend proposed, this will amount to a total dividend pay out

of N5,284,375,000 or N10.00 per ordinary share. The dividend is payable on 26th April, 2006 and is subject to deduction of appropriate withholding tax.

MARKETING, SALES AND PRODUCT PERFORMANCE

Our top-quality brands and nutritious products maintained their competitive edge over competition in 2005 due largely to continuous investment in them. Nestlé brands have thus remained dominant in all the categories our products are found while enjoying better visibility, product penetration and improved sales growth.

In addition, we introduced a new product to our portfolio with the launch of MAGGI Machop on 5th September, 2005. The product is a highly nutritious and tasty sauce made from dehydrated soya mince combined with a rich blend of natural seasonings. The soya chunks are a good source of protein and fibre and provide a pleasurable mouth-feel. The rich blend of natural seasonings adds a well-rounded and delicious taste to the soya. It should be noted that within the short period of its introduction, the response of the consumers is encouraging.

Conscious efforts were also made to increase the performance of one of our major brands-MAGGI. We organized the MAGGI Junior Chef contest, MAGGI Women Forum in different states in addition to heavy media presence that generated unprecedented demand for the brand beyond our production capacity. We are currently devising strategies to meet the ever-increasing demand of this reputable brand so that it can be available in every home.

We organized the Nestlé GOLDEN MORN promo that ended in September 2005 with the objective of rewarding loyal consumers of the highly nutritious tasty cereal meal product. It is obvious that the product is a first choice family cereal meal that can be

taken anytime of the day and the performance of the product in the market is very encouraging.

Determined to generate demand for NESCAFE, cultivate coffee drinking culture in Nigeria, educate consumers on the benefits of NESCAFE CLASSIC and NESCAFE 3 in 1, we expanded the scope of the wet sampling to schools, campuses and offices in all the six (6) geo-political zones of the country. The increase in sales of these products confirms that the wet sampling and campus/office activations were very successful.

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

It should be noted that these programmes not only foster tolerance, teamwork and healthy spirit of sportsmanship, but also promote excellence in sports, arts and academics. The quality of these competitions is high considering the opportunity afforded participants and Nestlé by the collaboration with celebrated and international coaches, professional players and sports bodies like the Nigeria Schools Sports Federation, National Collegiate Sports Federation, Nigerian Basketball Federation and Nigerian Tennis Federation. The company has made giant strides in integrating secondary school students into the mainstream of basketball development in Nigeria. The Nestlé MILO Secondary Schools Basketball Championship has become an avenue through which talents are discovered and recruited into the game of basketball. Similarly, the continued sponsorship of the Nestlé MILO Future Champions and Tennis Clinic has also boosted grassroots interest

in the game of tennis in Nigeria.

In addition, we reintroduced Nestlé CHOCOMILO into the market and it was well received due to the massive media campaign embarked upon.

We also stepped up brand awareness for Nestlé NIDO and ensure its visibility through strategic media campaign. The brand is enjoying tremendous patronage from all segments of the society.

Based on our desire to enhance the competitive edge and market penetration of our infant cereals, we introduced new packs for Nestlé NUTREND and Nestlé CERELAC. To ensure that Nestlé remains the first choice and babies stay longer on the infant cereals, we plan to launch the Nestlé Developmental Nutrition Plan (NDNP) with more infant cereals varieties, providing the right nutrition at the right stage.

Your company completed its investment in the production of bottled water called Nestlé PURE LIFE. This international brand was launched in July 2005 in Lagos and comes in three formats: 1.5 litres, 50cl and 33cl. I am pleased to inform you that there is steady and encouraging growth in patronage and we are expanding the distribution network in order to ensure their availability in all parts of the country. Nestlé PURE LIFE is already known as the trusted quality water in Nigeria.

SUPPLIERS AND DISTRIBUTORS

We appreciate the excellent relationship we enjoyed with our suppliers and are pleased to note that this has assisted us to achieve the positive results in 2005. Our valuable distributors also made it possible for the products to be available to our consumers and for us to realize the good results stated above.

We will continue to strengthen the relationship so

that the treasured partnerships between the suppliers and Nestlé on the one hand and the distributors and the company on the other hand would be mutually beneficial. It is our desire to explore further areas of collaboration that will guarantee efficient performance of the obligations of these partners in line with the objectives of Nestlé.

BOARD OF DIRECTORS

Since the last Annual General Meeting, there were some changes in the composition of the Board. Mr. Michael O. Garrett and Mr. Dominique Dupont retired from the Board with effect from 2nd May and 11th November, 2005 respectively due to their retirement from the Nestlé group. We seize this opportunity to express our sincere gratitude to them for their contributions to the progress of the company during their tenure and wish them the best in their future endeavors.

To fill the vacancies created by the retirement of these gentlemen, the Board appointed Mr. Roger Stettler and Mr. Alexandre Cantacuzene as directors with effect from 2nd May and 11th November, 2005 respectively. Both of them have assumed office and we are benefiting from their wealth of experience.

EMPLOYEES

We are happy to inform you that 2005 was relatively peaceful and the favourable Industrial Relations environment assisted us to positively focus on business issues.

As at 31st December, 2005, the total number of staff was 1368 (excluding staff on overseas' assignment) made up of 325 Senior and Management staff and 1043 Junior staff. During the year, our Company employed 291 employees to enable us cope with the increased workload and the rapid expansion of the company. We are conscious of the fact that our

success depends on the quality and commitment of staff and hence the special attention we place on their training and development. Consequently, 41 employees attended various overseas courses, 102 attended external local courses while 1038 staff participated in various in-house training programmes.

By virtue of the International Management Exchange Programme, some of our Managers are currently working in various Nestlé locations such as Egypt, Guinea, Benin Republic, Ghana, Iran and Switzerland.

We are determined to give regular and appropriate training to our workforce so that they can acquire the latest methods of performing their duties efficiently, thereby contributing their quota to the progress of the company.

SOCIAL RESPONSIBILITY

In continuation of our commitment to partner with like-minded institutions to reduce the spread of the ravaging HIV/AIDS scourge in Nigeria, we produced in conjunction with the Nigerian Red Cross Society the third brochure entitled: CHILDREN AND HIV/AIDS. The new publication is in furtherance of our efforts to promote healthy lifestyle as well as improve knowledge and understanding of HIV/AIDS and other sexually transmitted infections among children.

We donated 50,000 copies of brochure on Children and HIV/AIDS (English version) and 60,000 copies in 3 main Nigerian languages. We also donated items like T-shirts to the Nigerian Red Cross Society as part of our wider corporate social contributions in providing information, educational and communication (IEC) materials on HIV/AIDS awareness programme.

You will recall that we produced in collaboration with the Nigerian Red Cross Society HIV/AIDS Questions

And Answers and NUTRITION AND HIV/AIDS: Basic Facts in 2003 and 2004 respectively. We are highly motivated to continue with this programme by positive impact of these publications in generating the needed awareness about this endemic disease. Especially the local language versions will support the Nigerian Red Cross in their work in Nigeria.

In furtherance of our commitment to corporate responsibility to Nigeria, we, in partnership with Search for Common Ground Productions, a Washington DC based non-profit organization, in July 2005 announced the sponsorship of a new social project known as "The ACADEMY," a docu-reality TV programme. The decision was taken to further demonstrate our commitment to youth development and creation of equal opportunities for all Nigerians by motivating them towards creative arts. The project is also aimed to change the ways conflicts are managed, away from adversarial approaches, towards cooperative solutions and dialogue.

Nestlé Nigeria Plc has also agreed to sponsor the production of the second part of the Academy titled "The Station", a Television series and the accompanying radio version to promote positive role models and peaceful resolution of conflict for Nigerian Youth. These initiatives received special commendation from the former President of the United States of America, Mr. Bill Clinton at the launch of Clinton Global Initiative recently in New York.

To ease traffic flow in Lagos, we donated traffic flashlight to the Lagos State Traffic Management Authority (LASTMA) for their use.

AWARDS

Various Institutions appreciated our continuous professional and ethical approach to business and remarkable contribution to the growth of the country

with the conferment of several awards on us. We deem it necessary to inform you of some of the awards we received in 2005.

At the 28th Annual President's Merit Award organized by the Nigerian Stock Exchange in November 2005, we emerged as the best company in the highly competitive food and beverages sector. The Nigerian Institute of Food Science and Technology honoured our company with the Food Industry Award. Also, in recognition of our commitment to the development of the environment, the Manufacturers Association of Nigeria, Ogun State Branch, honoured us with the Most Environmental Friendly Industry Award. The Nigeria Social Insurance Trust Fund also conferred on us the prestigious Most Valuable Employer Award.

FUTURE OUTLOOK

It is our humble opinion that the suggestions of the Stakeholders to the Tax Reform Bills should be carefully analysed by the National Assembly so that the implementation of the Act when eventually passed into law, would not have negative effect on commercial activities.

Specifically, we recommend that the investment tax credit granted to companies in the fabrication and use of spare parts, tools and equipment for local consumption and export should not be withdrawn due to its advantages to the economy. Furthermore, in order not to compound the low purchasing power of the naira due to the adverse exchange rate against major currencies and inflation, we suggest that the personal income tax rate should be reduced to a maximum of 20% so that members of the public in

paid employment would have reasonable disposable income to meet their basic needs of life.

To fast track economic development, we appeal to the Government to assist the manufacturing sector with the resuscitation of ailing infrastructure, completion of the reform at the Ports and the power-sector within the time frame, utilization of the crude oil surplus and benefits of the recent debt forgiveness on projects that will have positive impact on the generality of the people and the provision of conducive climate for business. We particularly appeal that the 2005 Budget be faithfully implemented to put the economy on a strong footing and that politicians should not heat the polity, as this will discourage investment with its attendant stagnation of the economy.

It is necessary to emphasise that the current status of our educational system is very worrisome and requires urgent attention in order to provide the industries with adequately educated and trained people to enable the sector play its part in the development of Nigeria.

We are optimistic that with favourable political and economic environment, we shall use our initiative to achieve another outstanding performance in all ramifications in 2006.

I thank you for your attention.

Chief Olusegun Osunkeye, OON
Chairman
17th February, 2006

	Notes	2005 N'000	2004 N'000
Turnover	1	34,335,891	28,461,078
Cost of sales		<u>(21,115,729)</u>	<u>(18,137,513)</u>
GROSS PROFIT		13,220,162	10,323,565
Marketing and distribution expenses		(4,032,779)	(2,995,440)
Administrative expenses		<u>(1,545,747)</u>	<u>(1,463,131)</u>
OPERATING PROFIT		7,641,636	5,864,994
Interest income		<u>266,212</u>	<u>235,287</u>
PROFIT BEFORE TAXATION	2	7,907,848	6,100,281
Taxation	3(a)	<u>(2,604,720)</u>	<u>(2,264,788)</u>
PROFIT AFTER TAXATION		5,303,128	3,835,493
Dividend	4	<u>(5,284,375)</u>	<u>(3,699,062)</u>
Retained earnings for the year		18,753	136,431
Retained earnings, beginning of year		1,242,648	1,103,817
Transfer from fixed assets revaluation reserve	10	<u>325</u>	<u>2,400</u>
Retained earnings, end of year		<u>1,261,726</u>	<u>1,242,648</u>
Earnings per share	5	N10.04	N7.26
Dividend per share	5	N10.00	N7.00

The accounting policies on pages 28 and 29, and the notes on pages 34 to 42 form an integral part of these financial statements.

	2005 N'000	2004 N'000
FIXED ASSETS	6,183,324	3,980,527
SHARES IN SUBSIDIARY	340,000	340,000
CURRENT ASSETS:		
Stocks	4,633,929	3,827,184
Debtors and prepayments	849,208	1,144,080
Amount due from related companies	44,884	27,201
Foreign currencies purchased for imports	695,311	50,448
Bank balances and cash in hand	1,678,428	1,730,430
Short Term Deposits	2,450,000	2,300,000
	<u>16,875,084</u>	<u>13,399,870</u>
CAPITAL AND RESERVES:		
Share capital	264,219	264,219
Share premium	32,262	32,262
Fixed assets revaluation reserve	194,605	194,930
Retained earnings	1,261,726	1,242,648
	1,752,812	1,734,059
CURRENT LIABILITIES:		
Trade Creditors	1,829,583	846,171
Other Creditors and accruals	1,360,103	725,739
Taxation	2,103,477	2,439,312
Dividend	4,512,037	2,852,045
Amount due to related companies	1,128,007	1,073,119
Amount due to subsidiary	528,036	528,036
LONG TERM LIABILITIES:		
Provision for gratuity	2,959,776	2,951,472
Deferred taxation	701,253	249,917
	<u>16,875,084</u>	<u>13,399,870</u>

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Chief O. Osunkeye

K. P. Wachsmuth

The financial statements were approved by the Board of Directors on 17 February 2006. The accounting policies on pages 28 and 29 and the notes on pages 34 to 42 form an integral part of these financial statements.

	Notes	2005 N'000	2004 N'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating profit before working capital changes	16	8,685,893	7,329,957
Working capital changes	17	498,245	1,199,206
Income tax paid	3(b)	(2,489,219)	(1,879,671)
Gratuity paid	15	<u>(398,328)</u>	<u>(183,044)</u>
Net cash inflow from operating activities		<u>6,296,591</u>	<u>6,466,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(2,855,217)	(2,316,616)
Proceeds from sale of fixed assets		14,795	31,732
Interest received		<u>266,212</u>	<u>235,287</u>
Net cash outflow from investing activities		<u>(2,574,210)</u>	<u>(2,049,597)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid		<u>(3,624,383)</u>	<u>(3,643,447)</u>
Net cash outflow from financing activities		<u>(3,624,383)</u>	<u>(3,643,447)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		97,998	773,404
CASH AND CASH EQUIVALENTS, beginning of year		<u>4,030,430</u>	<u>3,257,026</u>
CASH AND CASH EQUIVALENTS, end of year		<u>4,128,428</u>	<u>4,030,430</u>

The accounting policies on pages 28 and 29, and the notes on pages 34 to 42 form an integral part of these statements of cash flows.

1. Turnover

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

2. Profit before taxation

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

	2005 N'000	2004 N'000
Depreciation of fixed assets	631,768	454,240
Staff costs (Note 2(b))	3,924,965	3,791,884
Auditors' remuneration	12,800	10,700
Directors' emoluments	46,064	43,492
Interest income	(266,212)	(235,287)
(Gain)/loss on foreign exchange transactions	(232,776)	71,881
General licence fees	1,261,844	1,045,945
Loss/(gain) on disposal of fixed assets	<u>5,857</u>	<u>(25,335)</u>

(b) Staff costs and directors remuneration

i. Employees costs during the year amounted to:

	2005 N'000	2004 N'000
Salaries and wages	1,561,698	1,380,390
Welfare and end of service benefits	<u>2,363,267</u>	<u>2,411,494</u>
	<u>3,924,965</u>	<u>3,791,884</u>

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

		2005 Number	2004 Number
N	N		
0	- 200,000	-	-
200,001	- 400,000	85	10
400,001	- 600,000	426	281
600,001	- 800,000	379	441
800,001	- 1,000,000	185	212
1,000,001	- 1,200,000	85	40
1,200,001	- 1,400,000	43	50
1,400,001	- 1,600,000	32	26
1,600,001	- 1,800,000	11	18
1,800,001	- 2,000,000	16	13
2,000,001	- 2,500,000	19	20
2,500,001	- 3,000,000	24	25
3,000,001	- 3,500,000	11	15
3,500,001	- 4,000,000	9	7
4,000,001	- 4,500,000	7	8
4,500,001	- 5,000,000	4	4
5,000,001	and above	<u>29</u>	<u>29</u>

iii. The average number of full-time persons employed during the year was as follows:

	2005 Number	2004 Number
Production	1,074	931
Distribution services	70	63
Sales and marketing	116	117
Administration	<u>108</u>	<u>91</u>
	<u>1,368</u>	<u>1,202</u>

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

	2005 N'000	2004 N'000
Fees as directors	500	500
Other emoluments (including pension contributions)	<u>45,564</u>	<u>43,442</u>
	<u>46,064</u>	<u>43,942</u>

The directors' remuneration shown above includes:

	2005 N'000	2004 N'000
Chairman	450	460
Highest paid director	<u>20,568</u>	<u>20,062</u>

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

	2005 Number	2004 Number
₦ Nil	3	3
10,001 - 200,000	1	1
8,000,001 - 9,000,000	-	1
9,000,001 - 10,000,000	1	-
14,000,001 - 15,000,000	-	1
15,000,001 - 16,000,000	<u>1</u>	<u>-</u>
	<u>6</u>	<u>6</u>

3. Taxation

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

	2005 N'000	2004 N'000
Income tax	1,977,190	2,073,987
Education tax	<u>176,194</u>	<u>149,773</u>
	2,153,384	2,223,760
Deferred taxation (Note 14)	<u>451,336</u>	<u>41,028</u>
	<u>2,604,720</u>	<u>2,264,788</u>

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

	2005 N'000	2004 N'000
Balance, beginning of year	2,439,312	2,095,223
Current year charge (Note (a))	2,153,384	2,223,760
Payments during the year	<u>(2,489,219)</u>	<u>(1,879,671)</u>
Balance, end of year	<u>2,103,477</u>	<u>2,439,312</u>

4. Dividend

	2005 N'000	2004 N'000
Interim dividend declared and paid	1,056,875	1,056,875
Final dividend proposed (Note 11)	<u>4,227,500</u>	<u>2,642,187</u>
	<u>5,284,375</u>	<u>3,699,062</u>

The proposed dividend is payable after deduction of withholding tax at the appropriate rate.

5. Earnings and dividend per share

Earnings and dividend per share are based on profit after taxation for the year of ₦5,303,128,000 (2004: ₦3,835,493,000) and dividends of ₦5,284,375,000 (2004: ₦3,699,062,000) respectively and on 528,437,500 (2004: 528,437,500) ordinary shares, being the average number of ordinary shares in issue and ranking for dividend during the year.

	Notes	2005 N'000	2004 N'000
FIXED ASSETS	6	6,183,324	3,980,527
SHARES IN SUBSIDIARY	13	340,000	340,000
CURRENT ASSETS:			
Stocks	7	4,633,929	3,827,184
Debtors and prepayments	8	849,208	1,144,080
Amount due from related companies		44,884	27,201
Foreign currencies purchased for imports		695,311	50,448
Bank balances and cash in hand		1,678,428	1,730,430
Short Term Deposits		<u>2,450,000</u>	<u>2,300,000</u>
		<u>16,875,084</u>	<u>13,399,870</u>
CAPITAL AND RESERVES:			
Share capital	9	264,219	264,219
Share premium		32,262	32,262
Fixed assets revaluation reserve	10	194,605	194,930
Retained earnings		<u>1,261,726</u>	<u>1,242,648</u>
		1,752,812	1,734,059
CURRENT LIABILITIES:			
Trade Creditors		1,829,583	846,171
Other Creditors and accruals		1,360,103	725,739
Taxation	3(b)	2,103,477	2,439,312
Dividend	11	4,512,037	2,852,045
Amount due to related companies	12	1,128,007	1,073,119
Amount due to subsidiary	13	528,036	528,036
LONG TERM LIABILITIES:			
Provision for gratuity	15	2,959,776	2,951,472
Deferred taxation	14	<u>701,253</u>	<u>249,917</u>
		<u>16,875,084</u>	<u>13,399,870</u>

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Chief O. Osunkeye)
) Directors
 K. P. Wachsmuth)

The financial statements were approved by the Board of Directors on 17 February 2006.
 The accounting policies on pages 28 and 29, and the notes on pages 34 to 42 form an integral part of these financial statements.

	Notes	2005 N'000	2004 N'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating profit before working capital changes	16	8,685,893	7,329,957
Working capital changes	17	498,245	1,199,206
Income tax paid	3(b)	(2,489,219)	(1,879,671)
Gratuity paid	15	(398,328)	(183,044)
Net cash inflow from operating activities		<u>6,296,591</u>	<u>6,466,448</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(2,855,217)	(2,316,616)
Proceeds from sale of fixed assets		14,795	31,732
Interest received		<u>266,212</u>	<u>235,287</u>
Net cash outflow from investing activities		<u>(2,574,210)</u>	<u>(2,049,597)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividend paid		(3,624,383)	(3,643,447)
Net cash outflow from financing activities		<u>(3,624,383)</u>	<u>(3,643,447)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		97,998	773,404
CASH AND CASH EQUIVALENTS, beginning of year		<u>4,030,430</u>	<u>3,257,026</u>
CASH AND CASH EQUIVALENTS, end of year		<u>4,128,428</u>	<u>4,030,430</u>

The accounting policies on pages 28 and 29, and the notes on pages 34 to 42 form an integral part of these statements of cash flows.

10. Fixed assets revaluation reserve

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

	2005 N'000	2004 N'000
Balance, beginning of year	194,930	197,330
Transfer to retained earnings (Note (b))	<u>(325)</u>	<u>(2,400)</u>
Balance, end of year	<u>194,605</u>	<u>194,930</u>

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

11. Dividend payable

	2005 N'000	2004 N'000
Unclaimed dividend from prior years (numbers 35 - 38)	284,537	209,858
Final dividend proposed for the year (Note 4)	<u>4,227,500</u>	<u>2,642,187</u>
	<u>4,512,037</u>	<u>2,852,045</u>

Additional unclaimed dividends (numbers 35-41) amounting to N292,949,346 (2004: N311,539,932) are held by the Registrars.

12. Amount due to related companies

The Company has a general licence agreement with Nestlé S.A., Societe Des Produits Nestlé S.A and Nestec S.A. for the provision of technical and other support. See also Note 2(a). The agreement is made with the approval of the National Office for Technology Acquisition and Promotion and payments are made to Societe Des Produits Nestlé S.A.

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

	2005 N'000	2004 N'000
Societe Des Produits Nestlé S. A.	90,486	91,833
Nestec Limited	1,525	68,735
Nestlé Cote D'Ivoire Plc	222,714	378,076
Nestlé Globe Centre AOA Limited	123,163	72,977
Nestlé Nederland B. V.	285,773	239,650
Nestlé Ghana Limited	13,024	27,964
Nestlé World Trade Corporation Limited	283,781	186,369
Nestlé Water France Limited	101,027	-
Others	<u>6,514</u>	<u>7,515</u>
	<u>1,128,007</u>	<u>1,073,119</u>

13. Nestlé Products Limited ("NPL")

As stated in the directors' report, the Company's subsidiary, Nestlé Products Limited was voluntarily wound up on 13 February 2003. A liquidator has been appointed and processes required to liquidate NPL are ongoing. Accordingly, the preparation of Group Financial Statements is no longer considered meaningful. Final dividends will be distributed upon conclusion of the liquidation process. A statement of affairs of NPL is presented below:

	N'000
Called-up share capital	340,000
Retained earnings	<u>191,924</u>
Shareholders' Funds	531,924
Creditors and accruals	16,073
Withholding tax receivable	(25,000)
Tax payable	<u>5,039</u>
TOTAL LIABILITIES AND EQUITY	<u>528,036</u>
AMOUNT DUE FROM NESTLE NIGERIA PLC	<u>528,036</u>

14. Deferred taxation

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

	2005 N'000	2004 N'000
Balance, beginning of year	249,917	208,888
Provision (Note 3(a))	<u>451,336</u>	<u>41,022</u>
Balance, end of year	<u>701,253</u>	<u>249,910</u>

15. Provision for Gratuity

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

	2005 N'000	2004 N'000
Balance, beginning of year	2,951,472	2,098,458
Charged to profit and loss	406,632	1,036,058
Payments during the year	<u>(398,328)</u>	<u>(183,048)</u>
Balance, end of year	<u>2,959,776</u>	<u>2,951,468</u>

16. Operating profit before working capital changes

	2005 N'000	2004 N'000
Operating profit	7,641,636	5,864,994
Adjustment for items not involving the movement of cash:		
- depreciation	631,768	454,240
- loss/(gain) on disposal of fixed assets	5,857	(25,335)
- provision for gratuity	<u>406,632</u>	<u>1,036,058</u>
	<u>8,685,893</u>	<u>7,329,957</u>

17. Working capital changes

	2005 N'000	2004 N'000
(Increase)/decrease in stocks	(806,745)	757,889
Decrease/(increase) in debtors and prepayments	294,872	(436,640)
(Increase) decrease in amount due from related companies	(17,683)	(22,887)
(Increase)/decrease in foreign currencies purchased for imports	(644,863)	841,167
Increase/(decrease) in trade creditors	983,412	(208,416)
Increase/(decrease) in other creditors and accruals	634,364	(115,689)
Increase in amount due to related companies	<u>54,888</u>	<u>383,782</u>
	<u>498,245</u>	<u>1,199,206</u>

18. Guarantees and other financial commitments

(a) Employees' end of service benefits

The Company operates a gratuity scheme for the benefit of its employees. Under the scheme, employees are entitled to gratuities, which vary with the employees' periods of service and which are payable on disengagement from service based on salaries at the time of retirement or resignation. The Company's policy is to make unfunded provisions for the cost of currently accruing benefits based on current year salaries. (See Note 15).

The Company also operates a contributory pension scheme in line with the Pension Reform Act, 2004. Included in other creditors and accruals is an amount of ₦ 348,060,606 which represents employer and employee contributions which will be remitted to appropriately approved Pension Fund Administrators.

(b) Litigation

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

(c) Contingent Liabilities

No provision has been made in the financial statements for the potential capital gains tax liabilities of ₦19,460,500 (2004: ₦19,493,000) which would arise should the revalued fixed assets referred to in note 6 be disposed off at their enhanced values. However, it is not the directors' present intention to sell these assets.

(d) Financial commitments

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

19. Post Balance Sheet Events

There were no significant post balance sheet events which could have had a material effect on the state of affairs of the Company as at 31 December, 2005 which have not been adequately provided for.

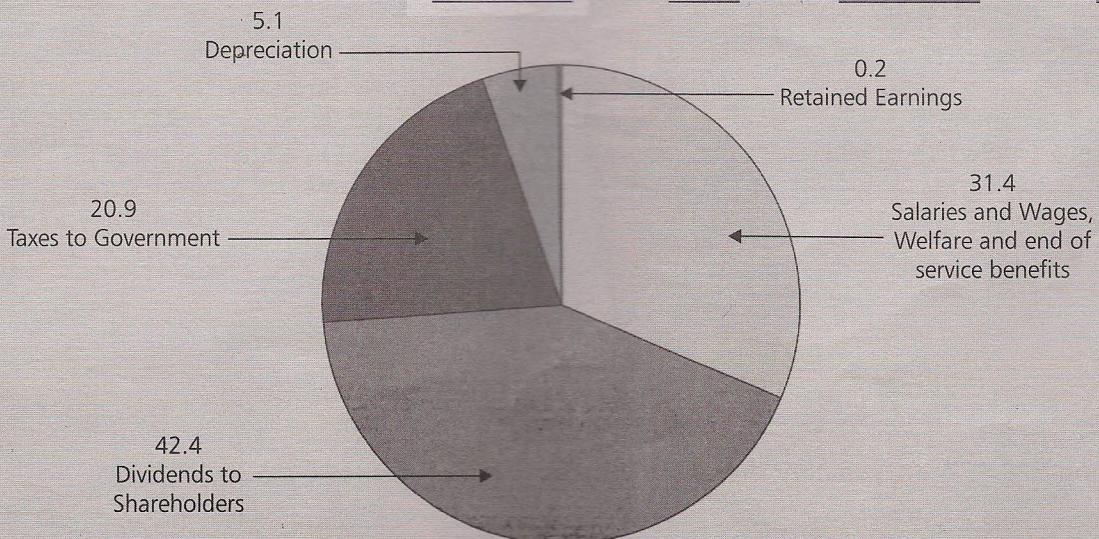
20. Ultimate Holding Company

The Company is a subsidiary of Nestlé S.A. incorporated in Switzerland. Nestlé S.A. holds 329,223,444 ordinary shares of 50 kobo each (62.30%) (2004: 62.30%) at year-end. No other individual shareholder held more than 5% of the issued share capital of the Company at 31 December 2005.

21. Comparative Figures

Where necessary certain prior year comparative figures have been reclassified in line with the current year presentation format.

	2005 N'000	% N'000	2004	%
Turnover	34,335,891		28,461,078	
Bought in goods and services:				
- Local	(13,337,759)		(10,542,782)	
- Imported	<u>(8,759,763)</u>		<u>(7,807,178)</u>	
Value added	12,238,369		10,111,118	
Interest income	226,212		235,287	
	<u>12,464,581</u>	<u>100.0</u>	<u>10,346,405</u>	<u>100.0</u>
Applied to pay:				
Employees as salaries and wages, welfare, and end of service benefits	3,924,965	31.4	3,791,884	36.6
Shareholders as dividends	5,284,375	42.4	3,699,062	35.8
Government as taxes	2,604,720	20.9	2,264,788	21.9
Retained in the business:				
- For replacement of fixed assets	631,768	5.1	454,240	4.4
- retained earnings	<u>18,753</u>	<u>0.2</u>	<u>136,431</u>	<u>1.3</u>
	<u>12,464,581</u>	<u>100.0</u>	<u>10,346,405</u>	<u>100.0</u>



Statement of Value Added

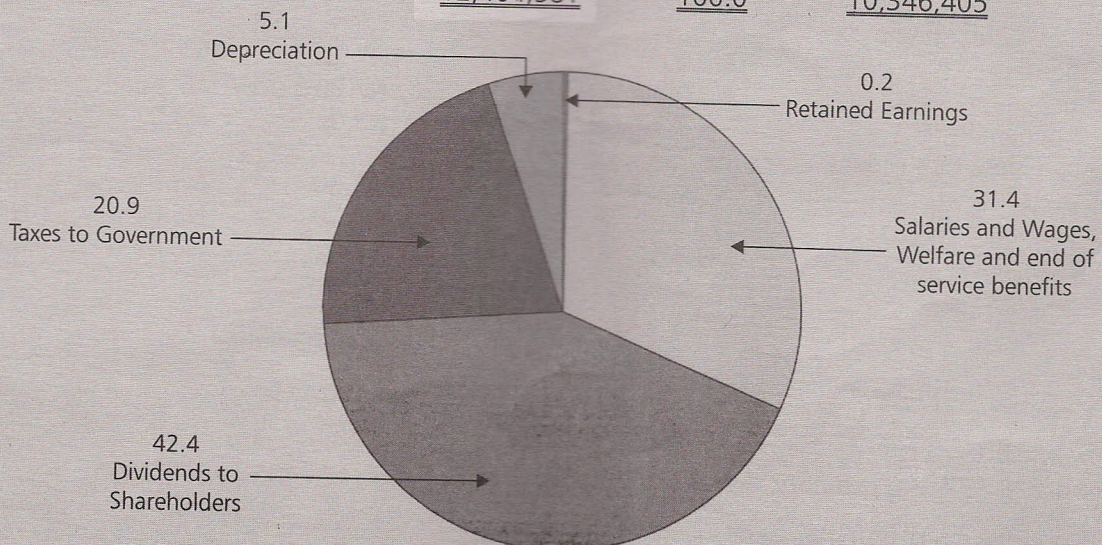
For the year ended 31st December, 2005



Good Food, Good Life

Annual Report & Accounts 2005

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Turnover	34,335,891		28,461,078	
Bought in goods and services:				
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- Imported	<u>(8,759,763)</u>		<u>(7,807,178)</u>	
Value added	12,238,369		10,111,118	
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	<u>12,464,581</u>	<u>100.0</u>	<u>10,346,405</u>	<u>100.0</u>



	2005 N'000	2004 N'000	2003 N'000	2002 N'000	2001 N'000
FUNDS EMPLOYED					
Share capital	264,219	264,219	264,219	211,375	211,375
Share premium	32,262	32,262	32,262	32,262	32,262
Fixed Assets Revaluation reserve	194,605	194,930	197,330	234,845	234,845
Reserve for issue of bonus shares	-	-	-	52,844	-
Retained earnings	<u>1,261,726</u>	<u>1,242,648</u>	<u>1,103,817</u>	<u>961,250</u>	<u>1,010,000</u>
Shareholders' funds	1,752,812	1,734,059	1,597,628	1,492,576	1,489,000
Current liabilities	11,461,243	8,464,422	8,005,041	5,629,279	4,306,000
Long term liabilities	<u>3,661,029</u>	<u>3,201,389</u>	<u>2,307,347</u>	<u>1,707,988</u>	<u>968,000</u>
	<u>16,875,084</u>	<u>13,399,870</u>	<u>11,910,016</u>	<u>8,829,843</u>	<u>6,764,000</u>
ASSETS EMPLOYED					
Fixed assets	6,183,324	3,980,527	2,124,548	1,225,635	1,107,000
Shares in subsidiary	340,000	340,000	340,000	340,000	340,000
Current assets	<u>10,351,760</u>	<u>9,079,343</u>	<u>9,445,468</u>	<u>7,264,208</u>	<u>5,317,000</u>
	<u>16,875,084</u>	<u>13,399,870</u>	<u>11,910,016</u>	<u>8,829,843</u>	<u>6,764,000</u>
TURNOVER					
	<u>34,335,891</u>	<u>28,461,078</u>	<u>24,631,949</u>	<u>19,578,894</u>	<u>14,146,900</u>
Profit before taxation	7,907,848	6,100,281	5,846,923	4,683,388	3,625,400
Profit after taxation	5,303,128	3,835,493	3,804,114	3,174,080	2,526,200
Dividend	5,284,375	3,699,062	3,699,062	3,170,625	2,325,100
Per 50k share data (unadjusted):					
Earnings per share	N 10.04	N7.26	N7.20	N7.51	N5.90
Dividend per share	N 10.00	N7.00	N7.00	N7.50	N5.50
Net assets per share	N 3.32	N3.28	N3.02	N3.53	N3.50
Per 50k share data (adjusted*):					
Earnings per share	N 10.04	N7.26	N7.20	N6.01	N4.70
Dividend per share	N 10.00	N7.00	N7.00	N6.00	N4.40
Net assets per share	N 3.32	N3.28	N3.02	N2.82	N2.80

*Based on 528,437,500 ordinary shares of 50 kobo each in issue at 31 December 2005