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Nestlé Nigeria PLC RC 6540

22-24 Industrial Avenue, Ilupeju
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NESTLÉ NIGERIA PLC (THE “COMPANY”) EXPLANATORY NOTE TO THE SHAREHOLDERS ON THE NEGATIVE NET ASSETS POSITION OF THE COMPANY, TO BE CONSIDERED AT THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY TO BE HELD ON MAY 22, 2024, AT THE MUSON CENTER, ONIKAN, LAGOS AT 2:00 PM

The Board of Directors (the “Board”) of Nestle Nigeria PLC has prepared this Explanatory Note to provide information to all the shareholders of the Company in respect of the negative net assets position of the Company as reflected in the 2023 audited financial statements.

1. Explanatory note on Negative Net Assets

Following the preparation of the Company’s audited financial results for 2023, the Board has taken a note of the negative net assets of the Company as of 31 December 2023 as reflected in the financial statements below: -

Statement of Profit or loss and Other Comprehensive Income For the year ended 31 December 2023 In thousands of naira

	2023	2022
Revenue	547,118,754	446,819,260
Cost of sales	(329,945,347)	(291,054,270)
Gross profit	217,173,407	155,764,990
Results from operating activities	123,787,596	87,468,624
Net finance costs	(227,813,025)	(16,359,253)
(Loss)/profit before income tax	(104,025,429)	71,109,371
Income tax credit/ (expense)	24,551,648	(22,143,883)
(Loss)/profit for the year	(79,473,781)	48,965,488
Other comprehensive income; net of tax	-	-
Total comprehensive (loss)/income for the year	(79,473,781)	48,965,488
(Loss)/profit for the year is attributable to:		
Owners of the company	(79,473,781)	48,965,488

During the year, the Company grew by 22.4% over the previous year, with earnings of ₦547.1 billion, an increase of ₦100.3 billion over 2022. Gross profit was ₦217.2 billion, representing a 39.4% increase from ₦155.8 billion in 2022. Operating profit grew by 41.5% to ₦123.7 billion, an increase of ₦36.3 billion over 2022.

However, due to the steep devaluation of Naira during the year, the Company’s foreign currency obligations, majority of which are long tenor Inter Group Loan (maturity of ~7 years) owed to the parent company had to be revalued at the 2023 closing rate of ₦907.11/USD.

DIRECTORS:

Chairman - G. Oyebode, MD/CEO - W. Elhousseini (Lebanese), N. Mishra (Indian), I. Ipinmoye, M. Alarcon (Mexican), M. Kruegel (German), J. Ehimuan (Ms.), A. Lamikanra (Mrs.), M. Mohammed (Mrs.)



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From 2020 onwards, the parent group has steadily supported the Company with the loans to secure supplies of raw materials and equipment that are not available locally amid forex scarcity in the country. The revaluation of foreign currency obligations resulted in an adverse impact of ₦195.0 billion in 2023 resulting in loss for the year of ₦79.4 billion. It is to be noted that 94% of ₦195.0 billion, pertains to “unrealized exchange loss” ~ ₦184.0 billion on unmatured forex obligations.

Position on Net Assets of the Company as of 31 December 2023:

	2023	2022
Assets		
Non-current assets		
Total non-current assets	220,528,621	124,532,127
Current assets		
Inventories, Trade receivables and others	193,510,779	172,579,474
Cash and short-term deposits	167,735,007	117,932,430
Total assets	581,774,407	415,044,031
Liabilities		
Non-current liabilities	369,171,854	166,348,245
Current Liabilities	290,637,709	218,404,562
Total liabilities	659,809,563	384,752,807
Excess of liabilities over assets	(78,035,156)	30,291,224

At the end of 2023, Company’s net assets have turned negative by ₦78.0 billion mainly due to the loss for the year of ₦79.4 billion driven by the revaluation of the foreign currency obligations as stated above.

Cash position of the Company

During the year, the Company generated a positive cash flow of ₦48.8 billion driven by strong operating cash flows:

Summary of 2023 Cash Flows

	₦ billion
Net Cash Flow from Operating Activities	82.7
Net Cash Used in the Investing Activities	-55.1
Net Cash from Financing Activities	21.2
Net Increase in Cash	48.8

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Further, cash and cash equivalents at the end of 2023 have increased by 42% vs 2022 from ₦117.9 billion to ₦167.8 billion.

The Board notes that despite the significant increase in input costs and forex volatility, the fundamentals of the Company are strong and the cash position of the company remains healthy, and its operations are running smoothly. The Board is also encouraged to see the investments in new capacities and future capabilities.

2. Extraordinary General Meeting of the Company

In line with the requirements of section 137 of the Companies and Allied Matters Act 2020 (as amended), the Board is convening an Extraordinary General Meeting (“EGM”) of the Company for the purpose of considering whether any, and if so, what steps should be taken to deal with the situation. The EGM is scheduled to be held on May 22, 2024, MUSON Center, 8/9 Onikan Lagos at 2:00 pm.

3. Review of True and Fair Value of Property, Plant and Equipment (PPE) and Recommendation to Change the Accounting policy on valuation of PPE

The Board would also like to apprise the shareholders on the need to reflect the true and fair market value of the Company’s Assets under PPE.

Currently, all property, plant and equipment in the statement of financial position are carried at the historical cost less accumulated depreciation and accumulated impairment losses (historical cost model). In the last five years, the Company has made significant investments in PPE across its manufacturing and distribution facilities in the country. The pace of the investment in PPE has accelerated during these years with addition of the new capacities and introduction of new advanced technologies. Consequently, the total net book value of investments in PPE as of 31 Dec 2023 has more than doubled to ₦165.4 billion from ₦73.3 billion in 2018.

In the current market context, the Board is of the view that the shareholders of the company should know the fair market value of these investments which includes purchase of plant and machinery with the latest technological know-how. With the revaluation of foreign obligation on the liabilities side, it is relevant that corresponding assets too are revalued to present a fair and relevant representation of the financial position of the company.

To determine the true worth of the investments, the Company undertook an independent valuation of Land, Buildings, Plant and Machinery which are capitalized in Company’s books through a certified firm of valuers, M/s Niyi Fatokun & Co, at the following facilities:

- Agbara Factory, Agbara
- Flowergate Factory, Sagamu
- Abaji Factory, Abjua

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- Agbara Distribution Centre
- Ota Distribution Centre

Independent Valuer's Report

M/s Niyi Fatokun assessed the market value of Land, Buildings and Plant & Machinery of the above facilities as of March 16, 2024 at ₦ 305.4 billion. Only the capitalized assets were a part of the scope of the valuation. The report of the independent valuer was presented to the Board at the meeting held on March 25, 2024. The following table shows the comparative position of the assets between the historical cost model and the revaluation model (market value) of the assets :-

Value ₦ billion	Value of Land, Buildings, Plant and Machinery (Capitalised)		
Valuation Model→	Carrying Value as per the Historical Cost Model as of Dec 31, 2023	Carrying Value as per the Historical Cost Model as of Feb 29, 2024	Market Value of the Assets as per Independent Valuation dt. March 16, 2024
Land	1.2	1.2	14.8
Building	28.5	28.3	51.3
Plant and Machinery	58.5	61.5	238.9
Total ₦ billion	88.3	91.1	305.4

As stated above, the market value of the class of assets revalued under PPE has increased as compared to the carrying value as of December 31, 2023 and Feb. 29, 2024 by ₦217.1 billion and 214.3 billion respectively.

The Company has established a Technical Memo outlining the accounting treatment on the revaluation of the class assets under PPE in accordance with relevant accounting standards and rules as stipulated under International Accounting standard (IAS), International Financial Reporting Standard (IFRS), the Companies and Allied Matters Act 2020.

After review of the Technical Memo, the Board has approved the adoption of the "revaluation model" to reflect the market value of the investments and give a more reliable and relevant information on the financial position of the Company.

Accordingly, from Q1 2024 (Jan-March 2024), the financial statements will be prepared based on the revaluation model for the class of assets revalued under PPE.

4. Conclusion

The Board is of the view that despite a very difficult operating environment, the fundamentals of the company remain strong. Going forward, the Board will continue to monitor the

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developments on the policy front and support the measures to address the negative net assets of the Company.

Dated this 25th day of March 2024
By Order of the Board

Bode Ayeku, FCIS
Company Secretary/Legal Adviser
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