IMPORTANT NOTICE

THIS DOCUMENT IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus dated 26 January 2011 (the "Prospectus") following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus) and the Joint Lead Managers (as defined in the Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be either (1) qualified institutional buyers ("QIBs") (within the meaning of Rule 144A ("Rule 144A") under the Securities Act) or (2) non-U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) located outside the United States. This Prospectus is being provided to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Issuer and the Joint Lead Managers that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are non-U.S. persons located outside of the United States and any electronic mail address that you gave us and to which the Prospectus may have been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been provided to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus may be distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The attached Prospectus has been provided to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus provided to you in electronic format and a hard copy version that may be available to you on request from the Joint Lead Managers.

THE FEDERAL REPUBLIC OF NIGERIA

US$500,000,000 6.75 per cent. Notes due 2021

Issue Price 98.223 per cent.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the US$500,000,000 6.75 per cent. Notes due 2021 (the "**Notes**") issued by the Federal Republic of Nigeria (the "**Issuer**", the "**Federal Republic**"or "**Nigeria**") to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange. The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

The Notes will, unless previously redeemed or cancelled, be redeemed at their principal amount with payment in full on 28 January 2021. See "*Terms and Conditions of the Notes—7. Redemption and Purchase*".

The Notes will bear interest from and including 28 January 2011 at the rate of 6.75 per cent. per year payable semi-annually in arrear on 28 January and 28 July in each year. The first payment of interest will be made on 28 July 2011 for the period from and including 28 January 2011 but excluding 28 July 2011. Payments on the Notes will be made in US dollars without deduction for or on account of any Nigerian withholding taxes unless the withholding is required by law, in which case the Issuer will pay additional amounts, if any, in respect of such taxes as described herein. See "*Terms and Conditions of the Notes—8. Taxation*".

The Notes have been rated BB- (Negative Outlook) by Fitch Ratings Ltd. and B+ (Stable Outlook) by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies Inc. A rating is not a recommendation to buy, sell or hold securities and maybe subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Credit ratings included or referred to in this Prospectus have been issued by Fitch and Standard & Poor's, each of which is established or has offices established in the European Union and has applied to be (or have its European Union based offices be) registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**"). At the date of this Prospectus, neither Fitch nor Standard & Poor's is registered under the CRA Regulation.

An investment in the Notes involves certain risks. Prospective investors should consider the factors described in "*Risk Factors*" beginning on page 21.

The Notes have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "**US Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("**qualified institutional buyers**") (as defined in Rule 144A ("**Rule 144A**") under the Securities Act) in reliance on, and in compliance with, Rule 144A; and (b) to Persons (other than US Persons) (each as defined in Regulation S) outside the United States in reliance on Regulation S ("**Regulation S**") under the Securities Act. Each purchaser of the Notes will be deemed to have made the representations described in "*Subscription and Sale*" and is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Neither this Prospectus nor the Notes are required to be registered or cleared under the regulations of the Securities and Exchange Commission of Nigeria (the "**Nigerian SEC**").

Citigroup Global Markets Limited and Deutsche Bank AG, London Branch (the "**Joint Lead Managers**") expect to deliver the Notes to purchasers in registered book entry form through the facilities of The Depository Trust Company ("**DTC**"), Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about 28 January 2011. See "*Subscription and Sale*".

Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of a an unrestricted global note certificate, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary. Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued initially in the form of a restricted global note certificate, which will be deposited with DTC, or a custodian of DTC, and registered in the name of a nominee of DTC. See "*Form of Notes*".

Joint Lead Managers and Bookrunners

Citi **Deutsche Bank**

Financial Advisers to the Federal Republic of Nigeria

Barclays Capital **FBN Capital**

The date of this Prospectus is 26 January 2011.

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RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the best of the knowledge and belief of the Issuer, the information contained in this Prospectus is true and accurate in every material respect and is not misleading in any material respect and this Prospectus, insofar as it concerns such matters, does not omit to state any material fact necessary to make such information not misleading. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Issuer are honestly held by the Issuer, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

IMPORTANT NOTICE

This Prospectus constitutes a prospectus for purposes of Article 5 of the Directive 2003/7/EC. No person has been authorised to give any information or to make any representation other than those contained in or consistent with this document in connection with the offering of the Notes (the "**Offering**") and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, the Joint Lead Managers or Barclays Bank PLC and FBN Capital Limited (together with Barclays Bank PLC, the "**Financial Advisers**"). Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This document may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful, including Nigeria.

None of the Joint Lead Managers or the Financial Advisers has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or the Financial Advisers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Joint Lead Managers or the Financial Advisers that any recipient of this Prospectus should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Offering constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers or the Financial Advisers to subscribe for or purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Offering is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers and the Financial Advisers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED AS STABILISING MANAGER (THE "**STABILISING MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVERALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR

PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT SHALL BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Stabilising Manager has acknowledged that the Issuer has not authorised the issuance of more than US$500,000,000 in aggregate principal amount of Notes.

The Issuer is relying on an exemption from registration under the US Securities Act. By purchasing the Notes, each purchaser will be deemed to have made the acknowledgements, representations, warranties and agreements described in "*United States Transfer Restrictions*" in this Prospectus. Each prospective investor should understand that it will be required to bear the financial risks of its investment.

The Issuer is not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any investment or similar laws or regulations, including those of Nigeria. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult with its own legal, business or tax adviser regarding an investment in the Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Joint Lead Managers and the Financial Advisers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in any such jurisdiction or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Joint Lead Managers or the Financial Advisers (save for the approval of this document as a prospectus by the UK Listing Authority) which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction (including Nigeria) where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable securities laws and regulations. Persons into whose possession this Prospectus or any Notes come must inform themselves about and observe any such restrictions.

The Notes have not been registered with, recommended by or approved or disapproved by the US Securities and Exchange Commission (the "**SEC**") or any other federal or state securities commission in the United States nor has the SEC or any other federal or state securities commission confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable US federal and state securities laws pursuant to an exemption from registration. See "*United States Transfer Restrictions*".

The Notes have not been registered with, recommended by or approved or disapproved by the Nigerian SEC nor has the Nigerian SEC confirmed the accuracy or determined the adequacy of this Prospectus.

This Prospectus is not for public distribution in the United States and is only being provided to a limited number of qualified institutional buyers for informational use solely in connection with the consideration of the purchase of the Notes. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED ("**RSA**"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD LOOKING STATEMENTS

This Prospectus contains forward looking statements. These forward looking statements can be identified by the use of forward looking terminology, including the terms "believes", "estimates", "projects", "expects", "intends", "may", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward looking statements are statements that are not historical facts and include statements about the Issuer's beliefs and expectations. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward looking statements speak only as of the date they are made. Although the Issuer believes that the beliefs and expectations reflected in such forward looking statements are reasonable, no assurance can be given that such beliefs and expectations will be realised.

Forward looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those expressed in any forward looking statement. The information contained in this Prospectus identifies important factors that could cause such differences, including, but not limited to, the following adverse external factors, such as:

- changes in international commodity prices, particularly oil, foreign exchange rates or prevailing interest rates, which could adversely affect Nigeria's balance of payments and external reserves;
- recession, political unrest or low economic growth in Nigeria's trading partners or, in the event that Nigeria increases its reliance on external borrowings, changes in the terms on which international financial institutions provide financial assistance to Nigeria or fund new or existing projects, which could decrease exports, adversely affect Nigeria's economy and, indirectly, reduce tax and other public sector revenues, so adversely affecting Nigeria's budget; or
- adverse events in other emerging market countries, which could dampen foreign investment or adversely affect the trading price of the Notes;

and the following adverse domestic factors, such as:

- any failure to continue to implement reforms in the oil and gas industry or other industries or economic sectors;
- the inability of Nigeria to successfully implement appropriate fiscal policies;

- changes in the monetary policy applicable in Nigeria which could affect inflation and/or growth rates;
- political and electoral factors, including the upcoming general elections, that could threaten the stability of the country, ignite religious and ethnic violence, undermine political and socio-economic developments, including the effective implementation of the Government's Vision 20:2020 plan and negatively impact the pace of reforms and economic growth;
- the ability of Nigeria to successfully eliminate violence in the Niger Delta region and stem increasing violence in the city of Jos in Plateau State and other parts of the country;
- a decline in foreign direct investment, increases in domestic inflation, high domestic interest rates, exchange rate volatility or an increase in the level of domestic and external debt, which could lead to lower economic growth, a decrease in Nigeria's revenues or an increase in debt service requirements;
- socio-economic factors in Nigeria, which could affect political stability;
- the timing and structure of economic reforms such as the banking, oil and gas and power sector reforms, the climate for foreign direct investment, ability to grow the non-oil sector of the economy and the pace, scale and timing of privatisations; and
- the ability of Nigeria to adequately address its infrastructure deficiencies, such as those in the power sector, which may affect its ability to effectively implement the Government's Vision 20:2020 plan and negatively impact the pace of economic growth.

The sections of this Prospectus entitled "*Risk Factors*", "*The Federal Republic of Nigeria*" and "*The Economy*" contain a more complete discussion of the factors that could adversely affect the Issuer. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur.

The Issuer does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law or applicable regulations. All subsequent written and oral forward-looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

Annual information presented in this Prospectus is based upon the calendar year (which is the fiscal year for the Issuer), unless otherwise indicated. Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be the sum of the figures which precede them. Statistical information reported herein has been derived from official publications of, and information supplied by, a number of agencies and ministries of the Issuer including the CBN, the DMO and the NBS (each as defined below). Some statistical information has also been derived from information publicly made available by the International Monetary Fund (the "**IMF**"), the International Bank for Reconstruction and Development (the "**World Bank**") and other third parties. Where information has been so sourced the source is stated where it appears in this Prospectus. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Similar statistics may be obtainable from other sources, but the date of publication, underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. In addition, statistics and data published by one ministry or agency may differ from similar statistics and data produced by other agencies or ministries due to differing underlying assumptions, methodology or timing of when such data is reproduced. Certain historical statistical information contained herein is provisional or otherwise based on estimates that the Issuer and/or its agencies believe to be based on reasonable assumptions. The Issuer's official financial and economic statistics are subject to internal review as part of a regular confirmation process. Accordingly, financial and economic information may be subsequently adjusted or revised. While the Government does not expect such revisions to be material, no assurance can be given that material changes will not be made.

Nigeria has attempted to address some inadequacies in its national statistics through the adoption of the Statistics Act of 2007, which established the National Statistical System ("**NSS**") and created the NBS (which came into existence as a result of the merger of the Federal Office of Statistics and the National Data Bank) as its co-ordinator. The strategic objectives of the system include building capacity for providing high quality statistical information, promoting standardisation in statistics production and ensuring high quality and reliability of statistical information. The NSS is also responsible for building sustainable capacity across Nigeria for the production and use of statistical data, to promote cooperation, coordination and rationalisation among users and providers of statistics and to ensure optimal utilisation of resources. The NBS is also charged with implementation of the National Strategy for the Development of Statistics. According to the IMF's report on its 2009 Article IV consultation with Nigeria, the enactment of the Statistics Act of 2007 has led to a number of improvements in data management in Nigeria including better information sharing between data producing and collecting agencies. However, Nigeria still faces a number of challenges in gathering statistical data such as inadequate data coverage, inadequate information on sub-national public finances, lack of regularly available data on economic activity and large errors and omissions in the balance of payments data, all of which continue to hinder compilation of timely and consistent data.

In addition, in late-2007 the Government made some revisions to the national accounts which led to some discontinuities in the non-oil GDP. Certain statistical information included in this Prospectus has been recently revised. Following the IMF Article IV consultation in 2010, certain historical figures included in the balance of payments were adjusted as a result of the review of additional sources of data available to the CBN, including data from the Nigeria Customs Services, the Ministry of Finance, the NNPC and the NBS. Although all of the balance of payment information presented in this Prospectus has been revised to be presented on a consistent basis, the data contained herein may be different from data contained in other official sources, such as the CBN Annual Report for 2009.

In June 2010 the NBS reweighted the consumer price index ("**CPI**") to lower the weight of food in the inflation basket from 63.8 per cent. to 50.7 per cent., resulting in a revision to the inflation rate for June 2010 to 14.1 per cent. from 10.3 per cent.

Certain Definitions and Terminology

In this Prospectus:

- "**ADF**" refers to the African Development Fund;
- "**AfDB**" refers to the African Development Bank;
- "**AMCON**" refers to the Asset Management Corporation of Nigeria;
- "**bbl**" or "**bbls**" refers to barrels;
- "**bbl/d**" refers to barrels per day;
- "**bscf**" refers to billion standard cubic feet;
- "**CBN**" refers to the Central Bank of Nigeria;
- "**Constitution**" refers to the Constitution of the Federal Republic of Nigeria;
- "**DAS**" refers to the Dutch Auction System;
- "**DMO**" refers to the Debt Management Office of Nigeria;
- "**DPR**" refers to the Department of Petroleum Resources;
- "**ECOWAS**" refers to the Economic Community of West African States;
- "**EDF**" refers to the European Development Fund;
- "**FCT**" refers to Abuja, the Federal Capital Territory of Nigeria;
- "**Federal Government**" or "**Government**" refers to the Federal Government of Nigeria;
- "**Federation**" refers to the Federal Government, State Governments and Local Governments;
- "**First NIP**" refers to the National Implementation Plan for the period 2010-2013;
- "**Fitch**" refers to Fitch Ratings Ltd.;
- "**GDP**" refers to the real gross domestic product;
- "**IBRD**" refers to the International Bank for Reconstruction and Development;
- "**IDA**" refers to the International Development Association;
- "**IDB**" refers to the Islamic Development Bank;
- "**IFAD**" refers to the International Fund for Agricultural Development;
- "**IMF**" refers to the International Monetary Fund;
- "**INEC**" refers to the Independent Electoral Commission of Nigeria;
- "**IOCs**" refers to international oil companies;
- "**Local Government**" refers to the local governments of the State Government and the FCT;
- "**MDAs**" refers to ministries, departments and agencies;
- "**MEND**" refers to the Movement for the Emancipation of the Niger Delta;
- "**mmcfd**" refers to millions of cubic feet per day;

- "**mmtpa**" refers to million metric tonnes per annum;
- "**mtpa**" refers to million ton per annum;
- "**Naira**" and "**₦**" refer to the Nigerian Naira, the official currency of Nigeria;
- "**Nigerian SEC**" refers to the Nigerian Securities and Exchange Commission;
- "**NITEL**" refers to Nigerian Telecommunications Limited;
- "**NBS**" refers to the National Bureau of Statistics;
- "**NNPC**" refers to the Nigerian National Petroleum Corporation;
- "**Nigeria**" refers to the Federal Republic of Nigeria;
- "**OPEC**" refers to the Organisation of the Petroleum Exporting Countries;
- "**PIB**" refers to the Petroleum Industry Bill;
- "**PDP**" refers to the People's Democratic Party;
- "**PHCN**" refers to the Power Holding Company of Nigeria Plc;
- "**PSCs**" refers to Production Sharing Contracts;
- "**RDAS**" refers to the Retail Dutch Auction System;
- "**Standard & Poor's**" refers to Standard & Poor's Rating Services, a division of the McGraw Hill Companies;
- "**State Governments**" refers to the state governments of Nigeria;
- "**United States**" or the "**US**" refers to the United States of America;
- "**US dollars**" and "**US$**" refer to the lawful currency of the United States of America;
- "**UN**" refers to the United Nations;
- "**VAT**" refers to value added tax;
- "**Vision 20:2020**" refers to the Vision: 20:2020 plan; and
- "**WDAS**" refers to the Wholesale Dutch Auction System.

EXCHANGE RATE

The currency of Nigeria is the Naira, which was introduced in January 1973. The three exchange rates which operate in the Nigerian economy are:

- the DAS rate, which is managed by the CBN and consists of the WDAS rate or the RDAS rate. The WDAS and RDAS are alternate regimes which do not operate at the same time. The current DAS rate in operation in Nigeria is the WDAS (the "**Official Rate**");
- the inter-bank exchange rate which is a rate determined by a two-way quote system of banks trading among themselves with funds obtained from autonomous sources to deepen the foreign exchange market; and
- the bureaux de change ("**BDC**") rate, which rate was introduced in 2009 when the CBN issued licenses to BDC operators as one of the measures to stabilise the exchange rate.

The following table sets forth information on the Official Rate between the Naira and the US dollar for each of the periods specified.

	Average	**High**	**Low**	**Period End**
		(₦:US$1.00)		
2005	131.10	132.38	128.40	128.50
2006	128.14	129.79	127.77	127.78
2007	125.07	127.14	117.64	117.64
2008	117.78	129.16	116.64	129.16
2009	147.27	151.37	149.19	149.19
2010	150.30	151.55	149.08	150.66

Sources: CBN 2009 Statistical Bulletin and the CBN Financial Markets Department

As at 24 January 2011, the Official Rate was ₦150.40:US$1.00.

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a sovereign State and investors may effect service of process within the United Kingdom upon the Issuer through the Issuer's High Commission in the United Kingdom.

There are two regimes for the enforcement of foreign judgments in Nigeria: the Reciprocal Enforcement of Judgment Ordinance Cap 175, Laws of the Federation of Nigeria and Lagos, 1958 (the "**Ordinance**") and the Foreign Judgments (Reciprocal Enforcement) Act, Cap F35 Laws of the Federation of Nigeria 2004 (the "**Act**").

The Ordinance applies to judgments obtained in the High Court in England or Ireland, or in the Court of Session in Scotland or to other parts of Her Majesty's dominions to which the Ordinance is extended by proclamation. Subject to certain exceptions, judgments obtained in these jurisdictions are enforceable by registration under the Ordinance. To be enforceable, such judgments must be registered within 12 months after the date of the judgment or such longer period as may be allowed by the courts. The judgment must (i) derive from civil proceedings; (ii) be final and capable of execution in the country of delivery; (iii) must not have been wholly satisfied; and (iv) not suffer from want of jurisdiction, lack of fair hearing or fraud, be contrary to public policy or have been discontinued because the issue had already been decided by another competent court before its determination by the foreign court.

Accordingly, foreign judgments relating to the Notes are registrable and enforceable in Nigeria if such judgements are obtained in the High Courts of England or Ireland or in the Court of Session in Scotland or in other parts of the Her Majesty's dominions to which the Ordinance is extended by proclamation. However, such judgments obtained are not registrable or enforceable in Nigeria where (i) the foreign court acted without jurisdiction; (ii) the judgment debtor, being a person who was neither carrying on business nor ordinarily resident within the jurisdiction of the foreign court, did not voluntarily appear or otherwise submit or agree to submit to the jurisdiction of that court; (iii) the judgment debtor was not duly served with the process of the foreign court; (iv) the judgment was obtained by fraud; (v) the judgment debtor satisfies the registering court that an appeal is pending against the judgment or that he is entitled to and intends to appeal against the judgment; or (vi) the judgment was in respect of a cause of action which could not have been entertained by the registering court for reasons of public policy or for some other similar reason. In this regard, notwithstanding that a judgment emanates from a jurisdiction to which the Ordinance applies, such judgment will not be registrable or enforceable in Nigeria if the judgment falls within any of the exceptions enumerated in (i) to (vi) above. Furthermore, in the event that the Minister of Justice orders in the future that the Act, discussed below, applies to judgments from the High Court in England or Ireland, or in the Court of Session in Scotland or to other parts of Her Majesty's dominions, then enforcement of such judgments will need to be in accordance with the Act.

The second regime for the enforcement of foreign judgments in Nigeria, the Act, applies to judgements obtained in the superior courts of any country (other than Nigeria) subject to the satisfaction of the following two conditions: (i) Nigerian judgements must be accorded substantial reciprocity of treatment in courts of the subject foreign country, and (ii) the Minister of Justice must have made an order extending the applicability of the Act to judgments obtained in such foreign country. Where the above two conditions are satisfied in respect of any jurisdiction (whether or not covered by the Ordinance), the Act shall apply to those jurisdictions. To be enforceable, judgements from such jurisdictions must be registered within six years after the date of the judgment, or where the proceedings have been by way of appeal, within six years after the date of the last judgment given in those proceedings. Such judgements are only registrable where the judgement would have been enforceable by execution in the jurisdiction of the original court.

Judgments not covered by the Ordinance or the Act (whether because they are delivered in countries to which the Ordinance does not apply or because the two conditions stated in the preceding paragraph are not satisfied) may only be enforced under residual common law powers, which allow such judgments obtained in foreign courts to be used as evidence in a new suit.

There is no treaty between the United States and Nigeria providing for reciprocal enforcement of judgments and the Minister of Justice has not directed the application of the Act to judgments derived from US courts. Thus, as at the date hereof, judgments of courts in the United States can only be enforced in Nigeria if the person seeking to enforce them is able to formulate a fresh cause of action on the basis of the foreign judgment in the Nigerian courts.

Based on the provisions of the Ordinance, foreign judgments can be enforced and recovered in foreign currency. In contrast, the Act provides that a foreign judgment to which the Act applies may only be enforceable in Nigeria in the local currency. However, the relevant provision of the Act will only become operational if the Minister of Justice declares that the Act shall apply to judgments of superior courts of a particular country that accords reciprocal treatment to judgments of superior courts of Nigeria. In that event, judgments of superior courts of that country (whether or not previously covered by the Ordinance), when registered and enforced in Nigeria, will be enforced only in Naira. To date, the Minister of Justice has not issued any order extending the application of the Act to judgments of superior courts of any country, and until such order is made, there is no restriction on Nigerian courts to register and enforce foreign judgments which come under the purview of the Ordinance in foreign currency.

OVERVIEW

The following is an overview of certain information contained elsewhere in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set forth in "Risk Factors" below prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Prospectus. See "The Federal Republic of Nigeria", "The Economy", "Foreign Trade and Balance of Payments", "Public Finance", "Public Debt" and "Monetary System", amongst others, for a more detailed description of the Issuer.

Overview of the Federal Republic

General

The Federal Republic of Nigeria occupies 923,768 square kilometres of West Africa, bordering the Republic of Benin to the west, Chad and Cameroon to the east, Niger to the north and the Gulf of Guinea to the south. Nigeria has a population of approximately 159 million. Nigeria consists of 36 states and the FCT of Abuja, which is located in central Nigeria. Lagos, the largest city in Nigeria, has a population of approximately 17 million.

Nigeria achieved full independence from the United Kingdom on 1 October 1960 and became a federal republic in 1963. The last presidential elections were held in 2007 and resulted in the election of late President Umaru Musa Yar' Adua. Following the death of President Umaru Musa Yar'Adua, Goodluck Ebele Jonathan was sworn in as President, in accordance with the Constitution, on 6 May 2010. The PDP is the ruling party in Nigeria and has been in power since 1999. The next general elections are scheduled for April 2011. In primary elections held on 13-14 January 2011, incumbent President Goodluck Ebele Jonathan received the PDP's nomination as its candidate for the Presidential elections.

The current Constitution was adopted in May 1999 and provides for a President, a National Assembly and a Judiciary. The National Assembly, with two chambers, comprises a Senate and a House of Representatives. The Senate, the upper chamber, for which elections are expected to be held on 2 April 2011, is made up of members elected for a four-year term. Each Nigerian state elects three senators while the FCT elects one senator (109 seats in total). The House of Representatives, the lower chamber, for which elections also are expected to be held on 2 April 2011, has 360 members who are elected in single member constituencies for four-year terms.

Economy

Nigeria has the second largest economy in sub-Saharan Africa. Overall, despite the negative effects of the global financial crisis in recent periods, Nigeria's economy has continued to experience significant GDP growth.

- *GDP*. Real GDP grew 7.53 per cent. in the first half of 2010, 6.96 per cent. in 2009, 5.98 per cent. in 2008 and 6.45 per cent. in 2007. This growth was largely attributable to the continued growth in non-oil GDP, which grew 8.32 per cent. in 2009, 8.95 per cent. in 2008 and 9.52 per cent. in 2007. Overall GDP growth for 2010 is estimated at 7.85 per cent. The Government plans to reinforce economic growth in future periods by encouraging non-oil private sector growth, which it plans to facilitate through the implementation of its Vision 20:2020 plan.

- *Oil prices and production*. The Nigerian economy is highly impacted by oil and gas production, which accounted for 16.29 per cent. of GDP in 2009 and approximately 69.4 per cent. of total gross federally collectible revenue in 2009. Crude oil prices declined from an average of US$101.15 per barrel in 2008 to US$62.08 in 2009, increasing in 2010 to an average of US$80.98 per barrel. Oil production in 2009 and 2008 averaged 2.1 million barrels per day, compared to 2.5 million barrels per day in 2005. In the first eleven months of 2010, oil production levels increased to an average of 2.4 million barrels per day.

- *External sector*. Nigeria's external sector, like most economies, was under pressure during the global financial crisis and this was reflected in the decline in external reserves, capital withdrawals by portfolio investors and a lower trade balance. Despite the pressure, monetary policy actions and exchange rate management combined to result in a surplus outcome in the current account balance, which represented 13.65 per cent. of GDP in 2009 compared to 15.43 per cent. in 2008. The external reserves position increased in recent years from US$28.3 billion in 2005 to US$53 billion in 2008, before dropping to US$37.5 billion as at 30 June 2010 and further to US$33.1 billion as at 30 November 2010.

- *Fiscal deficit*. The overall fiscal deficit increased from ₦419.5 billion in 2008 to ₦1,126.7 billion in 2009. The increase in the deficit in 2009 was largely the result of the decline of crude oil prices in 2009 compared to 2008 and was also due to an increase in both recurrent and capital expenditures. In the first eleven months of 2010, the overall fiscal deficit was ₦1,529.3 billion, largely as a result of an increase in recurrent expenditure.

- *Public Debt*. As at 31 December 2010, Nigeria's total public debt was US$34.6 billion (provisional). External debt was US$4.8 billion (provisional) as at 31 December 2010, a decrease from US$20.5 billion as at 31 December 2005, attributable to the repayment and subsequent cancellation of the Paris Club debt and the repayment of the London Club debt. Additionally, in December 2010 the Government entered into a US$899.5 million credit agreement with the Export-Import Bank of China for the purpose of funding certain infrastructure projects. Drawdowns under this facility are tied to project completion milestones and as at 31 December 2010 no amount had been drawn. Nigeria's domestic debt was ₦4.5 trillion (provisional), or US$29.8 billion as at 31 December 2010, compared to ₦1.5 trillion, or US$11.8 billion as at 31 December 2005. The increase in domestic debt reflects the significant increase in borrowings through Government bonds in the domestic market.

- *Inflation*. Nigeria's year on year inflation rate for November 2010 was 12.8 per cent. The annual inflation rate was 6.6 per cent. as at 31 December 2007 and rose to 15.1 per cent. as at 31 December 2008. Inflationary pressure moderated slightly in 2009 and was 13.9 per cent. as at 31 December 2009, reflecting an increase in demand pressure due to fuel shortages linked to the speculation that petroleum product prices would be deregulated. In June 2010 the NBS reweighted the consumer price index ("**CPI**") to lower the weight of food in the inflation basket from 63.8 per cent. to 50.7 per cent., resulting in a revision to the inflation rate for June 2010 to 14.1 per cent. from 10.3 per cent.

Reforms

Nigeria is in the process of adopting and implementing a number of reforms aimed at making Nigeria one of the 20 largest economies in the world by 2020. The reforms are aimed at a number of areas, primarily diversifying the economy away from dependence on oil by addressing infrastructure and related issues to create a more favourable environment for continued growth of the non-oil and gas sectors of the economy. A summary of some of these key reform agendas include:

- *Vision 20:2020*. Vision 20:2020 is the Government's long-term plan to become one of the 20 largest economies by 2020, and the Government has adopted the First NIP as its medium-term plan to implement the first stage of Vision 20:2020. The First NIP has six main areas of focus:
    - Physical Infrastructure – focusing on power, transport and housing;
    - Productive Sector – focusing on the key sources of economic growth such as agriculture, oil and gas and manufacturing;

- Human Capital and Social Development – focusing on the social sectors of the economy, namely; education, health, labour, employment and productivity;
- Building a Knowledge-based Economy – focusing on building a knowledgeable workforce and ensuring widespread access to Information, Internet and Communication Technology;
- Governance and General Administration – focusing on election reform and combating corruption; and
- Regional Geopolitical Zone Development – focusing on fostering accelerated, sustainable social and economic development in a competitive and friendly manner.

- *Oil and Gas Sector.* The Government is currently reforming the petroleum industry and a general overhaul of the oil and gas sector is expected. The Petroleum Industry Bill ("**PIB**"), a major legislative proposal that would represent the most comprehensive overhaul of the structure of the oil and gas industry in Nigeria since commercial oil production began in the 1960s, is currently pending before the National Assembly. Other significant reforms, including the Nigeria Oil and Gas Industry Content Development Act 2010, have recently been enacted.

- *Power Sector.* In August 2010, the Government launched the "Roadmap for Power Sector Reform" which seeks, among other objectives, to remove obstacles to private sector investment in the power sector, permit the privatisation of the generation and distribution companies as well as facilitate the construction of new transmission networks and reform the fuel-to-power sector. The Government estimates that in order to meet the target of 40,000 mega watts by 2020, a total investment of US$10 billion per annum will be needed throughout the whole power sector over the next 10 years, most of which it aims to achieve by incentivising the private sector to make such investments.

- *Banking.* The global financial crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions by a number of Nigerian banks. Following a special examination and investigation of the 24 banks that comprise the Nigerian banking system, the CBN found significant irregularities and capital adequacy deficiencies at some of the banks, resulting in a number of proposed reforms including the creation of AMCON, a government-backed corporation that will purchase a significant portion of the non-performing assets in the Nigerian banking sector and assist in recapitalising undercapitalised banks to help restore the health of the banking sector. The CBN expects that AMCON will issue Federal Government-guaranteed bonds in the amount of approximately ₦2.5 trillion (approximately US$16.6 billion), of which approximately ₦1 trillion was issued in December 2010, and will acquire much of the estimated ₦2.2 trillion of non-performing assets in the banking sector.

Statistical Data

The following selected economic information is qualified in its entirety by, and should be read in conjunction with, the detailed information appearing elsewhere in this Prospectus. All data shown for 2010 are provisional.

	For the year ended 31 December					For the six months ended 30 June
	2005	2006	2007	2008	2009	2010
Domestic Economy						
Nominal GDP (Naira billions)	14,572.2	18,564.8	20,657.3	24,296.3	24,794.2	13,061.1
Real GDP (Naira billions)	561.9	595.8	634.3	672.2	718.9	334.7
Real GDP (growth rate) (%)	6.51	6.03	6.45	5.98	6.96	7.53

	For the year ended 31 December					For the six months ended 30 June
	2005	2006	2007	2008	2009	2010
Balance of Payments (Naira billions)						
Exports of Goods	7,246.5	7,324.7	8,309.8	9,907.6	8,832.4	5,525.9
Imports of Goods	(3,413.5)	(2,828.8)	(3,559.9)	(4,369.8)	(4,325.1)	(3,583.7)
Trade Balance	3,832.9	4,495.9	4,749.9	5,537.8	4,507.3	1,942.2
Current Account	4,891.7	4,357.6	3,879.2	3,748.3	3,408.1	852.7

	For the year ended 31 December					For the eleven months ended 30 November
	2005	2006	2007	2008	2009	2010
Public Finance (Naira billions)						
Total Gross Federally Collectible Revenue	5,559.3	5,973.9	5,594.2	7,748.1	4,599.0	6,344.6
Federal Government Retained Revenue	1,433.5	1,438.4	1,744.3	2,598.5	2,162.5	1,433.5
Total Expenditure	1,722.9	1,809.7	2,346.1	3,018.0	3,289.1	3,652.0
Overall Deficit	(289.5)	(371.4)	(601.8)	(419.5)	(1,126.7)	(1,529.3)

	As at 31 December					
	2005	2006	2007	2008	2009	2010
Public Debt (US$ billions)						
External Debt	20.5	3.5	3.7	3.7	3.9	4.8
Domestic Debt	11.8	13.8	18.6	17.7	21.9	29.8
Gross Public Debt as % of real GDP	28.6	12.1	13.0	11.6	15.4	16.0

Sources: NBS, CBN, Office of the Accountant General and DMO.

Overview of Risk Factors Relating to the Federal Republic, the Notes and the Trading Market for the Notes

An investment in the Notes involves significant risks, including (among others):

- investing in securities in emerging markets such as Nigeria generally involves a higher degree of risk than more developed markets;
- the upcoming general elections may result in political instability or changes in policies;
- the Issuer may be unable to meet its economic growth and reform objectives and any failure or inability to continue to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy;
- the Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil;
- the continuing depletion of the Excess Crude Account could have adverse impacts on the Nigerian economy;
- the regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change;
- Nigeria relies heavily on imported refined oil and is therefore vulnerable to oil price increases and supply constraints;
- high inflation could have a material adverse effect on Nigeria's economy;
- failure to adequately address actual and perceived risks of corruption may adversely affect Nigeria's economy and ability to attract foreign direct investment;
- the statistical information published by Nigeria may differ from that produced by other sources and may be unreliable;
- a significant portion of the Nigerian economy is not recorded;
- the impact of the global economic crisis on the Nigerian economy;
- a significant decline in the level of external reserves as a result of the CBN's intervention in the currency markets, could materially impair Nigeria's ability to service its external debt, including the Notes;
- failure to grow the non-oil and gas sectors of its economy may constrain Nigeria's economic growth;
- failure to collect certain remittances from MDAs may adversely impact the Government's revenue;
- existing wage and pension arrears in relation to the staff of privatised company may weigh on Government spending and significantly reduce the proceeds of privatisations;
- reliance on food imports may result in inflation and in increased Government spending;
- militant activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy;
- there are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria;
- significant increases in levels of government debt could have a material adverse effect on Nigeria's economy and its ability to service its debt, including the Notes;

- there are risks related to the banking sector and the Nigerian equities markets;
- Nigeria may face a lack of continued access to foreign trade and investment for several reasons;
- failure to adequately address Nigeria's significant infrastructure deficiencies could adversely affect Nigeria's economy and growth prospects;
- Nigeria suffers from chronic electricity shortages;
- Nigeria is a sovereign State. Consequently, it may be difficult for investors to obtain or realise upon judgments against Nigeria;
- Nigeria may not achieve its growth objectives if the Government's initiatives to improve the health, education and productivity of the country's labour force are not successful;
- health risks could adversely affect Nigeria's economy;
- the Notes may be negatively affected by events in other emerging markets, including those in sub-Saharan Africa;
- the Notes may not be suitable as an investment for all prospective purchasers;
- an active trading market for the Notes may not develop and any trading market that does develop may be volatile;
- the terms and conditions of the Notes contain provision for modifications and waivers;
- the Issuer's credit ratings are subject to revision or withdrawal, either of which could adversely affect the trading price of the Notes; and
- payments made in certain EU Member States may be subject to withholding tax under the EU Savings Directive.

Overview of the Terms and Conditions of the Notes

*The following is an overview of certain information contained elsewhere in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set forth in "Risk Factors" below prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See "Terms and Conditions of the Notes" for a more detailed description of the Notes.*

Issuer	The Federal Republic of Nigeria.
Notes Offered	US$500,000,000 principal amount of 6.75 per cent. Notes due 2021.
Issue Date	28 January 2011.
Maturity Date	28 January 2021 (the "**Maturity Date**").
Interest	6.75 per cent. per year, computed on the basis of a 360-day year of 12 30-day months, payable in US dollars.
Interest Payment Dates	The Federal Republic will pay interest semi-annually in arrear on 28 January and 28 July of each year. The first payment of interest will be made on 28 July 2011 for the period from and including 28 January 2011 to but excluding 28 July 2011. See "*Terms and Conditions of the Notes—5. Interest*".
Offer Price	98.223 of the principal amount.
Yield to Maturity	As at the Issue Date, the yield to maturity of the Notes is 7.00 per cent.
Redemption	The Federal Republic will redeem the Notes at their principal amount on the Maturity Date. See "*Terms and Conditions of the Notes—7. Redemption and Purchase*".
Denominations	The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of US$200,000 and integral multiples of US$1,000.
Status	The Notes constitute direct, unconditional and (subject to the provisions of the negative pledge covenant described below) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, and with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. The full faith and credit of the Issuer is pledged to the due and punctual payment of the Notes. See "*Terms and Conditions of the Notes—3. Status*".

Negative Pledge .... So long as any Note remains outstanding the Issuer will not, save for the limited exceptions set forth herein create, incur, assume or permit to subsist any Security upon the whole or any part of its present or future assets, undertakings or revenues to secure (i) any of its Public External Indebtedness; (ii) any Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness of any other person; without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution of Noteholders.

See "*Terms and Conditions of the Notes—4. Negative Pledge*".

Events of Default.......................... The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default.

See "*Terms and Conditions of the Notes—10. Events of Default*".

Form of Notes.............................. The Federal Republic will issue the Notes in registered form, without coupons. The Federal Republic will not issue the Notes in bearer form.

Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of Unrestricted Global Note Certificates, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary.

Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued initially in the form of Restricted Global Note Certificates, which will be deposited with DTC, or a custodian of DTC, and registered in the name of a nominee of DTC.

Taxation and Additional Amounts.. All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, subject to certain exceptions set forth under "*Terms and Conditions of the Notes—8. Taxation*" and "*Taxation*".

Meetings of Noteholders and Amendment .... A summary of the provisions for convening meetings of Noteholders and amendments is set forth under "*Terms and Conditions of the Notes—13. Meeting of Noteholders and Amendment*".

Use of Proceeds............................ The gross proceeds of the issue of the Notes are expected to amount to US$491,115,000. The aggregate amount of commissions payable to the Joint Lead Managers and estimated expenses payable by the Issuer in connection with the offer and sale of the Notes are expected to be approximately US$3,000,000. The net proceeds of the issue, after payment of such commissions and expenses, will be used for general budgetary purposes.

See "*Use of Proceeds*".

Ratings .... The Notes have been rated BB- (negative outlook) by Fitch and B+ (stable outlook) by Standard & Poor's. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Credit ratings included or referred to in this Prospectus have been issued by Fitch and Standard & Poor's, each of which is established or has offices established in the European Union and has applied to be (or have its European Union based offices be) registered under the CRA Regulation. At the date of this Prospectus, neither Fitch nor Standard & Poor's is registered under the CRA Regulation.

Listing and Admission to Trading .... Application has been made to admit the Notes to the Official List of the United Kingdom Listing Authority and to trading on the EEA Regulated Market of the London Stock Exchange.

Further Issues............................... The Issuer may from time to time without the consent of the Noteholders issue additional Notes that will form a single series with the Notes subject to certain conditions set out under "*Terms and Conditions of the Notes—14. Further Issues*"

Governing Law............................ English law.

Transfer Restrictions.................. The Notes have not been and will not be registered under the US Securities Act or any US state securities law. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the US Securities Act and applicable state securities laws. See "*United States Transfer Restrictions*".

Neither this Prospectus nor the Notes are required to be registered or cleared under the regulations of the Nigerian SEC.

Fiscal Agent, Paying Agent and Transfer Agent	Deutsche Bank AG, London Branch
Luxembourg Registrar	Deutsche Bank Luxembourg S.A.
U.S. Registrar, U.S. Transfer Agent, U.S. Paying Agent	Deutsche Bank Trust Company Americas
ISIN	XS0584435142 and US65412AAA07 for the Unrestricted Global Note Certificates and Restricted Global Note Certificates, respectively.
Common Code	058443514 and 058543756 for the Unrestricted Global Note Certificates and the Restricted Global Note Certificates, respectively.
CUSIP Number	65412A AA0 for the Restricted Global Note Certificate.

RISK FACTORS

The Issuer believes that the following factors may affect Nigeria's economy and its ability to fulfil its obligations under the Notes. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below. These factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay principal, interest or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Notes comprise an exhaustive list of the risks inherent in investing in the Notes, and the Issuer may be unable to pay amounts due on the Notes for reasons not described below. Prospective investors should also read the detailed information set out elsewhere in this Prospectus prior to making any investment decision.

Risk Factors Relating to Nigeria

Investing in securities in emerging markets such as Nigeria generally involves a higher degree of risk than more developed markets.

Investing in securities of issuers in emerging markets, such as Nigeria, generally involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries and carries risks that are not typically associated with investing in more mature markets. These risks include, but are not limited to, higher volatility and more limited liquidity in respect of the Notes, greater political risk, a narrow export base, budget deficits, lack of adequate infrastructure necessary to accelerate economic growth and changes in the political and economic environment. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than do more mature markets, which could affect the ability of governments to meet their obligations under issued securities. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in securities of issuers in emerging markets, such as Nigeria, is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

The upcoming general elections may result in political instability or changes in policies.

Following the death of the former president, Umaru Musa Yar'Adua, on 5 May 2010, Goodluck Ebele Jonathan was sworn in as President on 6 May 2010 in accordance with the Constitution. The next general elections in Nigeria are expected to take place in April 2011. The incumbent President Goodluck Ebele Jonathan emerged as the Presidential candidate of the ruling party, PDP, at the primaries held on 13-14 January 2011. Certain parties have claimed that the selection of the incumbent President as candidate of the PDP violates an informal power sharing arrangement under which the party's candidate should alternate between candidates from the Northern and Southern portions of the country. Although the primary election is now over, the losing candidates may continue to criticise the decision of the PDP, which could contribute to further unrest. In anticipation of the upcoming elections, political tensions in the country have increased. For example, on 1 October 2010, during the celebration of the 50th anniversary of Nigeria's independence, two bombs exploded in the capital city of Abuja, which resulted in some casualties. Although the MEND claimed responsibility for the explosions, investigations as to who was responsible are still ongoing. Subsequently, on 24 December 2010, a series of bomb attacks were carried out in Jos, in which about eighty people died and an Islamist group has claimed responsibility for these attacks. On the same day, there were also shootings carried out in Maiduguri in Borno State in which several people died. On 29 December 2010, more shootings were carried out at a hospital in Maiduguri in which three people died and on 29 December 2010, two bombs exploded during a political rally in Yenagoa, Bayelsa State which caused injury to several people. Then, on 31 December 2010, a bomb at a popular market at the army barracks in Abuja killed at least four people.

The post-election administration may pursue different policies and priorities than the current administration, alter or reverse certain reforms or take actions that make domestic and foreign investment in Nigeria less attractive. If there are allegations of fraud or other irregularities in connection with the 2011 Presidential elections and such allegations are not properly handled in an orderly manner, such allegations may undermine the legitimacy of the new administration or lead to protests, violence or other unrest. Any significant changes in the political climate in Nigeria, including changes affecting the stability of the Government or involving a rejection, reversal or significant modification of policies or favouring the privatisation of state-owned enterprises, reforms in the power, banking and oil and gas sectors or other reforms, may have negative effects on the economy, government revenues or foreign reserves and, as a result, a material adverse effect on Nigeria's capacity to service the Notes. The outcome of the upcoming elections may have a significant impact on Nigeria's political stability and may adversely affect its economy and no assurance can be given that the current reforms and policies will continue after such elections.

The Issuer may be unable to meet its economic growth and reform objectives and any failure or inability to continue to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy.

Although the Government has announced its intention to pursue a series of economic and fiscal reform initiatives, including those set forth in Vision: 20:2020 and the related First NIP, no assurance can be given that such initiatives will be adequately funded, achieve or maintain the necessary long-term political support, be fully implemented or prove successful in achieving their objectives. Continued pursuit of long-term objectives such as those set forth in Vision 20:2020 and the First NIP will depend on a number of factors including continued political support at many levels of Nigerian society and across multiple government administrations, adequate funding, and significant coordination. The significant funding requirements for these plans may prove difficult or impossible to meet, and the funding requirements for these initiatives may lead to an increase in the Issuer's outstanding debt. If fiscal resources prove inadequate, it may not be possible to adequately pursue all of the public capital projects set forth in the Vision 20:2020 and the First NIP. The economic and other assumptions underlying the objectives set forth in these plans including with respect to oil prices and production, GDP growth, inflation, external debt and the fiscal deficit may not be met, which would undermine the Issuer's ability to achieve the stated objectives. In particular, certain of the 2010 assumptions, including GDP growth rate and inflation rates, will not be satisfied. Failure to achieve one or more of the objectives or complete certain public capital projects set forth in these plans may render it difficult to achieve other stated objectives, and Nigeria's ability to achieve its strategic objectives may be affected by many factors beyond its control. Moreover, some planned reforms may disadvantage certain existing stakeholders, who may seek to curtail such reforms. For example, planned privatisations of state-owned enterprises have in some cases been met with strikes or threats of strikes in anticipation of job losses and increased prices. If the Government is not able to fund or implement the medium-term objectives contained in the First NIP, or if there is a delay in such funding or implementation, then the Government may not be able to meet the long-term strategic objectives set forth in Vision 20:2020 by 2020, which could result in an adverse effect on the economy of Nigeria.

The Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil.

In 2009, the oil sector accounted for an estimated 16.29 per cent. of real GDP, 84.5 per cent. of export earnings and 69.4 per cent. of total gross federally collectible revenue. Reductions in oil revenues could have a material adverse effect on the Nigerian economy and the ability of the Issuer to service the Notes. Nigeria's oil revenues are a function of the level of oil production in the country and prevailing world oil prices. Oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond Nigeria's control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of OPEC and other oil producing nations as to whether to decrease or increase production of crude oil, domestic and foreign supplies of oil, consumer demand, weather conditions, domestic and foreign government regulations, transport costs, the price and availability of alternative fuels and overall economic conditions. These factors have led to significant fluctuations in world oil prices in recent years. For example, the average spot price of crude oil (Bonny Light) was US$74.96 per barrel in 2007, US$101.15 per barrel in 2008, US$62.08 in 2009 and US$80.98 per barrel in 2010. Oil production in Nigeria has also fluctuated significantly in recent years, primarily as a result of violence in the Niger Delta region. Militant activity in the Niger Delta has led to significant disruptions in the production of oil, and although such activity has decreased and oil production has increased in the wake of the amnesty programme and other government initiatives to address the needs of the Niger Delta region, no assurance can be given that militant activity will not increase from current levels or that violence in the Niger Delta region will not lead to significant disruptions in oil production in future periods. See "*—Militant activities in the Niger Delta could destabilise oil production in Nigeria, which could adversely affect Nigeria's economy*". The level of oil production by Nigeria may also be adversely affected by other factors, including changes in oil production quotas by OPEC or the response of IOCs to changes in the regulatory framework for oil production in Nigeria. There may also be loss of revenue arising from the interruption of production operations and theft of crude oil from pipelines and tank farms. There may also be a high incidence of abandoned projects by oil companies in communities where activities are disrupted by militants, which may lead to slower growth in oil and gas production. The level of Nigeria's oil revenues may also be adversely affected by the level of the costs and capital contributions borne or payable by NNPC under its agreements with IOCs, which reduce the net proceeds to Nigeria from oil and gas production.

Many developed economies are actively seeking to develop alternative sources of energy and reduce their dependence on oil as a source of energy. Any long-term shift away from fossil fuels could adversely affect oil prices and demand and the resulting oil revenue of Nigeria.

The continuing depletion of the Excess Crude Account could have adverse impacts on the Nigerian economy.

The Excess Crude Account is an account set up to assist in stabilising the Government's finances to address volatility in crude oil prices and production. The Excess Crude Account is funded with the positive difference, if any, between the revenue generated by the price of oil per barrel included in the budget for the year and the actual revenue received in that year. Since inception, funds from the Excess Crude Account have primarily been used to fund budget deficits. In 2009 and 2010, such funding increased in response to the global economic crisis and the resulting higher deficits at the federal, state and local levels. The Excess Crude Account also has historically funded government subsidies of refined oil products as well as other purposes, including disbursements of approximately US$8 billion to fund the Nigeria Integrated Power Project and US$1 billion as seed capital for the proposed Sovereign Wealth Fund (which funds have been ring fenced and are not included in the balance of the Excess Crude Account). The balance of the Excess Crude Account was US$19.1 billion as at 31 December 2008, US$6.9 billion at 31 December 2009 and US$2.6 billion at 31 December 2010. The balance in the Excess Crude Account is shared between the Federal Government, State Governments and Local Governments according to a specified formula. Depletion of the Excess Crude Account in 2010 has been cited with concern by rating agencies and other third parties that view it as an important factor in ensuring the stability of the Nigerian economy. No assurance can be given that the Excess Crude Account will not continue to be depleted at a rate greater than that necessary for the Government to stabilise its finances from the impact of volatility in oil prices and production, or that the actual price of oil will exceed the price of oil included in the budget in future periods by amounts sufficient to ensure significant funding for the Excess Crude Account in the future. The absence of such funding for the Excess Crude Account may constrain the Government's ability to finance budget deficits in the future.

The Government has proposed establishing a National Sovereign Wealth Fund. The National Economic Council (which includes the 36 State Governors) and the Federal Executive Council recently approved the establishment of the National Sovereign Wealth Fund and the submission of a bill for its establishment to the National Assembly for consideration. The bill was submitted to the National Assembly in December 2010. One of the purposes of the Sovereign Wealth Fund will be to support and/or replace the Excess Crude Account as a secondary stabilisation account in the event of changes in oil prices and production. However, it is also proposed that the Sovereign Wealth Fund will fund intergenerational savings and infrastructure development. There can be no assurance regarding when or whether the Sovereign Wealth Fund will be established or, if established, how it will be funded, what its relationship will be to the Excess Crude Account, or whether it will have the necessary safeguards in place to shield it from the election cycle and political pressures, will continue to have sufficient funding, or will make profitable investments or achieve its strategic objectives or how it will be perceived by ratings agencies or other parties.

The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change.

Nigeria is pursuing a number of new policy directions with the aim of restructuring its upstream and deregulating its downstream oil and gas sectors, but the final form that these measures will take is subject to significant uncertainty and subject to political and economic influences. The National Assembly of Nigeria is currently debating the adoption of a PIB that would make a number of significant changes in the way that the oil and gas industry is structured and regulated in Nigeria and if the PIB is adopted, it will have a very significant impact on Nigeria's oil and gas business, the Nigerian economy and the federal budget. See "*The Economy—Principal Sectors of the Economy—Oil and Gas—Oil and Gas Reforms*".

Risks associated with the PIB and related efforts to reform the Nigerian oil and gas industry may include:

- that the PIB has not yet been adopted, and no assurance can be given that it will be adopted on any particular timetable (including prior to the Presidential elections scheduled for April 2011) or at all, or that the final form of any PIB ultimately adopted will not differ significantly from the current proposal;
- that the uncertainty created by the PIB and the necessary implementing regulations may lead IOCs to defer further major investment in Nigeria until the new regulations have been adopted and the new legal framework for the industry has been more clearly defined, or may decide to reduce their investments in Nigeria or decline to pursue certain investments as a result of the new framework;
- that the proposed changes in the tax structure for oil and gas companies operating in Nigeria may lead certain companies to curtail their operations or future investment;
- that the proposed deregulation of the petroleum products market may adversely affect the segments of the economy most affected by the resulting increase in prices and could lead to protests from the public who currently benefit from subsidised prices. The new framework may generate less new capacity than anticipated and any new capacity may take longer than anticipated to begin operations;
- that the initiatives designed to promote gas production may prove ineffective;
- that the PIB may fail to adequately address the concerns of communities in the Niger Delta region or create new grounds for further conflict; and
- that the proposed National Oil Company may not be successful.

Nigeria relies heavily on imported refined oil and is therefore vulnerable to oil price increases and supply constraints.

Nigeria currently has four oil refineries that consistently operate significantly below their production capacities. Although a plan to build three new refineries recently has been announced, those projects are years away from completion and the level of future private investment in the sector is significantly dependent on whether, how and when the currently proposed deregulation of the pricing of petroleum products is implemented. Due to the limited production capacity of its oil refineries, Nigeria relies heavily on imported refined petroleum products to meet its energy and transport requirements. Accordingly, a rise in the international price of oil significantly affects Nigeria's economy because, among other things, higher oil prices increase the country's costs of imported refined petroleum products and exerts upward pressure on prices. To alleviate the impact on consumers, the Government currently regulates the prices of certain refined oil products and supports the retailers of such products with subsidies. The cost of these subsidies is substantial and increases as world oil prices increase. Significant increases in world oil prices may increase the amount required to fund subsidies of refined petroleum products in Nigeria.

If the currently proposed reforms are adopted as currently envisaged, the petroleum products market will be deregulated and subsidies and price controls on refined oil will be reduced and gradually eliminated. Although this change would reduce the amounts paid for subsidies and proponents of the change believe it would result in greater investment in refinery capacity, no assurance can be given that the reforms will be adopted as proposed, that they will be successful in promoting a significant expansion of the country's refinery capacity, or that the reduction or removal of subsidies will not lead to protests or other unrest or have an adverse effect on the segments of the economy required to bear the resulting higher prices.

High inflation could have a material adverse effect on Nigeria's economy.

Nigeria is exposed to the risk of high inflation. In recent years, the annual inflation rate has ranged from a level of 6.6 per cent. as at 31 December 2007 to a peak of 15.1 per cent. at 31 December 2008. Inflationary pressure moderated in 2009, as the inflation rate assumed a downward trend. However, it increased from 10.4 per cent. at 30 September 2009 to 13.9 per cent. by 31 December 2009, reflecting an increase in demand pressure due to fuel shortages linked to the speculation that petroleum product prices would be deregulated. To date in 2010 inflationary pressure has remained high with an inflation rate above 13 per cent. for the first few months of the second half of the year, decreasing to 12.8 per cent. in November 2010. For more information on historical inflation rates see "*Monetary System – Inflation*". Although tighter monetary policies may help to curb inflation, the impact on inflation of higher food, fuel and other import prices is beyond Nigeria's control particularly since most of these products are imported. Changes in monetary and/or fiscal policy may also result in higher rates of inflation. There can be no assurance that the inflation rate will not rise in the future. Significant inflation could have a material adverse effect on Nigeria's economy.

Failure to adequately address actual and perceived risks of corruption may adversely affect Nigeria's economy and ability to attract foreign direct investment.

Although Nigeria has implemented and is pursuing major initiatives to prevent and fight corruption and unlawful enrichment, corruption remains a significant issue in Nigeria as it is in many other emerging markets. Nigeria is ranked 134 out of 178 countries in Transparency International's 2010 Corruption Perceptions Index and placed 137 out of 183 in the World Bank's Doing Business 2011 report, which covers the period from June 2009 to May 2010. Since 2000, Nigeria has implemented various measures to prevent and fight corruption and unlawful enrichment. In particular, Nigeria created the Independent Corrupt Practices Commission in 2000 to receive complaints, investigate and prosecute offenders. In 2003, Nigeria also created the Economic and Financial Crimes Commission. Former President Obasanjo's campaign against corruption, which included the arrest of officials accused of misdeeds and recovery of stolen funds, resulted in the Government, with the assistance of the World Bank, recovering funds that had been illicitly deposited in Swiss banks by the late military dictator Sani Abacha, who ruled Nigeria from 1993 to 1998. Additionally, in 2003, Nigeria was among the first countries to adopt the Extractive Industries Transparency Initiative ("**EITI**") to help improve governance of the oil and gas sector. An independent audit of the oil and gas sector from 1999 to 2004 was commissioned. Despite various reform efforts, corruption continues to be a serious problem impacting Nigeria. There have been a number of high profile convictions for corruption, including that of a former Inspector General of the Police, a number of ministers and judges have been dismissed and a number of ex-state governors are facing corruption charges. Failure to address these issues, continued corruption in the public sector and any future allegations of or perceived risk of corruption in Nigeria could have an adverse effect on the Nigerian economy and may have a negative effect on Nigeria's ability to attract foreign investment.

The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable.

The NBS and CBN, as well as a range of ministries, including the Ministry of Finance, Ministry of Petroleum, Ministry of Commerce and Industry and Ministry of Environment produce statistics relating to Nigeria and its economy. However, there can be no assurance that these statistics are as accurate or as reliable as those published by more developed countries. Many statistics contained here for 2010 are provisional figures that are subject to later revision. Prospective investors should be aware that figures relating to Nigeria's GDP, its balance of payments and other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and that the information set forth in this Prospectus may become outdated relatively quickly. Although there have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years including through technical assistance provided by the IMF, errors and omissions in the balance of payments data persist and may complicate the assessment of such data and such figures may be revised in future periods, as occurred in 2010 following the IMF Article IV consultation with Nigeria. Moreover, revisions to the national accounts published in late 2007 may complicate analysis of historical GDP performance and recent changes to the basket used for inflation statistics may make certain prior data difficult to compare.

A significant portion of the Nigerian economy is not recorded.

A significant portion of the Nigerian economy, estimated to be anywhere between 40 per cent. and 75 per cent., is comprised of the informal, or shadow, economy. The informal economy is not recorded and is only partially taxed, resulting in not only lack of revenue for the Government but also ineffective regulation, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and inability to monitor or otherwise regulate a large portion of the economy. Lack of effective regulation and enforcement in this sector also gives rise to other issues including health and safety issues. Although the Government is attempting to address the informal economy by streamlining certain regulations, particularly tax laws, there can be no assurances that such reforms will adequately address the issues and bring the informal economy into the formal sector.

Impact of the global economic crisis on the Nigerian economy.

The global recession and financial crisis in 2008 and 2009 impacted Nigeria particularly through the resulting fluctuations in oil prices and increased investor aversion to risk which resulted in a withdrawal of portfolio capital and reduced access of private sector borrowers to external credit lines. The impact of the global recession has been felt mainly through a reduction in external reserves, the weakening of the Naira towards the end of 2008 and the collapse of the Nigerian equity markets, falling commodity prices, reduced net capital inflows and the bad debt exposure of Nigerian banks. According to the NBS, the real GDP growth of the country rose to 6.96 per cent. in 2009, from 5.98 per cent. in 2008, with real GDP growth of 7.53 per cent. in the first six months of 2010 as the global economy began to improve. Nonetheless, if the global economy further weakens, this may have an adverse effect on the Nigerian economy.

A significant decline in the level of external reserves as a result of the CBN's intervention in the currency markets could materially impair Nigeria's ability to service its external debt, including the Notes.

The CBN has historically favoured maintaining the Naira within a narrow band with periodic adjustments. In late 2008 and early 2009, the Naira/US dollar exchange rate experienced some instability, a low of ₦116.64 in 2008 to a high of ₦151.37 in 2009. In the last quarter of 2008, the CBN took measures to address the instability, including drawing from Nigeria's external reserves and intervening in the currency markets. The exchange rate stood at ₦149.80 at 31 December 2010. During the period, the external reserves were reduced from US$53 billion in 2008 to US$42.4 billion as at 31 December 2009 and further to US$33.1 billion as at 30 November 2010.

Given the fluctuations in Nigeria's external reserves, its high dependence on oil exports and the fact that Nigeria pays for its key imports, such as refined oil, in US dollars, the Naira will remain vulnerable to external shocks which could lead to a sharp decline in its value, as occurred in 2008 and this may prompt the CBN to again intervene in the currency markets in an attempt to stabilise the Naira.

Although the CBN expects to continue to gear exchange rate policy towards maintaining price stability, no assurance can be given that the exchange rate will remain stable or that the CBN will not draw on the external reserves to stabilise the exchange rate.

Failure to grow the non-oil and gas sectors of its economy may constrain Nigeria's economic growth.

Over the last 10 years, Nigeria has attempted to develop the non-oil sectors of its economy by encouraging agriculture, trade, construction, telecommunications, financial services, mining and manufacturing activities. The non-oil sector grew by an average of 8.96 per cent. per year between 2005 and 2009, as compared to about 7 per cent. per year between 1997 and 2004. However, the lack of infrastructure including inadequate power supply and transportation systems, reduced credit availability and consumer demand, local shortages of skilled managers and workers and inconsistent government policies may constrain development in these sectors and the current rate of growth may decline in future periods. A failure to continue to grow the non-oil sectors of its economy may constrain Nigeria's economic growth.

Failure to collect certain remittances from MDAs may adversely impact the Government's revenue.

By law the MDAs are obligated to remit independent revenue they generate to the Federation Account for further allocation and distribution. In practice, the Government has faced significant challenges in collecting full remittances from the MDAs. To the extent that the Government is unable to collect projected independent revenue from the MDAs, the resulting reduction in federally collected revenue may lead to higher budget deficits and increased debt to finance such deficits and the funds not collected from the MDAs may not be available to the Government to fund its obligations under the Notes.

Existing wage and pension arrears in relation to the staff of privatised companies may weigh on Government spending and significantly reduce the proceeds of privatisations.

The Government has outstanding wage and pension liabilities in relation to the staff of privatised companies such as the Delta Steel Company and the Aluminium Smelter Company and NITEL which is currently in the process of being privatised. In respect of NITEL staff, outstanding salary arrears totalled ₦18.9 billion while pension arrears stood at ₦30.5 billion as at December 2010. Amounts owed to NITEL staff were settled in December 2010. While in the past the Government has paid arrears as soon as the proceeds of privatisation process were received, these arrears may weigh on Government spending and reduce the proceeds of privatisations. In addition, a number of other claims in respect of pension arrears are currently being verified by the Government Budget Office and may constitute an additional liability to the Government.

Reliance on food imports may result in inflation and in increased Government spending.

A significant portion of Nigeria's food is imported. Nigeria's imports of grains, in particular rice, increased sharply in 2007 and 2008 as a result of a variety of factors, including dry weather conditions, which led to poor harvests and the increase in global commodity prices in 2007 and 2008, which in turn led to food shortages in Nigeria in 2008. Although Nigeria has recently experienced growth in the agricultural sector and improved harvests, the country continues to rely heavily on food imports. Nigeria's high reliance on food imports in an environment of rising prices may lead to significant increases in inflation, which could have a negative impact on the economy or potentially lead the Government to increase or create new subsidies resulting in unplanned budgetary outlays.

Militant activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy.

Over the past few years, there has been an increase in violence and civil disturbance in the Niger Delta, Nigeria's southern oil producing region, mainly from militant groups who oppose, among other things, the activities of the oil companies in the area. This violence has mainly focused on oil interests in the region and oil production from onshore fields has slowed as a result of several kidnappings and bombings of oil installations and facilities. The outcome of such actions may have a continued significant impact on Government revenues from oil production, given that most of Nigeria's oil revenues come from oil produced in the Niger Delta region.

Since early 2006, more than 250 foreign oil workers and members of their families have been kidnapped in the Niger Delta. During this period, militant attacks have been carried out on numerous oil facilities and platforms, often focused on cutting oil production by sabotaging pipelines and forcing oil companies to halt onshore production. Militants have also staged attacks on pipelines in the region, adversely affecting the output of oil from the region. In January 2010, Chevron announced it had been forced to decrease oil production in Nigeria by 20,000 barrels per day, after gunmen attacked its Makaraba-Utonana pipeline in Delta State. At least one international oil company present in Nigeria has raised the possibility that it might cease operations in Nigeria if conditions continue to worsen.

In 2009, the Government offered an amnesty to militants who surrendered their weapons by October 2009, in the hope that about 10,000 rebels would exchange their weapons for a pardon and retraining. Over 20,000 militants surrendered their arms and ammunition pursuant to the amnesty offer of the Government which expired on 4 October 2009. The amnesty programme has significantly reduced but not eliminated tensions in the region. In December 2009, MEND claimed responsibility for an attack on an oil pipeline in the Niger Delta, breaching the ceasefire agreement with the Government. After another attack on an oil pipeline in the Niger Delta in January 2010, during late President Umaru Musa Yar' Adua's absence from office, MEND announced that it would end the indefinite ceasefire it offered in 2009, threatening further hostility in the region. Following the installation of Goodluck Ebele Jonathan as President of Nigeria on 6 May 2010, militants in the Niger Delta region resumed their talks with the Government and other amnesty committees. However, more recently, on 1 October 2010, during Nigeria's celebration of the 50th anniversary of its independence, two bomb blasts were carried out in the capital city of Abuja. Although MEND claimed responsibility for the attacks, investigations as to who was responsible for the attacks are still ongoing. Furthermore, in December 2010, two bombs exploded during a political rally in Yenagoa, Bayelsa State, causing injury to several people. Further attacks on oil pipelines and kidnappings have taken place in November 2010.

In spite of the Government's efforts, militant acts in the Niger Delta continue to be directed at oil industry participants and in relation to the presence of foreign oil interests in the region and there is no assurance that militant acts will not occur in the future. Continued unrest in the Niger Delta region may lead to lower oil production, deter foreign direct investment, lead IOCs to curtail their operations in Nigeria or lead to increased political instability and unrest and could have a material adverse effect on Nigeria's economy and its ability to service the Notes.

There are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria.

With the adoption of the new presidential constitution in May 1999, Nigeria has undergone its longest period of civilian rule since obtaining independence from the United Kingdom in 1960. In 2007, the late President Umaru Musa Yar'Adua, the PDP presidential candidate, was elected as president, securing 70 per cent. of the votes cast. The result of the election was, however, widely disputed, not only by the opposition candidates but also by international election observers. Following the death of former President Umaru Musa Yar'Adua on 5 May 2010, Goodluck Ebele Jonathan was sworn in as President, in accordance with the Constitution, on 6 May 2010. The next presidential elections in Nigeria are expected to take place on 9 April 2011. In primary elections held on 13-14 January 2011, incumbent President Goodluck Ebele Jonathan received the PDP's nomination as its candidate for the upcoming Presidential elections. Further, as general elections in April 2011 draw closer, Nigeria is increasingly experiencing pockets of sectarian violence. For example, there have been bomb explosions in Abuja, Jos, Yenagoa and Maiduguri mainly at public sites in the last three months of 2010 as well as reports of shootings in Maiduguri in which several people died. See *"—The upcoming general elections may result in political instability or changes in policies*".

Apart from the PDP, many of Nigeria's political parties continue to be largely based upon ethnic allegiance. At the same time, these divisions are reinforced by religious differences, particularly between the mainly Muslim north and broadly Christian south. Certain northern states have adopted Sharia law since the return to civilian rule in 1999, which resulted in further alienating their Christian minorities. In early 2010, hundreds of lives were lost around the central city of Jos, Plateau State, due to conflicts relating to issues of land ownership. On 24 December 2010, a series of bomb attacks were carried out in Jos, in which about 80 people died and an Islamist group has claimed responsibility for the bomb attacks. Additionally, there is resentment in the oil rich Niger Delta towards the expenditure of oil revenue in the other parts of the country and the allocation of oil revenue expenditure has provoked political debates, with the oil producing areas claiming that they deserve to achieve some additional benefit in the form of jobs and compensation for environmental degradation. In reaction, the Government increased the amount of government oil revenue returned to the oil-producing states from 3 per cent. to 13 per cent. in 2000. Opposition from some other states to this revenue-sharing formula resulted in the restriction of the application of the formula with regard to offshore resources, to the littoral boundaries of the coastal states that comprise the prolific Niger Delta region, from 200 nautical miles down to 24 nautical miles. In an attempt to resolve this conflict, the Government enacted the Allocation of Revenue Act (Abolition of Dichotomy in the Application of the Principle of Derivation Act) in 2004. However, Niger Delta states still frequently question the existing policies. Unless resolved by the Government, these conflicts may adversely affect Nigeria's political stability.

Significant increases in levels of government debt could have a material adverse effect on Nigeria's economy and its ability to service its debt, including the Notes.

According to the DMO, as at 31 December 2010, Nigeria's external debt was US$4.8 billion (provisional), of which US$2.8 billon (provisional) was owed by the Federal Government and US$1.9 billion (provisional) was owed by State Governments and guaranteed by the Federal Government. Further, the Government had ₦4.5 trillion (provisional), approximately US$29.8 billion, in domestic debt outstanding as at 31 December 2010. Although the level of external debt is relatively low for a country of Nigeria's size, any significant future borrowings, including the issuance of debt to fund fiscal deficits, infrastructure spending and other requirements could negatively impact Nigeria's sovereign credit rating or may impair Nigeria's ability to service the Notes. Additionally, the Federal Government has issued a number of guarantees relating to potential contingent liabilities, including guarantees of interbank placements and over foreign creditors' lines of credit put in place in connection with the 2009 banking crisis. In December 2009, the Government guaranteed approximately ₦1 trillion in bonds debt securities issued by AMCON as consideration for the purchase of certain non-performing loans from Nigeria's banks, and expects to issue a guarantee over an additional ₦1.5 trillion in the near future bringing the total amount guaranteed to ₦2.5 trillion (approximately US$16.6 billion). Although AMCON expects to be able to fund its debt service requirements under the underlying obligations through recoveries made on the bad assets required and by using a sinking fund that is established by a levy on Nigeria's banks, the total amount of debt guaranteed by the Issuer in connection with this programme will be substantial. If the Issuer's funding requirements under the guarantee prove to be greater than expected, it could have an adverse impact on the Issuer's credit rating or its ability to service the Notes.

There are risks related to the banking sector and the Nigerian equities market.

The global financial crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions at a number of Nigerian banks. Following a special examination and investigation of the 24 banks that comprise the Nigerian banking system, the CBN found significant irregularities and capital adequacy deficiencies at 9 of the 24 banks (the "**Intervened Banks**"). To address these issues, the CBN has replaced some of the senior management of some of the Intervened Banks and injected a total of ₦620 billion in the Intervened Banks to enable them to meet their minimum capital adequacy ratios and continue operations. The Economic and Financial Crimes Commission is also prosecuting some of the senior management teams in the Intervened Banks alleged to have committed financial improprieties and in October 2010, an executive member of one of the Intervened Banks was sentenced to 18 months in jail. At present, the Intervened Banks are in the process of being recapitalised by AMCON.

On 19 July 2010, President Goodluck Ebele Jonathan signed into law a bill creating the AMCON. The Government expects that AMCON will help rejuvenate the domestic economy and stimulate the recovery of the financial system by providing liquidity to the banks by buying their non-performing loans, recapitalising the Intervened Banks, increasing access to refinancing opportunities for borrowers, increasing confidence in banks' balance sheets and encouraging a return of confidence to the capital markets. The financial authorities expect that AMCON will issue Federal Government-guaranteed bonds in the amount of approximately ₦2.5 trillion and will acquire much of the estimated ₦2.2 trillion of non-performing assets in the banking sector. See "*Monetary System—2009 Banking Crisis*" for additional information on AMCON and its activities.

If AMCON and other initiatives introduced by the CBN fail to achieve the desired results, the continued weakness in the banking sector may continue to have an adverse effect on the investment and confidence in, and the performance of, the Nigerian economy.

Nigeria may face a lack of continued access to foreign trade and investment for several reasons.

Foreign direct investment, which comprises equity capital, re-invested earnings and other capital inflows, increased from ₦654.2 billion in 2005 to ₦861.6 billion in 2009. Notwithstanding these improvements, foreign direct investment remains low for a country the size of Nigeria. Absent a decrease in the perceived risks associated with investing in Nigeria, including those described herein, there may not be any appreciable increase in foreign direct investment, which could adversely affect the Nigerian economy and limit sources of funding for infrastructure and other projects requiring significant investment by the private sector.

Failure to adequately address Nigeria's significant infrastructure deficiencies could adversely affect Nigeria's economy and growth prospects.

Decades of underinvestment have resulted in significant deterioration of Nigeria's public infrastructure, and the continuous absence of basic infrastructure to support and sustain growth and economic development. Persistent problems with power generation, transmission and distribution, a deteriorating road network, congested ports and obsolete rail infrastructure have severely constrained socio-economic development in Nigeria. Although significant advances have been made in the area of telecommunications and internet facilities in recent years, the state of development in those sectors also cannot be considered at par with that in more developed economies. The Government has identified Nigeria's decaying infrastructure as a major impediment to economic growth and the First NIP includes ambitious targets for infrastructure improvements and investments as part of the first phase of implementing the Vision 20:2020 strategy. Failure to significantly improve Nigeria's infrastructure could adversely affect Nigeria's economy and growth prospects, including its ability to meet GDP growth targets.

Nigeria suffers from chronic electricity shortages.

In spite of the abundant energy resources in the country and significant Government reform efforts and investments in the power sector in recent years, lack of sufficient and reliable electricity supply remains a serious impediment to Nigeria's economic growth and development. Insufficient power generation, aging infrastructure, weak distribution networks and overloaded transformers result in frequent power outages, high transmission and distribution losses and poor voltage output. Moreover, currently, only about 40 per cent. of the Nigeria's total population has access to public electricity supply due to inadequate transmission and distribution networks. The Government has identified improvements in electricity generation, transmission and distribution infrastructure as a critical element necessary to permit the country to meet its economic growth and development objectives. To address these issues, the Government is pursuing a number of significant policy initiatives including those set forth in the First NIP and the "Roadmap for Power Sector Reform". Failure to adequately address the significant deficiencies in Nigeria's power generation, transmission and distribution infrastructure and related concerns within the power sector could lead to lower GDP growth and hamper the development of the economy.

Nigeria is a sovereign State. Consequently, it may be difficult for investors to obtain or realise upon judgments against Nigeria.

Nigeria is a sovereign State. As a result, it may be difficult for investors to obtain judgment against Nigeria in foreign or Nigerian courts or to enforce foreign judgments, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States against Nigeria. Although Nigeria will consent in the Terms and Conditions of the Notes to the giving of any relief or the issue of any process in connection with proceedings in England arising out of any dispute arising from or connected with the Notes and will agree to waive any immunity it may have in a suit, execution, attachment or other legal process in respect of any such proceedings, that waiver of immunity does not extend to any other proceedings and excludes from its scope certain diplomatic, military and other government properties. Moreover, the enforcement of foreign judgments is subject to the conditions and limitations described under "*Enforcement of Civil Liabilities*" and such limitations and conditions may make it difficult for investors to obtain or realise upon judgments of courts outside Nigeria.

Nigeria may not achieve its growth objectives if the Government's initiatives to improve the health, education and productivity of the country's labour force are not successful.

Various factors such as poor infrastructure, limited access to healthcare, quality and relevance of primary, secondary and tertiary education and insufficient vocational training and low salaries that do not adequately reward productivity impede Nigeria's labour productivity. The Government's Vision 20:2020 plan and the First NIP include a number of policy initiatives designed to help address these concerns. If these initiatives are not successfully implemented or successful in improving the factors described above, Nigeria may not achieve its growth and fiscal objectives, which may impair Nigeria's ability to service the Notes.

Health risks could adversely affect Nigeria's economy.

HIV/AIDS, tuberculosis (which is exacerbated in the presence of HIV/AIDS), malaria and typhoid are major healthcare challenges in Nigeria and other West African countries. According to research published jointly by UNAIDS (The Joint United Nations Programme on HIV/AIDS) and the World Health Organization in November 2009, as of 2007, Nigeria had an HIV prevalence of approximately 3.6 per cent. among its population of adults aged between 15 and 49 years old. No assurance can be given that the prevalence of HIV/AIDS, malaria, typhoid or other diseases in Nigeria will not have a material adverse effect on the economy of Nigeria.

Risk Factors Relating to the Notes and the Trading Market for the Notes

The Notes may be negatively affected by events in other emerging markets, including those in sub-Saharan Africa.

Economic distress in any emerging market country may adversely affect prices of securities and the level of investment in other emerging market issuers as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Nigeria, adversely affect the Nigerian economy or adversely affect the trading price of the Notes. Even if the Nigerian economy remains relatively stable and currently relies less on external debt financing than some emerging market issuers, economic distress in other emerging market countries could adversely affect the trading price of the Notes and the availability of foreign funding sources for the government or private sector borrowers. Adverse developments in other countries in sub-Saharan Africa, in particular, may have a negative impact on Nigeria if investors perceive risk that such developments will adversely affect Nigeria or that similar adverse developments may occur in Nigeria. Risks associated with sub-Saharan Africa include political uncertainty, civil unrest and conflict, corruption, the outbreak of disease and poor infrastructure. Investors' perceptions of certain risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Nigeria, including elements of the information provided in this Prospectus. See "*—The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable*".

The Notes may not be suitable as an investment for all prospective purchasers.

Each potential purchaser of the Notes must determine the suitability of the investment in light of its own circumstances. In particular, each potential purchaser should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the resulting effect on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including any risk resulting from the currency of the notes being different from the purchaser's functional currency;
- understand thoroughly the terms of the Notes and be familiar with financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) changes in economic conditions, interest rates and other factors that may affect its investment and its ability to bear the associated risks.

An active trading market for the Notes may not develop and any trading market that does develop may be volatile.

The trading market for the Notes will be influenced by economic and market conditions in Nigeria and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States, European Union ("**EU**") Member States and elsewhere. There can be no assurance that an active trading market for the Notes will develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of Nigeria.

The terms and conditions of the Notes contain provision for modifications and waivers.

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally, including material changes to the terms of the Notes and rescission of acceleration. These provisions permit defined majorities voting at a meeting or executing written consents to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Issuer's credit ratings are subject to revision or withdrawal, either of which could adversely affect the trading price of the Notes.

The Notes have been rated BB- (Negative Outlook) by Fitch and B+ (Stable Outlook) by Standard & Poor's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The Issuer has no obligation to inform Noteholders of any revision, downgrade or withdrawal of its current or future sovereign credit ratings. A suspension, downgrade or withdrawal at any time of a credit rating assigned to the Issuer may adversely affect the market price of the Notes. Credit ratings included or referred to in this Prospectus have been issued by Fitch and Standard & Poor's, each of which is established or has offices established in the European Union and has applied to be (or have its European Union based offices be) registered under the CRA Regulation. At the date of this Prospectus, neither Fitch nor Standard & Poor's is registered under the CRA Regulation.

Payments made in certain EU Member States may be subject to withholding tax under the EU Savings Directive.

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payment (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a paying agent following implementation of this Directive, the Issuer will be required to maintain a paying agent in a Member State, if any, that will not be obliged to withhold or deduct tax pursuant to the Directive. Holders of the Notes should consult their own tax advisers regarding the implications of the Directive in their particular circumstances.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes are expected to amount to US$491,115,000 million. The aggregate amount of commissions payable to the Joint Lead Managers and estimated expenses payable by the Issuer in connection with the offer and sale of the Notes are expected to be approximately US$3,000,000. The net proceeds of the issue, after payment of commissions and expenses, will be used for general budgetary purposes.

THE FEDERAL REPUBLIC OF NIGERIA

Location and Geography

The Federal Republic of Nigeria occupies 923,768 square kilometres of West Africa, bordering the Republic of Benin to the west, Chad and Cameroon to the east, Niger to the north and the Gulf of Guinea to the south. The climate in Nigeria is tropical and the temperature oscillates between 25ºC and 40ºC. It is characterised by high humidity and substantial rainfall. There are two seasons in Nigeria, the wet and dry seasons. The wet season is from April to October while the dry season is from November to March.

Nigeria's topography and vegetation vary considerably. The coast of Nigeria is a belt of mangrove swamps that is traversed by a network of creeks, rivers and the Niger Delta. Beyond this lie successive belts of tropical rain forest in the south that break into more open woodland in the central part of the country and savannah in the northeast. The northernmost part of the country borders the Sahara Desert.

Nigeria consists of 36 states and the FCT, Abuja, which is located in central Nigeria. The states and FCT are grouped into six geopolitical zones: North Central, North East, North West, South East, South South and South West. Lagos, which is situated in the South West of Nigeria, is the principal commercial centre and main port in the country. There are also 774 constitutionally recognised Local Government areas in Nigeria.

Nigeria has an abundance of natural resources, particularly oil, natural gas, coal, bauxite, tin, iron ore, limestone, lead and zinc. The main oil fields are located both onshore and offshore in the Niger Delta.

History

Prior to the arrival of Portuguese traders in Nigeria, there were various separate cultural, ethnic and linguistic groups, such as the Oyo, Benin, Nupe, Jukun, Kanem-Bornu and Hausa-Fulani empires. The

Portuguese traders arrived in Nigeria in the fifteenth century and were followed by the Dutch, British, and French in the sixteenth century.

In the eighteenth century, Britain became the dominant power followed by the Portuguese and French. The British also consolidated their hold over the Colony and Protectorate of Nigeria and governed by an "indirect rule" system through local leaders.

In 1914, Nigeria was formed by the amalgamation of the Northern and Southern Protectorates and the Colony of Lagos and was presided over by a Governor-General. In 1922, part of the former German colony "Kamerun" was added to Nigeria under a League of Nations mandate and the British introduced the principle of direct election to a Legislative Council. In 1951 the provinces were changed to regions. The National Council of Nigeria and the Cameroons was the political party that had control of the Eastern Region, the Northern Peoples Congress had control of the Northern Region, and the Action Group had control of the Western Region. By 1957, the Eastern and Western Regions had attained self-governing status while the Northern Region attained self-governing status in 1959.

Nigeria gained its independence from the United Kingdom in 1960 and in 1963 Nigeria became a republic. Nnamdi Azikiwe was elected by a joint session of the parliament to a five-year term as the country's first President. The first post-independence parliamentary elections were held in December 1964 and Tafawa Balewa was re-elected as the country's Prime Minister. However, in January 1966, the first military coup in Nigeria occurred. Prime Minister Tafawa Balewa was killed in the coup and Major-General Johnson Aguiyi-Ironsi became the head of the military administration. In July 1966, Aguiyi-Ironsi was killed in a counter-coup and replaced by Lieutenant-Colonel Yakubu Gowon.

In 1967, the Eastern Region declared its independence from Nigeria proclaiming the independent Republic of Biafra. This triggered a bloody civil war which lasted for 30 months. In 1970, the Biafran leaders surrendered and the former Biafran regions were reintegrated into the country. During the post-war period, all significant political power remained concentrated in the Federal Military Government and the regime ruled by decree. In 1972, a ban on political activity which had been in force since 1966 was partially lifted to permit a discussion of a new constitution that would pave the way for civilian rule. However, in 1975, Gowon was overthrown in a bloodless coup and was replaced by Brigadier Murtala Mohammed. In February 1976, Mohammed was assassinated in an unsuccessful coup and Lieutenant General Olusegun Obasanjo succeeded him. In 1979, under Obasanjo's leadership, Nigeria adopted a constitution that provided for a separation of powers among the executive, legislative, and judicial branches and general elections were held for the return of Nigeria to civilian rule.

In 1979, five parties competed in national elections, marking the beginning of the Second Republic. The presidential succession from Obasanjo to a civilian, President Alhaji Shehu Shagari, was the first peaceful transfer of power since independence. However, in December 1983 the military, led by Major General Muhammadu Buhari, took control of power, primarily because there was no confidence in the civilian regime. Another military coup occurred in August 1985 when a group of officers under Major General Ibrahim Babangida removed Major General Buhari from power. President Babangida pledged to transfer power to a civilian administration and by 1992 Local Government, State Government and National Assembly elections were held. Presidential elections then were held in June 1993 and it was believed that initial results indicated that Chief Abiola had won the majority of votes. However, the results were annulled by the ruling National Defence and Security Council which declared that the transition to civilian rule could not be completed by August 1993. Babangida subsequently resigned after establishing an Interim National Government (**"ING")** under the leadership of Chief Ernest Shonekan following the annulment of the election results held in June 1993. In November 1993, General Sani Abacha took control of power from the ING and in 1994 Chief Abiola was arrested after proclaiming himself president. In 1995, as a result of various human rights violations, the European Union, which had already imposed sanctions in 1993, suspended development aid to Nigeria. Nigeria was also temporarily expelled from the Commonwealth. Abacha served as a military dictator until his death in June 1998 and Chief Abiola died shortly afterwards.

Upon Abacha's death, his chief of defence staff, Major General Abdulsalami Abubakar, assumed control and released political prisoners, including the former military head of state Olusegun Obasanjo. General elections were then conducted in January 1999 and Chief Olusegun Obasanjo was elected president, and his party, the PDP, won a majority of the seats in both the Senate and House of Representatives, amidst allegations of election irregularities. A new constitution was adopted, and a peaceful transition to civilian government was completed with President Olusegun Obasanjo assuming power. In May 2006 the Senate rejected a constitutional amendment that would have permitted a third term for Obasanjo. In 2007, Umaru Musa Yar'Adua of the PDP was elected President and succeeded Obasanjo. Following the death of President Umaru Musa Yar'Adua on 5 May 2010, Goodluck Ebele Jonathan was sworn in as President, in accordance with the Constitution, on 6 May 2010.

The next general elections in Nigeria are expected to take place in April 2011. In primary elections held on 13-14 January 2011, incumbent President Goodluck Ebele Jonathan received the PDP's nomination as its candidate for the Presidential elections. See "*The Federal Republic of Nigeria—Political Parties—2011 Elections*".

Population, Education and Health

Population

According to the National Population Commission, in 2006 Nigeria had a population of approximately 140 million, with a national growth rate estimated at 3.2 per cent. per annum. The NBS estimates that Nigeria currently has a population of approximately 159 million.

Nigeria has a relatively young population with only 4 per cent. of the population being over 65 and 45 per cent. being under 15 years of age. Nigeria's population is unevenly distributed across the country. Large areas in the Chad Basin, the middle Niger Valley and the grassland plains, among others, are sparsely populated. The average population density for the country in 2006 was estimated at 150 people per square kilometre. The most densely populated states are Lagos, Anambra, Imo, Abia and Akwa Ibom. Most of the densely populated states are found in the South East. Kano State, is the most densely populated state in the north.

Based on 2006 figures, approximately 50.8 per cent. of Nigeria's population are male and approximately 49.2 per cent. are female.

There are three main ethnic groups in Nigeria, the Yorubas in the west, Hausa-Fulani in the north and the Igbos in the east. There are also over 250 other ethnic groups and languages including Urhobo, Efik, Ijaw and Kanuri and over 500 dialects within the ethnic groups. The official language in Nigeria is English however the three main indigenous languages spoken by the three predominant ethnic groups in the country are Yoruba, Hausa and Igbo. There is also a vernacular known as "broken/pidgin English" which is a Nigerian adaptation of the English language and is spoken and understood by many Nigerians.

The table below sets out selected comparative macroeconomic statistics regarding certain socioeconomic indicators for 2009 for Nigeria and for certain other countries or regions:

	Nigeria	Ghana	Cote D'Ivoire	Sub-Saharan Africa	South Africa	USA
GNI per capita (current US$)[1]	1,140	700	1,060	1,096	5,770	47,240
GDP growth (annual %)	2.9	3.5	3.8	1.3	(1.8)	(2.4)
Population Growth (annual %)	2.3	2.1	2.3	2.5	1.1	0.9
Life expectancy at Birth (years)[2]	48	57	57	52	51	78
Primary School Enrolment (% net)[2]	61.4	76.5	56.0	75.3	87.5	92.0
Mortality Rate, under -5 (per 1,000)	138	69	119	130	62	8

(1) GNI per capita is the Gross National Income, converted to US$ using the World Bank Atlas method, divided by the midyear population. The World Bank Atlas method of conversion is used by the World Bank to smooth fluctuations in prices and exchange rates. The World Bank Atlas method applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country and countries in the EU, Japan, the United Kingdom and the United States.

(2) Figures for 2008.

Source: World Bank, World Development Indicators database, September 2010 unless as noted otherwise.

Education

The Nigerian education system has three main segments: basic education, post basic education (or senior secondary education) and tertiary education. Early childhood care and development (or pre primary education) is viewed as a specialised part of basic education for younger children who are not yet of primary school age.

Primary or basic education

Primary education is free and compulsory although not all eligible children attend school. Despite the considerable progress made with universal basic education, it is estimated that only 61.5 per cent. of eligible children attend school. There is strong participation by the private sector in primary education but the Government is the dominant provider of education at this level.

Post Basic Secondary

The gross enrolment in secondary schools, which is less than 30 per cent. of eligible children aged 14 to 17 nationwide, is considered low.

Tertiary

Tertiary education encompasses all forms of post secondary education, which includes universities, colleges, polytechnics and monotechnics. In Nigeria, there are currently 104 universities, 27 of which are funded by the Federal Government, 36 by the State Government and 41 are privately owned. There are approximately 63 colleges of education, 57 polytechnics and 90 specialised colleges and monotechnics. The National Open University of Nigeria was founded and provides tertiary education through a network of local study centres located in different parts of the country.

Quality of Education

According to the UNDP Human Development Report on education in Nigeria 2008 to 2009, the adult literacy rate is 64.2 per cent., which indicates that about 50 million Nigerians are unable to read and write. According to NBS statistics from 2009, the adult literacy rate in 2008 was 66.0 per cent., 73.8 per cent. for males and 58.1 per cent. for females, while the youth literacy rate (for persons aged 15-24 years) stood at 80.0 per cent., 85.6 per cent. for males and 74.1 per cent. for females.

Primary and secondary school education is hampered by adverse conditions such as inadequate teaching and instructional materials, poor infrastructure and over-crowded classrooms as well as an inadequate number of teachers in schools and institutions.

Improving education is a central goal of the Vision 20:2020 and the MDGs, and the First NIP aims to increase net primary school enrolment from 61.5 per cent. to 75 per cent. by 2013 and to increase access to nomadic education from 22 per cent. to 40 per cent. by 2013.

In 1993, the Education Trust Fund ("**ETF**", formerly, the Education Tax Fund) was established by the Government as an intervention agency to improve the quality of education in Nigeria by providing additional funding to federal, state and local government educational institutions for the development of work centres, library systems and research equipment. The ETF's mandate also includes the promotion of creative and innovative educational learning services and redressing of imbalances in enrolment mixes in higher institutions. The ETF is funded by a special two per cent. tax assessed on the profits of all companies incorporated in Nigeria.

Health

Nigeria operates both modern and indigenous healthcare delivery systems. The private and the public sectors provide orthodox healthcare services, while the traditional healthcare system is managed by traditional healthcare practitioners. The public health service is organised into primary, secondary and tertiary levels. The National Health Policy assigns responsibilities for primary healthcare to Local Governments, secondary healthcare to State Governments and tertiary healthcare to the Federal Government.

According to a survey conducted by the Federal Ministry of Health in 2005, Nigeria has 23,640 health care facilities, 85.8 per cent. of which are at the primary level, 14.0 per cent. of which are at the secondary level and 0.2 per cent. of which are at the tertiary level. The Federal Ministry of Health estimates that 38 per cent. of the health care facilities are owned by the private sector which accounts for 60 per cent. of heath care services in the country. Although the healthcare system covers the entire country, there are wide regional disparities in the delivery of healthcare services and availability of resources and it faces funding and capacity constraints. There are more healthcare services in the southern states than in the northern states. The current priorities of the health sector are in the areas of childhood immunisation and HIV/AIDS prevention.

According to the Human Development Index ("**HDI**") Report for 2010, the maternal and under-five mortality rates in Nigeria were estimated at 840 per 100,000 and 186 per 1000 live births respectively. Communicable diseases are the major causes of mortality and morbidity in the country. In children, the major causes of mortality and morbidity are malaria, diarrhoea, acute respiratory infections, measles and other vaccine-preventable diseases and the exacerbating effect of children's malnutrition.

Although there has been a decline in the under five infant mortality rate, according to the National Population Commission in Nigeria, life expectancy decreased to approximately 50 years for women and approximately 48 years for men in 2007 from approximately 54 years for women and approximately 53 years for men in 1991, mainly due to an increase in cases of HIV/AIDS. According to the HDI Report in 2010, life expectancy in Nigeria is 48.4 years. According to research published jointly by UNAIDS (The Joint United Nations Programme on HIV/AIDS) and the World Health Organization in November 2009, as of 2007, Nigeria had an HIV prevalence of approximately 3.6 per cent. among its population of adults aged between 15 and 49 years old.

According to the National Population Commission in Nigeria, approximately 56 per cent. of households have access to improved drinking water of which approximately 75 per cent. are from urban households and 45 per cent. are from rural households.

Millennium Development Goals

The Millennium Development Goals ("**MDGs**") represent a global partnership resulting from the millennium Declaration at the UN's Millennium Summit of 2000. The MDGs are a set of eight inter-dependent goals aimed at reducing poverty and improving the quality of life, particularly of the rural poor. In signing the Millennium Declaration, Nigeria decided to integrate the MDGs with its other policy programmes, namely the Seven Point Agenda and Vision 20:2020. See "*The Economy—Overview*" for a discussion of the Vision 20:2020.

Following the debt relief received by Nigeria in 2005 from the Paris Club, the Government set up a Debt Relief Gains Fund and began to invest some of the gains from debt relief in pro-poor programmes needed to achieve the MDGs. The Government also created the Office of the Senior Special Assistant to the President ("**OSSAP**") on MDGs and appointed a Senior Special Assistant to the President on the MDGs to co-ordinate the efforts towards the attainment of the MDGs in Nigeria by 2015. Between 2006 and 2009, ₦436 million was appropriated to the MDGs sector under the federal budgets. The status of the MDGs was evaluated by the OSSAP on MDGs in accordance with a mid-point exercise conducted in 2007-2008, and set forth below is a summary of Nigeria's status in achieving the MDGs since 2000.

MDG	Status	Summary
Eradicate extreme poverty and hunger	Slow	Poverty has reduced since 2000, but recent data is still unclear. Among every ten Nigerians, five still live in poverty. Growth has not been sufficiently equitable or generated enough employment. Nutrition has improved significantly.
Achieve universal primary education	Average	Many more children are in school than previously. However, disadvantaged groups are still excluded and the quality of education remains poor.
Promote gender equality	Average	Some improvements in gender parity, but economic and political empowerment need improvement.
Reduce child mortality	Average	Significant reductions have been recorded, but need to be accelerated.
Improve maternal health	Slow	Gains noticed, but need to be accelerated.
Combat HIV/AIDS, Malaria and other diseases	Average	HIV/AIDS prevalence rate has been reduced and malaria rates have dropped, but both still account for a significant number of deaths each year.
Ensure environmental sustainability	Slow	Access to safe water and sanitation has not improved significantly and certain environmental challenges are growing.
Develop a global partnership for development	Average	The benefits of debt relief were welcome, but have not been matched by increased aid.

In 2010, the Government prepared the MDGs 2010 Report to assess the challenges and successes of meeting the MDGs since the mid-point assessment. The 2010 report found that although progress continues to be made, challenges remain and at this point it is too early to predict whether any of the MDGs will be achieved by 2015.

Political System

Nigeria is a federation made up of three tiers of government—the Federal Government, State Governments and Local Governments. The present Constitution came into effect in May 1999. It was modelled after the US Constitution and it provides for a tripartite structure in which power is divided among the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President (executive), the National Assembly (legislative) and an independent judicial system (judiciary).

Executive Branch

The executive powers of the Federation are vested in the President. Such executive powers, subject to the provisions of the Constitution and of any law made by the National Assembly, may be exercised by the President directly or through the Vice-President and Ministers of the Federal Government or officers in the public service of the Federal Government. There are provisions in the Constitution which assure appropriate checks and balances amongst the three arms of government. The President is elected by popular vote for a four-year term and is eligible for election to a second (and final) term of four years. In addition to being the head of the Federal Government, the President is also the Head of State and the Commander-in-Chief of the Armed Forces of the country. The President is empowered to establish such ministerial offices as he may require and to appoint ministers to hold such offices subject to confirmation by the Senate. The President is required to appoint at least one Minister from each state.

The President may assign to the Vice-President or any Minister responsibility for any business of the Government, including the administration of any department of government. The President holds regular meetings with the Vice-President and all the Ministers comprising the Federal Executive Council for the purposes of:

- determining the general direction of domestic and foreign policies of the Government;
- co-ordinating the activities of the President, the Vice-President and the Ministers of the Government in the discharge of their executive responsibilities; and
- advising the President generally in the discharge of his executive functions other than those functions with respect to which he is required by the Constitution to seek the advice or act on the recommendation of any other person or body.

The Constitution provides that if the office of the President becomes vacant by reason of death, resignation, impeachment, permanent incapacity or removal, the Vice-President shall hold the office for the remainder of the term of office of the President.

Legislative Branch

The legislative powers of the Federal Government are vested in the bicameral National Assembly, comprising a Senate and a House of Representatives.

The House of Representatives is made up of 360 members who represent constituencies of nearly equal proportion as far as possible. The Head of the House of Representatives is called the Speaker.

The Senate is made up of members elected into that upper house for a four-year term. Each Nigerian state elects three senators while the FCT elects one senator (109 seats in total). The Head of the Senate is referred to as the Senate President.

The two houses work in collaboration with the executive branch in areas such as budgetary appropriation, appointment of certain offices and the enactment of laws. A bill for an act may originate from either of the houses; however, before it can be assented to by the President, it must be passed by both Houses.

The Senate and the House of Representatives are each required by the Constitution to sit for a period of not less than 181 days in each year.

Judicial Branch

In accordance with the Constitution, judicial authority is vested mainly in the following courts: the Supreme Court of Nigeria; the Court of Appeal; the Federal High Court; the High Court of the FCT, Abuja; the Sharia Court of Appeal of the FCT, Abuja; the Customary Court of Appeal of the FCT, Abuja; the State High Courts, Sharia Court of Appeal and Customary Court of Appeal of each state. The Constitution also vests judicial authority in such other courts as may be authorised by law to exercise jurisdiction over matters with respect to which the National Assembly may make laws and exercise jurisdiction at first instance or on appeal over matters with respect to which a House of Assembly may make laws.

The Constitution also establishes election tribunals and authorises the National Assembly to constitute other tribunals as may be required. There are also the Investments and Securities Tribunal, which handles disputes in relation to capital market activities, and the National Industrial Court, which deals with labour matters.

The main courts under the Nigerian judicial system are the Supreme Court of Nigeria, the Court of Appeal, the Federal High Court, the High Courts of the states and the FCT. The judiciary is independent and its powers are exercised in compliance with the Constitution.

Supreme Court

The Supreme Court of Nigeria is the highest court in Nigeria and is situated in the FCT. The court has limited but exclusive original jurisdiction in any dispute between the Federation and a state or between states if and in so far as that dispute involves any question (whether of law or fact) on which the existence of a legal right depends. Its appellate jurisdiction is to determine appeals from the Court of Appeal and this is to the exclusion of any other court. The Supreme Court consists of the Chief Justice of Nigeria ("**CJN**") and such number of justices not to exceed 21 as may be prescribed by the National Assembly. The CJN and other justices of Nigeria are appointed by the President on recommendation of the National Judicial Council, subject to confirmation of such appointment by the Senate. The CJN heads the judiciary of Nigeria and presides over the Supreme Court.

The Court of Appeal

The Court of Appeal is the second highest court in Nigeria and its decisions are binding on all other lower courts. It is composed of the President of the Court of Appeal and other justices of the Court of Appeal which must not be less than 49. The court has original and exclusive jurisdiction over questions as to whether a person has been validly elected to the office of President or Vice-President of the Federation or whether the term of office of such person has ceased or whether the office has become vacant. It also has appellate jurisdiction to hear appeals from decisions of the High Courts of the states and the FCT, Federal High Court, the Sharia Courts of Appeal of the states or of the FCT, Customary Courts of Appeal of the states or of the FCT as well as from decisions of a court martial or other tribunals as specified by an Act of the National Assembly. The court is duly constituted by not less than three justices for the purpose of exercising any of its stated jurisdiction. For administrative convenience, the court is divided into judicial divisions which sit in various parts of the country namely, Abuja, Lagos, Enugu, Kaduna, Ibadan, Benin, Jos, Calabar, Ilorin, Sokoto, Owerri, Yola, Ekiti, Akure and Port Harcourt. The appointment of the President of the Court of Appeal and the justices of the Court of Appeal is made by the President on the recommendation of the National Judicial Council, subject to confirmation of such appointment by the Senate.

The Federal High Court

The Federal High Court of Nigeria comprises a Chief Judge and such number of Judges as the National Assembly may prescribe. The court has limited but exclusive jurisdiction in civil and criminal cases or matters as set out in the Constitution. Similar to the Court of Appeal, the Federal High Court is divided into judicial divisions for administrative convenience but has a wider geographical spread as these divisions are currently situated in over 17 states of the Federation, with plans to establish a division of the court in all the states of the Federation.

The State High Courts

There is a High Court in each state and the FCT. Each High Court of a state and the FCT is made up of a Chief Judge and such other number of judges as the State House of Assembly may prescribe or as the National Assembly may prescribe in the case of the High Court of the FCT. The State High Courts have general original jurisdiction over civil and criminal matters except matters in respect of which any other court has been vested with exclusive jurisdiction, making them the courts with the widest jurisdiction under the Constitution. A State High Court is duly constituted by one judge. Each State High Court is divided into judicial divisions for administrative convenience.

The Sharia Court of Appeal

Sharia law and principles have been adopted in certain states in Nigeria. There is a Sharia Court of Appeal for the FCT and any state which requires it. This Court has appellate and supervisory jurisdiction in civil proceedings involving questions of Islamic personal law, which the court is competent to decide in accordance with the Constitution. The court comprises a Grand Khadi and other Khadis as the National Assembly or the State Houses of Assembly (as the case may be) may prescribe.

The Customary Court of Appeal

There is a Customary Court of Appeal for the FCT and any state that requires it. This court has appellate and supervisory jurisdiction in civil proceedings involving questions of customary law and is comprised of a President and such number of judges as the National Assembly or the State Houses of Assembly (as the case may be) may prescribe.

Other courts

In addition to the courts above, there are also Magistrates Courts, District Courts, Area Courts and Customary Courts established in various states by state laws. These courts have limited jurisdiction as specified in their enabling laws and appeals from them lie to the High Court, the Sharia Court of Appeal or the Customary Court of Appeal as the case may be.

Political Parties

According to INEC, there are sixty-four political parties currently registered in Nigeria. In addition to the ruling PDP, the main political parties include the All Nigeria People's Party, the Action Congress of Nigeria, the Labour Party, the Democratic People's Party, the All Progressives Grand Alliance and the National Democratic Party. Nigeria is expected to hold its next general elections in 2011.

The All Nigeria People's Party, which won 78 seats in the 2007 National Assembly election, and which is currently led by Dr. Ogbonnaya Onu, is the main opposition party. The Action Congress of Nigeria (formerly known as Action Congress), which won 38 seats in the same election, is the second largest opposition party and was established through a merger of several opposition parties, including the Alliance for Democracy in 2006. The PDP has been in power since 1999, and won 345 out of 469 seats in the National Assembly election in April 2007. The courts have, in a number of cases, ruled that there were irregularities in the 2007 election and invalidated certain seats.

In addition to the FCT, Nigeria is subdivided into 36 states. Each state is headed by a Governor, elected by the electorate. The states are further subdivided into elected Local Governments. The Local Governments are responsible for delivering basic services to the population in their areas of jurisdiction, and receive their funding from the State Governments which is financed by statutory allocations from the Federation Account.

2011 Elections

According to the current timetable for the elections released by the INEC, the next National Assembly elections are expected to take place on 2 April 2011, the next presidential election is expected to take place on 9 April 2011 and the next governorship and the state assembly elections are expected to take place on 16 April 2011. In primary elections held on 13-14 January 2011, incumbent President Goodluck Ebele Jonathan received the PDP's nomination as its candidate for the Presidential elections. The decision of the incumbent President Goodluck Ebele Jonathan, who is from the south of Nigeria, to present himself as a candidate for election to the Presidency has been perceived by some to violate an informal power-sharing arrangement within the ruling party PDP under which the party's candidate for President must alternate between candidates from the Northern region of the country and candidates from the Southern region of the country. Political tensions in the country have increased with the pending elections.

To address problems experienced with previous elections in Nigeria and uncertainty regarding the legal framework for the 2011 elections, the Electoral Act 2010 was signed into law by President Goodluck Ebele Jonathan in August 2010. The Electoral Act 2010 repealed the Electoral Act of 2006 and introduced several key changes to the preparation, conduct and challenge of elections in Nigeria. It reduces the time limit for voters' registration from 120 days to 60 days before the commencement of the elections. It also addresses issues regarding submission of list of candidates, directing political parties to submit to the INEC the list of candidates the parties propose to sponsor at the election not later than 60 days before the day of the election. In addition, the Electoral Act 2010 proscribes the use of affirmation for endorsing candidates and provides for compulsory balloting at primary elections by political parties. Caps are also imposed on candidate and party campaigns. The Electoral Act 2010 also introduces changes to the process of challenging election results with a view to speeding up the process.

Several proposals are however already being made for the amendments to the Electoral Act 2010. The Presidency had initially submitted a bill for the amendment of the Electoral Act 2010 to allow political parties more flexibility with regard to the style and format of political party congresses as well as to automatically include ministers, special advisers, commissioners and other aides, as automatic delegates, eligible to vote in party primaries. These amendments, however, have been rejected by the National Assembly in favour of amendments which seek to include National Assembly members on the executive councils of their respective political parties. This provision was rejected by the Senate due to public pressure, but was retained in the House of Representatives' version of the bill. It is expected that the bill will be harmonised by a joint committee of the Senate and the House of Representatives and will be passed at some point before the April 2011 elections. As part of measures to strengthen the political system, some sections of the constitution were amended in January 2011.

Legal Proceedings

Dispute with Global Steel Holdings Ltd

In August 2004, Global Steel Holdings Ltd and Global Infrastructures (Nigeria) Ltd (together, "**Global**") entered into a concession agreement with the Government for the rehabilitation, completion, commissioning and operation of the Ajaokuta Steel Plant in Ajaokuta, Kogi State by Global. In May 2007, the concession agreement was terminated and the Government entered into a share sale and purchase agreement (the "**Global SPA**") with Global pursuant to which the Government agreed to sell 300,000 ordinary shares, or 60 per cent. of Ajaokuta Steel Company Ltd ("**AJSC**") to Global for US$525 million. In February 2008, Global alleged that the Government breached the Global SPA by failing to give Global unfettered possession of the Ajaokuta Steel Plant, failing to take responsibility for payment of salaries, allowances and emoluments of the staff of AJSC and failing to indemnify Global for all liabilities and obligations against AJSC prior to the effective date of the Global SPA. Following initial attempts to settle the matter by agreement, in April 2008, Global brought an arbitration claim at the ICC International Court of Arbitration in London. Global is seeking damages for losses resulting from the alleged breaches plus costs of the arbitration. In September 2008 the Government filed a response denying the allegations. The arbitration is currently adjourned whilst the parties are engaged in settlement negotiations.

Dispute with Korea National Oil Corporation

In 2005, the Korea National Oil Corporation ("**KNOC**"), together with its Nigerian affiliates, were awarded oil prospecting licenses in respect of the OPL 321 and 323 oil blocks. The awards were subject to the payment of certain signature bonuses equal to approximately US$485 million. The Government claims that KNOC paid only a fraction of this sum, approximately US$100 million. Subsequently the Government revoked KNOC's licences. KNOC brought an action in the Federal High Court, Abuja, for the reinstatement of the licences. On August 20, 2009, the court handed down a judgment in favour of KNOC, declaring that the purported revocation of OPL 321 and OPL 323 by the Government was invalid and granting an order restraining the Government, its agencies and servants from exercising any authority over the oil blocks. On August 26, 2009, the Government appealed the decision to the Court of Appeal, Abuja Division contending that KNOC had failed to pay the applicable signature bonuses and execute agreed downstream projects which were conditions precedent for the award of the OPLs and that consequently the revocation of the OPLs was valid. This appeal is currently being heard.

Dispute with Continental Transfert Technique Ltd

In May 1999, Continental Transfert Technique Ltd ("**Continental**") entered into an agreement with the Government to manufacture the Combined Expatriate Residence Permit and Aliens Card ("**CERPAC**") for the Ministry of the Interior. Pursuant to the agreement, Continental was to provide equipment, technical support and training, and the Ministry of Interior was to provide office accommodation for the CERPAC facilities. The fees earned from the CERPAC cards were to be split 60 per cent. to Nigeria, 30 per cent. to Continental and 10 per cent. for operating expenses. In November 2007, CERPAC commenced arbitration proceedings alleging misrepresentations by the Government in the agreement, in particular with respect to CERPAC sales projections. Continental sought damages in the amount of approximately US$604 million. The Government denied the allegations and counterclaimed for Continental's failure to deliver equipment and perform services. The amount of the Government's counterclaim was approximately US$34 million. The arbitration proceedings were held at the International Dispute Resolution Centre in the United Kingdom. In August 2008, the arbitration panel awarded damages of approximately US$252 million in favour of Continental. In May 2010, the Government initiated an action in the Federal High Court, Lagos, to have the award set aside. Continental has initiated proceedings in the U.S. District Court of the District of Columbia to seek recognition and enforcement of the arbitration award. Both cases are ongoing.

Dispute between NNPC and the 1993 PSC contractor parties

The NNPC is currently in dispute with its 1993 PSC contractor parties over the interpretation and application of certain provisions of the PSCs. The disputes are currently the subject of three separate proceedings which the contractor parties Nigeria Agip Exploration Limited ("**NAE**"), Shell Nigeria Exploration and Production Company ("**SNEPCO**") and Esso Exploration and Production Nigeria Limited ("**Esso**") have instituted against the NNPC. The issues for determination before the arbitral panels are:

- timing of amortisation of capital costs;
- allocation of tax oil;
- deduction of investment tax credit; and
- treatment of signature bonuses, loan interest and non-operator costs as deductible items for tax purposes.

The three arbitral tribunals have been constituted, directions hearings have been held and pleadings filed and exchanged by the parties. The arbitral tribunal and hearing in the NAE arbitration commenced in Abuja on 13 December 2010 while the Esso and SNEPCO arbitrations are scheduled to be held between April and July 2011. The amount of damages in dispute can not be determined as at the date of this Prospectus, however, if decided adversely to the NNPC, the damages could be significant.

Foreign Relations

Nigeria has diplomatic relations with 102 countries. In pursuing the goal of regional economic cooperation and development, Nigeria has over the past decades played a pivotal role in the support of peace in Africa. It has provided the bulk of troops for the UN peacekeeping mission in Sierra Leone, the UN Mission in Liberia and the African Union Mission in Sudan. Nigeria has also had a presence in countries such as Congo, Chad and Bosnia and expects to provide troops in Somalia. According to the Ministry of Foreign Affairs, Nigeria is the fourth largest uniformed troop-contributing country to UN peacekeeping globally.

EU Relations

The EU is Nigeria's main trading partner and Nigeria, through ECOWAS, is participating in the negotiation of an Economic Partnership Agreement ("**EPA**") with the EU. In October 2003, the negotiations between West Africa and the EU for the EPA were officially launched in Cotonou. The next stage, which started in early 2006, focuses on defining the content of the Agreement and the means of liberalising goods and services between the two regions. The objective of this economic and trade cooperation is to enable the ECOWAS countries to manage the challenges of globalisation and to adapt to new conditions of international trade.

Nigeria has good relations with the EU. The EDF is the EU's main vehicle for development cooperation in African, Caribbean and Pacific States, including Nigeria, focusing on economic growth and reduction of poverty. The tenth EDF programme for Nigeria for the period 2008 to 2013 was launched in November 2009. The new development cooperation strategy was formulated jointly with Nigeria and an allocation of €677 million was made for the period 2008 to 2013 to fund programmes and projects in three focal areas: peace and security; governance and human rights; and trade and regional integration and key development issues such as climate change, health, cultural, scientific and technical cooperation as non-focal areas.

The EU is providing financial assistance of up to €80 million for forthcoming elections in 2011 to ensure free and fair elections and reduce irregularities.

US Relations

In August 2009, the US Secretary of State, Hillary Clinton visited Nigeria, and President Goodluck Ebele Jonathan made an official visit to Washington in April 2010. Nigeria is the United States' largest trading partner in sub-Saharan Africa, largely due to the high level of petroleum exports from Nigeria. The United States is the largest foreign investor in Nigeria. Foreign Direct Investments in Nigeria is concentrated in the petroleum/mining and wholesale and trade sectors. Exxon-Mobil and Chevron are the two largest US corporates operating in offshore oil and gas production. In March 2009, the United States and Nigeria met under the existing Trade and Investment Framework Agreement to advance the ongoing work programme and to discuss improvements in Nigerian trade policies and market access. On 6 April 2010, the US and Nigeria formed the U.S./Nigeria Bi-National Commission to provide a platform for a more productive and strengthened bilateral cooperation between the two countries.

China Relations

China and Nigeria established diplomatic relations on 10 February 1971. Relations between the two countries have been very cordial and active. Bilateral relations between the two countries include the establishment of a Joint Economic and Trade Commission, signing of a number of agreements on trade, economic and technical cooperation, scientific and technological cooperation and investment protection as well as frequent exchange of high-level visits and consultations. China's main exports to Nigeria are light industrial, mechanical and electrical products. China mainly imports from Nigeria crude oil, timber and cotton. Both countries also executed a double taxation treaty in April 2002 and the treaty came in to force in January 2010.

To date, China has set up a number of solely funded companies or joint ventures in Nigeria. The main projects contracted or undertaken by China in Nigeria are the rehabilitation of Nigerian railways and a hostel within the Abuja Sports Complex.

In June 2009, the Fifth Session of the Nigeria-China Joint Commission for Economic and Technical Cooperation was held in Beijing. At the meeting, China was urged to establish a banking presence in Nigeria with a view to promoting bilateral trade and investments between the two countries, encourage investors to participate in the development of the Nigerian gas sub-sector and increase crude oil imports from Nigeria, increase the development and completion of free trade zones, such as the Lekki and Ogun/Guandong Free Trade Zones and co-operate with Nigeria in the area of capacity building.

The NNPC recently signed a Memorandum of Understanding with China State Construction Engineering Corporation Limited to jointly seek an estimated US$23 billion in contractor financing and supplier credits from the China Export & Credit Insurance Corporation, SINOSURE, and a consortium of Chinese banks, for the establishment of three greenfield refineries and one petrochemical complex at various locations in Nigeria. See "*The Economy—Principal Sectors of the Economy—Oil and Gas—Midstream—Oil Refining—Oil refining capacity constraints and proposed reforms*". It has not yet been decided whether Nigeria will guarantee any portion of this financing. See "*Public Debt—Guarantees*".

In December 2010, the Federal Government entered into two credit loan agreements with the Export-Import Bank of China under which a total of US$899.5 million is to be disbursed to the Federal Government. The purpose of the facility is to provide funding for two key infrastructure projects in Nigeria; the Abuja-Kaduna Railway project and the Nigerian National Public Security Communication System project. The facility is for 20 years (with a 7 year grace period) and pays interest at 2.5 per cent. per annum. Drawdowns under this facility are tied to project completion milestones, and as at 31 December 2010 no amounts had been drawn down.

Membership of International and Regional Organisations

United Nations

Nigeria has been a member of the UN since 7 October 1960. Nigeria is currently a non-permanent member of UN Security Council, a member of the Human Rights Council as well as other agencies of the United Nations. Nigeria made a commitment to the Millennium Declaration at the United Nation's Millennium Summit of 2000 and the MDGs. See "*—Millennium Development Goals*".

IMF/World Bank

Nigeria has been a member of the World Bank since 14 November 1961 and the IMF since 30 March 1961. In November 2010, the IMF visited Nigeria to conduct the 2010 Article IV Consultation, which involves discussion of economic policies that the IMF regularly holds with each member country. The IMF met with the Minister of Finance, the Governor of the CBN, the Minister of National Planning and other senior government officials and representatives of the private sector. The discussions focused on recent developments in the Nigerian economy, the outlook for 2010 and 2011, and the macroeconomic policy framework needed to support the authorities' long-term goals identified in Nigeria's Vision 20:2020 strategy. In a statement issued by the IMF following the conclusion of the 2010 Article IV Consultation, the IMF noted that the Nigerian economy withstood the global economic recession and domestic banking crisis. The IMF also noted that the interventions by the CBN were instrumental in stabilising the financial sector. However the IMF noted that recapitalising the insolvent banks and returning them to private hands as quickly as possible is critical. The IMF highlighted the importance of establishing clear criteria for eligible assets and ensuring full transparency and accountability of AMCON's operations and financial results. The IMF expects Real

GDP growth for 2010 to increase due to a recovery in oil production and continued strong growth in other sectors. However, the IMF found that inflation remains high and international reserves continue to fall as the authorities support the exchange rate.

OPEC

Nigeria became a member of OPEC in 1971. OPEC's mission is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilisation of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry. One-way market stability is achieved through agreement on each country's production allocation, or quotas. These quotas are regularly discussed at OPEC meetings and arrived at by consensus. They are technically voluntary as OPEC Members reserve the rights to their sovereignties; however, there can be pressure to ensure compliance from other member countries. The 2010 output allocation for Nigeria was approximately 1.9 – 2.0 million barrels of crude oil per day (not including condensates, which are not included in the OPEC quota). At the meeting of the OPEC Conference in Vienna on 14 October 2010, Nigeria's Minister of Petroleum Resources, Diezani Alison-Madueke, stated that she hoped to get an improvement on Nigeria's existing production allocation, since the country was now able to produce more crude oil following the end of militant attacks in the Niger Delta. However, there are still challenges in the Niger Delta, including attacks on oil pipelines and kidnappings in November 2010. See "*Risk Factors—Militant Activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy*".

WTO

Nigeria joined the World Trade Organisation ("**WTO**") on 1 January 1995. The WTO is the only organisation that deals with the global rules of trade between nations. Nigeria is committed to a multilateral trading system and has made efforts to improve its customs procedures and to facilitate trade. Nigeria's tariffs are based on the Common External Tariff ("**CET**") regime of ECOWAS. See "*Foreign Trade and Balance of Payments—Trade Policy*".

African Organisations

African Union

Nigeria was a founding member and is one of 53 members of the African Union ("**AU**"), the successor to the Organisation of African Unity. The AU is modelled on the European Union and has had a parliament since March 2004 when the Pan African Parliament was created. In addition, the AU aims to have a central bank, a court of justice, common defence and a single currency. Its day to day affairs are run by the AU Commission, which is headed by Jean Ping, a former foreign minister of Gabon. All member states are supposed to pledge 0.5 per cent. of their GDP to fund the AU. This would allow the AU to double its staff and make headway with the implementation of the New Partnership for Africa's Development ("**NEPAD**"). NEPAD is a vision and strategic framework for Africa, designed to address issues such as escalating poverty levels and underdevelopment in Africa. However, few member states comply with the funding requirement as a result expansion remains unimplemented and the AU is reliant on donor support. In addition, many members are reluctant to make the necessary concessions regarding their sovereignty. The AU is however prepared to sanction military interventions which it does through its Peace and Security Council. In 2004, it sent 7,000 troops to Sudan on a largely unsuccessful peace keeping mission in the Darfur region.

African Development Bank

Nigeria is a member of the AfDB. The overarching objective of the AfDB is to encourage sustainable economic development and social progress in its regional member countries, thus contributing to poverty reduction.

ECOWAS

Nigeria is a member of ECOWAS. ECOWAS was established on 28 May 1975 with the signing of the Treaty of Lagos. ECOWAS is headquartered in Abuja and has fifteen West African countries as members (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo). Nigerian President Goodluck Ebele Jonathan is currently the chairman of ECOWAS. The organisation's mission is to promote economic integration in all fields of economic activity, particularly industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, and social and cultural matters. In 1993, the ECOWAS Treaty was revised to accelerate the process of integration and establish an economic and monetary union to stimulate economic growth and development in West Africa with the following objectives: the removal of customs duties for intra-ECOWAS trade and taxes having equivalent effect, the establishment of a common external tariff; the harmonisation of economic and financial policies and the creation of a single monetary zone. However, regional trade within ECOWAS as a share of total trade remains limited due the lack of harmonisation of the economies.

According to World Bank data, the ECOWAS region had a population of approximately 293 million in 2009, with Nigeria accounting for slightly more than half of the total population of ECOWAS. In 2008, ECOWAS's aggregate GDP was approximately US$262 billion, with Nigeria's dominant economy accounting for nearly two thirds of the regional aggregate GDP.

Nigeria is also a member of the Economic Community of West African States Monitoring Group ("**ECOMOG**"). ECOMOG was founded in 1990 under the auspices of ECOWAS countries who were concerned at the threat of instability in the region during the Liberian Civil War. ECOMOG is made up of soldiers from the national armies of member nations. Nigeria contributed most of the troops, material and financial backing in respect of ECOMOG. In 2001 the Nigerian president announced that over 12 years, Nigeria had spent US$13 billion on peacekeeping operations. Nigeria was the driving force behind peacekeeping operations in Liberia from 1990 to 1998, in Sierra Leone in 1997 and Guinea-Bissau in 1999. Nigerian troops currently form one of the largest contingents of the UNAMID, the peacekeeping force in Darfur, Sudan.

Country Ratings

The Federal Republic of Nigeria has been assigned sovereign credit ratings of B+ long-term (Stable Outlook) (Standard & Poor's) and BB- long-term (Negative Outlook) (Fitch).

THE ECONOMY

Overview

Nigeria has the second largest economy in sub-Saharan Africa (after the Republic of South Africa) and is the most populous country in Africa. Nigeria has experienced continued growth in GDP over the last few years, driven primarily by growth in the non-oil and gas sectors of the economy. Real GDP grew 7.53 per cent. (provisional) in the first half of 2010, 6.96 per cent. in 2009, 5.98 per cent. in 2008 and 6.45 per cent. in 2007. This growth is largely attributed to the continued growth in non-oil and gas GDP, which grew 8.32 per cent. in 2009, 8.95 per cent. in 2008 and 9.52 per cent. in 2007. Overall GDP growth in 2010 is estimated to be 7.85 per cent.

However, the Nigerian economy remains highly dependent on the oil and gas sector, which accounted for 84.5 per cent. of export earnings and 69.4 per cent. of total gross federally collectible revenue in 2009. This dependence on oil makes the economy vulnerable to oil price fluctuations as most economic sectors in Nigeria depend on public spending which is itself dependent on oil revenues.

Reforms in recent years have contributed to the diversifying growth of non-oil GDP. Since 2005, the non-oil sector has been a key driver of growth, growing on average by 8 per cent. per year, the biggest drivers being agriculture, telecommunications and wholesale and retail trade. The following table sets out information regarding the main non-oil sectors of the economy as well as the oil and gas sector:

	2009		1H 2010(1)
Economic Sector	**Contribution to real GDP (%)**	**Growth rate (%)**	**Contribution to real GDP (%)**
Agriculture	41.70	5.88	39.14
Crude Petroleum and Natural Gas	16.29	0.45	16.97
Wholesale and Retail Trade	18.14	11.48	19.11
Manufacturing	4.17	7.85	2.33
Telecommunications and Post	3.66	34.18	4.68

(1) Provisional.

Source: NBS

The Government seeks to continue this trend and to diversify the economy by pursuing a range of economic reforms, including power and banking sector reforms as well as a privatisation programme to address poor infrastructure, including power and transportation, overdependence on oil as a major source of income and the uncoordinated economic policies of previous Nigerian governments that have historically been barriers to developing a significant portion of Nigeria's natural resources and diversifying the economy.

Vision 20:2020

In July 2010, the Government launched Vision 20:2020, a long-term strategic plan for Nigeria to become one of the 20 largest economies in the world by 2020. The three key pillars of Vision 20:2020 are:

- optimising the key sources of economic growth,
- guaranteeing the productivity and well-being of the Nigerian people, and
- fostering sustainable economic development.

In May 2010, the Government adopted the First NIP for the years 2010-2013, a medium-term plan for implementing Vision 20:2020 and the first of three expected national implementation plans. This First NIP is intended to move the nation towards its Vision 20:2020 objectives as well as help to meet the Millennium Development Goals by 2015. The following is a summary of the key issues identified within each of the main themes of the First NIP, and a summary of some of the targets proposed to address them.

Physical infrastructure — The Government has identified power, transport and housing resources as the major challenges constraining economic growth and development in Nigeria.

- Power — Electricity supply in the country currently does not meet national demand. At the end of December 2009, the estimated daily power generation in Nigeria was about 3,700 megawatts, while the peak load forecast for the same period was 5,103 megawatts (based on existing connections to the grid, which does not account for suppressed demand). The currently installed generation capacity is 5,200 megawatts. Only 40 per cent. of Nigerians have access to electricity. The First NIP seeks to achieve by 2013 generation of 16,000 megawatts, to strengthen the transmission network to wheel 16,000 megawatts and to increase access to electricity to 50 per cent. of the Nigerian population.

- Transport — Currently the transport system in Nigeria is characterised by a moribund rail system (with only a few locomotives and wagons in use), large sections of impassable inland waterways, inadequate port infrastructure, poor and badly maintained road networks, poor interconnectivity of all transport systems and inadequate and poorly maintained airports.

    - Railways — Nigeria's rail network consists of 3,500 kilometres, narrow gauge single track rail lines running from Lagos to Kano and Port Harcourt to Maiduguri. The First NIP seeks to rehabilitate the existing rail and complete rail projects currently under construction, to increase the tonnage of freight transported and to increase the number of passengers using the rail service each year.

    - Inland waterways — Nigeria has 12 major inland navigable rivers of about 3,800 kilometres and coastline of approximately 852 kilometres. However, the waterways have been neglected in the previous three decades due to inadequate investment. The First NIP seeks to increase the navigable waterways to 3,000 kilometres, to increase inland waterway traffic and passengers and to rehabilitate and construct key river ports, jetties and wharfs.

    - Seaports — Nigeria's seaports, which are owned and operated by the Nigerian Ports Authority, comprise 13 major ports, 11 oil terminals and 128 jetties with a total annual cargo capacity of 35 million tonnes. However, Nigerian seaports are uncompetitive due to inefficiency of services, poor maintenance of infrastructure and excessive bureaucracy. The First NIP seeks to reduce the turn-around time at ports, to reduce tariffs to increase competition and to improve safety and security.

    - Roads — Nigeria has a total road network of 193,200 kilometres and is characterised by inadequate routine and emergency maintenance, coupled with poor construction and design; lack of coordination in the construction and maintenance of the network; lack of a coherent national road policy, inappropriate road design standards and a lack of road markings, safety barriers and signage. The First NIP seeks to recover 7,677 kilometres of existing federal roads (about 30 per cent.), to complete road works that reached at least 50 per cent. completion as at December 2009 and to rehabilitate and reconstruct the major trunk roads.

    - Airports — Nigeria has 21 airports and 62 additional airstrips, consisting of four international airports, one regional airport, 11 domestic airports and five airports that are used occasionally. Many of the airports are in need of major repair and some equipment is obsolete. Only three of the airports in operation cover their own operating costs. The First NIP seeks to upgrade and expand the international airports to the standards and recommended practices of the International Civil Aviation Organisation.

- Housing — Currently there is a shortage of housing properties due to the high cost of construction, resulting in high rent and house prices. Nigeria has also experienced high volumes of rural-urban migration and increasing demand for housing in urban areas, leading to the emergence and expansion of slum settlements. The housing sector is also characterised by an inadequate legal and regulatory environment, inefficient mechanisms for acquiring or transferring property rights, the lack of financing for home buyers, the absence of a clearly defined foreclosure law and inadequate urban planning systems. The First NIP seeks to add 10 million new homes to the national housing stock by developing an efficient land administration system to make land ownership available, accessible and easily transferable, providing affordable housing finance, establishing an efficient legal and regulatory framework and reducing the cost of production.

Productive Sector — The focus on this sector seeks to optimise the key sources of economic growth to increase productivity and competitiveness. The emphasis in this theme is agriculture and food security; oil and gas; manufacturing; small and medium-sized enterprises ("**SMEs**"); solid minerals and steel development, trade and commerce and culture and tourism.

- Agriculture and food safety — Despite its contribution to GDP, the agriculture sector remains weak. Issues and challenges facing this sector include low productivity, low level of private sector investment, non-competitiveness, weak domestic policies and institutions, inadequate funding and issues relating to land ownership. The First NIP seeks to reduce the present level of food import by 50 per cent. by 2013, promote the use of certified and improved seeds of major crops and to encourage the rehabilitation of irrigation facilities to increase cultivable land.

- Oil and gas — Although the oil and gas sector has continuously dictated the pace and structure of growth of the Nigerian economy for the previous three decades, the impact of the sector on employment, value addition and diversification of other sectors of the economy has remained comparatively low. The First NIP seeks to grow the national content value addition in the oil and gas sector and expand links to other sectors of the economy, improve efficiency in the sector, increase local refining capacity and to meet domestic gas demand, particularly to the power and manufacturing sectors.

- Manufacturing — The manufacturing sector can be characterised as structurally and technologically weak, with poor infrastructure, policy instability and insufficient quality control, and highly dependent on imports of machinery, equipment and spare parts. The sector also lacks the skilled manpower necessary for competitiveness. The First NIP seeks to raise capacity utilisation from 54.7 per cent. in 2008 to 65 per cent., improve productivity and attain 60 per cent. compliance with global ISO quality standard.

- Small and medium-sized enterprises — SMEs constitute over 80 per cent. of all business enterprises in Nigeria and cover a wide range of economic activity. Challenges facing SMEs include a lack of financing, inadequate infrastructure, the lack of market access and the high cost of doing business. The First NIP seeks to create a policy and regulatory environment to promote the growth of SMEs, address infrastructure weaknesses and promote the transformation of informal SMEs to the formal sector by simplifying registration processes.

- Solid minerals and steel development — Key constraints in this sector include the absence of comprehensive geological survey of the country, a lack of global best practices in mining activities and a general lack of capacity. The First NIP seeks to achieve 30 per cent. compliance with global best practices and revitalise the steel sector.

- Trade and commerce — Challenges facing this sector include a lack of policies aimed at boosting exports, the absence of reliable and timely trade data and a non-diverse export base.

The First NIP seeks to diversify exports, sustain tariff reform and deepen Nigeria's integration into the global markets.

- Culture and tourism — This sector faces many of the same challenges that confront other sectors, including infrastructure inadequacies, weak regulation and inadequate funding. The First NIP seeks to make Nigeria a top tourist destination by developing resorts in certain regions of the countries, promoting tourism projects and focus on tourist safety. It also seeks to ensure that cultural items in Nigeria are preserved for future generations.

Human Capital and Social Development — The focus of this theme is on the eight critical social sectors of the economy, namely education; health; labour employment; productivity; women affairs and social development; sports development; food and nutrition and social protection. The strategies aimed at improving the quality of life of Nigerians include:

- addressing infrastructure gaps;
- expansion of health care coverage for the poor through the National Health Insurance Scheme;
- strengthening disease control and preventative health care measures;
- maintenance and upgrade of facilities at health care institutions;
- overhauling the education curricula and expanding school sports;
- enhancing private sector participation in sports development;
- improving labour productivity; and
- skill development.

Knowledge-based Economy — This theme addresses the challenges in building a knowledge-based economy including building a knowledgeable workforce, refocusing existing institutions to be more results-driven, ensuring access to and affordability of information and communication technology and ensuring access to the Internet and technology nationwide.

Governance and General Administration — This theme recognises that Nigeria continues to face significant challenges in organising elections, reforming the civil service and combating corruption. The First NIP seeks to develop and institutionalise a stable and functional democracy where the rights of citizens to determine their leaders are guaranteed, and the resources of the state are used for the benefit of all citizens.

The MDGs have been integrated into Nigeria's Vision 20:2020 plan.

The Government expects that the First NIP of the Vision 20:2020 plan will assist in addressing some of these problems. However, successful implementation will depend on the active participation and effective cooperation and collaboration of all tiers of government and constructive partnership with other stakeholders. Another critical success factor includes discipline and efficiency in resource management, which entails significant reduction of corruption and ensuring value for money through adopting comparable global standards in the quality and cost of implementing projects.

Macroeconomic Assumptions and Funding

The overall macroeconomic target set forth in the First NIP is for Nigeria to achieve a GDP of ₦50 trillion by 2013, which is premised on average real GDP growth of 11 per cent. over the period. The macroeconomic assumptions underlying this target include:

	As at and for the year ended 31 December			
	2010	2011	2012	2013
Crude oil production (mbd)	2.4	2.5	2.5	2.5
Crude oil price (US$)	60.00	60.00	60.00	60.00
Real GDP Growth Rate (per cent.)	8.2	10.9	11.8	13.1
CPI Inflation Rate (per cent.)	9.5	9.0	8.5	8.0
External debt (per cent. growth rate)	2.0	2.8	0.2	(0.4)
Fiscal deficit (per cent. of GDP)	3.5	3.0	3.0	3.0

Although the First NIP includes certain assumptions with respect to 2010, 2011 will be the first year that the Government implements the First NIP into the Federal Government's budget. See "*Public Finance—2011 Proposed Budget*". Therefore, certain of the 2010 assumptions may not be satisfied. To the extent that some or all of the macroeconomic assumptions are not met, adjustments may be needed to achieve the First NIP's objectives, which could make implementation of the First NIP more expensive or result in changes to the timetable for certain investments. See "*Risk Factors—The Issuer may be unable to meet its economic growth and reform objectives and any failure or inability to continue to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy*".

The Government estimates that the First NIP will cost approximately ₦31 trillion over four years, of which ₦10 trillion will be funded by the Federal Government, ₦9 trillion by the State Governments and ₦12 trillion which is targeted to be funded by the private sector. If the State Governments and private sector are unable to meet the targets set by the Government to fund their portion of the First NIP, the Government may have to delay or need to seek alternative sources of funding in order to complete some of the proposed projects under the First NIP.

The following table sets forth the amount of estimated Federal Government funding requirements for each key theme of the First NIP:

	Federal Government funding requirement *(₦ billions)*	Percentage of total Federal Government funding requirement *(%)*
Sector		
Physical Infrastructure	3,318.5	33
Productive Sector	1,557.1	16
Human Capital Development	1,894.0	19
Knowledge Based Economy	294.7	3
Governance and Security	1,042.8	10
General Administration	283.5	3
Regional Development	1,002.4	10
Capital Supplementation and Residual Items	607.0	6
Total	**10,000.0**	**100**

See "*Risk Factors—The Issuer may be unable to meet its economic growth and reform objectives and any failure or inability to continue to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy.*"

Gross Domestic Product

GDP is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures the total value of final production in current prices. Real GDP measures the total value of final production in constant prices of a particular year, thus allowing historical GDP comparisons that exclude the effect of inflation. Real GDP figures presented below are based on constant 1990 prices.

The nominal GDP for 2009 was estimated at ₦24.8 trillion. Real GDP growth was estimated at 6.96 per cent. in 2009, up from 5.98 per cent. in 2008. Overall real GDP growth for 2010 is estimated at 7.85 per cent. Non-oil real GDP growth was 8.32 per cent. in 2009 and 8.95 per cent. in 2008.

GDP by Sector

The table below provides information regarding Nigeria's real GDP by sector for the periods indicated (based on 1990 constant basic prices):

Activity Sector	For the year ended 31 December 2005	2006	2007	2008	2009	For the six months ended 30 June 2010[1]
	(₦ millions, except percentages; at 1990 constant basic prices)					
Agriculture	231,463.6	248,598.9	266,477.2	283,175.4	299,823.9	131,031.0
Crop production	206,178.4	221,622.3	237,685.7	252,469.7	267,179.7	113,962.9
Livestock	14,643.9	15,654.7	16,739.4	17,877.6	19,036.3	9,986.3
Forestry	3,005.4	3,186.2	3,381.3	3,587.6	3,797.5	1,998.8
Fishing	7,636.0	8,135.8	8,670.9	9,240.5	9,810.4	5,083.0
Industry[2]	187,841.2	185,936.1	184,768.3	181,843.1	187,031.0	84,313.5
Coal Mining	0.1	0.1	0.2	0.2	0.2	0.1
Crude Petroleum and Natural Gas	136,345.5	130,193.6	124,285.1	116,594.6	117,121.4	56,817.5
Metal Ores	7.6	8.5	9.5	10.6	11.9	6.6
Quarrying and other mining	1,503.2	1,657.5	1,868.8	2,107.5	2,362.2	1,066.8
Oil Refining	686.8	755.6	831.8	914.9	978.5	530.2
Cement	397.8	443.7	496.9	554.8	614.9	364.2
Other Manufacturing	20,220.5	22,106.6	24,206.8	26,337.0	28,397.5	7,783.0
Electricity	19,439.9	20,344.4	21,301.0	22,035.9	22,682.8	9,395.1
Water	695.4	771.3	855.6	948.8	1,045.4	562.2
Building and Construction	8,544.5	9,654.8	10,912.6	12,338.8	13,816.3	7,787.8
Wholesale and Retail Trade	77,283.1	89,075.2	102,616.1	117,002.9	130,438.8	63,952.8
Hotels and Restaurants	2,155.4	2,433.6	2,748.8	3,104.5	3,473.6	1,893.1
Road Transport	13,385.9	14,319.5	15,323.4	16,400.6	17,534.5	8,875.8
Rail Transport and Pipelines	1.7	1.8	1.9	2.0	2.1	1.0
Water Transport	321.5	340.9	361.5	383.3	405.1	207.9
Air Transport	318.2	342.2	368.0	396.0	427.3	216.3
Transport Services	854.8	907.2	962.8	1,022.3	1,078.2	537.9
Telecommunications	7,851.7	10,567.9	14,226.8	19,159.2	25,812.4	15,662.6
Post	323.6	358.8	397.8	441.3	486.4	240.8
Financial Institutions	21,430.3	22,451.7	23,531.7	24,611.8	25,543.4	13,558.5
Insurance	714.2	794.9	885.0	982.3	1,076.5	587.0
Real Estate	7,865.6	8,784.0	9,813.7	10,970.8	12,171.0	6,397.0
Business Services	658.8	702.8	749.9	799.9	849.4	454.4
Public Administration	4,105.6	4,288.3	4,479.4	4,678.3	4,884.8	2,506.4
Education	964.5	1,068.4	1,183.6	1,311.1	1,442.3	787.5
Health	224.0	247.1	272.7	300.9	331.0	180.8
Private Non Profit Organisations	18.3	20.4	22.6	25.1	27.9	15.3
Other services	3,734.5	4,130.8	4,569.5	5,058.5	5,558.9	3,014.8
Broadcasting	415.1	451.19	490.54	533.47	578.73	307.7
Total GDP	**561,931.4**	**595,821.6**	**634,251.1**	**672,202.6**	**718,977.3**	**334,741.7**
Non-Oil GDP	425,585.9	465,628.0	509,966.8	555,608.0	601,856.0	277,924.2
Total GDP Growth Rate	6.51	6.03	6.45	5.98	6.96	7.53
Oil GDP (% change)	0.50	(4.51)	(4.54)	(6.19)	0.45	4.02
Non-Oil GDP (% change)	8.59	9.41	9.52	8.95	8.32	8.28

(1) Provisional
(2) Industry is comprised of mining and quarrying, manufacturing, utilities and building and construction.

Source: NBS

The table below provides information regarding Nigeria's nominal GDP by sector for the periods indicated (based on 1990 current basic prices):

Activity Sector	**For the year ended 31 December**					**For the six months ended 30 June[(1)]**
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
	(₦ millions, except percentages; at current basic prices)					
Agriculture	4,773,198.4	5,940,446.8	6,757,867.7	7,981,397.3	9,186,306.1	4,317,734.1
Crop production	4,228,282.2	5,291,619.1	6,024,381.0	7,114,794.0	8,200,921.7	3,786,544.7
Livestock	313,252.3	378,702.6	434,151.7	512,943.6	583,623.5	306,160.2
Forestry	61,785.8	73,461.1	83,812.0	99,022.7	111,071.5	59,338.2
Fishing	169,878.0	196,664.0	215,523.0	254,637.2	290,689.4	165,691.0
Industry[(2)]	6,340,064.9	7,781,690.6	8,397,622.5	10,078,766.1	8,480,909.8	4,776,679.8
Coal Mining	0.3	0.3	0.4	0.5	0.6	0.4
Crude Petroleum and Natural Gas	5,664,883.2	6,982,935.4	7,533,042.6	9,097,750.7	7,418,148.9	4,343,367.5
Metal Ores	14.9	22.2	26.9	31.0	34.7	24.5
Quarrying and other mining	17,286.4	27,261.5	31,427.1	36,158.6	40,577.5	20,575.8
Oil Refining	29,037.5	37,457.9	41,355.8	47,582.1	53,958.9	28,806.1
Cement	8,501.8	11,791.6	14,916.9	17,162.7	19,556.6	10,267.5
Other Manufacturing	375,167.3	429,274.5	464,610.4	520,828.3	538,793.4	141,137.4
Electricity	27,905.9	40,974.2	43,820.5	50,417.9	59,613.4	32,288.9
Water	1,481.5	1,640.6	1,957.9	2,252.7	2,535.1	1,467.5
Building and construction	215,786.1	250,332.3	266,464.0	306.581.6	347,690.7	198,744.2
Wholesale and retail trade	1,868,251.3	2,741,794.5	3,044,773.9	3,503,181.7	4,082,351.8	2,369,343.3
Hotels and Restaurants	46,080.0	57,611.9	72,839.4	86,058.7	98,961.7	53,636.0
Road Transport	362,605.3	416,240.3	444,990.0	450,329.8	475,907.3	230,541.8
Rail Transport and Pipelines	6.9	7.5	9.6	9.7	10.2	4.5
Water Transport	982.9	1,061.3	1,170.7	1,184.8	1,248.4	629.4
Air Transport	3,282.8	4,023.9	4,567.8	4,622.6	5,243.1	2674.7
Transport Services	18,603.7	20,489.4	22,707.4	22,979.8	24,312.0	10,391.4
Telecommunications	38,194.0	164,019.9	241,814.9	248,102.1	254,195.4	125,634.1
Post	1,319.2	1,504.2	1,736.2	1,781.3	1,808.3	849.1
Financial Institutions	126,528.4	288,381.3	330,822.2	380,445.6	430,991.6	251,061.2
Insurance	4,221.1	8,323.6	10,085.9	11,598.8	13,244.4	7,586.5
Real Estate	680,790.8	765,184.7	871,568.0	1,002,303.2	1,142,366.6	571,197.9
Business Services	32,044.5	43,370.5	54,026.4	62,130.4	70,643.1	38,814.8
Public Administration	115,190.8	131,329.0	151,330.4	174,030.0	197,262.3	109,582.1
Education	26,042.5	29,689.9	33,356.6	39,394.1	47,095.7	28,380.9
Health	6,822.2	7,777.8	8,738.4	9,961.7	11,085.9	6,302.2
Private Non Profit Organisations	154.5	158.8	163.6	188.1	212.0	119.4
Other services	126,112.8	159,545.3	204,451.1	235,118.8	267,194.8	158,447.9
Broadcasting	1,742.2	2,153.6	2,675.2	2,744.7	2,888.3	1,501.9
Total GDP	**14,572,239.2**	**18,564,804.5**	**20,657,317.6**	**24,296,329.3**	**24,794,238.6**	**13,061,112.9**
Non-Oil GDP	8,907,355.9	11,581,869.1	13,124,275.1	15,198,578.6	17,376,089.8	8,717,745.4
Total GDP Growth Rate	27.70	27.40	11.27	17.62	2.05	15.24
Oil GDP (% change)	33.36	23.27	7.88	20.77	(18.46)	19.91
Non-Oil GDP (% change)	24.35	30.03	13.32	15.81	14.33	13.05

(1) Provisional

(2) Industry is comprised of mining and quarrying, manufacturing, utilities and building and construction.

Source: *NBS*

Principal Sectors of the Economy

Oil and Gas

The oil and gas sector is very strategic for economic growth and development in Nigeria. However, the impact of the sector on employment generation and diversification of other sectors of the economy has remained comparatively low. Its relative current contribution to the country's GDP in real terms remained low at 16.29 per cent. in 2009. The huge oil and gas resource base has positioned the country as one of the key players in the global supply of energy. According to the Government, Nigeria is the tenth largest oil producer and seventh largest gas exporter in the world and with the seventh largest proven gas reserves in the world.

Regulatory Framework

The Ministry of Petroleum Resources, through the Department of Petroleum Resources ("**DPR**"), controls and supervises the activities of all players in the Nigerian petroleum industry. The scope of DPR activities stretches from exploration through to production and marketing of crude oil and refined petroleum products. However, the final regulatory powers rest with the Ministry of Petroleum Resources.

The NNPC was formed in 1977 to engage in all commercial activities relating to the petroleum industry and to enforce all regulatory measures relating to the general control of the petroleum sector. Profits from the joint venture arrangements accrue directly to the Federal Government and Government funding of the NNPC is made pursuant to budget appropriations in the same way as other state-owned companies in the distribution of revenues. Thus, the NNPC has often faced the problem of inadequate appropriations from the Government to meet cash calls under the joint ventures and other investment commitments. This has resulted in calls for the Government to reduce its equity share in the joint ventures to alleviate the cash call problems.

The operational activities of the NNPC are divided into three broad based sectors: upstream, midstream and downstream. All NNPC's upstream activities are managed under the Exploration and Production Directorate. The directorate consists of the following five business units:

- The National Petroleum Investment Management Services ("**NAPIMS**") oversees the Federal Government's investments in the joint ventures, PSCs and service contracts.
- The Crude Oil Marketing Division markets Nigeria's share of crude oil production from the joint ventures.
- The Nigerian Petroleum Development Company ("**NPDC**") is the NNPC's exploration and production unit. The NPDC currently operates a number of blocks in the Niger Delta.
- The Integrated Data Services Limited is the NNPC's land seismic and data acquisition unit.
- The Nigerian Gas Company is responsible for gas distribution and marketing in Nigeria.

The NNPC estimates Nigeria's crude oil reserves at 31.9 billion barrels as of 30 June 2010. Nigeria exported approximately 769,195,205 barrels of the approximately 780,347,940 barrels of the oil it produced in 2009 and approximately 30 per cent. of this was exported to the United States. Oil production which was not exported was consumed in the domestic market.

History

The Nigerian petroleum industry dates back to 1908 when the Nigerian Bitumen Corporation, a German company, started exploration for oil in south west Nigeria. However, oil production began in 1956 with the discovery of the Oloibiri field in the Niger Delta by Shell D'Arcy. In the 1950s and 1960s, several major international oil companies acquired licenses in Nigeria, including Mobil in 1955, Texaco and Gulf (now Chevron) in 1961, Safrap (now Total) and Agip in 1962. Crude oil production rose from 5,100 barrels per day to about 2 million barrels per day in the 1980s before it fell due to the global downturn in the energy markets as a result of the global recession. Crude oil production rose again in the 1990s and peaked in 2004 at 2.5 million barrels per day but declined again to an average of 2.2 million barrels per day in 2007 due to the unrest in the Niger Delta and OPEC quota constraints. Production declined further in 2008, when production fell to an average of approximately 2.1 million barrels per day. This decrease was mainly due to militant activities and the destruction of oil production facilities in the Niger Delta region which caused disruptions in production.

The Niger Delta crisis came about as a result of the inconsistent policies of past governments which allowed IOCs uncontrolled access to the resources of the Niger Delta region at the cost of the human and environmental needs of the region, resulting in agitation and the proliferation of crime. Over the years, the lack of development in the region and perceived injustice over the sharing of oil revenues often triggered conflicts between the host communities and the states. The adverse effect of these conflicts on the economy and the need to deal with the challenges in the region led to the introduction of the Ministry of the Niger Delta and an amnesty programme for the Niger Delta militants in 2009. Under the amnesty programme, over 20,000 militants handed over their arms in return for a presidential amnesty, unconditional pardon and participation in the Post-Amnesty Rehabilitation and Economic Empowerment Programme.

In spite of the efforts of the Federal Government, State Governments, the oil companies and non-governmental organisations to enhance the well-being of the people of the Niger Delta, wide disparities in development persist. In many areas, the conditions of rural communities where crude oil is produced remain poor with severe environmental degradation, lack of infrastructure, high unemployment, poor educational facilities and general lack of amenities that ensure a good standard of living. At its peak, repeated militant attacks on oil and gas facilities in the Niger Delta region resulted in oil production dropping to its lowest level in five years in April 2009.

However, production began to increase again in the second half of 2009, with an average of 2.1 million barrels per day, and increased further to an average of 2.4 million barrels per day in the first eleven months of 2010. The increase was largely attributed to the amnesty programme of the Federal Government that restored relative peace to the Niger Delta region.

Upstream

The upstream sector primarily comprises exploration and production activities.

Legal Framework for Exploration and Production in Nigeria

Early oil operations in Nigeria were carried out on a concession basis where the International oil companies ("**IOCs**") had 100 per cent. ownership of oil production and Nigeria collected tax and royalties. This changed when the Petroleum Act of 1969 (the "**Petroleum Act of 1969**") was passed, pursuant to which the entire ownership and control of all petroleum in, and upon any land in Nigeria, was vested in the state. The passing of this legislation and the formation of the Nigerian National Oil Company ("**NNOC**"), the predecessor to the NNPC, were, in part, a response to Nigeria's desire to join OPEC, as a primary aim of OPEC at that time was to encourage its members to increase state participation in their respective national oil industries. See "*The Federal Republic of Nigeria—Membership of International and Regional Organisations*".

The Petroleum Act of 1969 provides that only Nigerian citizens or companies incorporated in Nigeria can be granted licenses for oil exploration and production. The licenses that can be issued are as follows:

- An Oil Exploration Licence ("**OEL**") – confers a non-exclusive right to do a preliminary search using surface, geological and geophysical methods, including aerial surveys but excluding drilling below 91.44 metres. An OEL expires on 31 December of the year in which the licence was granted. An OEL is rarely granted today.

- An Oil Prospecting Licence ("**OPL**") – confers an exclusive right to explore and prospect for petroleum and is for a maximum initial term of five years.

- An Oil Mining Lease ("**OML**") – confers an exclusive right over the area and an interest over petroleum discovered within the area covered by the OML. An OML can only be granted to a person who has discovered oil in commercial quantities (defined to be production of at least 10,000 barrels per day of crude oil). An OML has a maximum duration of 20 years but may be renewed.

However, under the licencing regime established by the Petroleum Act of 1969, several means exist for a person or company to obtain rights to explore or produce oil in Nigeria. Within the framework of this regime, a participation system has developed allowing companies that have not been granted a licence to obtain rights or interests in oil production that is being undertaken pursuant to a licence. There are five primary legal arrangements for crude oil production currently in force:

- Concessions/sole risk – an independent company with a concession bears the full risk and costs of exploration, development and production, has interests over the crude oil produced and is liable for all royalty and petroleum profit tax payments. Currently concessions in respect of OMLs are only awarded to domestic contractors (defined as a company of which at least 60 per cent. of its shares are owned by Nigerians.)

- Joint ventures – an arrangement that was formed when the Government acquired participation interests in the OMLs held by the Nigerian subsidiaries of the IOCs. The OMLs are held by the Government and the IOCs in proportion to their respective ownership interests and the relationship between the Government and the IOC is governed by a Joint Operating Agreement.

- Production Sharing Contracts ("**PSC**") —an arrangement pursuant to which the company bears the risk of exploration, and when oil is found in commercial quantities, the company is entitled to recoup its costs. Thereafter the crude oil produced is shared by the company and the Government. PSCs are entered into by OML holders and contractors in respect of these contract areas which are governed by an OML. In respect of PSCs involving the Government, the OMLs are held by the NNPC.

- Marginal Fields ("**Marginal Fields**") – an arrangement pursuant to which the OML holder farms out those fields within its licence. In 2003, IOCs were made to farm out fields that had remained unproduced for more than 10 years to indigenous oil companies.

- Service Contracts – an arrangement pursuant to which an OML holder enters into a contract with a contractor who provides the risk capital for exploration and production, but if no commercial discovery is made, the contract is then terminated with no further obligation on either party. If a commercial discovery is made, the contractor is entitled to recover its costs and receive some additional remuneration. Service contracts are not commonly used in Nigeria

Currently, IOCs in Nigeria operate in partnership with the NNPC mainly under joint ventures or PSCs. Other oil companies, including independents and domestic oil companies, may operate in partnership with international companies under sole risk or other arrangements.

<u>Concessions/Sole Risk</u>

In the early 1990s, under a policy which sought to encourage Nigerian participation in the oil and gas industry, the Government reserved certain oil blocks for Nigerians and granted concessions to qualifying applicants. Concessions were only granted to Nigerian resident companies. The concession-owner was granted 100 per cent. of the rights to the relevant block on a sole risk basis with no participation by the NNPC. The Government however reserved the right to participate in any venture.

Under the policy, companies were permitted to assign up to 40 per cent. of their interest to foreign technical partners in exchange for funding to cover all or a substantial portion of the signature bonus payable to the Government as well as costs connected with exploration, field development and production activities. To govern their relationship, the local companies entered joint operating agreements ("**JOA**") with the foreign technical partners on terms required to be approved by the Minister of Petroleum Resources.

Joint Ventures

In the 1970s, previously wholly-owned concessions, or OMLs, were transformed into joint venture arrangements between the Government, through the NNPC and the IOCs operating them. The IOCs continued to operate the joint ventures, with costs and revenues split between them and the NNPC on an equity basis.

Joint ventures are governed by JOAs between the NNPC and the IOCs. The percentage interest of either party to the JOA is referred to as its participating interest and consists of its share of the OML, the fixed and moveable assets of the JOA and the working capital applicable to the operation of the OML. In each JOA, an IOC is typically designated as the operator and is responsible for all JOA operations; however the NNPC reserves the right to become an operator.

Under the joint ventures, the NNPC is the major interest holder and enters into an agreement with one or more joint venture partners in respect of assets and liabilities for oil exploration and production. Pursuant to the JOA, the oil company and the NNPC agree to jointly explore for, develop and produce petroleum in accordance with the terms of the OPL or OML jointly held by them. Each partner in the joint venture contributes to the costs of exploration, development and production and shares the benefits or losses of the operations in accordance with its proportionate equity interest in the joint venture. The NNPC contributes its financial obligations through funding cash calls made by the IOC operator in respect of the NNPC portion of the cost of exploration and production. The Government allocates to the NNPC an annual funding budget, from which it meets its joint venture cash calls obligations. Government revenue earned from its participating interest in JOAs is separate from the revenue it earns from taxation and royalties.

In 1986, in response to certain constraints at the time such as low oil prices, the Government entered into the first of a series of memorandums of understanding ("**MOU**") with its joint venture partners. The MOU is an arrangement between the Government and its joint venture partners, intended to encourage companies to continue to explore and produce crude oil in Nigeria. In return for their commitment, the Government guarantees a certain profit margin, irrespective of oil prices. MOUs were signed in 1986, 1991 and 2000. The key feature of the 2000 MOU is that it provides for a two-tier profit margin, US$2.70 per barrel for those companies with a unit investment of more than US$2.00 per barrel and US$2.50 per barrel for those companies with a lower investment. The 2000 MOU had a tenure of three years. In January 2008, the DPR informed the NNPC's joint venture partners of the Government's intention to treat the 2000 MOU as having lapsed and to revert to the fiscal regime of the Petroleum Profits Tax Act.

The table below sets out information regarding the joint venture arrangements with their equity holdings as of 31 December 2010:

Joint Venture	NNPC Shareholding	IOC Shareholding
NNPC/Shell/Total/AGIP	55%	45%
NNPC/Mobil	60%	40%
NNPC/Chevron	60%	40%
NNPC/AGIP/ConocoPhillips	60%	40%
NNPC/Total	60%	40%
NNPC/Pan Ocean	60%	40%

Source: Ministry of Petroleum

During the 1990s, the NNPC was often in arrears with respect to its payment obligations and faced challenges in meeting its cash call obligations. This led to project deferrals which resulted in a reduction in production capacity. In order to address the issue of the joint venture cash calls, the NNPC and the IOCs developed alternative funding arrangements, whereby the IOCs pay the NNPC's share of upfront costs on certain projects and developments. Under the initial carry agreements signed between 2000 and 2006, the NNPC repaid the costs with a portion of its share of production. However, under more recent modified carry agreements ("**MCAs**"), the NNPC repays the costs on a cash basis rather than oil. The alternative funding arrangement has been carried out on a number of projects including three major shallow water projects—EA (a Shell joint venture), Amenam (a Total joint venture) and Yoho (MPN/ExxonMobil joint venture). The NNPC has also executed MCAs for the Ofon Phase II (a Total joint venture), the Gbaran Ubie (a Shell joint venture) developments, the Cawthrone Channel Integrated Project, the Nembe Creek Trunkline Field Logistics Phase I projects, the Santa Barbra Phase I projects and the OML 58 Upgrade Gas Export project.

In the ordinary course of its joint venture operations the NNPC has ongoing discussions with certain of its joint venture partners regarding the amount of its payment obligations and estimates that as at 31 December 2010, the amount of money subject to such discussions was approximately US$500 million.

Production Sharing Contracts

The introduction of the PSCs in the 1990s was motivated by the need to relieve the NNPC of its financial commitments in connection with the exploration, development and production of new fields. The NNPC does not have any financial obligations under a typical PSC. However, it reserves the rights to take equity in a PSC that if exercised, would involve taking on the associated financial obligations. All contracts awarded to foreign oil companies since 1990 have been under PSC terms. Under the PSC, legal ownership and interest in the OML or OPL remains with the NNPC and one or more oil companies is the contractor to the NNPC. The NNPC has no cash call obligations under the PSCs. The contractor agrees to carry out oil exploration, development and production activities on behalf of the NNPC at its risk and expense in return for a share of production. The contractor is under an obligation to provide the entire funds for exploration, drilling and production and is reimbursed from petroleum discovered and produced.

Many of the PSCs benefit from incentives under the Deep Offshore and Inland Basins Production Sharing Contracts Decree 1999 (now Cap D3, LFN 2004). The decree, signed in 1999 was deemed to retroactively come into force in January 1993, when the first deep water PSCs were awarded and provides certain fiscal incentives for oil and gas companies operating in the deep offshore and Inland Basin areas under PSCs.

The terms and conditions in the PSCs are substantially the same, with some modifications. Under the PSCs, oil production is allocated as follows:

- Royalty oil – oil allocated to the NNPC which is the first claim on production. The royalty rate varies depending on the location of the oil field and the water depth. The royalty rates for deep offshore production sharing contracts vary from 0 per cent. to 12 per cent. depending on the water depth while the royalty rate production in the inland basin is 10 per cent.

- Cost oil – oil based on the quantum of oil production which is allocated to the contractor to enable it to generate an amount of proceeds for the recovery of operating and capital costs. It is deducted from the remaining production after the deduction of royalty oil.

- Tax oil – oil based on the quantum of oil production, the proceeds of which would be equal to the Petroleum Profit Tax liability of the NNPC and the contractors at the prevailing rate. It is deducted from the oil remaining after deduction of royalty oil and cost oil.

- Profit oil – oil equal to the balance of the available crude oil after the deduction of the royalty oil, cost oil and the tax oil. This is allocated to the NNPC and the contractors according to a sliding scale mechanism based on production rates.

The production splits can vary from one PSC to another, and allocations are made on a monthly basis. Where proceeds from royalty oil, cost oil and tax oil are insufficient to fully discharge their corresponding liabilities, the excess is carried over to the following months.

All pipelines are included in the upstream cost base and any third party tariff income is added to production income. Downstream gas utilisation project profits are covered by standard corporate income tax. However, there are various incentives in terms of accelerated depreciation and tax holidays, which are available for different gas utilisation projects.

Marginal Field Development Programme

In 1996, the Petroleum Act 1969 was amended to give the Government the power to order the farm out of marginal fields, which fields had remained unproduced by the OML holders who have held their OML license for more than 10 years from the first discovery of oil in the relevant field. This amendment was in line with the Marginal Field Development Programme which was established as a local content policy aimed at increasing the participation of domestic companies in oil exploration and production. Following the amendment of the Act, guidelines were issued by the Government in July 2001, which defined a marginal field as any field that has reserves booked and reported annually to the Government and which has remained unproduced for more than ten years. The marginal fields are subject to compulsory farm outs to domestic companies under a competitive bid process and in 2003, 24 marginal oil fields were awarded to 31 domestic oil companies. These companies have been encouraged to enter into agreements with international oil and gas companies for assistance with financing and technical support; however, non-Nigerian companies are not permitted to hold more than a 40 per cent. participating interest in the marginal field. The domestic companies pay an overriding royalty to the NNPC and the IOC as consideration for the assignment of the marginal field based on the domestic company's daily production. Marginal fields rights are often granted for an initial period of 60 months and are renewable by the Department of Petroleum Resources. The domestic company is solely responsible for the costs, risk and expenses of developing the marginal field. According to the Ministry of Petroleum, a marginal field typically produces less than 10,000 barrels per day of crude oil. According to the NNPC, there are currently over 23 marginal field farm out agreements with the NNPC.

Service Contracts

The NNPC also enters into service contract arrangements pursuant to which ownership of the OML or the OPL is vested in the NNPC and the contractor provides all the funds and expertise required for the exploration, development and production of oil. The NNPC holds the title and has the rights to the oil produced and can elect to pay the contractor in cash or in kind. The contractor does not have title to the oil produced but is reimbursed, with some additional remuneration, only from funds derived from the sale of available oil production. According to NAPIMS, there are two subsisting service contracts, one between the NPDC and Agip Energy and Natural Resources Limited, which has begun production, and one between NPDC and Sinopec, which is yet to reach production

Fiscal Arrangements

Oil revenue is a significant source of revenue for Nigeria, constituting 69.4 per cent. of all federally collected revenues in 2009, compared to 84.3 per cent. in 2008. The primary sources of oil revenues are described below:

- revenue from sales of crude oil – the Government sells the crude oil it receives from its participating interest from the JOAs and the PSCs (discussed above);
- taxes – the second most significant source of oil revenue for the Government;
- royalties – these are amounts payable to the owner of the oil or gas as compensation for the exploitation of a non-renewable resource. Royalties are charged at 20 per cent. of production for onshore drilling and on a graded scale for offshore drilling depending on the depth (and thus the difficulty) of the drilling;
- bonuses – this is a payment made by a company to the Government at designated points in time, typically when the contract has been signed (referred to as "signature bonuses"). Another form of bonus is a production bonus, which is paid by the company when production reaches mutually agreed levels;
- concession rents – these are amounts paid in exchange for the grant of an OPL or OML; and
- license fees – fees paid by IOCs, PSC contractors and oil prospectors.

The following table sets forth the amount of oil revenue the Government earned for the periods indicated.

	For the year ended 31 December					For the eleven months ended 30 November
	2005	2006	2007	2008	2009	2010
			(₦ *billions*)			
Oil Revenue	4,762.4	5,287.6	4,462.9	6,530.6	3,191.9	4,857.4
Sales of Crude oil	2,713.7	3,056.5	2,799.6	3,533.1	1,798.5	3,158.9
Sales of Gas	138.9	189.5	145.9	180.8	58.6	0.0
Taxes and fees(1)	1,316.7	1,444.9	1,059.4	2,135.9	924.9	1,141.3
Royalties	593.1	596.6	457.9	680.8	410.0	557.2

(1) Includes bonuses and rents.

Source: The Office of the Accountant General of the Federation

The reduction in the amount of oil revenues for 2009 compared to 2008 was a result of lower oil prices in 2009 compared to 2008.

Reserves and Exploration

IOCs have traditionally played a significant role in oil exploration and production in Nigeria. Some of the major IOCs operating in Nigeria include Shell, Chevron, Conocco Phillips, Mobil, Agip and Total, and they all operate in Nigeria through their Nigerian subsidiaries. These IOCs have been particularly dominant in the onshore area of Niger Delta, coastal offshore areas and more recently the deepwaters of the Niger Delta.

The Government granted new exploration licences between 2005 and 2007. According to the NNPC, there are currently over 47 PSCs subsisting in Nigeria. About 33 operating companies have been allocated 60 blocks under the PSC arrangements. A total of 173 concession licences for oil exploration and production have been awarded while 24 marginal fields have been awarded to 26 domestic companies as of 30 September 2010. The next licensing round is under consideration.

In 2009, a total of 4,560.8 square kilometres of 3D seismic data was acquired and 5,842.4 square kilometres was processed or reprocessed by six companies. Twenty-seven rigs were in operation and 129 wells were drilled. In 2008, a total of 10,212.2 square kilometres of 3D Seismic data was acquired by nine oil companies, while a total of 7,831.00 square kilometres of 3D Seismic data was processed or reprocessed by five companies. No 2D seismic data was collected in 2008. Out of the total data acquired, companies in joint venture arrangements with the NNPC acquired 7,126.16 square kilometres, while PSCs acquired 3,086.00 square kilometres. Twenty-Seven rigs were in operation in 2008. The joint venture companies had thirteen rigs, companies with PSCs had fourteen rigs, while companies with service contracts had none. In the same year, 110 wells were drilled, which included 57 developmental wells, 32 workover or completion wells, 15 appraisal wells, and six exploratory wells.

Production

The following table sets out average volumes of crude oil and condensates production and exports for the periods indicated:

	For the year ended 31 December					For the eleven months ended 30 November
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
			(average barrels per day)			
Production	2.5	2.4	2.2	2.1	2.1	2.4
Exports	2.3	2.2	2.2	2.0	2.1	2.0

Sources: NNPC, CBN

	For the year ended 31 December				
	2005	**2006**	**2007**	**2008**	**2009**
			(barrels)		
Production	918,660,619	869,196,506	803,000,708	768,745,932	780,347,940
Exports	844,151,498	817,996,072	791,826,519	724,479,796	769,195,205

Source: NNPC

The total crude oil and condensates production in Nigeria averaged 2.4 million barrels per day in the first eleven months ended 30 November 2010, an increase from 2.1 million barrels per day in 2009 and 2008. Nigeria produced a total of approximately 780.4 million barrels of crude oil in 2009 compared to the approximately 768.8 million barrels of oil produced in 2008. This increase was mainly due to the Government's amnesty programme during the second half of 2009, which brought about relative stability to the Niger Delta region.

The following table sets out certain information regarding crude oil production by the joint venture companies, certain production sharing companies, service contract companies, certain independent/sole risk companies and certain marginal fields companies for the periods indicated:

	For the year ended 31 December		
	2007	**2008**	**2009**
		(barrels)	
Company			
Joint venture companies	581,468,061	542,135,997	463,051,341
Production Sharing Companies	192,621,306	195,127,693	268,792,256
Service Contracts	3,932,714	3,361,078	3,237,284
Independent/Sole Risk Companies	24,978,627	25,273,170	41,388,620
Marginal Fields Companies	-	2,847,994	3,878,439
Total	803,000,708	768,745,932	780,347,940

Source: NNPC Annual Statistical Bulletin

Costs associated with Exploration and Production

Capital Costs

The proliferation of small oil fields and the difficult terrain of the Niger Delta call for continuous investment to keep reserve levels high. Much of these investments have been on upgrading existing infrastructure to improve operational efficiency and oil recovery. Generous fiscal terms for associated and non-associated gas projects have also encouraged investment by the joint venture operators.

Since 2000, there has been significant expenditure in the deepwater with four giant discoveries brought onstream: Bonga, Erha, Agbami and Akpo.

A key issue facing the NNPC and the operators is cost inflation, which reduces the profit oil allocated to the NNPC under the PSCs and increases funding needs under the joint ventures. Although cost inflation is a global issue, Nigeria appears particularly impacted, partly because contracts in Nigeria appear to be attracting a risk premium. Also, many of Nigeria's new developments are large-scale projects in the deepwater and constraints on deepwater drilling equipment, facilities and contractors have escalated costs significantly. Furthermore, Nigerian local content directives mean that a substantial amount of the infrastructure and facilities for all projects must be built in-country. Local capacity to build these facilities is stretched, which means investments also have to be made in building capacity, which is adding to the overall cost base.

Operating Costs

Historically, the majority of Nigerian crude production has been from fields located onshore in the Niger Delta basin. However in recent years, production growth has mainly come from shallow water and, in particular, deepwater projects. Operating costs from the onshore and offshore fields vary. The bigger joint ventures with higher production rates benefit from the associated economies of scale. The smaller joint ventures operating offshore are disadvantaged by their lack of transportation and onshore facilities. In recent years, operating costs have increased significantly largely due to companies reinforcing security as militancy has become more prevalent in the Niger Delta.

Environmental Issues

Pollution from oil exploration activities in the Niger Delta region remains high and has resulted in major environmental issues within the region. There are regular oil spills resulting from leaking underground pipelines and storage tanks as well as vandalism of oil pipelines, which contaminate vast areas of land and water in the region. According to the National Oil Spill Detection and Response Agency ("**NOSDRA**"), between June 2006 and June 2010, there were 3,203 reported cases of oil spill incidents, 1,149 of which were less than one barrel. In addition, pollution from gas flaring also remains high and the resultant heat stress and acid rain from gas flaring continue to degrade the ecosystem. See "*—Environment—Petroleum Prospecting Pollution.*"

Midstream

The midstream sector primarily comprises the refineries and the gas sector.

Oil Refining

Nigeria's petrochemicals industry is based on its refining capacity and natural gas resources. There are four refineries located at Kaduna, Warri and Eleme (with two refineries) near Port Harcourt. Currently, there are a number of projects being planned in order to grow the oil refining capacity of Nigeria and the NNPC is working with some IOCs and other investors to establish a number of greenfield refineries. One of the various challenges facing the Nigerian petrochemical industry is the lack of competitively priced and reliable feedstock supplies. While Nigeria is only just beginning to tap into its potential in natural gas, which can serve as an important source of competitively priced feedstock, the country's refining sector is still insufficient to process all the country's crude output or provide sufficient low-cost naphtha (a mixture of hydrocarbons used as feedstock for producing gasoline). The four oil refineries in Nigeria have a combined installed capacity of about 445,000 barrels of oil per day, however, they consistently operate significantly below their capacity.

In 2009, the total quantity of dry crude oil and condensate refined by the refineries in Nigeria was estimated at 2,419,578 metric tonnes down from approximately 5,353,263 in 2008. This decrease was attributable to protracted maintenance work at the Kaduna Refinery, and disruptions of crude oil supply to the refineries due to pipeline vandalism. In the first half of 2010, the total quantity of dry crude oil and condensate refined was estimated at 1,777,529 metric tonnes. In 2009, the total value of imported petroleum products was US$4.8 billion.

A network of pipelines and depots strategically located throughout Nigeria links the four refineries. The NNPC, through its subsidiary, the Pipelines and Products Marketing Company, supplies only to bulk customers who in turn supply refined petroleum products such as gasoline, jet fuel, diesel, fuel oil and liquefied petroleum gas to customers across the country. While the refineries were designed to produce 13.17 million metric tonnes per annum ("**MTPA**") of white oil products and 5.67 million MTPA of gasoline, problems such as fire, sabotage, poor management, lack of turnaround maintenance and corruption have meant that the refineries have on the average produced only about 32 per cent. of installed capacity for white oil products (4.18 Million MTPA) and 25 per cent. of installed capacity for gasoline (1.42 million MTPA) respectively over the past 10 years. This is insufficient to meet the average estimated daily national demand of 30 million litres of refined petroleum products per day. This has resulted in shortages of refined petroleum product and the need to increase imports to meet domestic demand. Current efforts to rehabilitate and revamp these refineries are designed over the next 5 years to enable refineries to reach about 63 per cent. of installed capacity, producing approximately 8.36 million MTPA of white products and 3.57 million MTPA of gasoline. See "*—Oil refining capacity constraints and proposed reforms*".

The combined average refining capacity utilisation for 2009 was 10.9 per cent, compared to 24.1 per cent. in 2008.

<u>Oil refining capacity constraints and proposed reforms</u>

As stated above, the refineries are currently operating far below their installed capacities due to inadequate funding for their routine maintenance and sabotage of oil facilities by militants. The Government has long had plans to privatise these refineries and to encourage private investors to build new ones. However, the price controls and subsidies on refined petroleum products currently in place as well as the significant investments required by investors to upgrade and maintain such refineries provide a disincentive to potential investors in the refining sector. Deregulation of refined products remains a very sensitive political and social issue, and is one of the elements currently under consideration in connection with the PIB. See "*—Oil and Gas Reforms*". In 2009, the combined average capacity utilisation of the refineries was 10.9 per cent. down from a 24.1 per cent. capacity utilisation rate in 2008. In the first half of 2010, the combined average capacity utilisation of the refineries was 21.3 per cent. According to the NNPC 2009 Full Year Performance Report, low production levels were attributable to protracted maintenance at the Kaduna refinery and disruptions of crude oil supply to all the refineries due to pipeline vandalism. A total of 1,480 incidents of pipeline vandalism were recorded compared to 2,285 incidents recorded during 2008, representing a 35.2 per cent. decrease. In the first half of 2010, a total of 860 incidents of pipeline vandalism were recorded.

As of August 2010, there were nine licensed private refinery projects which when completed are expected to contribute an aggregate of 483,000 barrels per day to Nigeria's refining capacity. These include three 12,000 barrels per stream day facilities located in Eket in Akwa Ibom State, Ologbo in Edo State and Immingiri in the Bayelsa State, as well as four 100,000 barrels per stream day facilities located in Ikot Abasi in the Akwa Ibom State, Sapele in Edo State, Ikang, and Ipokia. A "stream day" refers to the maximum number of barrels of input that a facility can process within a 24-hour period. Refineries are at various levels of completion. In June 2010, the DPR certified the completion of major units of the first phase of the Amakpe International Refinery for 6,000 barrels per stream day. Other refinery projects are ongoing.

The Greenfield Refinery Project Division ("**GRPD**") of the NNPC is currently working on developing two export-oriented refineries using the hydrocarbon industrial park concept. In 2009, the GRPD met with and applied for the acquisition of land for the Lagos Industrial Park Refinery from the Lagos State government. The GRPD also held an inaugural meeting of prospective investors with the aim of forming a consortium that will execute two proposed refineries at Lagos and the East Niger Delta.

According to the NNPC, the Warri and Kaduna refineries are currently functioning whilst the existing units of the Port Harcourt refinery (which has been shut down) is expected to be refurbished and upgraded through the execution of a comprehensive Turn Around Maintenance exercise in the coming months.

In 2010, the NNPC executed an MOU with China State Construction Engineering Corporation ("**CSCEC**") to jointly seek an estimated US$23 billion in contractor financing and supplier credits from China Export and Credit Insurance Corporation and a consortium of Chinese banks for the establishment of three greenfield refineries and one petrochemical plant in Nigeria. The three greenfield refineries are expected to be located in Lekki in Lagos State, Brass in Bayelsa State and Lokoja in Kogi State. Upon completion, it is expected that the refineries will add about 750,000 barrels per day capacity to Nigeria's refining infrastructure. Under the MOU, the CSCEC consortium is expected to provide 80 per cent. of the funding while the NNPC is expected to provide 20 per cent. of the funding. Upon completion, the refineries are expected to be managed by the CSCEC consortium until the full recovery of the loan used to finance the projects.

Natural Gas

According to data from the Ministry of Petroleum Resources, Nigeria possesses natural gas reserves of 183.9 Tcf (associated and non-associated) as of 30 June 2010.

Despite the gas potential and reserves, the level of gas production and distribution in the country for both domestic and industrial purposes is relatively low. The lack of historical domestic demand and high cost of investments encouraged gas flaring. Domestic gas demand, especially in the power and manufacturing sectors' has however increased and is currently not being met.

In 1984, the Government enacted the Associated Gas Re-Injection Act ("**AGRA**") to curb gas flaring. The AGRA proscribed the flaring of associated gas. Under the AGRA, the minister for petroleum resources was however authorised to permit gas flaring upon satisfaction that the utilisation or re-injection of the produced gas was not appropriate or feasible in a particular field or fields and upon compliance by the operator with stipulated terms and conditions including the payment of gas flaring fees. The AGRA and other initiatives implemented to reduce gas flaring have not yielded the required results and IOCs and other operators frequently opt to pay applicable flaring penalties for ministerial permission for gas flaring. Various flare-out dates were set by successive governments, but as the dates approached various reasons were given for deferrals. In addition, there is a lack of infrastructure to allow the easy transport of gas from the Niger Delta to consumers, and the existing domestic gas pricing structure has not encouraged investments in exploring and developing non associated gas fields.

Currently, the Gas Flaring (Prohibition and Punishment) bill is before the National Assembly. Nigeria has set a target of zero flare by 2012 and is providing incentives for the production and use of gas.

A total of 1,837.28 bscf of natural gas was produced by eleven oil producing companies, compared to a total of 2,282.44 bscf in 2008, a decrease of 24.2 per cent. Out of the quantity produced in 2009, 1,327.93 bscf was utilised, while in 2008, a total of 1,651.25 bscf (72.35 per cent.) was utilised. In 2009, 509.35 bscf (27.72 per cent.) of natural gas produced was flared while in 2008, a total of 617.62 bscf (27.65 per cent.) of natural gas produced was flared. The total natural gas liquid ("**NGL**") produced in 2009 was 1.33 million metric tonnes (1.35 million metric tonnes was lifted) and the share between NNPC and Mobil was 51 per cent. and 49 per cent. respectively while in 2008, the total NGL produced was 1.16 million metric tonnes (1.14 million metric tonnes was lifted), out of which Mobil had about 51 per cent. and NNPC 49 per cent. In 2009, LPG production was about 0.101 million metric tonnes (with lifting slightly above 0.122 million metric tomes), while in 2008 a total amount of 0.19 million metric tonnes was produced (with lifting slightly above 0.20 million metric tonnes).

Gas Infrastructure

Gas infrastructure in Nigeria is currently project-centric, which has prevented the development of an integrated system, and has hindered the development of the domestic gas sector. The existing domestic gas pipeline infrastructure can be categorised as follows:

- The Western System – This system includes the 700-kilometres Escravos Lagos Pipeline System ("**ELPS**"), which has a capacity of 1100 mmcfd. Plans are in place to loop the pipeline onshore to expand capacity. This will reinforce gas availability to the western part of Nigeria where there is significant growth in demand from the power and non-power sectors. This pipeline is integrated with the West Africa Gas Pipeline. The ELPS is supplied mainly by the Utorogu, Escravos, Sapele, Ughelli, Odidi and Oben gas plants, which are operated by SPDC and CNL. The flow direction is from Escravos to Lagos. The system also comprises the Oben-Ajaokuta pipeline, which is the link from the western system to the planned south-north system via Ajaokuta.

- The Export System – This system consists of an onshore Gas Transmission System ("**GTS**") and an Offshore Gas Gathering System ("**OGGS**"). The GTS gathers gas from the Obiafu, Soku, Obite and Belema gas plants and transports it to the NLNG plant for it to be exported, while the OGGS gathers gas from dedicated fields offshore and also transports it to NLNG.

- The Eastern System – This system supplies gas to domestic industrial and power users. The Obigbo North-kot Abasi is the major trunk line in the eastern system supported by the main gas plants of Obigbo, Alakiri and Okoloma, which are operated by SPDC. The pipeline system transports liquid gas from these plants to the existing domestic market in the east. The flow direction is east from Obigbo.

- The Nigeria LNG ("**NLNG**") – This is an export facility at Bonny has a 22 mtpa capacity. It has been in operation since 1999 and currently has six producing trains. The plant is owned by the NNPC (49%), Shell (25.6%), Total (15%) and Agip (10.4%).

- The West Africa Gas Pipeline ("**WAGP**") – This is a 678-kilometre pipeline which links into the ELPS the Nigeria Gas Company's Itoki Natural Gas Export Terminal in Nigeria and proceeds to a beachhead in Lagos. From there it moves offshore to Takoradi, in Ghana, with gas delivery laterals from the main line extending to Cotonou (Benin), Lome (Togo) and Tema (Ghana). The WAGP transports purified natural gas free of heavy hydrocarbons, liquids and water, which is an ideal fuel for power plants and industrial applications. 85 per cent. of the gas is used for power generation and the remaining for industrial applications. The pipeline is owned by Chevron (36.7%), NNPC (25%), Shell (18%), Takoradi Power Company (16.3%), Société Togolaise de Gaz (2%) and Societe BenGaz S.A. (2%).

In addition, the following projects are under development:

- The two-train, 10 mtpa capacity Brass LNG project is planned to be developed at Brass River by the NNPC (49%), ConocoPhillips (16.25%), ENI (16.25%), Total (13.50%) and others (5%). In 2009, the Government approved the divestment of 10 per cent. of NNPC's 49 per cent. participating interest in Brass LNG in favour of Rivers State which was awarded 5 per cent. and Bayelsa State which was awarded the remaining 5 per cent.

- The four-train, 22 mtpa capacity Olokola (OK) LNG project is planned to be developed in the Ogun State by the NNPC (40%), Chevron (19.50%), Shell (19.50%), BG (14.25%) and others. In 2009, the Government approved the divestment of 10 per cent. of its participating interest in OK LNG in favour of Ogun State which was awarded 5 per cent. and Ondo State which was awarded the remaining 5 per cent.

- The Trans-Saharan Gas Pipeline is intended to supply up to 2-3 billion standard cubic feet per day of gas to Algeria and onwards to European markets.

- The Escravos Lagos Offshore Pipeline System will have a capacity of 1.25 billion standard cubic feet per day and will transport gas from Escravos to Lagos.

In its current form, Nigerian gas infrastructure is unable to meet the strategic objectives of the Government and has significantly hampered Nigeria's ability to exploit the market potential as rapidly and as broadly as required. It suffers from capacity constraints and a lack of connectivity. One consequence is a lack of flexibility, and the poor development of a liquid market where gas swaps can take place and excess capacity can be flexibly deployed to markets where there is a shortage. More importantly, the gas-rich Eastern Niger Delta is not connected to major locations where the growth of the market is the most rapid. The existing infrastructure is also dominated by a few major players with limited scope for third party access and participation. The combination of these factors hampers Nigeria's competitive position in a rapidly evolving and intensely competitive global gas business.

Nigeria Liquefied Natural Gas

Nigeria's only LNG producing facility is the Nigeria Liquefied Natural Gas ("**NLNG**") plant on Bonny Island, where three trains initially had an output around 8.7 mmtpa. This increased to 16.8 mmtpa when trains four and five were brought onstream in 2006, and in 2008 the sixth train added another 4.0 mmtpa. Plans for building train seven are currently at an advanced stage. Shareholders in NLNG are the NNPC, Shell, Total and Eni, who are also the main upstream suppliers to the plant from onshore and shallow water operations. Feedgas supply to the NLNG plant was disrupted in late 2008 due to sabotage of the gas condensate pipeline from Shell's Soku field, technical problems and vandalism at NAOC Obiafu, a fire incident on the SPDC trains Niger crude oil line at TEPNG Obute and vandalism of a condensate lime at Amukpe gas plants. As a result, NLNG operated at around 60 per cent. capacity in 2009.

Brass LNG Project (Brass LNG)

The original plan for Brass was for a one-train plant with the NNPC, Eni and ConocoPhillips as partners. In 2004, ChevronTexaco joined the Brass LNG consortium, after plans for the West Niger Delta LNG scheme (ChevronTexaco, ExxonMobil and Conoco) were shelved. With Chevron's involvement, the Brass LNG became a two-train project with half of the feedstock supply to be met from the onshore operations of the NNPC/Eni/ConocoPhillips and the remainder from the offshore NNPC/Chevron and NNPC/Texaco joint venture acreage. In August 2006, Total announced that it had acquired Chevron's stake in the project.

Olokola LNG Project (OK LNG)

In early 2005, the NNPC, Chevron, BG and Shell announced that they were looking at the feasibility of constructing a four-train (22 mmtpa) LNG facility to be located onshore to the northwest of Chevron's main shallow water operations. Chevron is the likely supplier to two of the trains, with Shell also supplying two from its western swamp operational area. In 2009, BG, which had undertaken to take a shareholding in two of the trains with Chevron and the NNPC announced its withdrawal from the project.

Nigeria Gas Master Plan

The Nigerian Gas Master Plan ("**NGMP**"), which was unveiled in the last quarter of 2007, came into effect in 2008. The NGMP initiative is expected to drive the monetisation of gas, substantially reduce gas flaring, provide a more efficient and cheaper fuel source for power and industrial production, and provide an alternative revenue source to government. The main objectives of the NGMP include:

- developing and entrenching a sustainable commercial framework for the Nigerian domestic gas market;
- maximising the multiplier effect of gas in the domestic economy, through the facilitation of gas utilisation in the domestic economy and the stimulation of broad gas-based industrialisation;
- optimising Nigeria's share and competitiveness in high value export markets, through selective participation in high value markets and strategic positioning for growth; and
- assuring long-term gas security for Nigeria.

Following the approval of the NGMP in 2008, the Government issued the National Gas Supply and Pricing Policy ("**NGSP Policy**") and the National Domestic Gas Supply and Pricing Regulations ("**NDGSP Regulations**"). The NGSP Policy and the NDGSP Regulations provide for the imposition of a domestic gas supply obligation on all upstream companies and requires a predetermined portion of their gas production be set aside for supply to the domestic market. The NGSP Policy groups domestic demand into three broad categories; (i) strategic gas for power generation, (ii) industrial gas as feedstock, and (iii) commercial gas as alternative fuel with pricing for each category. The Policy and the Regulations also provide for the establishment of an aggregator and the determination of an aggregated price to be paid to all suppliers for gas supply to the domestic market. The aggregator, as intermediary, aggregates payments from the different demand groups and pays the gas supplier a single aggregated price.

The Government recently established the Gas Aggregation Company of Nigeria in accordance with the terms of the NDGSP Regulations and the NGSP Policy. The Government is currently negotiating Gas Sale and Aggregation Agreements for the supply of gas for power generation.

The NGMP also has the goal of creating an integrated gas gathering, processing and distribution network in the Niger Delta and across the country through the implementation of a gas infrastructure blueprint in an attempt to significantly increase the amount of gas used domestically, promote private sector participation and standardise gas specification. Gas reserves will be divided into three franchise areas, the Western Franchise Area ("**WFA**"), Central Franchise Area ("**CFA**") and South Eastern Franchise Area ("**SEFA**") from which gas produced will be gathered at central processing facilities ("**CPF**") and distributed to power plants, industrial users, LNG plants and export schemes as required. The WFA is expected to cover parts of Lagos, Ogun, Ondo, Edo, Delta and Bayelsa states and includes the towns of Benin City, Warri and Sapele, as well as includes the Escravos and Forcados areas, the CFA is expected to cover parts of Edo, Kogi, Delta, Anambra, Enugu, Imo and Rivers states and includes the towns of Port Harcourt, Onitsha and Owerri and the SEFA is expected to cover the parts of Enugu, Benue, Ebonyi, Imo, Abia, Cross River, Rivers and Akwa Ibom states and includes the towns of Aba, Calabar, Enugu, Umuahia and Uyo, as well as the Bonny area. The Gas Infrastructure Blueprint also envisages the development of three major gas transmission systems ("**GTSs**") in the medium term, which the Government expects will facilitate industrialisation of the eastern and northern regions of Nigeria and ensure connectivity between the eastern, western and northern parts of the country. These GTSs will include a western gas transmission system comprising the existing Escravos Lagos Pipeline System and a new offshore extension to Lagos, the first south-north gas transmission line that will transport dry gas through the AkwaIbom/Calabar facility to Ajaokuta, Abuja, Kano and Kastina and also serve the south-eastern states of Anambra, Abia, Ebonyi, Enugu and Imo and an interconnector, which will link the eastern gas reserves centre with the other two transmission systems.

After an initial screening of potential bidders in early 2009, fifteen companies were short listed and the Government invited them to bid for gas franchise contracts for each of the three franchise areas. The prospective franchisees submitted bids in December 2009. Successful bidders will be required to construct and operate CPFs in each franchise area and each franchisee will be entitled to charge a fee from gas suppliers/upstream operators for the gathering and processing of gas at the CPFs within its franchise area.

In order to meet the Government's gas sector objectives, appropriate incentives will be put in place to encourage more investments by private entities, individuals and governments, for example, creating an appropriate legal and regulatory framework to attract local and foreign investments in gas exploration and production and addressing the supply-side challenges of availability, affordability and commerciality of supply, cost effectiveness and funding. It is estimated that it would cost up to US$36 billion over the medium term period to execute projects that will deliver 4.5 million barrels per day of crude oil and over 4 billion cubic feet of gas per day by 2013. Out of this amount, the Government is expected to provide about US$3.1 billion as its share of this investment.

Alongside the NGMP, the Government is also implementing an accelerated gas development and utilisation programme to enable domestic investors take advantage of the opportunities in the gas industry. It involves the installation of supplementary gas treatment/processing plants between existing gas plants and power plants.

Downstream

The downstream sector typically comprises the import and export of refined oil products and the sale and marketing of refined oil products. Due to the limited capacity of its oil refineries, Nigeria relies heavily on imported refined petroleum products to meet its energy and transport requirements. Pricing of refined oil products in Nigeria is currently driven by the subsidy pricing regime currently in place. Presently, the Federal Government imposes price controls on certain refined oil products, while supporting importers of these products with subsidies. As a result, the retail oil and gas industry in Nigeria is characterised by regulated margins that result from the difference between the market, or import, prices of these products on the one hand, and the regulated prices and subsidies on these products on the other hand. The cost of these subsidies is substantial and increases as world oil prices increase.

Under the Nigerian price control and subsidy programme, if a company buys refined petroleum products from refineries and trading companies at international market rates and subsequently sells the refined petroleum products to Nigerian marketers at the Government-set rates, which are lower than international market rates, that company may make claims for a subsidy payment from the Petroleum Support Fund ("**PSF**").

In January 2010, the Government proposed to introduce a programme aimed at guaranteeing future PSF receivables through the issuance of promissory notes which represent the reimbursement amount due to private importers of regulated products. The programme envisions that if reimbursement is not received from the Government within 45 days from the day on which an importer made its application for a subsidy, such importer would be able to present its promissory note to a commercial bank in Nigeria or the CBN in exchange for payment at a discount. The programme has served to facilitate the steady importation of refined petroleum products for domestic consumption.

If the PIB is adopted as currently envisaged, the petroleum products market will be deregulated and subsidies and price controls on refined oil will be reduced and gradually eliminated. See "*—Oil and Gas Reforms*".

Oil and Gas Reforms

The Government is currently reforming the petroleum industry and a general overhaul of the oil and gas sector is expected. The Government's aspiration to increase the impact of the oil and gas sector on employment generation and diversification of other sectors of the economy, update the existing regulatory framework and improve transparency and accountability in the petroleum industry in Nigeria led to the introduction of the PIB in 2008 and the enactment of the Nigeria Oil and Gas Industry Content Development Act 2010.

The Petroleum Industry Bill

The PIB is as an all-encompassing bill which regulates major aspects of the Nigerian petroleum industry. The PIB has several broad aims including but not limited to:

- reforming and restructuring the Nigerian oil and gas sector and its regulatory bodies;
- creating a National Oil Company by converting the NNPC into an autonomous, self funding commercial and efficiently run oil company (which is expected to be initially wholly-owned by the Federal Government, and privatised over a specified period);
- changing the corporate structure of joint venture operations between the NNPC and the IOCs in order to solve funding issues;
- introducing new fiscal measures applicable to operators in the Nigerian oil and gas industry, including a general revision of tax rates and royalties applicable to operators which balances equitable government take with incentives to attract substantial value chain investments as well as more favourable tax rates for domestic companies;
- reforming and deregulating the downstream sector of the petroleum industry; and
- consolidating tax and other legislation regulating the Nigerian petroleum industry into a single statute.

On 7 September 2007, the Federal Government reconstituted the Oil and Gas Sector Reform Implementation Committee ("**OGIC**") with a mandate to transform the broad provisions in the National Oil and Gas Policy ("**NOGP**") into functional institutional structures for the effective management of the oil and gas sector in Nigeria. OGIC submitted its final report to the Federal Government on 3 August 2008. The OGIC Report formed the basis of the PIB submitted to the National Assembly in December 2008. Following its submission, the PIB went through first readings in the House of Representatives on 16 December 2008 and in the Senate on 13 January 2009. The second readings of the PIB were on 31 March 2009 and 1 July 2009 in the House of Representatives and Senate respectively. The PIB was subsequently referred to Joint Committees on Petroleum Resources of the House of Representatives and Senate for consideration. Public hearings on the PIB were held in both chambers of the National Assembly between 27 and 29 July 2009 at which the inter-government agency team of the Government (comprised of representatives of relevant ministries and departments), the IOCs, indigenous oil companies, oil-producing communities and other stakeholders made submissions to the National Assembly. Following the public hearings, both the House of Representatives and the Senate have continued to engage stakeholders on the PIB. On

9 December 2010, the Senate slated the report of its Petroleum Resources Committee for consideration; the report was however stood down. It is expected that the report will be considered in early 2011. The Committee of the House of Representatives is yet to release its report on the PIB. Following the consideration of the reports by the two chambers of the National Assembly, the PIB will undergo a third reading following which there will be a harmonisation of any areas of divergence between both Houses. Upon harmonisation, the Bill will be passed by the two chambers of the National Assembly and will be forwarded to the President. It is not clear when this process will be completed, when the PIB will be passed into law, or whether the final form of any PIB ultimately adopted will differ significantly from current proposals. When passed into law, the PIB is expected to have a significant impact on the Nigerian oil and gas industry and to improve the financial returns to the Government from oil and gas production. See "*Risk Factors—The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change*."

Nigerian Oil and Gas Industry Content Development Act 2010

The Nigerian Oil and Gas Industry Content Development Act 2010 (the "**Nigerian Content Act**"), which was enacted in April 2010, introduced far-reaching reforms in the Nigerian oil and gas industry as regards the participation of Nigerians and entities controlled by Nigerians in the industry. Prior to the enactment of the Nigerian Content Act, local content promotion and development in the Nigerian oil and gas industry was loosely regulated. Nigerian content requirements were sparsely enshrined in model contracts adopted by participants in the industry, the Petroleum (Drilling and Production) Regulations and policy documents issued and implemented by the Nigerian Content Division ("**NCD**") of the NNPC. The Nigerian Content Act prescribes minimum thresholds of Nigerian content for various activities in the oil and gas sector. Following the enactment of the Nigerian Content Act, all oil and gas arrangements, contracts and operations are now required to comply with the minimum Nigerian content standards and thresholds specified in the Nigerian Content Act. Some of the thresholds specified in the Nigerian Content Act include 100 per cent. Nigerian content requirement for the supply and procurement of steel plates, 45 per cent. Nigerian content for the supply of flat sheets, wireline services (electric open holes, cased holes and slick line) and a 90 per cent. man hour Nigerian content requirement for Feed and Detailed Engineering on onshore facilities. The Nigerian Content Act also provides for a requirement that when procuring goods and services, operators must select the bid containing the highest level of Nigerian content where competing bids are within one per cent. of each other at the commercial stage, provided that the level of Nigerian content in the selected bid is at least five per cent. higher than the closest competing bid. Operators are also required to retain a minimum of ten per cent. of their total revenue accruing from their Nigerian operations with a bank account in Nigeria.

The Nigerian Content Act provides for preferential treatment to Nigerian companies with a minimum of 51 per cent. equity participation by Nigerians in the award of licences, permits and blocks. The Nigerian Content Act also seeks to promote the utilisation of Nigerian products and services in activities and projects carried out in the Nigerian oil and gas industry.

The Nigerian Content Act established a board which is empowered to ensure compliance with the provisions of the Nigeria Content Act, and also established the Nigerian Content Development Fund to provide support to Nigerians in the industry. The Nigerian Content Act also requires the deduction at source of one per cent. of every contract to be awarded to any operator, contractor or subcontractor in the oil and gas industry, for payment into a Nigerian Content Development Fund to be established under the Act.

Agriculture

Agriculture is a major driver of economic growth in Nigeria. It is comprised of four sub-sectors namely crop production (including food crops), forestry (including tree crops), livestock (including poultry) and fishery. In 2009, agriculture contributed 5.9 per cent. to GDP growth down from 6.27 per cent. in 2008.

The dominance of the oil sector, urbanisation and the lack of effective government policies to modernise the agricultural sector led to a decrease in agriculture's contribution to GDP from over 60 per cent. in the early 1960s to about 41.70 per cent. in 2009, according to the NBS. Since 2005, however, agriculture has been one of the largest drivers of Nigeria's GDP growth, due primarily to large increases in crop production.

Currently in Nigeria, agriculture is largely subsistence based, but there are commercial farms. The Government plans to create rural employment and infrastructure, provide incentives for private investment, promote the use of improved seeds of major crops, fish fingerlings and seed stock and reduce the present level of food import worth about US$3 billion per year by 50 per cent. by 2013. To achieve this goal, the Government aims to, among others, breed and distribute high-yielding disease resistant species of crops, livestock and fisheries, strengthen the research capacity of all agricultural institutes including the newly established Agricultural Research Council of Nigeria, promote agricultural biotechnology to enhance crop, livestock and fish production, rehabilitate and complete existing irrigation projects and establish new irrigation projects, adequately capitalise the Nigerian Agriculture Cooperative and Rural Development Bank, attract youths to agricultural production, incorporate modern technology and incentives such as scholarships, grants and soft loans to sustain agricultural growth, review land ownership and certification.

Over the years, the Government adopted various initiatives to improve agriculture and rural development. These include the Special Programme for Food Security, the Fadama II Programme, the Fertiliser Revolving Fund, the presidential initiatives on cassava, rice, vegetable oil, tree crops and livestock and the restructuring and recapitalisation of the Nigerian Agricultural, Cooperative and Rural Development Bank. In 2003, in order to stimulate export promotion, an export subsidy of 10 per cent. was introduced. Other complementary policies and programmes implemented include value added tax exemption for locally produced agricultural inputs such as fertiliser and simple fabricated machines, the supply of fertiliser at subsidised prices and the establishment of market information and outlets, storage and processing facilities to strengthen agricultural production. Furthermore, three agricultural development and marketing companies, the Tree Crops Development and Marketing Company, the Livestock Development and Marketing Company and the Arable Crops Development and Marketing Company' were also established. The CBN also adopted new strategies on credit delivery such as the Trust Fund Model, which reduced the risks faced by banks in agricultural lending with emphasis on production, processing and marketing. Under the Trust Fund Model, oil companies, State Governments and Local Governments and NGOs place funds in trust with participating banks and those funds are used to secure a portion of the loans provided to borrowers in the agricultural sector.

In 2007, the National Food Reserve Agency ("**NFRA**") was created by the Government to address key issues and constraints relating to agricultural production, processing, storage and marketing. Achievements of the NFRA include the procurement of 63,859.3 million tonnes of assorted grains, the distribution of 25,000 million tonnes of assorted food commodities, and the establishment of five Agricultural seed centres under the build, operate and own model of public private partnership initiative. As a result of these initiatives, the sector has made significant progress in recent times. For example, output of staples such as maize, millet, sorghum, cassava, rice, vegetable oil and yam has increased. The annual production of cassava increased from 33 million metric tonnes in 1999 to 49.0 million metric tonnes in 2006 while output of rice increased 3.3 million metric tonnes to 4.2 million metric tonnes during the same period. The presidential initiatives in other areas such as livestock production, fisheries and economic trees are also helping to increase production significantly and create employment in these areas.

Additionally, in an effort to target the MDG of reducing by half the number of hungry people by 2015, in 2001, in collaboration with the Food and Agricultural Organisation of the United Nations (the "**FAO**"), Nigeria launched the National Special Programme for Food Security with the objective of reaching some 30,000 Nigerian families. The programme was implemented with Nigeria's own human and financial resources (approximately US$45 million), and the FAO provided technical and managerial support to the Government. A Project Coordination Unit in the Federal Ministry of

Agriculture and Rural Development was established and charged with the task of launching field activities in all 36 Nigerian states, involving a total of 109 sites and 30 000 families. Upon completion the FAO determined that the programme played a central role in achieving the Government's agricultural policy goals of boosting agricultural production for certain priority crops and commodities such as cassava, millet, rice, sorghum, vegetables and yams and it substantially improved food security and productivity, especially in marginal areas, which prompted the Government to double the number of project sites to 327.

Despite this improvement, productivity in the agricultural sector remains low when compared with the global average. Over the last 20 years, value added per capita in agriculture has risen by less than one per cent. annually. This has resulted in rising food and raw materials import bills and declining levels of food self-sufficiency. Nigeria currently spends about US$3 billion annually on the importation of a few food commodities such as rice, sugar, milk and fish, despite favourable agricultural and ecological climatic conditions. This has continued to undermine the needed expansion and growth in the agricultural resource-based industries. The Government is investing heavily in several projects across the entire agricultural value chain, such as improving the availability and delivery of appropriate inputs, commercial agriculture development programme, enhancing storage facilities, creating an enabling environment that is conducive for high agricultural growth, promoting inter-sectoral linkages as well as promoting private sector involvement in agriculture.

In a move to address the protracted issues of inadequate credit and high interest rates on agricultural lending, the CBN, in collaboration with the Ministry of Agriculture and Water Resources, established the Commercial Agricultural Credit Scheme to provide low-interest lending to farmers and other participants in the agriculture industry. To date the scheme has been funded with ₦200 billion from the issue of Government bonds to the public. The first tranche of ₦100 billion was provided to two participating banks, and as at 31 December 2009, the two banks had disbursed a total of ₦43 billion to 54 projects.

While access to credit remained a major challenge to farmers in Nigeria generally, rural farmers and other micro-enterprises were even more disadvantaged. To address this, the Ministry of Agriculture and Water Resources, assisted by the International Fund for Agricultural Development, established the Rural Finance Institution Building Programme. This programme is to be implemented over a seven-year period and financed with a concessionary loan of US$27 million and a grant of US$400 million from the IFAD, a US$500 million grant from the Ford Foundation and Government funding of US$11.9 million.

Agriculture has been identified as the major contributor to deforestation in Nigeria and agriculture expansion has resulted in about 350,000 to 450,000 hectares of forest and vegetation cover loss annually. The Government is has initiated various activities to address the issue of deforestation. See "*—Environment—Deforestation*".

Crops

Palm oil and cassava are the traditional Nigerian production crops. It is estimated that in 2009 1.2 million metric tonnes of palm oil and 36.8 million metric tonnes of cassava were produced.

The table below sets out information regarding the estimated output of major agricultural crops in Nigeria for the periods indicated:

Crop	For the agricultural season				
	2004/2005[(1)]	2005/2006[(1)]	2006/2007[(1)]	2007/2008[(1)]	2008/2009[(1)]
	('000 metric tonnes)				
Palm Fruit/Oil	-	-	-	1,058.0	1,233.1
Cassava	32,015.4	35,614.1	38,041.0	33,216.4	36,807.4
Cocoyam	2,155.0	2,220.3	2,220.0	2,814.1	2,984.5
Cotton	460.3	487.2	516.0	4,478.3	531.5
Yam	24,534.6	25,707.5	28,280.0	27,211.1	29,092.0
Groundnuts	2,621.7	2,852.7	3,062.0	2,872.7	2,976.2
Maize	5,489.9	6,394.8	7,023.0	9,113.7	7,358.3
Beans	1,503.9	1,950.1	3,770.0	2,096.8	2,370.3
Millet	4,226.8	5,273.1	5,940.0	4,367.8	4,884.9
Rice	3,183.4	3,247.5	3,333.0	3,369.7	3,540.9
Melon	315.6	357.7	371.0	378.0	370.4
Guinea Corn	4,545.3	5,739.2	6,474.0	5,218.4	5,279.2

(1) Approximated.

Source: NBS

Livestock

According to the CBN, the production of livestock increased by 6.8 per cent. in 2009, compared to 6.6 per cent. in 2008 and 5.8 per cent. in 2007 as a result of effective measures taken to control livestock disease. In particular, beef production increased by 8.4 per cent. from 5.2 per cent. in 2007 as a result of support provided to the livestock industry to incorporate modern production, which included the establishment of modern abattoirs and sanitary sales outlets across the country.

Forestry

Forestry production increased by 5.9 per cent. to 157.5 million cubic metres in 2009, which was higher than the increase in 2008, which increased slightly by 2.2 per cent. to 148.7 million cubic metres. The increase was attributed to the increased demand for wood products and the depletion of existing resources. In order to sustain wood production, the Forestry Research Institute of Nigeria intensified the supply of improved breeder seedlings to replace the harvested tree stocks.

Fishing

According to the CBN, fish output increased in 2009 by 6.1 per cent. to 709,680 tonnes compared to 668,750 tonnes in 2008. In 2008 compared to 2007, the production of fish through aquaculture increased from 76,300 tonnes to 84,500 tonnes, representing a growth rate of 10.8 per cent. In each year the level of domestic fish production was much lower than the national demand estimated at 1.5 million tonnes.

The Government plans to prioritise increased domestic fish production from all sources on a sustainable and renewable basis to the level of self sufficiency and fish export in the medium and long term. The Government intends to implement key priority projects in the sub sector which will include the establishment of 120 fish farm estates across various geo-political zones, inland fisheries development, the construction of ornamental fish development centres, fish seed and feed certification and standardisation, shrimp farm development, establishment of feed mills and fish resources monitoring. Pursuant to the First NIP, the sum of ₦25 billion has been earmarked for the programme between 2010 and 2013.

Mining

Today, Nigeria produces numerous solid minerals, namely limestone, stone aggregates, laterite, sand, lead and gold. In 2009, the solid mineral sector contributed 0.33 per cent. to Nigeria's real GDP. Nigeria is endowed with over thirty-four mineral commodities, widely distributed across 450 locations across the country. Prior to the emergence of the oil sector about 30 years ago the solid minerals sector was one of the key sectors of the Nigerian economy. Until the 1960s, coal and tin were mined and exported on a large scale and the sector contributed significantly to the GDP at an average of 12 per cent. between 1965 and 1975. A combination of unfavourable government policy, changing country circumstances and poor management of state-owned enterprises led to a severe decline in the mining sector and minimal new foreign or domestic investment in mineral exploration and development. Progress has however been made in recent years with regard to legal and regulation reforms. In 2005, the Ministry of Mines and Steel Development embarked on a number of reform initiatives, including the review of the previous Minerals and Mining Act, and the establishment of a computerised National Mining Cadastre and Mineral Title Registry for processing and approving of all applications for permits and licences. The Ministry also produced geological maps and mineral databases of the whole country and embarked upon an aggressive promotion of the Nigerian mining sector both domestically and internationally. The reform initiatives of the Ministry ultimately culminated in the enactment of the National Geological Survey Agency (Establishment) Act and the Nigerian Minerals and Mining Act 2007.

The Nigerian Minerals and Mining Act, 2007 ("**Minerals and Mining Act 2007**"), is the principal legislation in respect of the mining industries and the sector is regulated by the Ministry of Mines and Steel Development. In 2008, the Government continued to implement relevant policies aimed at reforming the mining sector. Such policies included:

- the development of a National Minerals and Metals Policy;
- the enactment of the Nigerian Minerals and Mining Act 2007, with guaranteed security of tenure and attractive fiscal incentives, such as tax holidays and import duty waivers, for prospectors;
- the privatisation of moribund public mining institutions, mineral promotion, and human resources development; and
- the development of skills for indigenous mining companies, through technical support services and funding, as well as enhanced support for artisanal and small-scale miners who constitute over 90 per cent. of local operators in the mining industry.

The Ministry of Mines and Steel Development is currently working on the draft Minerals and Mining Regulations. The draft Minerals and Mining Regulations are being made to define the rules and processes in respect of matters provided under the Minerals and Mining Act 2007 and generally for giving full effect to the implementation of the Minerals and Mining Act 2007. Consistent with the Minerals and Mining Act 2007, the Minerals and Mining Regulations are expected to (a) define the procedures and processes for the regulation of exploration and mining operations generally, including acquisition of the titles to engage in such operations; (b) prescribe measures to enhance the general protection of the mining environment and safety of workers engaged in mining operations and the general public; (c) prescribe new forms to be used for the purpose of applying the regulations to any matter covered by it; and (d) regulate the processes and procedures for enforcement and compliance with the provisions of the Minerals and Mining Act 2007.

The Ministry of Mines and Steel Development has identified seven strategic minerals that are considered critical to Nigeria's industrial development. These include, among others, gold, coal, iron ore and bitumen. As of 31 December 2009, the Ministry of Mines and Steel Development had granted 2,508 mineral titles and issued 2,062 licences out of 8,179 applications registered. It had also registered 234 mining cooperatives, quarry associations and small scale miners out of the 600 applications it had received. The Ministry of Mines and Steel Development also verified and registered 17 additional private mineral buying centres, which are expected to serve as an interface between mining cooperatives, licensed miners, local users and export markets.

The Ministry of Mines and Steel Development made certain efforts to make the solid mineral sector more competitive in 2009 by organising an investment socialisation campaign in China. The aim of the campaign was to showcase the opportunities and incentives in Nigeria's mining sub-sector. In 2009, the Ministry of Mines and Steel Development also reviewed and updated the geological maps of the country and produced geological maps for every state and the FCT in digital format. In addition, it received the country's geodetic network and completed its cartographic coverage to facilitate a more accurate determination of mining titles.

Solid minerals increased marginally in 2009 relative to the preceding year, increasing from an aggregate output of 40.2 million tonnes in 2008 to 41.0 million tonnes in 2009. The increase was accounted for by increased production of limestone. In 2008 the production of solid minerals increased as compared to 2007. Provisional data showed that aggregate output increased from 35.6 million tonnes in 2007 to 40.2 million tonnes in 2008. This was due to the substantial increase in the production of all the principal minerals, such as stone aggregates, limestone, sand, marble aggregates, gold lead and zinc. For example, the production of stone aggregates was 3.6 million tonnes in 2008 as compared to 2.9 million tonnes in 2007. The commencement of gold mining by a Chinese company with an investment of ₦1 billion in Osun State contributed to the growth in gold production. Further improvement in output in the mining and minerals sector was constrained by lack of funds, flooding of mining sites, and obsolete equipment.

The Government plans to transform the mining sector by strengthening human and institutional capital across the sector (including production, processing, marketing and distribution) as well as sustaining a stable and effective legal framework. The proposed Government investment during the First NIP is estimated to be about ₦66.7 billion. The strategies to be employed under the First NIP include the introduction of a transparent licensing system, introduction of programmes to develop medium-scale mining operators, development of an effective mechanism to support mineral exploration and establishment of a solid minerals development fund.

Manufacturing

Nigeria has a variety of manufacturing capacities comprising cement, pharmaceutical and chemical products, beverages, food, glass, paints, paper, plastic, textile, cigarettes, sugar, wood products, soaps, beer, confectioneries and soft drinks. Conglomerates such as Dangote Group, Flour Mills of Nigeria Plc, John Holts, Dana Group and AG Leventis and multinationals such as Unilever, PZ Cussons and Nestle Plc are the biggest players in the manufacturing sector in Nigeria. Several large investments in the real sector have been made by Nigerian and foreign companies in the manufacturing sector. For example, Dangote Industries Limited built a sugar refinery at the Apapa port in Lagos with a capacity of 1.3 million tonnes per annum. Dangote Cement which is also part of Dangote Group also invested in the construction of a cement plant in 2007, a cement production plant in Sub-Saharan Africa with production capacity of 5 million tonnes of cement per annum and estimated capacity of about 10 million tonnes per annum by 2012. Similarly, the Lafarge Cement WAPCO Nigeria Plc embarked on a cement expansion project (the Lakatatu expansion project) to expand its operations in Nigeria.

Nigeria also assembles trucks, motorcycles and passenger cars. The Government is working towards revitalising the automotive assembly sub-sector and recently received the report of a committee set up to identify factors preventing the development of the sub-sector and recommend appropriate remedial measures on the resuscitation of the Nigerian automotive sub-sector.

The Government also introduced a number of tax incentives to encourage the development of the manufacturing sector. Such tax incentives include the grant of a pioneer status to export producing companies which establish new industries or expand existing facilities in sectors which are deemed vital to the economy such as telecommunication and gas utilisation. The pioneer status confers a tax holiday from income tax for a period of up to five years (three years in the first instance and which may be extended for a further two year period) from the date of first production. A tax credit of 20 per cent. of costs is also granted for a period of 5 years to engineering companies which use a minimum of 60 per cent. of locally sourced raw materials for production. Dividends received from small companies in the manufacturing sector in the first five years of their operation are also tax exempt.

Nigeria's post-independence industrialisation strategy was based on the import substitution strategy, which was supported through trade restrictions such as tariffs, the creation of industrial zones and other restrictive policies. Following Nigeria's involvement with international trade organisations as well as regional agreements such as ECOWAS and the inability of the industrial sector to meet domestic demand, Nigeria has gradually liberalised its trade policies. See "*Foreign Trade and Balance of Payments—Foreign Trade—Trade Policy*". Additionally, the development of the manufacturing sector has historically been constrained by poor infrastructure, including erratic power supply, poor transportation systems leading to high cost of transportation, increased cost of diesel used in private power generation and high interest rates. Other constraints include smuggling, counterfeiting and dumping of foreign goods in Nigerian markets as well as by a substantial importation of finished goods which has created unfair competition and resulted in the closure of several local manufacturing plants. The Government is working to address the critical infrastructure constraints as well as smuggling and counterfeit products.

In October 2009, the Government launched the "Buy Made-in-Nigeria Products and Awareness Creation Campaign" which is aimed at boosting industrial production, resuscitating Nigeria's ailing industries, creating jobs and saving foreign exchange. In April 2010, the CBN approved a ₦200 billion intervention Manufacturing Intervention Fund (the "**MIF**") to refinance and restructure banks' loans to the manufacturing sector and in order to increase the availability of credit to the sector. The objectives of the MIF are to fast-track the development of the Nigerian manufacturing sector by improving access to credit by manufacturers, improving the financial position of banks, increasing output, generating employment, diversifying the revenue base, increasing foreign exchange earnings and providing inputs for the industrial sector on a sustainable basis. The Bank of Industry ("**BOI**") is the managing agent for the MIF and is responsible for its day-to-day administration.

In 2009, the index of manufacturing production increased by 1.3 per cent. over 2008, which in turn increased by 2.3 per cent. above the level in 2007. The average capacity utilisation rate in the sector increased slightly from 53.5 per cent. in 2007 to 53.9 per cent. in 2008 and to 54.7 per cent. in 2009. The marginal improvement in capacity utilisation year on year was attributed to improved performance in certain sectors, namely the cement, sugar, confectionary and beverages industries.

The Government is targeting manufacturing to grow at an average rate of 14.4 per cent. with its share to GDP increasing over the implementation period of the First NIP. Some of the strategies articulated in the First NIP to address the challenges of the manufacturing sector include the provision of common facilities at manufacturing clusters to enhance efficiency in production and cost reduction, establishment of low-interest funds such as the MIF to provide funding to the sector, provide incentives for certain high-priority sectors and strengthening the customs services to protect against smuggling and corruption.

Building and Construction

The building and construction sector (excluding real estate) is made up of foreign and local companies. The building and construction subsector contributed about 1.92 per cent. to real GDP in 2009, compared to 1.84 per cent. in 2008. This subsector is comprises road, rail, bridges, buildings, ports and waterways.

Building and construction is considered a driver of growth in the non-oil GDP recording real GDP growth rates of 13.07 per cent. and 11.97 per cent. in 2008 and 2009, respectively. In future periods, the Government expects this sector to benefit from investments in infrastructure as the Government implements the First NIP. Major projects expect to increase activities in this sector include the construction of the second River Niger Bridge and the construction of additional railways and roads throughout the country.

Wholesale and Retail Trade

The wholesale and retail trade sector increased significantly its contribution to real GDP from approximately ₦77.3 billion in 2005 to approximately ₦130.4 billion in 2009 and from 13.8 per cent. of real GDP in 2005 to 18.1 per cent. of real GDP in 2009, along with a steady increase of imports and exports. The wholesale trade sector consists of foreign and local operators who deal in a wide range of local and imported goods whilst the retail trade sector is dominated largely by local participants. Recently, some regional and international brands entered the supermarket/department store business (including Shop Rite and Spar). Nigeria, specifically Lagos, is known as a hub for trade in West Africa, although a significant portion of this trade is conducted through the informal sector. See "*Risk Factors—A significant portion of the Nigerian economy is not recorded*".

Financial Institutions

See "Monetary System—The Nigerian Banking System".

Tourism

Nigeria has a rich biodiversity and ecosystem, a rich cultural diversity, historical and geographical sites such as Aso Rock in the FCT and Olumo Rock in Ogun State and a number of games reserves such as Yankari game reserve in Bauchi State. There are seven national parks in Nigeria, namely, the Chad Basin National Park in Borno and Yobe states, Cross River National Park in Cross Rivers State, Gashaka-Gumti National Park in Adamawa and Taraba states, Kainji Lake National Park in Kwara and Niger states, Old Oyo National Park in Oyo State, Kamuku National Park in Kaduna State and the Okomu National Park in Edo State.

The Government's vision under the First NIP is to make Nigeria a preferred destination in Africa and the proposed public sector investment during the period is estimated to be about ₦27.9 billion. Accordingly, it has taken a number of steps to promote tourism including adopting the new National Tourism Policy, which policy established:

- the Presidential Council on Tourism which is chaired by the President; and
- the National Committee on Oral and Tangible Culture Heritage, chaired by the Minister of Culture and Tourism.

Since the creation of the Presidential Council on Tourism a number of advances have been made in the tourism sector including the launch of the annual carnivals in Cross River and Osun states as well as in Abuja, the formulation of a national policy on tourism, the production of the tourism development master plan, creation of a national tourism satellite account, the addition of the Sukur World Heritage site at Adamawa State and the Sacred Grove in Osogbo, Osun State into the World Heritage List.

Some State Governments are using tourism for wealth creation. For example, tourism in Cross River, Kebbi (the Annual Argungu Fishing Festival), Osun (Annual Osun-Osoybo Festival) and Kano states have led to increased revenue generation and employment opportunities in these states. The National Tourism Development Master plan has poverty alleviation as its primary focus.

International class hotels in Nigeria are concentrated in Lagos, Abuja and Port-Harcourt. International hotel chains in Nigeria include Hilton, Sheraton and Sofitel. However, most hotels continue to operate below international standards. In accordance with the First NIP, the Government is seeking to increase hotel occupancy rates from 85 per cent. in 2007 to 90 per cent. in 2013. The hotel and restaurant sub-sector contributed 0.5 per cent. to Nigeria's real GDP in 2009.

According to the CBN, in 2009 the number of passengers on international routes declined significantly, with 2.7 million passengers on international flights, compared to 3.3 million in 2008 and 3.0 million passengers in 2007. International airlines that service Nigerian airports include British Airways, Virgin Atlantic, Delta, Lufthansa, Air France, Qatar Airways and US Airways. Domestic air travel increased slightly to 8.7 million passengers in 2009 from 8.6 million in 2008, itself up from 3.5 million in 2007.

Informal Economy

A significant portion, estimated to be between 40 per cent. and 75 per cent., of the Nigerian economy is not included in the formal sector, meaning that it operates outside the purview of government regulation. The informal economy comprises a wide range of activities, predominantly small-scale, self-employed enterprises that focus on retail trade, transport, restaurant, repair services and household or other personal services. There are also informal money lenders and saving and credit associations. The informal economy is highly dynamic and difficult to measure and it is not reflected in GDP. See "*Risk Factors—A significant portion of the Nigerian economy is not recorded*".

The First NIP includes a number of initiatives to bring the informal economy into the formal economy, including with respect to housing, land ownership, agriculture, SMEs and trade laws. The Government is also seeking to introduce policy measures and regulation to protect some of the more vulnerable persons operating in the informal economy (primarily women and children). See "*—SMEs*".

Additionally, in an effort to combat smuggling across Nigeria's borders and formalise a substantial portion of the informal trade sector, in November 2010 the Ministry of Finance announced a change in its trade policy to allow the import of previously banned goods such as textiles and cassava. See "*Foreign Trade and Balance of Payments—Foreign Trade—Trade Policy*".

Employment and Labour

The labour market in Nigeria can be divided into three segments: the public sector, the private formal sector and the informal sector.

The Government currently has wage and pension liabilities in relation to the staff of privatised companies such as the Delta Steel Company, the Aluminium Smelter Company and NITEL (which is still in the privatisation process). In respect of NITEL staff, outstanding salary arrears totalled ₦18.9 billion while pension arrears stood at ₦30.5 billion as at December 2010. Amounts owed to NITEL staff were being settled in December 2010. In the past the Government has paid arrears as soon as the proceeds of privatisation process were received. Thus, between 2000 and December 2010, ₦225.8 billion of salary and pension arrears were paid out to the staff of privatised enterprises in a number of sectors of the economy. In addition, a portion of what is included in the calculation of arrears are claims for payments currently being verified by the Government Budget Office.

According to the NBS, the national unemployment rate in Nigeria was estimated at approximately 19.7 per cent. in March 2009, 14.9 per cent. in March 2008 and 12.7 per cent. in March 2007. The NBS also estimates that in March 2009, the rate of unemployment in the urban areas was approximately 19.2 per cent. and in the rural areas was approximately 19.8 per cent. Unemployment is mainly due to the decline in the performance of the manufacturing sector. In addition, the Government believes that there are a substantial number of people of working age that are engaged in part-time employment or are employed in the informal economy and thus unrecorded. The Government hopes that diversification of the economy will reduce unemployment and increase employment in the formal economy.

In 2010, total wages in Nigeria grew significantly due to a 53 per cent. rise in federal public sector salaries (after negotiations with the unions). Wages are expected to increase further in 2011 due to the recent decision by the Government to increase the national minimum wage from ₦5,500 to ₦18,000. The Government is advised on salary increases by the National Salaries, Incomes and Wages Commission which was established by the National Salaries, Incomes and Wages Act to advise the Government on national income policies and recommends the proportions of income growth which shall be utilised for general wage increase.

Environment

In 1999, the Government created the Federal Ministry of Environment as a result of its concern for the protection of the environment and in order to ensure effective coordination of all environmental matters. The Federal Ministry of Environment is responsible for policies, enforcement and intervention in the areas of forestry, drought and desertification, pollution and waste management, climate change, flood, erosion and coastal managements (shoreline protection).

The country's main environmental challenges include, among others, petroleum prospecting pollution, land degradation and loss of biodiversity, deforestation, drought and desertification, flood and erosion and climate change. The Government has made several efforts to address these challenges.

Petroleum Prospecting Pollution

In order to address the problem of petroleum prospecting pollution, the Government has issued a number of regulations and guidelines. For example, the Mineral Oil Safety Regulations 1997 seek to ensure that oil and gas operators provide adequate safety materials for their employees as well as ensure that drilling of boreholes for petroleum and gas purposes are carried out within areas of not less than 150 feet from any building. In 2006, Nigeria domesticated the International Convention of Civil Liability for Oil Pollution Damage and the convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage 1976. In addition, the Federal Government, through NOSDRA, has put in place measures that are expected to minimise the impact of oil spills on the environment. Such measures include amongst others, (i) the mandatory requirement of all the oil companies in Nigeria to have Oil Spill Contingency Plan ("**OSCP**"). In 2010, the NOSDRA activated about 36 OSCPs of oil companies operating in Nigeria. In 2010, 260 oil impacted sites across the oil producing areas have been remediated and certified by NOSDRA. Nigeria recently developed an Environmental Sensitivity Index ("**ESI**") Map covering the entire coastline of Nigeria from Lagos to Calabar, and extending 50 kilometres inland. The second phase of the ESI Map, which addresses other inland areas that are vulnerable to oil spills, is expected to be included in the 2011 budget.

There are collaborative ties between the National Emergency Management Agency, NOSDRA, the Armed Forces, Nigerian Customs Services, Nigerian Immigrations Services and other stakeholders on rapid response to oil spills that may be considered as major or national disasters.

Land Degradation

Land cover is central to all environmental processes through its influence on biodiversity, energy and carbon cycling. The major causes of land degradation in Nigeria include, amongst others, agricultural expansion at an average of 350,000 to 400,000 hectares per annum, fuel wood exploitation and illegal logging or tree felling. The Government has made several attempts to address issues arising from the use of land including proposing amendments to the Land Use Act to address issues relating to land management.

Deforestation

Nigeria was historically rich in forest resources such as high forests, woodlands, plantations and tress on farmlands. However studies have shown that the forest cover of the country has substantially reduced to about 5 per cent. from about 10 per cent. of its total land area of 923,767 kilometres and forest reserves have reduced significantly from over 1,100 to 445. Nation-wide deforestation has resulted in a shortage of wood supply leading to the importation of wood and wood products, an increase in soil erosion, flooding and a decline in agricultural productivity. National efforts at addressing the problem of deforestation include the annual tree planting campaigns at federal, state and local government levels, the rehabilitation of 360 hectares of degraded forests in 2008 and 2009, natural resources conservation and development management plans in critical forest and wetland ecosystems and the shelter belt development. In addition, the Forestry Research Institute of Nigeria with research stations in the various ecological zones of the country is at the forefront of developing improved tree species and forestry management technologies.

Drought and Desertification

Nigeria has committed itself to mobilise and secure actions to halt desertification by being party to the United Nations Convention to Combat Desertification. It has also developed a National Action Programme to combat desertification as well as put in place a National Drought and Desertification Policy.

Flood and Erosion

A land degradation mapping assessment for the prevention of erosion hazards is currently being undertaken and the adoption of remote sensing and geographic information system. In addition the National Ecological Fund has been established to provide financial support for erosion and flood control projects and coastal zone management.

Climate Change

Climate change is viewed as a significant threat to the achievement of the goals of Vision 20:2020 and the MDGs, especially those related to eliminating poverty and hunger and promoting environmental sustainability. Nigeria is a party to the United Nations Framework Convention on Climate Change and consequently has prepared the first National Convention on Climate Change. It has also established a national focal point, which is the Special Climate Change Unit within the Federal Ministry of Environment and an Inter Ministerial Committee on climate change.

Nigeria is a signatory to several treaties and international conventions on natural resources and biodiversity. However implementing legislation for these international conventions has not been adopted in Nigeria. These include, amongst others, the Convention on Biological Diversity, RAMSAR Convention on Wetlands, Habitat II Agenda, Protection of World Culture and Nature Heritage, United Nations Framework Convention for Climate Change and Kyoto Protocol.

In an attempt to control the negative impact of development activities in Nigeria the Environmental Impact Assessment Act was enacted in 1992 (the "**EIA Act**"). The EIA Act is specifically aimed at setting out the general principles, procedures and methods to enable the prior consideration of Environmental Impact Assessments performed for certain public and private projects.

Transport

The transport system in Nigeria comprises the railways, roads, ports, inland waterways, and airborne modes of transportation. Road and air transport are the dominant modes of transportation in Nigeria and carry more than 98 per cent. of total traffic generated in the country.

The Government aims to create a multimodal, integrated and sustainable transport system with greater emphasis on rail and inland waterways transportation. In addition, the Federal Government has taken steps to create an enabling environment for Public Private Partnerships ("**PPPs**") by designing new policies, legislation and an institutional framework to support the envisaged transformation of the transport sector. See "*—Public Private Partnerships*".

Roads

Nigeria has a total road network of 193,200 kilometres, 34,123 kilometres of which are federal roads, 30,500 kilometres of which are state roads, and 129,577 kilometres of which are local government roads.

The Government recognises the importance of investing in infrastructure. During the First NIP, the Government aims to complete road network projects through a major road programme involving the rehabilitation of at least 30 per cent. of the existing federal roads 7,677 kilometres by 2013. To achieve this, the Government expects to carry out a direct rehabilitation and reconstruction of the major trunk roads, secure private funding for major and viable routes and secure funding arrangements from the public and private sectors for the remaining 40 per cent. of the federal roads in need of repair. The Government intends to adopt a PPP approach in development of selected federal roads and bridges which will entail design, build, operate and transfer arrangements with local and international concessionaires. Recently, the Lagos/Ibadan express road was concessioned. In October 2010, Ministry of Works requested Expressions of Interest for several additional roads and bridges.

Railways

Nigeria's rail network consists of 3,505 kilometres of narrow gauge single track which runs from Lagos to Kano and Port Harcourt to Maiduguri and the uncompleted 349 kilometres of standard gauge from Itakpe to Warri via Ajaokuta. Previously, the railways carried over 60 per cent. of freight tonnage, however, there is currently an imbalance between road and rail transport in Nigeria. At its peak, the highest number of passengers carried by the railway system was 15.5 million in 1984 and the highest volume of freight was 2.4 million metric tonnes in 1977. However by 2000/2001 the number of passengers had fallen to 2 million and less than 300,000 metric tonnes of freight was transported.

The Government aims to rehabilitate 3,500 kilometres of the existing narrow gauge rail and to complete the Ajaokuta to Warri standard gauge rail line. The Government also intends to increase the tonnage of freight transported from 50,000 metric tonnes to 1 million metric tonnes, and the number of passengers transported to 4 million passengers per year. The Government intends to achieve this by granting a concession for the rehabilitation of the Lagos to Kano and Port Harcourt to Maiduguri rail lines, constructing rail lines to the inland container depots, constructing mass transit lines in Lagos and Abuja and to rehabilitating the rail links at the ports.

In the 2009 budget, ₦2 billion was allocated for major rehabilitation of rail tracks and bridges, ₦400 million for workshop tools and re-railment equipment and ₦600 million for the rehabilitation of 120 coaches and wagons. The implementation of the first phase of the programme commenced with the award of a contract for the construction of a 186 kilometre single track standard gauge railway line from Abuja to Kaduna for the approximate cost of US$875 million, of which US$500 million would be provided by the Chinese government as a concessional loan.

Inland Waterways

Nigeria has 18 major inland navigable rivers of about 3,800 kilometres. The country also has an extensive coastline of about 852 kilometres which offers great potential for the movement of goods and passengers from the coast to its surrounding areas.

Under the First NIP, the Government aims to increase the navigable routes on the inland waterways to 3,000 kilometres in order to substantially increase inland waterways traffic and passengers and encourage private sector participation in the provision of inland waterway services. In September 2009, the Government commenced operations to dredge approximately 572 kilometres of the River Niger, from Baro in Central Nigeria to Warri in the Niger Delta. It is expected that the project, estimated to cost ₦36 billion, will enable water traffic to travel from the Atlantic Ocean to central Nigeria. The Government expects that the project will provide an attractive, cheaper and safer means of haulage of goods, while engendering linkages and promoting trading activities between adjoining communities. The Nigerian Inland Waterways Authority, the body responsible for the regulation and management of Nigeria's inland waterway resources, recently confirmed that the dredging project is over fifty per cent. completed.

Sea Ports

The seaports are of great significance for the economic development of Nigeria as they handle most of the country's imports and exports with the potential of increasingly serving the landlocked countries of Niger and Chad. All the ports in Nigeria are owned and operated by the Nigerian Ports Authority ("**NPA**"). NPA's assets comprise 13 major ports, 11 oil terminals, and 128 jetties with a total annual cargo handling capacity of 35 million tonnes. Nigerian ports are dependent on imports, which constitute an average of about 70 per cent. of the total cargo.

Due to underinvestment, bureaucracy and other circumstances which made Nigerian ports uncompetitive, in 2001 the Government commenced a reform and restructuring of the ports to introduce private sector participation. This was implemented through a concession exercise managed by the Bureau of Public Enterprises, the agency responsible for privatisations, through a bid process. In 2006, the Government through the National Council on Privatisation ("**NCP**") endorsed a "landlord" port model and developed a legal and regulatory framework for private sector participation in the ports. This led to the introduction of the National Transport Commission ("**NTC**") bill which is currently before the National Assembly.

In 2006, the Government embarked upon a port concessioning process. This involved the assignment of 25 port terminals to 20 local and international terminal operators for terms ranging from ten to twenty five years. Following this concessioning process, there were several greenfield port developments including 460 metres and 570 metres quay length and terminal expansions. Cargo throughput also increased significantly between 2006 and 2008.

However, gaps still remain in respect of port infrastructure. Port terminal operators have recently complained of lack of adequate infrastructure while importers have complained of high port charges and lack of port equipment. For example, over the years, the three main areas of the Lagos Port which are accessed through a channel leading from the Atlantic Ocean have become congested and infrastructure is in poor condition. At times, cargo ships are delayed from loading or unloading cargo between two weeks to one month due to congestion. In an effort to address the issue of port congestion, the construction of a port at Lekki, a private sector initiative located inside the Lagos Free Trade Zone along the Atlantic coast is expected to commence in 2011.

The Government aims to reduce the turn-around time of ships and administrative charges, create competition, improve safety and security and dredge the Lagos and Bonny harbours to accommodate large ocean liners. The Government is also encouraging the establishment of indigenous shipping lines which will transport wet and dry cargo in Nigeria. To this end, in 2003, the Coastal and Inland Shipping (Cabotage) Act No. 5 of 2003 ("**Cabotage Act**") was enacted to restrict the use of foreign vessels in domestic coastal trade in Nigeria and to promote the development of indigenous tonnage. The Cabotage Act also provided for the establishment of the Cabotage Vessel Financing Fund to promote the development of indigenous ship acquisition capacity by providing financial assistance to Nigerian operators in the domestic coastal shipping.

In August 2010, the Government set up the Port Reform Evaluation Committee to evaluate the performance of existing concessions and to suggest areas of improvement in port operations.

Airports

There are 21 airports in Nigeria, four of which are international. These are Murtala Muhammed International Airport, Lagos, Nnamdi Azikwe International Airport, Abuja, Mallam Aminu Kano International Airport, Kano and Port Harcourt International Airport, Port Harcourt. The other airports are located in major cities throughout the country, one of which was built pursuant to an arrangement between the Bank of Industry ("**BOI**") and a private operator. There are also several airstrips privately owned by oil extracting companies.

The Federal Airports Authority of Nigeria ("**FAAN**") owns and operates 18 of the 21 airports in Nigeria. FAAN has in recent times adopted the strategy of granting concessions for various activities within its airports and is increasingly relying on concessions to provide airport infrastructure. The National Airspace Management Agency is in charge of traffic control, regulations and navigational aids for aircrafts. Safety oversight and all other civil aviation issues are the responsibility of the Nigerian Civil Aviation Authority. Passenger and cargo traffic have been growing steadily in recent years but most of the cargo traffic is concentrated in the four international airports. Nigeria estimates that 90 per cent. of the volume of cargo is handled in Lagos.

The FAAN is statutorily charged to manage all commercial airports in Nigeria and provides services to passengers and airlines. A plan to build a new international airport in Lagos is under review. In relation to air transport, the Government's objectives are upgrading and expanding the international airports, improving air safety to International Civil Aviation Organisation standards and recommended practices, concessioning the four international airports, improving security and transferring all other local airports to State Governments.

Telecommunications and Media

Telecommunications

This sector is regulated by the Nigerian Communications Commission. The telecommunications and post subsectors contributed 3.7 per cent. to real GDP in 2009, with a growth rate of 34.9 per cent. in 2009. The number of mobile telecommunications subscribers has increased dramatically from less than one million in 1998 to approximately 73 million in 2009. The number of fixed land lines subscribers has however decreased from approximately 1.6 million in 2007 to approximately 1.5 million in 2009. The main mobile telephone operators are MTN, Globacom, Bharti Airtel, Etisalat and Mtel. Other operators include Starcomms, Visafone and Intercellular.

In 2006, the Government incorporated Galaxy Backbone Plc with the primary mandate of setting up and operating a unified Information and Communication Technology ("**ICT**") infrastructure platform that addresses connectivity issues and transversal and other technology imperatives for the various MDAs of the Federal Government. The company was also charged with operating a nationwide network backbone to help facilitate the digital inclusion of underserved areas and rural communities.

In May 2007, the Government launched Nigeria's first communications satellite. The satellite, Nigcomsat-1 is a super hybrid geostationary satellite with a launch mass of 5,150 kilogrammes (5.15 tonnes), a service life of at least 15 years and reliability of more than 0.70 at the end of its lifetime. Nigcomsat-1 is sub-Saharan Africa's first communications satellite. The satellite is managed and operated by Nigerian Communications Satellite Limited.

The table below sets out the number of telecommunications subscribers at the end of the periods indicated:

	For the year ended 31 December		
	2007	**2008**	**2009**
	(Number of Subscribers)		
Fixed Line Telephone Subscribers	1,579,664	1,307,625	1,481,954
Mobile Telephone Subscribers	40,395,611	62,988,492	73,099,310
Total Telephone Subscribers	**41,975,275**	**64,988,497**	**74,518,264**

Source: Nigerian Communications Commission

Media

According to the National Broadcasting Commission, there are 147 television channels, 35 cable channels, 5 direct to home and 4 direct broadcast satellite channels in Nigeria which are supplemented a number of radio stations. With the exception of the Nigerian Television Authority, Radio Nigeria and the Voice Of Nigeria, which are owned by the Government, and those stations owned by State Governments, the bulk of the television and radio stations are privately owned. According to the Nigerian Press Council, as at August 2010, there were 315 newspapers and 112 magazines in circulation in Nigeria. In 2009, Nigeria was ranked 136 out of 175 countries with regard to press freedom by Reporters Without Borders. The Freedom of Information bill is currently before the National Assembly.

Electricity

The generation, transmission and distribution of electricity in Nigeria is coordinated by the PHCN, the Government-owned power sector utility company. The PHCN also produced approximately

85 per cent. of the country's electricity in 2008, while approximately 15 per cent. was produced by a number of Independent Power Producers ("**IPPs**"). Power in Nigeria is currently generated from gas and oil-fired plants and hydropower plants located across the country.

In 2009, the total installed electricity generation capacity was approximately 8,469.5 mega watts, an increase of 20 per cent. compared to 2008. According to the CBN, in 2008 residential consumption accounted for over half the electricity consumed in Nigeria, with approximately 25 per cent. going to commercial and street lightning and 20 per cent. to industry.

Currently, only about 40 per cent. of Nigeria's total population has access to public electricity supply due to inadequate transmission and distribution networks. Furthermore, aging infrastructure, insufficient power generation, high transmission and distribution losses have remained a challenge. The lack of synergy between the supply of gas controlled by the agencies of the Ministries of Petroleum Resources and of the PHCN and the power generating companies' has further complicated this situation.

Power Sector Reforms

Several Government reforms have been initiated and implemented, while others are underway to improve Nigeria's electricity generation, transmission and distribution infrastructure. Power infrastructure is critical for sustainable economic growth and development. The Government has established various commissions to address power and energy issues and provide incentives to attract foreign investment.

Power sector reform began in 2000 when former President Obasanjo's administration set up the Electric Power Implementation Committee, which drafted the National Electric Power Policy ("**NEPP**") which was adopted by the Government in 2001. Key features of the NEPP included the encouragement of private power generation through IPPs and emergency power producers, the unbundling of the National Electricity Power Authority ("**NEPA**") (the monopoly which was responsible for power generation, transmission and distribution in Nigeria), the privatisation of the successor business units of the unbundled NEPA, the establishment of an independent body for the power sector and the encouragement of energy trading between generation and distribution companies.

In 2005, the Government enacted the Electric Power Sector Reform Act ("**EPSRA**") to consolidate the power sector reforms. Since then, the NEPA's legal status has been changed from a corporation to a limited liability company, the PHCN. The PHCN has further been separated into 18 new successor companies (which are intended to be privatised) consisting of six generating companies, one transmission company and eleven distribution companies. The EPSRA also established the Nigerian Electricity Regulatory Commission ("**NERC**"), which is responsible for the licencing and regulation of the generation, transmission, distribution and supply of electricity, enforcing performance standards, consumer rights and obligations and determining tariffs. The EPSRA provides for the restructuring of the Nigerian electricity supply industry and the development of a competitive electricity market for trading in electricity. An estimated 32 IPPs have been licensed by the NERC, and the Government and its joint venture partners have established a total of seven power projects. In 2005, the Government also launched a capital investment programme under the National Integrated Power Project ("**NIPP**"). The NIPP comprises investment in gas-fired power plants and transmission lines. The Government expects that when completed, the NIPP projects should add nearly 5,000 mega watts to the country's generating capacity within the next three years.

In August 2010, the Government launched the "Roadmap for Power Sector Reform" which seeks to, among other objectives, remove obstacles to private sector investment in the power sector (including through the provision of credit enhancement and the establishment of an appropriate pricing regime), permit the privatisation of the generation and distribution companies which were unbundled from the PHCN as well as facilitate the construction of new transmission networks and reform the fuel-to-power sector. The Government expects to grant concessions for the operation of the Kainji, Jebba and Shiroro hydropower generating plants, privatise the distribution companies and thermal generation companies unbundled from the PHCN and contract out the management of the Transmission Company of Nigeria to a private company with both project management and technical expertise under a five-year management contact and has commenced the tender process for this.

The Government also plans to establish an appropriate pricing regime and the NERC is currently undertaking a major review of the tariff regime to replace the national uniform tariff with a new cost-reflective ceiling on end-user tariffs. The Government has established the Nigerian Bulk Electricity Trading Company Plc (the "**Bulk Purchaser**"), a government owned bulk buyer which will carry out contract management and bulk trading on behalf of the successor distribution companies. The Bulk Purchaser is expected to start negotiating Power Purchase Agreements ("**PPAs**") with the successor generating companies of PHCN and other IPPs. It is expected that these arrangements will be in the form of Public Private Partnerships. See "*—Public Private Partnerships*".

In its "Roadmap to Power Sector Reform", the Government envisages that in order to meet the target of 40,000 mega watts by 2020, an investment of US$3.5 billion per year is needed over the next 10 years for the power-generating aspect of the power sector supply chain. The Government also envisages that corresponding large investments will need to be made in respect of other parts of the power sector supply chain (namely fuel-to-power infrastructure and the distribution and transmission networks) and estimates that at least a total of US$10 billion per year will need to be invested in the entire power sector supply chain for the Government to reach its 40,000 mega watts target by 2020. The total proposed investment in the sector during the First NIP period is ₦880.98 billion. This will cover investments in four major areas: power generation; transmission; distribution; and alternative energy.

In addition to the efforts being made by the Federal Government, certain State Governments have started generating power through their own state IPPs. For instance, the Lagos State currently has two IPPs in operation, the AES 270 mega watt facility which was originally established to provide electricity for industrial consumers in the Lagos State, and the Akute 12.5 mega watt power project which was established to provide power for the Lagos State Water Corporation facilities at the Iju and Adiyan Water Works. The Rivers State IPPs include a 100 mega watt facility at Trans Amadi, a 150 mega watt facility at Omoku and a 20 mega watt at Alode-Eleme. In the Akwa Ibom State, the government established a 190 mega watt IPP in Ikot Abasi. Several other States including the Delta and Edo states recently awarded contracts for the construction of IPPs to boost power supply. The majority of the state-owned IPPs are on-grid power stations which supply power into the PHCN existing transmission network under power-purchase agreements entered with the PHCN. However some power stations, such as the Akute IPP in the Lagos State, only supply electricity to a particular installation or facility.

Public Private Partnerships

In a bid to address challenges constraining the growth of the Nigerian economy, the Federal Government, established the Infrastructure Concession Regulatory Commission ("**ICRC**") through an act of the National Assembly in November 2005. The ICRC Act seeks to provide for the participation of the private sector in the financing, construction, development, operation, and maintenance of the Federal Government infrastructure or development projects through concession or contractual arrangements. The ICRC and its Governing Board were subsequently established in November 2008 to regulate, monitor, and supervise the concession and development projects. The ICRC is responsible for setting forth guidelines to promote, facilitate and the ensure implementation of PPP projects in Nigeria with the objective of achieving better value for money for infrastructure services and enhanced economic growth.

In April 2009, the ICRC approved a national policy for implementing PPPs and, in line with the First NIP, has been working with the relevant MDAs to identify key projects to establish a track record for

Nigeria in executing on PPPs. The key projects initially identified are in the railways, roads, airports and power sector.

In December 2008, Nigeria and the World Bank came to an agreement in principle regarding a prospective US$315 million PPP project, which would include up to US$200 million in infrastructure financing and a credit component of US$115 million for institutional, legal and regulatory capacity building. The credit component of the PPP would involve a line of credit managed by the Ministry of Finance with subsequent disbursements under the supervision of the World Bank. The loan component would be lent to the CBN as a line of credit, with subsequent on-lending to specific projects, also under the supervision of the World Bank. It is intended that this PPP would fund projects in the power, transport and telecoms sectors. Entry into this agreement continues to be subject to the satisfaction of certain conditions precedent.

SMEs

In 2001, the CBN initiated the Small and Medium Enterprises Equity Investment Scheme ("**SMEEIS**") to improve access to financing for SMEs with a view to enhancing economic development and generating employment opportunities in the country. Generally, SMEEIS performed well in terms of funds set aside by the deposit money banks ("**DMBs**"), investment by DMBs, and the sectoral distribution of investments. However, the effect of the SMEEIS was limited as only seven states and the FCT accounted for 66.8 per cent. of the investments. A review of the SMEEIS led to the introduction of a number of additional programmes to support the SMEs, including:

- the ₦200 billion SME Refinancing and Restructuring Facility (administered by the BOI);
- the ₦200 billion SME Credit Guarantee Scheme ("**SMECGS**") to encourage banks to lend to SMEs (where the risk exposure of banks under this scheme is guaranteed to the tune of 80%, with lending banks granting credit at its prime rate of interest under a five year tenor);
- the Agricultural Credit Guarantee Scheme Fund (which guarantees credit facilities extended to farmers by banks up to 75% of the amount in default net of any security realised); and
- the Commercial Agriculture Credit Scheme to promote commercial agricultural enterprises in Nigeria financed from the proceeds of a ₦200 billion bond issued by the DMO.

In December 2010, the Government announced a US$500 million loan facility to support economic growth in SMEs. The fund will be run by the BOI and will enforce a zero tolerance policy on late or non-repayments of loans.

Water

Nigeria has abundant water resources to support sustainable provision of water supply. The Niger River Basin including its tributaries has about 165.8 billion cubic metres of water. Surface water potential is estimated at 263.7 billion cubic metres while ground water potential is estimated at 51.9 billion cubic metres. The irrigation potential is about 3.14 million hectares, however only 0.02 per cent. of it is currently used. The impounded water potential is 31 billion cubic metres in about 200 dams, however only 18 per cent. of it is effectively utilised. The Benue River is the major tributary to the River Niger and is approximately 1,400 kilometres long. These resources have remained largely untapped due to uncoordinated implementation of policies and programmes at the State Government level. For example, only about 65 per cent. of the urban population and 30 per cent. of the rural population have access to improved drinking water sources based on the population and water supply coverage of the country in 2006. In order to improve the water supply in the country, the Federal Government has instituted a multi-prong approach to tackling the water supply. The Government has also received support from donors on both bilateral and multilateral basis. Additionally, the Government has developed a number of plans and programmes that are awaiting approval or implementation by the appropriate authorities.

Housing

The Land Use Act ("**LUA**") vests the ownership of all land in the Governor of each state (except the FCT and some parts of Lagos) who holds the land in trust for the people. All transactions in property require the consent of the Governor and registration at the land registry of the relevant state. This process may be quite slow and costly. In 2009, the Government set up the Presidential Technical Committee for Land Reform to undertake the reform of the land tenure system and make recommendations for ensuring effective, simplified and sustainable land administration in Nigeria. The Presidential Technical Committee for Land Reform is exploring various reform initiatives including the conduct of comprehensive cadastral surveys of the whole country.

There are also several issues and challenges facing the delivery of housing in the country. Housing policy is based on an inadequate regulatory and legal environment that deters housing development, while lack of support and a poor incentive structure for housing finance constrain private sector investment. There is a shortage of properties partly due to the high cost of constructing houses. This is further amplified by high rural-urban migration, which has created a large demand for housing accommodation in urban areas.

The proportion of the Nigerian population living in urban centers has increased phenomenally over the years and so has the demand for housing. The Federal Housing Authority ("**FHA**") established under the FHA Act is responsible for preparing and executing proposals for national housing programmes and making recommendations to the Government on aspects of urban and regional planning relevant to the successful execution of housing programmes.

To encourage development in the housing sector the Government enacted the Federal Mortgage Bank Act, authorising the establishment of the Federal Mortgage Bank of Nigeria ("**FMBN**") (which had started operations in 1956 as Nigerian Building Society). The FMBN initially operated as a primary mortgage institution managing the National Housing Fund which was established by the National Housing Fund Act. The National Housing Fund ("**NHF**") was established to facilitate the mobilisation of long-term housing funds for the provision of affordable houses to Nigerians. It is funded by mandatory contributions of 2.5 per cent. of the basic monthly salary of Nigerian workers earning ₦3,000 and above. Following housing reforms under the National Housing Policy, a two-tier formal housing finance system was established whereby the FMBN performs mainly secondary mortgage and capital markets operations, providing loans from the NHF to qualifying primary mortgage institutions licensed by the CBN, for on-lending to contributors wishing to build, purchase or renovate houses. The FMBN has recorded increased loan disbursements over the last few years, including the grant of over ₦3 billion worth of loans through 29 primary mortgage institutions.

The Federal Government is committed to harmonising and standardising land administration processes in all the states through a national technical development forum, creating an enabling environment for private sector investment in housing development and increasing the total public sector investment for the housing sector.

The proposed public sector investment during the First NIP is estimated at ₦461.73 billion. The Government proposes that 600,000 housing units would be constructed by the Federal Ministry of Housing, 240,000 housing units by the Federal Housing Authority and 500 prototype units by PPPs across the federation. The Government also plans to recapitalise the Federal Mortgage Bank of Nigeria.

Free Zones

In 1992, the Government established the Nigeria Export Processing Zones Authority ("**NEPZA**") which is responsible for investments in free zones (the "**Free Zones**") in Nigeria. NEPZA is Nigeria's investment promotion agency for investment into the Free Zone areas in Nigeria. The licensing, monitoring and regulation of the Free Zones scheme is vested on NEPZA by the Nigeria Export

Processing Zones Act 63, of 1992. The Nigeria Export Processing Zones Act also confers on NEPZA the power to approve and grant all licenses and permits to the exclusion of all other agencies, enforce obedience and compliance to rules and regulations, define policy directions and provide a one-stop-shop for business transaction without bureaucracy. Several factors were responsible for the adoption of a Free Zones scheme in Nigeria, among which are the diversification of the revenue base of the economy, employment generation and to encourage export through local production.

Certain advantages, benefits and incentives which have been strategically designed by the Federal Government to create a business-friendly environment and to be competitive are automatically conferred on investors which are located in Free Zones in Nigeria. Such incentives include:

- complete tax holiday for all Federal Government, State Government and Local Government taxes, rates, customs duties and levies;
- one-stop approvals for all permits, operating licenses and incorporation papers;
- duty-free, tax-free import of raw materials and components for goods destined for re-export;
- duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture;
- permission to sell 100 per cent. of manufactured, assembled or imported goods into the domestic Nigerian market;
- for sales to the domestic market, the amount of import duty on goods manufactured in the Free Zone is calculated only on the basis of the value of the raw materials or components used in assembly not on the finished products;
- 100 per cent. foreign ownership of investments;
- 100 per cent. repatriation of capital, profits and dividends;
- waiver of all import and export licenses;
- waiver on all expatriate quotas for companies operating in the zones;
- prohibition of strikes and lockouts; and
- rent-free land during the first six months of construction.

The following types of industries and businesses that permissible in Free Zones—electrical and electronic products, textile products, garments, wood products and handicraft, leather products, petroleum products, rubber and plastic products, cosmetics and other chemical products, metal products and machinery, educational materials and sports equipment, printing materials, communication and office equipment, medical kits, optical instruments and appliances, biscuits, confectioneries and other food processing, pharmaceutical products, ship building and repairs and oil and gas logistics.

There are currently 24 Free Zones in Nigeria established by the Federal Government, State Governments and private sector organisations.

Name	Location	Status	Ownership
Calabar Free Trade Zone	Cross Rivers State	Operational	Federal Government
Kano Free Trade Zone	Kano State	Operational	Federal Government
Onne oil and gas Free Zone	Rivers State	Operational	Federal Government/Private
Lagos Free Zone	Lagos State	Under Construction	Private
Tinapa Free Zone and Tourism Resort	Cross Rivers State	Under Construction	Private/Public
Olokola Free Zone	Ondo State and Ogun State	Under Construction	State Governments/ Private
Snake Island Integrated	Lagos State	Operational	Private
Maigatari Border Free Zone	Jigawa State	Operational	State Government
Banki Border Free Zone	Borno State	Declaration	State Government
Ladol Logistics Free Zone	Lagos State	Operational	Private
Ibom Science & Tech. Park Free Zone	Akwa-Ibom State	Under Construction	Public/Private
Living Spring Free Zone	Osun State	Under Construction	State Government
Airline Services Export Proc. Zone	Lagos State	Operational	Private
Lekki Free Zone	Lagos State	Under Construction	State Government/ Private
Egbeda Free Zone	Oyo State	Declaration	State Government
OILSS Logistics Free Zone	Lagos State	Declaration	Private
Brass LNG Free Zone	Bayelsa State	Under Construction	Public/Private
Abuja Technological Village	Abuja	Under Construction	Public/Private
Specialised Railway Industrial FTZ - Kajola	Ogun State	Under Construction	Public/Private
Imo Guongdong FTZ	Imo State	Under Construction	Public/Private
ALSCON FPZ	Akwa-Ibom State	Operational	Private
Ogun Guandong Free Trade Zone	Ogun State	Operational	Public/ Private
Sebore Farms	Adamawa State	Operational	Private
Calabar Free Port	Cross River State	Operational	Federal Government

Privatisation and commercialisation programmes

Nigeria's privatisation programme commenced in 1988 with the Privatisation and Commercialisation Decree No. 25 of 1988 (the "**Privatisation Decree**"). The defunct Technical Committee on Privatisation and Commercialisation ("**TCPC**") was the implementation agency for the privatisation and commercialisation programme. In 1999, the Public Enterprises (Privatisation and Commercialisation) Act 1999 (the "**Privatisation Act**") replaced the Privatisation Decree.

The Privatisation Act lists the State Owned Enterprises ("**SOEs**") to be privatised and commercialised, the methods of privatisation, limitation of legal proceedings against the Bureau of Public Enterprises ("**BPE**") and the establishment of a Public Enterprises Arbitration Panel. The Privatisation Act also established the National Council on Privatisation ("**NCP**"), the governing body responsible for formulating and approving policies on privatisation and commercialisation in Nigeria. The NCP is chaired by the Vice President. It supervises the BPE, which is responsible for implementing the country's policy on privatisation and commercialisation. The privatisation process has been and is being implemented based on guidelines approved by the NCP. The privatisation programme is intended to privatise all those Government SOEs listed in the Privatisation Act.

The BPE have used core investor sales, initial public offerings, willing buyer/willing seller, asset sales and liquidations, as approved by the NCP, as preferred methods of privatisation. The sales of government equity in the SOEs are done by way of a competitive bid process, where practicable. In certain exceptional cases, negotiated sales or sales on a "willing buyer/willing seller" basis as approved by the NCP are used.

Current status of Privatisation

A 1991 survey by the defunct TCPC showed that there were about 600 SOEs at the federal level and about 900 SOEs at state and local government levels. The estimated 1,500 SOEs in Nigeria accounted for between 30 per cent. to 40 per cent. of fixed capital investments and the same proportion of formal sector employment. Proceeds from privatisations from 2001 to date are estimated to be in excess of ₦1 trillion and the privatisation exercise has spanned virtually all sectors from agriculture, to financial services, telecommunications, power, and oil and gas. Successfully privatised entities include banks, hotels, manufacturing companies and other entities.

The total number of federal SOEs privatised from 1988 to November 2010 is 244 and about 144 SOE have been set aside for privatisation after 2010.

Since 2000, the BPE has been successfully privatised SOEs and in a number of SOEs, this has been done through core investor sales, assets sales, share flotations and liquidations. Notable examples include:

- In 2000, Dangote Industries Limited Nigeria acquired Benue Cement Company Plc;
- In 2000, Ocean and Oil Nigeria Limited acquired Unipetrol Nigeria Plc Oil and Gas through a core investor sale and share flotation;
- In 2001 various Nigerian individual and institutional investors acquired stakes in NAL Merchant Bank through a share flotation;
- In 2002, UAC Properties Plc acquired Festac 77 Hotel through an asset sale;
- In 2002, the Beta Consortium acquired Nigeria Hotel Limited (Ikoyi Hotel Limited) through an asset sale;
- In 2002, Dangote Industries Limited (Nigeria) acquired a stake in Savannah Sugar Company Limited Agriculture through a core investor sale;
- In 2002, Dantata Investments Limited acquired a stake in the Electricity Metre Company of Nigeria, Zaria though a core investor sale;
- In 2002, the Reinsurance Acquisition Group acquired the Nigeria Reinsurance Corporation Insurance through a core investor sale;
- In 2004, Majestic Oil Services Limited acquired the West Africa Refinery Company Limited, Sierra Leone through a core investor sale; and
- In 2004, Russal Steel Company acquired the Aluminium Smelter Company.

A few of the privatisations and commercialisation programmes have not been successful. Notable examples include NITEL and Nigeria's refineries in 2007.

Future initiatives

In recent years, the privatisation and commercialisation programme in Nigeria has slowed down, primarily because some of the remaining federal SOEs require the passage of legislation or have more complex structures. The proposed enabling laws allowing the privatisation and commercialisation of some of the SOEs were approved by the NCP in 2008 and submitted to the National Assembly for consideration and are awaiting approval.

The Government intends to fully privatise the power sector and in particular all PHCN successor companies are to be privatised through core investor sales, concessions and a management contract. The privatisation of the distribution companies and the thermal generating plants is expected to be carried out through core investor sales. Hydro generating plants are expected to be concessioned while a management contract model will be used for the Transmission Company of Nigeria. See "—*Electricity—Power sector reforms*". A request for expressions of interest for the core investor sales was published on 13 November 2010 and the deadline for submission is February 2011. A transaction adviser has been approved by the Government and a roadshow is expected to be conducted in January 2011. The privatisation of the power sector is expected to be completed by May 2011. See "*Risk Factors—The Issuer may be unable to meet its economic growth and reform objectives, and any failure or inability to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy".*

Some other future privatisation initiatives of the Government include the privatisation of the BOI, Abuja Securities and Commodities Exchange, Nigeria Agricultural and Rural Development Bank, railways, national parks, national stadia, roads and airports, in addition to the privatisation of some areas of the power and oil and gas sectors. See "*—Electricity—Power Sector Reforms*" and "*—Principal Sectors of the Economy—Oil and Gas—Oil and Gas Reforms*".

FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Trade

Although Nigeria had a large trade surplus during the years 2005-2009 and the first half of 2010, it has substantially narrowed in the last few years as Nigeria increased its import levels. 2008 was an exception as global prices for oil, Nigeria's main export, increased significantly. Nigeria's trade surplus fluctuates with global oil prices and production levels.

Trade Policy

Nigeria's trade policy is intended to encourage the production and distribution of goods and services to satisfy domestic and international markets for the purpose of achieving and accelerating economic growth and development. Nigeria is currently negotiating a series of preferential trade agreements, including the following:

- EU Economic Partnership Agreement — An ongoing free trade negotiation with the European Union to create a zero tariff between the West African region and the European Union. It is expected that the liberalisation of the market for this regime will take place over the following 25 years.
- D-8 Preferential Trade Agreement — A reciprocal market access agreement between the D-8 countries, which include Nigeria, Malaysia, Turkey, Egypt, Iran, Indonesia and Bangladesh.
- Generalised System of Trade Preferences — An ongoing negotiation to promote South-South trade, which comprises 40 members.

Nigeria's tariff policy is primarily governed by the Common External Tariff ("**CET")** regime of ECOWAS. The ECOWAS CET requires members to harmonise ad valorem tariff rates into four bands: (i) zero duty on social goods such as medicine and publications, (ii) 5 per cent. duty on imported raw materials, (iii) 10 per cent. duty on intermediate goods and (iv) 20 per cent. on finished goods. The four band CET was subsequently revised in June 2009 to include a fifth band of 35 per cent. for finished goods that are manufactured locally and which therefore require some protection in the interest of promoting local industries. In September 2008, Nigeria's trade regime was amended to lower tariffs for a wide range of goods and to replace a number of import bans with tariffs. Based on statistics provided by the 2006 MFN Tariff Trade Restrictive Index ("**TTRI**"), Nigeria ranks 98th out of 125 countries. Based on its rank in this index, Nigeria is as open to trade as the average sub-Saharan African country but is more restrictive than the average lower-middle-income country (classified by the World Bank as a country with a GNI per capita of US$976 to US$3,855). Nigeria ranks 91st out of 148 countries on the GATS Commitment Index, demonstrating that there is room for committing to further multilateral liberalisation in services trade.

In addition to tariffs, imports are affected by other duties and charges. A value added tax of 5 per cent. applies to imported goods. Nigeria has been a member of the WTO since 1995.

Historically, Nigeria has had a long list of prohibited imports, primarily to encourage local production and to conserve foreign exchange. This import ban has resulted in significant revenue loss to the Government through trade diversion to neighbouring countries and the routine smuggling of banned goods into the country. In November 2010, the Ministry of Finance announced a lift on the ban on certain of these products and the replacement of the ban with tariffs which will still protect domestic industries. The ban was removed on cassava, toothpicks, furniture, textiles, water and beverages and vehicles over 10 years of age. The tariffs range from a 15-20 per cent. levy and a 10-20 per cent. duty.

Imports and Exports

The table below sets out certain information regarding imports and exports for the periods indicated:

	For the year ended 31 December					For the six months ended 30 June
	2005	2006	2007	2008(1)	2009(2)	2010(2)
			(₦, billions, except percentages)			
Imports	**(3,413.5)**	**(2,828.8)**	**(3,559.9)**	**(4,369.8)**	**(4,325.1)**	**(3,583.6)**
Oil sector	(724.8)	(646.7)	(699.1)	(1,261.9)	(1,017.7)	(768.9)
% of imports	21.20%	22.90%	19.60%	28.90%	23.50%	21.50%
Non-Oil sector	(1,821.4)	(1,835.8)	(2,299.8)	(3,107.9)	(3,307.3)	(2,814.7)
% of imports	53.40%	64.90%	64.60%	71.10%	76.50%	78.50%
Trading Partner Adjustment	(867.3)	(346.2)	(560.9)	-	-	-
% of imports	25.40%	12.20%	15.80%	-	-	-
Exports	**7,246.5**	**7,324.7**	**8,309.8**	**9,907.6**	**8,832.4**	**5,525.9**
Oil sector	7,140.6	7,191.1	8,110.5	9,659.8	8,543.3	5,320.4
% of exports	98.50%	98.20%	97.60%	97.50%	96.70%	96.30%
Non- Oil sector	105.9	133.6	199.3	247.8	289.2	205.5
% of exports	1.50%	1.80%	2.40%	2.50%	3.30%	3.70%
Balance of Trade	**3,832.9**	**4,495.9**	**4,749.9**	**5,537.8**	**4,507.3**	**1,942.2**
Oil Sector	6,415.8	6,544.4	7,411.4	8,397.9	7,525.5	4,551.5
Non- Oil Sector	(1,715.5)	(1,702.2)	(2,100.6)	(2,860.1)	(3,018.2)	(2,609.3)
Trading Partner Adjustment	(867.3)	(346.2)	(560.95)	-	-	-

(1) Revised.
(2) Provisional.

Source: Central Bank of Nigeria

Historically, Nigeria has maintained a large trade surplus, owing primarily to oil exports which face very few barriers to entry in overseas markets. In 2009, the trade surplus was less than the surplus in 2008 due to the reduction in crude oil prices in 2008. The average spot price of crude oil (Bonny Light) declined from US$101.15 in 2008 to US$62.08 in 2009.

Oil was the predominant export in each period under review, constituting over 95 per cent. of total exports in each period. In 2009, total imports decreased slightly compared to 2008, primarily as a result of a decline in oil imports and due in part to reduced domestic activity in the second half of 2009 as access to bank credit was constrained by measures taken by the CBN to restore stability in the banking sector. Non-oil imports increased in 2009 to 76.5 per cent. of total imports compared to 71.1 per cent. of total imports in 2008.

Capital goods and raw materials have constituted the largest portion of Nigeria's imports in each of the periods under review, followed by consumer foods. The import of consumer foods has steadily increased under the periods under review, but declined in 2009. The proportion of imports was highest in the boilers, machinery and appliances category, followed by vehicles and aircraft, base metals, chemicals and allied industries, plastics and rubber and vegetable products. The proportion of the textiles category declined in 2009 compared to 2008, primarily as a result of Government initiatives in this industry. These initiatives include the ban on the importation of textile materials at the end of 2008 in response to allegations by local manufacturers that inferior textiles were being imported into Nigeria, and consequently affecting local manufacturing firms. However, in November 2010, the Government removed textile materials from the import prohibition list, the result of this being that textiles could be freely imported into Nigeria upon payment of the stipulated import duty. The Government envisages that the lifting of the ban will discourage the smuggling of textiles into Nigeria, and further, that import duty on importation will contribute to Government revenue.

Customers and Suppliers

The table below sets out information regarding the destination of Nigeria's oil exports for the periods indicated.

	For the year ended 31 December				
	2005	2006	2007	2008	2009
			(₦, billions)		
Exports by continent					
Africa	455.9	754.1	778.1	1,098.0	1,267.1
ECOWAS	264.2	474.5	475.6	693.9	320.7
Americas	3,479.6	4,085.4	3,953.4	4,933.6	3,304.6
Europe	1,221.4	1,599.3	1,405.9	2,089.2	1,750.6
Asia	1,445.4	1,115.8	1,094.9	1,138.3	1,069.9
Main countries for Nigeria's exports					
United States	2,703.1	3,400.6	3,395.4	4,051.3	2,026.6
Brazil	561.8	319.5	241.4	620.8	593.5
Spain	534.4	602.9	474.0	327.3	324.3
France	340.8	427.5	377.0	394.2	407.4
Japan	201.1	142.0	131.3	34.5	34.5
Canada	149.9	291.7	255.5	175.9	261.4
Germany	136.0	0.5	0.5	148.0	67.7
Italy	108.4	187.3	183.5	314.3	309.7

Source: NBS

The table below sets out information regarding the origination of Nigeria's imports for the periods indicated.

	For the year ended 31 December				
	2005	2006	2007	2008	2009
			(₦, billions)		
Imports by continent					
Africa	158.3	119.7	232.0	218.7	360.0
ECOWAS	104.8	38.9	97.2	111.0	7.9
Americas	421.5	573.9	858.7	654.2	1,071.1
Europe	655.2	1,159.5	1,632.0	1,223.7	1,631.8
Asia	528.2	986.2	1,341.0	1,162.0	1,896.1
Main countries for Nigeria's imports					
France	125.9	128.7	158.6	155.7	292.1
United States	361.0	455.2	623.6	267.7	303.7
Brazil	25.7	58.6	142.3	57.7	168.0
Japan	62.9	96.6	95.4	88.8	144.1

Source: NBS

Balance of Payments

The table below sets out certain information regarding Nigeria's balance of payments for the periods indicated.

	For the year ended 31 December					For the six months ended 30 June
	2005(1)	2006(1)	2007(1)	2008(1)	2009(2)	2010(2)
	(₦ billions)					
Current Account	4,891.7	4,357.6	3,879.2	3,748.3	3,408.1	852.7
Trade Balance	3,832.9	4,495.9	4,749.9	5,537.8	4,507.3	1,942.2
Exports fob	7,246.5	7,324.7	8,309.8	9,907.6	8,832.4	5,525.9
Imports fob	(3,413.5)	(2,828.8)	(3,559.9)	(4,369.8)	(4,325.1)	(3,583.7)
Services(net)	(634.2)	(1,214.7)	(1,639.8)	(2,547.3)	(2,284.0)	(1,222.0)
Income (net)	(296.2)	(1,103.4)	(1,478.6)	(1,463.8)	(1,491.9)	(1,143.9)
Current transfers (net)	1,989.1	2,179.8	2,247.7	2,221.7	2,676.7	1,276.5
Capital and Financial Account	(2,496.9)	(2,172.1)	(951.3)	(793.4)	2,543.6	842.4
Financial account(net)	(3,459.9)	(3,530.1)	(951.3)	(793.4)	2,543.6	842.4
Assets	(1,843.9)	(2,502.5)	(2,146.1)	(1,666.7)	1,134.9	385.6
Direct investment (Abroad)	(1.9)	(2.9)	(59.3)	(42.2)	(20.8)	(4.3)
Portfolio investment	(180.1)	(194.6)	(231.9)	(560.5)	(135.8)	(94.1)
Other investment	(173.8)	(517.5)	(727.7)	(867.6)	(272.1)	(247.3)
Reserve assets*	(1,488.1)	(1,787.6)	(1,127.2)	(196.4)	1,563.7	731.3
Liabilities	(1,615.9)	(1,027.6)	1,194.8	873.3	1,408.6	456.8
Direct investment in reporting economy	654.2	624.5	759.4	650.4	861.6	267.1
Portfolio investment	116.0	360.3	332.5	157.2	107.8	225.0
Other investment liabilities	(2,386.2)	(2,012.4)	102.9	65.7	439.1	(35.3)
Net errors and omissions	(2,394.9)	(2,185.4)	(2,927.9)	(2,954.9)	(5,951.7)	(1,695.2)
Memorandum Items:						
Current Account Balance as % of GDP	32.84	23.47	18.78	15.43	13.65	6.53
Capital and Financial Account Balance as % of GDP	(16.76)	(11.70)	(4.61)	(3.27)	10.19	6.45
Overall Balance as % of GDP	9.99	9.63	5.46	0.81	(7.69)	(5.60)
External Reserves - Stock (US$ millions)	28,279.06	42,298.00	51,333.15	53,000.36	42,382.49	37,468.44
Number of Months of Imports Equivalent	13.06	22.88	21.59	17.14	17.32	9.33
Effective Central Exchange Rate (₦/$)	131.41	127.51	124.76	117.78	147.27	148.80
Average Exchange Rate (₦/$)	132.15	128.65	125.83	118.53	148.90	150.04
End-Period Exchange Rate (₦/$)	130.29	128.27	117.97	132.56	149.58	149.99

(1) Revised. Imports were revised from 2006 to 2009 using more robust numbers from the Nigerian Customs Services. Additionally, following the IMF technical consultation in 2010, certain figures in the balance of payments were adjusted for all periods presented as a result of additional sources of data that were suggested by the IMF, including the Nigeria Customs Services, Ministry of Finance, NNPC and NBS.

(2) Provisional*Minus (-) sign indicates increase in reserves while plus (+) sign indicates decrease in reserves.

Source: *CBN*

The impact of the global financial crisis of 2008 continued through 2009. Consequently, Nigeria's external sector continued to be under pressure. This was reflected in the decline in external reserves, capital reversals by portfolio investors and a lower trade balance. Despite the pressure, monetary policy actions and exchange rate management combined to result in a surplus outcome in the current account balance, which represented 13.65 per cent. of GDP in 2009 compared to 15.43 per cent. in 2008. The overall balance of payments position was in surplus for most of the period due to the favourable performance of the current account, which offset any deficits in the capital and financial account. The external reserves position increased over most of the period from US$28.3 billion in 2005 to US$53 billion in 2008, before dropping to US$42.4 billion in 2009, to US$37.5 billion as at 30 June 2010 and to US$33.1 billion as at 30 November 2010. The decline in external reserves in 2009 was the primary reason for the overall balance of payments deficit equal to 5.6 per cent. of GDP. Following weak demand from Nigeria's trading partners as a result of the recession and due to the decline in crude oil prices from an average of US$101.15 per barrel in 2008 to US$62.08 in 2009, the trade balance surplus contracted from ₦5,538 billion in 2008 to ₦4,507 billion in 2009. Higher crude oil prices, which have increased in the first half of 2010, averaging US$79.10 in the first quarter and US$79.70 in the second quarter, coupled with the increased crude oil production, have contributed to a stronger trade surplus for the first half of 2010.

The deficit in the services account decreased slightly in Naira terms in 2009 compared to 2008. The main sources of payments were in respect of travel, freight charges for imports and other business services that comprised operational leasing and miscellaneous business and professional services.

The deficit in the income account also increased in 2009 compared to 2008, reflecting an increase in compensation of employees, a decrease in investment income earned and a decline in dividends from CBN branches. Furthermore, earnings on external reserves and other investment assets by the CBN declined, reflecting the large decline in external reserves and the low interest paid on foreign securities held by the CBN (due to low interest rates paid in the international capital markets where funds were invested).

The surplus in current transfers increased in 2009 compared to 2008. Current transfer inflows consist primarily of workers' remittances, general government grants, technical assistance and gifts, whereas outflows consist of payments for the expenses of foreign embassies, payments to international organisations and foreign workers' remittances.

In 2009, the capital and financial account had a surplus of ₦2,543.6 billion, or 10.2 per cent. of GDP, compared to a deficit of ₦793.4 billion, or 3.3 per cent. of GDP, in 2008.

Net errors and omissions have increased steadily during the period under review from ₦2,394.9 billion in 2005 to ₦5,951.7 billion in 2009. The principal explanation for the large errors and omissions is the lack of available data in certain categories of transactions. However, following the IMF Article IV consultation in 2010, efforts have been made to limit errors and omissions by accessing additional data specifically suggested by the IMF, including data produced by the Nigeria Customs Service, Federal Ministry of Finance, the NNPC and the NBS. These efforts are reflected in the trend for the first half of 2010, which would suggest a decrease in errors and omissions. See "*Risk Factors—The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable.*"

Foreign Direct Investment

Foreign direct investment flows into Nigeria have increased significantly following the deregulation of the economy in the 1980s. The major components of foreign direct investment in Nigeria are new capital importation, reinvested earnings, signature bonuses and communication licence fees, as well as machinery and equipment. Capital importation and reinvested earnings account for approximately 80 per cent. of total foreign direct investment to Nigeria. Although traditionally foreign direct investment has been channelled into the oil and gas sector, in recent years more investment has been channelled in the services sector, primarily financial services, outsourcing, communications and transportation. Nigeria is one of the main destinations for foreign direct investment in sub-Saharan Africa, and the primary source of foreign investment is the United States.

Save for businesses that are prohibited as described below, there are generally no restrictions under Nigerian law with regard to foreign investment. There are however, certain industry-specific laws which preclude some categories of Nigerian companies from being "wholly-owned" by foreigners, or give preference to companies with a Nigerian majority shareholding. For example, any vessel seeking to operate in the domestic coastal carriage of cargo and passengers within the coastal territorial inland waters, or at any point within the waters of the exclusive economic zone of Nigeria, must be wholly-owned and manned by Nigerians, unless this requirement is waived by the Minister having responsibility for matters relating to shipping. Further, the Nigerian Oil and Gas Content Development Act 2010, which seeks to grant preferential treatment to Nigerian companies in the award of contracts and other activities in the Nigerian oil and gas sector, defines a "Nigerian Company" as a "company formed and registered in Nigeria in accordance with the provisions of the Companies and Allied Matters Act with not less than 51 per cent. equity shares by Nigerians".

With regards to the repatriation of foreign capital or any income thereon, the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, provides that any person may invest in a Nigerian enterprise or any security with foreign currency imported into Nigeria through an authorised dealer (typically a Nigerian bank) by telegraphic transfer, cheques or other negotiable instruments converted into Naira. Upon such importation of foreign investment capital, the authorised dealer is required to issue a Certificate of Capital Importation ("**CCI"**), evincing receipt of the foreign investment capital within 24 hours of receipt of the imported funds. A CCI assures the foreign investor of unhindered remittance of investment capital and income thereon, in any convertible currency.

The table below sets out certain information regarding Nigeria's foreign direct investment for the periods indicated.

	For the year ended 31 December					**For the six months ended 30 June**
	2005	**2006**	**2007**	**2008**	**2009[(1)]**	**2010[(2)]**
			(₦, millions)			
Direct investment in reporting economy	**654,193.2**	**624,520.7**	**759,380.4**	**650,431.6**	**861,636.5**	**267,080.1**
Equity capital	423,336.0	388,626.9	491,142.7	584,048.3	802,623.9	222,027.9
Reinvested earnings	230,857.2	235,893.9	263,493.1	58,891.2	55,962.6	41,699.2
Other capital	-	-	4,744.6	7,492.1	3,049.9	3,353.1

(1) Provisional.
(2) Estimated.

Source: CBN

Foreign direct investment, which comprises equity capital, re-investment earnings and other capital inflows, increased from ₦654.2 billion in 2005 to ₦861.6 billion in 2009. There was an increase in foreign direct investment in 2006 and 2007 due to consolidation in the banking sector and increases in foreign reserves. In 2008, foreign direct investment declined as a result of the impact of the global financial crisis, before rising again in 2009.

In 2009, foreign direct investment was primarily invested in the form of equity capital in banking, capital markets, telecommunications and other sub-sectors of the economy. In addition, there has been foreign investment in debt capital in Nigeria, which was US$824.6 million in 2009 and US$1,288.2 million in the first ten months of 2010 (January to October).

In 2009, the United States was the largest source of foreign capital, accounting for 62.2 per cent. of the total amount of capital imported. The United Kingdom, South Africa, the Netherlands and China were the other single largest sources of capital in 2009.

PUBLIC FINANCE

General

The budget states the direction of government policies and spending priorities for a fiscal year consisting of details of estimated revenue and expenditure. Nigeria's budget process is currently governed by the Constitution, the Finance (Control & Management) Act of 1958 and the Fiscal Responsibility Act of 2007 (the "**Fiscal Responsibility Act**"). The annual budget's estimates of revenue and expenditure are proposed by the President and laid before both houses of the National Assembly through the Appropriation Bill. The Appropriation Bill becomes an Act after it has been passed by both houses of the National Assembly and approved by the President. The fiscal year for Nigeria runs from 1 January to 31 December every year. In the course of a fiscal year, the President may also present a supplementary budget to the National Assembly, and the approval process for such supplementary budget is the same as for the annual budget. The National Assembly can also approve a Supplementary Appropriation Bill proposed by the President during the year. With the approval of the National Assembly, the implementation of the budget can be extended beyond the fiscal year.

The Federal Government manages a Federation Account which is a central distributable pool of funds (comprising oil revenues, value added tax, companies' income tax, customs and excise duties as well as royalties and other income) established pursuant to section 162 of the Constitution and into which are paid all revenues collected by the Federation, except limited categories of revenues excluded pursuant to the Constitution. Funds in the Federation Account are shared amongst the three tiers of government on such terms and in such manner as may be prescribed by the National Assembly. The President, on the advice of the Revenue Mobilisation Allocation and Fiscal Commission, is required to present the proposal for allocation of funds in the Federation Account before the National Assembly. In determining the formula for allocation, the National Assembly is required by the Constitution to take into account factors such as population, equality of states, internal revenue generation, land mass, terrain as well as population density; provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen per cent. of the revenue accruing to the Federation Account directly from any natural resources derived from that state of the Federation. There are several deductions from Nigeria's revenues from the sale of crude oil before the revenue is credited to the Federation Account. In excess of 50 per cent. of the gross crude oil revenue is deducted, of which the majority is paid to the IOCs as their portion of capital costs and a lesser amount is paid by the NNPC as their portion of joint venture cash calls. Of the remaining net amount, 13 per cent. is paid to the Niger Delta states. The balance is then credited to the Federation Account (up to the budgeted amount) and the remainder, if any, is credited to the Excess Crude Account.

The Federal Government's share of funds in the Federation Account is paid into the Consolidated Revenue Fund. Pursuant to section 80 of the Constitution, no moneys shall be withdrawn from the Consolidated Revenue Fund of the Federation except to meet expenditure that is charged upon the fund by the Constitution or authorised by the Appropriation Act or the Supplementary Appropriation Act. The Federal Government also has independent revenues (not derived from the Federation Account) comprising operating surpluses of federal agencies and corporations and other sundry revenue such as internal revenue generated by the MDAs.

Excess Crude Account

The Excess Crude Account is an account set up by the Administration of former President Olusegun Obasanjo in 2003 to assist in stabilising the Federation's accounts against volatility in crude oil prices and production. The Excess Crude Account is a savings account of the Federation funded with the positive difference, if any, between the oil revenue generated by the price of oil per barrel included in the budget for the year and the actual oil revenue received in that year. Typically, a request for disbursements from the Excess Crude Account can come from the states or the Federal Government. Disbursements from the Excess Crude Account, which are made by the Federal Accounts Allocation

Committee, must be recommended by the National Economic Council, a body which is chaired by the Vice President and includes all 36 State Governors, and authorised by the President. Disbursements from the Excess Crude Account are shared between the Federal Government, State Governments and Local Governments according to a specified formula, which is 52.68 per cent., 26.72 per cent. and 20.6 per cent., respectively.

The balance of the Excess Crude Account was US$19.1 billion as at 31 December 2008, US$6.9 billion at 31 December 2009 and US$2.6 billion at 31 December 2010. See "*Risk Factors—The continuing depletion of the Excess Crude Account could have adverse impacts on the Nigerian economy*". Since inception, funds from the Excess Crude Account have primarily been used to fund budget deficits. In 2009 and 2010, such funding increased in response to the global economic crisis and the resulting higher deficits at the federal, state and local levels. The Excess Crude Account also has historically funded government subsidies of refined oil products as well as other purposes, including disbursements of approximately US$8 billion to fund the Nigeria Integrated Power Project and US$1 billion as seed capital for the proposed Sovereign Wealth Fund (which funds have been ring fenced and are not included in the balance of the Excess Crude Account). The Government expects that in future periods the positive difference between budgeted and actually received oil revenues will continue to accrue to the Excess Crude Account until such time as the Sovereign Wealth Fund (discussed below) is established and the future funding mechanisms for the Excess Crude Account and the Sovereign Wealth Fund are agreed.

The Excess Crude Account has been subject to a number of challenges with respect to its legality. The Constitution requires that all revenues collected by the Federation go into the Federation Account, from which they are then allocated to the three tiers of government in accordance with a formula established by the Allocation of Revenue Act. Therefore, the Federal Government's use of the Excess Crude Account as a centralised savings account within the Federation Account has become an issue challenged by a number of states as unconstitutional. The Federal Government included a provision in the Fiscal Responsibility Act to permit the CBN to act as a collection agent and to hold and invest the funds on behalf of the three tiers of government, though it must consult with each tier of government with respect to such investments. The Fiscal Responsibility Act also provides that funds in the Excess Crude Account can only be accessed if the oil price falls below the budgeted benchmark for three consecutive months or for capital spending in the following year's budget.

However despite the provisions of the Fiscal Responsibility Act, some of the states filed suit against the Federal Government claiming the right to manage their own savings. In 2007, the Federal Government signed a Memorandum of Understanding with 31 of the 36 State Governments to address and resolve this issue. However as not all State and Local Governments signed this Memorandum of Understanding, challenges to the constitutionality of the Excess Crude Account continue.

Sovereign Wealth Fund

In part because of some of the difficulties and constitutional challenges with respect to the Excess Crude Account, the Government has proposed establishing a National Sovereign Wealth Fund. The National Economic Council (which includes the 36 State Governors) and the Federal Executive Council recently approved the establishment of the National Sovereign Wealth Fund and the submission of a bill for its establishment to the National Assembly for consideration. The bill was submitted to the National Assembly in December 2010. It is proposed that the Sovereign Wealth Fund will be comprised of three separate funds, an intergenerational savings fund, an infrastructure development fund and a stabilisation fund, which will serve as a secondary source of funding supporting the Excess Crude Account in periods of budgetary deficit. The Federal Government intends to establish the Sovereign Wealth Fund by the end of the current Presidential administration. A key proposed feature of the Sovereign Wealth Fund that distinguishes it from the Excess Crude Account is that it is intended to operate independently of political pressures, with more stringent procedures for withdrawals and transparency regarding use of funds. US$1 billion from the Excess

Crude Account has already been dedicated as funding for the Sovereign Wealth Fund. In the future, it is proposed that the Sovereign Wealth Fund will be funded primarily through a portion of the positive difference, if any, between the revenue generated by the price of oil per barrel included in the budget for the year and the actual revenue received in that year. The portion of funding that would be allocated to the Sovereign Wealth Fund is yet to be determined. However, as the bill for the Sovereign Wealth Fund has not yet been adopted by the National Assembly, no assurances can be given as to how the Sovereign Wealth Fund will be funded or whether the National Assembly will approve its establishment or as to the exact terms under which it will operate.

The Budget Process

The preparation of the budget is a shared responsibility of the Executive and Legislative arm of the Federal Government. The budget, officially referred to as the Appropriation Act, is introduced by the Executive, approved by the Legislature and signed into law by the President.

A summary of the budget process is set forth below.

Budget Planning

The Budget Office of the Ministry of Finance develops the budget in accordance with the Federal Government's fiscal policy. The Budget Office meets early in the fiscal year with key revenue generating agencies (including the Federal Inland Revenue Service, Nigerian Customs Service and the NNPC) as well as key economic agencies (including NPC, NBS and CBN) to assess and determine trends in revenue performance and macroeconomic indicators and the implication of such trends for the next three fiscal years. This discussion leads to the preparation of a Medium-Term Revenue Framework ("**MTRF**") pursuant to which projected revenue from various oil and non-oil sources is determined over the medium-term. Following this determination with respect to revenue, the Medium-Term Expenditure Framework ("**MTEF**") is developed outlining key areas of expenditure (statutory transfers, debt service, MDAs' Expenditure) as well as the projected fiscal balance. If this fiscal balance is a deficit, sources of financing this deficit are also considered. MDAs' expenditures comprise both capital and recurrent expenditures. Since 2005, the Government has used Medium-Term Sector Strategies to prioritise and align the capital expenditure of large-spending MDAs with the development objectives of the Government. Historically, this has been focused on NEEDS, the MDGs, the Seven-Point Agenda and more recently, the Vision 20:2020 and the First NIP. The MTEF is further developed into a formal Medium-Term Expenditure Framework Report, which includes the Fiscal Strategy Paper and MDAs expenditure ceilings. This formal MTEF/Fiscal Strategy Paper is required, under the Fiscal Responsibility Act, to be presented by the Minister of Finance first to the Federal Executive Council and then to the National Assembly for consideration and approval.

Budget Call Circular and Preparation of the Executive Budget Proposal

Once the MTEF, Fiscal Strategy Paper and MDAs' expenditure ceilings have been approved by the Federal Executive Council, the Budget Office, under the supervision of the Minister of Finance, issues a "Call Circular". This Call Circular instructs the MDAs to allocate their allotted capital expenditure ceilings across their existing and new projects, programmes and other initiatives. MDAs are also required to submit estimates of their recurrent expenditure requirements for personnel costs and overhead. The Budget Office evaluates and consolidates the submissions of the various MDAs and prepares the draft budget.

Presidential Approval

The draft budget is presented by the Minister of Finance to the President for approval. The approved budget, together with supporting documents, is formally presented by the President to the National Assembly for consideration and appropriation, typically at a joint session of the Senate and the House of Representatives.

The budget is considered separately by the House and Senate of the National Assembly in accordance with the legislative practice and procedures. The two houses harmonise their drafts and the recommendations of the various committees are considered and collated with the oversight of the MDAs. The harmonised budget is approved separately by each chamber of the National Assembly, after which it is presented as the Appropriation Bill to the President for approval. Once the President approves the Appropriation Bill, the act is passed into law.

Public Accounts

The Fiscal Responsibility Act was enacted to regulate, and provide for, greater accountability and transparency in fiscal operations. The Fiscal Responsibility Act provides for the prudent management of resources under the control of the Federal Government, State Governments and Local Governments. It is believed that fiscal reform at the state level is essential for the continued economic reform of Nigeria. However, for the fiscal reform provided for by the Fiscal Responsibility Act to be implemented at the state level, each state must pass its own equivalent fiscal responsibility legislation. Only some of the states have passed equivalent fiscal responsibility legislation.

A Fiscal Responsibility Commission was also established under the Fiscal Responsibility Act. This commission has the authority to compel any person or government institution to disclose information relating to public revenues and expenditure and to investigate any circumstances involving non-compliance with the provisions of the Fiscal Responsibility Act.

The Fiscal Responsibility Act includes a provision that the deficit in the Federal Budget should not exceed three per cent. of GDP. Since 2005, Nigeria's budget has recorded overall deficits ranging from ₦289.5 billion in 2005 to ₦1,126.7 billion in 2009 and ₦1,529.3 billion for the eleven months ended 30 November 2010. Nigeria's deficits have historically been primarily funded by the issuance of securities in the domestic debt markets and other funds, such as accessing excess reserves (including the Excess Crude Account).

The focus of Nigeria's medium-term (2010-2012) fiscal strategy is to:

- promote a balanced national economic development;
- ensure that Government resources are used to serve the common good;
- promote competition and free trade, particularly in the domestic markets; and
- improve the living standards of the Nigerian people.

The table below contains a summary of Nigeria's revenues and expenditures for the periods indicated.

	For the year ended 31 December					For the eleven months ended 30 November
	2005	**2006**	**2007**	**2008**	**2009**	**2010[(1)(2)]**
			(*₦ billions*)			
Total Gross Federally Collectible Revenue	5,559.3	5,973.9	5,594.2	7,748.1	4,599.0	6,344.6
Oil Revenue	4,762.4	5,287.6	4,462.9	6,530.6	3,191.9	4,857.4
Sales of Crude oil	2,713.7	3,056.5	2,799.6	3,533.1	1,798.5	3,158.9
Sales of Gas	138.9	189.5	145.9	180.8	58.6	0.0
Taxes and fees	1,316.7	1,444.9	1,059.4	2,135.9	924.9	1,141.3
Royalties	593.1	596.6	457.9	680.8	410.0	557.2
Non-Oil Revenue	394.9	422.6	568.4	698.1	865.6	868.4
VAT Pool	190.0	230.4	301.7	404.5	468.4	518.2
Independent Revenue	212.1	33.3	261.2	114.9	73.2	100.7
Federation Account [(3)]	2,348.5	2,630.8	2,849.0	3,506.1	2,569.5	3,501.2
Federal Government Retained Revenue	1,433.5	1,438.4	1,744.3	2,598.5	2,162.5	2,122.7
Share of Excess Crude	163.6	240.5	299.1	98.1	270.6	199.5
Share of Augmentation	-	-	-	-	310.1	185.2
Share of Exchange Rate Gains	-	-	-	-	67.0	16.8
Refund of Loans to States.......	-	0.4	0.5	0.1	-	0.0
Total Expenditure	1,722.9	1,809.8	2,346.1	3,018.0	3,289.1	3,652.0
Statutory Transfers	78.9	95.4	102.3	162.6	172.1	174.0
Debt Service	394.0	274.3	233.7	381.3	251.8	357.5
MDA Expenditure						
Recurrent Expenditure	730.5	887.6	1,248.3	1,551.3	1,964.3	2,290.4
Capital Expenditure ...	519.5	552.4	761.9	922.8	1,152.8	830.1
Overall Deficit	(289.5)	(371.4)	(601.8)	(419.5)	(1,126.7)	(1,529.3)

(1) From year to year, the presentation of the Government's revenues and expenditures has varied depending on the fiscal framework approved by the National Assembly currently in effect. The data for the years 2005 to 2009 has been reclassified in order to be presented on a basis consistent with the presentation of National Assembly's approved fiscal framework in effect for 2010.

(2) Provisional.

(3) The difference between the total gross federally collectible revenue and the net Federation Account receipts is due to the fact that the funds that accrue to the Federation Account accrue net of the expenses relating to Nigeria's share of joint venture cash calls, the portion of oil revenue paid into the Excess Crude Account and the collection costs of the Federal Inland Revenue Service and the Nigerian Customs Service, in addition to the VAT Pool and Independent Revenue, which do not accrue to the Federation Account.

Source: The Office of the Accountant General of the Federation

Revenues

The Federal Government budget is funded primarily through three main sources:

- the Federal Government's share of the Federation Account;
- the Federal Government's share of VAT; and
- independent revenue.

Total gross federally collectible revenue and the Federation Account

Total gross federally collectible revenue for the eleven months ended 30 November 2010 was ₦6,344.6 billion. Total gross federally collectible revenue was down significantly in 2009 at ₦4,599.0 billion compared to ₦7,748.1 billion in 2008. This was primarily due to a reduction in oil revenue and a significant reduction in taxes and fees. The Federal Government manages the

Federation Account on behalf of the three tiers of the Nigerian Government, namely, Federal, State and Local. ₦3,501.2 billion accrued to the Federation Account in the first eleven months of 2010. In 2009, there were ₦2,569.5 billion of net accruals to the Federation Account, compared to ₦4,559.0 billion in total gross federally collectible revenue.

The difference between the total gross federally collectible revenue and the net accruals to the Federation Account each year is due to the fact that the funds that accrue to the Federation Account accrue net of the expenses relating to Nigeria's share of joint venture cash calls, the portion of oil revenue paid into the Excess Crude Account, the collection costs of the Federal Inland Revenue Service and the Nigerian Customs Service, in addition to the VAT Pool and independent revenue, which do not accrue to the Federation account.

The Federation Account is funded through oil revenues and non-oil revenues (primarily taxes). Oil revenue was down in 2009 primarily because of the reduction in crude oil prices in 2009 compared to 2008.

Non-oil revenues had been steadily increasing from 2005 to 2008, reflecting the efforts of the Customs Service and Federal Inland Revenue Service to increase revenue collection from non-oil sources. In 2009 non-oil revenues decreased due to the impact of the global economic crisis on the underlying drivers of non-oil revenue, such as consumption, production, corporate profits and personal income.

Oil Revenues

Of total receipts, oil revenue accounts for the predominant portion of federally-collected revenue. Oil revenue includes revenue from sales of crude oil, oil taxes and royalties. The Government earns money directly from the sale of crude oil that it receives through its joint ventures with IOCs. The IOCs and the NNPC jointly contribute funds towards the cost of the joint venture, and the NNPC's share of the crude oil is sold by the NNPC and the proceeds are deposited in the Federation Account. The Government expects that in addition to revenue from the sale of crude oil, in the future, proceeds from the sale of natural gas will become an important source of revenue.

Oil taxes are imposed on private oil companies and include petroleum profits tax and rent and other taxes. The petroleum profits tax is levied at the rate of 85 per cent. on the profit of private oil companies. It is the second most important source of revenue to the Federation Account. The Government also levies a rent fee for the use of the land from which oil is extracted. In addition, the Government charges penalties and fees for other activities associated with the oil and gas business, primarily penalties for gas flaring and fees for the right to lay oil pipelines.

The third source of oil revenue is royalties. Royalties are paid whether or not Government shares in the crude oil are produced. Currently, the rate of royalties averages about 20 per cent. of the value of crude produced.

Non-Oil Revenue

Revenue from non-oil sources includes revenue from customs and excise tax, education tax, customs levies and corporate income tax. The increase in non-oil revenue in the period under review was due partly to the introduction of lower tariff bands to reduce the incidence of smuggling, as well as continuous improvements in the revenue collection of both the Nigeria Customs Service and the Federal Inland Revenue Service.

Value Added Tax Pool

Value added tax is levied at 5 per cent. on the value of actual purchases made on goods and services in Nigeria, and is collected in a separate account called the Value Added Tax Pool ("**VAT Pool**"). The Federal Government gets only 15 per cent. of this pool, State Governments get 50 per cent. and Local Governments get 35 per cent. In February 2008, Lagos State filed an originating summons at the Supreme Court, against the Federal Government and joining the other 35 states, challenging the constitutional validity of the Value Added Tax Act 1993 (the "**VAT Act**"). Lagos State, is asking the Supreme Court to invalidate the VAT Act while challenging the powers of the Government to collect VAT on its behalf. The contention of Lagos State as detailed in its brief filed in July 2008 is that the Government lacks the power to make a law for the collection of VAT in the states, except in Abuja. The Federal Government has since filed objections to the suit. Following preliminary hearings, the Supreme Court set a 30 September, 2010 deadline for a settlement to be reached between Lagos State and the Government over the VAT dispute failing which the court would resume the hearing of the suit. To date no settlement has been reached and Lagos State has indicated its intention to pursue the suit until judgment is handed down by the Court. The hearing of the matter is expected to resume in 2011.

Independent Revenue

Independent revenue is the third major source of revenue which belongs to the Government and is not derived from the Federation Account or the VAT Pool. Included in independent revenue are operating surpluses of federal agencies and corporations and other revenue, such as the internally generated revenue of the MDAs (revenue generated from the operating activities of the MDAs) and the proceeds from the sale of certain Federal Government assets. The Government retains all independent revenue. Historically, the Government has faced significant challenges to realise its independent revenue remittances from the MDAs. See "*Risk Factors—Failure to collect certain remittances from MDAs may adversely impact the Government's revenue*."

Federal Government Retained Revenue

The Federal Government's retained revenue was ₦2,122.7 billion in the first eleven months of 2010, compared to ₦2,162.5 billion in 2009 and ₦2,598.5 billion in 2008. Retained revenue includes the Federal Government's share of the Federation Account, the Federal Government's share of the VAT Pool, Federal Government Independent Revenue, proceeds from the Excess Crude Account distributed for budget augmentation, exchange rate gains from the Excess Crude Account and other items.

Expenditures

The aggregate expenditure of the Federal Government was ₦3,652.0 billion in the first eleven months of 2010, compared to ₦3,289.1 billion in 2009 and ₦3,018.0 billion in 2008. Non-debt expenditure (total expenditure less debt service payments) was ₦3,037.3 billion in 2009 and ₦3,294.5 billion in the first eleven months of 2010.

Spending in the Government budget can be classified into three broad categories, namely:

- statutory transfers;
- debt service; and
- spending by the Government's MDAs.

Statutory Transfers

By law, the Government is required to make certain mandatory expenditures in respect of the National Judicial Council, the Niger Delta Development Commission and the Universal Basic Education Commission ("**UBEC**"). The National Judicial Council is the body which has responsibility for the administration of the Nigerian judiciary, and the Constitution mandates the Government transfer funds necessary for its operations in order to protect the independence of the judiciary. The Niger Delta Development Commission is responsible for accelerating the development of the Niger Delta region. The Government is required to contribute an amount equivalent to 15 per cent. of the amount received by oil producing states from the Federation Account to fund the activities of this commission. The UBEC was set up to coordinate the implementation of the Universal Basic Education Programme of the Government which consists of the provision of free, compulsory and universal early childhood care and education and nine years of formal schooling for every Nigerian child of primary and junior secondary school age. Approximately two per cent. of Government revenues are set aside to fund the operations of the UBEC.

Debt Service

Debt service was ₦357.5 billion for the first eleven months of 2010, ₦251.8 billion in 2009 and ₦394.0 billion in 2005. Debt service payments have decreased in the period under review, primarily due to the repayments of the Paris Club and London Club debt in 2006. Debt service in 2008 was ₦381.3 billion, compared to ₦251.8 billion in 2009. The reason for the decrease in debt service in 2009 was primarily due to the refinancing of certain maturing FGN bonds and the reduction of higher yielding commercial debt in 2009 compared to 2008.

MDA Expenditure

In 2009, statutory transfers and debt service made up approximately 13 per cent. of the federal budget, and the balance was spent on MDA expenditures. MDA expenditure comprises recurrent expenditure and capital expenditure.

Recurrent Expenditure

Recurrent expenditure primarily consists of salaries for government employees, pensions and administrative costs. Recurrent expenditures were ₦2,290.4 billion for the first eleven months of 2010, compared to ₦1,964.3 billion in 2009 and ₦1,551.3 billion in 2008. In 2009, 55.2 per cent. of recurrent expenditure was for salaries, 11.8 per cent. was for pension costs and 32.9 per cent. was for administrative costs. Recurrent expenditures in 2010 and in future periods are expected to increase due to the approval by the National Assembly of wage increases for civil servants and certain others in the 2010 supplementary budgets (discussed below).

Capital Expenditure

Capital expenditure payments are used to fund critical infrastructure (for example, power and transport) and other capital needs of the MDAs. Capital expenditure were ₦830.1 billion in the first eleven months of 2010, compared to ₦1,152.8 billion in 2009 and ₦922.8 billion in 2008.

In 2010, capital expenditure was budgeted to certain priority sectors in the following proportion – 43 per cent. for critical infrastructure, 16 per cent. for security, 12 per cent. for human capital development, 11 per cent. for the Niger Delta and 9 per cent. for land reform and food security. However, in recent years the Government has not been able to utilise all of its budgeted capital expenditure in any given year due to the limited implementation capacity within the MDAs and readily available investment projects. As at the end of October 2010, the average capital utilisation of the MDAs was just under 50 per cent. See "*Risk Factors—The Issuer may be unable to meet its economic growth and reform objectives, and any failure or inability to continue to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy*".

2010 Budget

In March 2010, the National Assembly approved the annual budget. Subsequently, in August 2010 the National Assembly approved two supplementary budgets, which were endorsed by the President. In December 2010, the National Assembly approved and the President signed into law an extension of the 2010 annual and supplementary budgets to 31 March 2011, creating a 15-month fiscal year for implementation of the 2010 budget.

The 2010 annual and supplementary budgets were designed to stimulate the economy in view of the negative effects of the global economic crisis. The budgets were designed to allocate resources to priority sectors, particularly critical infrastructure, in an effort to create an enabling environment for the private sector to drive sustainable economic growth and development.

In 2010, the annual budget significantly increased government expenditure over 2009 in an effort to stimulate the economy. However, in the review process, the annual budget was revised due to lower than expected oil prices, which were revised to reflect a benchmark oil price of US$60/barrel from US$67/barrel in the original budget. Oil production estimates were also reduced to 2.2 million bbl/d from 2.35 million bbl/d in the original budget. Furthermore, in the supplementary budgets the National Assembly approved additional funding for pay increases for civil servants, doctors and university lecturers, to provide for expenses relating to voter registration in connection with the upcoming election and to provide for other expenditures not anticipated at the time of the approval of the annual budget.

The table below sets out certain information regarding Nigeria's government budget for 2010:

	2010 Annual and Supplementary Budgets (₦ *billions*)
Total gross federally collectible revenue	6999.1
Oil Revenue	4902.3
Sales of Crude oil	2802.0
Sales of Gas	352.6
Taxes and fees	1264.5
Royalties	483.2
Non-Oil Revenue	987
VAT Pool	580.0
Independent Revenue	300
Other Revenue	229.8
Federation Account	3939.9
Federal Government Retained Revenue	3179.9
Total Expenditure	5159.7
Statutory Transfers	183.6
Debt Service	542.4
MDA Expenditure:	
Recurrent Expenditure	2669.0
Capital Expenditure	1764.7
Overall Deficit	(1979.8)
% of GDP	(6.06)
Financing:	
Foreign (net)	75
Domestic (net)	1346.6
Proceeds of sales of Government Properties	9.6
Share of Excess Crude	309.1
Miscellaneous FGN Receipts	-
Share of Signature Bonus	132.3
Privatisation Proceeds	107.2

Source: Budget Office of the Federation

The Government intends to finance the 2010 deficit primarily with the Government's share of the Excess Crude Account, the Government's share of signature bonuses, revenue from the sale of Government property, revenue from privatisations, domestic borrowings and the proceeds of the Notes offered hereby. However, to date, no revenues have been received in respect of signature bonuses or privatisations. Therefore, unless the shortfall is offset by the underutilisation of capital expenditures discussed above, the Government will need to fund the shortfall through an increase in domestic borrowings. See "*Risk Factors—Significant increases in levels of government debt could have a material adverse effect on Nigeria's economy and its ability to service its debt, including the Notes*".

2011 Proposed Budget

The 2011 Federal Budget Proposal (the "**2011 Proposed Budget**") was presented by President Goodluck Ebele Jonathan to the Joint Session of the National Assembly on 15 December 2010. The 2011 Proposed Budget is focused on fiscal consolidation through the reduction of overall expenditure and as a result, reducing the need for debt financing. The 2011 Proposed Budget is also the first budget prepared on the basis of the Vision 20:2020 and the First NIP, and in preparing the 2011 Proposed Budget the Government made efforts to ensure that projects inconsistent with the First NIP were not included in the proposal. The 2011 Proposed Budget is based on certain assumptions, including: oil production of 2.3 million bbl/d, benchmark oil prices of US$65/barrel, an exchange rate of ₦150/US$1, joint venture cash calls of US$5.4 billion and a projected GDP growth rate of 7 per cent.

The 2011 Proposed Budget includes total Federal Government retained revenue forecast at ₦2,836.4 billion and total expenditure projected at ₦4,226.2 billion, compared to Federal Government retained revenue of ₦3,179.9 billion and total expenditure of ₦5,159.7 billion included in the 2010 Annual and supplementary budgets. Included in expenditures is a budget of ₦196.1 billion for statutory transfers, ₦542.4 billion for debt service, ₦2,481.7 billion for recurrent expenditure and ₦1,006.0 billion for capital expenditure. The 2011 Proposed Budget reflects a decrease in total expenditures from 2010 to 2011, principally due to the Government's desire to decrease reliance on borrowings to fund the financing gap. Further, although capital expenditures have also been reduced in 2011 compared to 2010, the Government believes that the amount included in the 2011 Proposed Budget much more closely reflects the amount of capital resources that will actually be utilized by the MDAs. As noted above, while capital performance varies across the MDAs, the average capital utilisation in 2010 was just under 50 per cent. as at the end of October 2010.

Although the 2011 Proposed Budget has been prepared in accordance with the Fiscal Responsibility Act and the budget process discussed above, at the date of this Prospectus it has only been presented to the National Assembly and the National Assembly has not yet approved the Federal Government budget for 2011, therefore no assurances can be given that the 2011 Proposed Budget will be approved as proposed or that significant changes will not be made to the budget that is eventually approved and signed into law by the President. See "*Risk Factors—The upcoming general election may result in political instability or changes in policies*".

Transparency and Anti-Corruption

According to the Transparency International's Corruption Perception Index 2010, Nigeria was ranked 134 in corruption level out of 178 countries surveyed by Transparency International in 2009. Several platforms and mechanisms have been established to ensure transparency and reduce corruption in the public and private sectors of Nigeria. In 2006, Nigeria was delisted from the Non-Cooperative Countries and Territories List maintained by the Financial Action Task Force, an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. A framework for adequate checks and balances, ranging from constitutional, regulatory, administrative to judicial, has been put in place by the Government. The Constitution contains several provisions which define the limits on the exercise of powers conferred on the three organs of government (executive, legislature and judiciary), each acting as a check on the others. Also, the fifth schedule to the Constitution contains a Code of Conduct for public officers (the "**Code")**, which seeks to prevent potential conflicts of official interests with public officers' personal interests, giving and receiving of bribes, the operation of foreign accounts, and abuse of power, amongst others. Also, every public office holder is required to declare his/her assets within a period of three months following the public officer's assumption of office, thereafter at the end of every four years and finally at the end of his/her tenure of office. The Constitution also provides that as a political objective of the government, all corrupt practices and abuse of power should be abolished.

The Constitution establishes the Code of Conduct Bureau with powers to receive and examine declarations of assets made by public office holders and to retain custody of such declarations and make them available for inspection by any Nigerian citizen. The Bureau is also empowered to receive complaints about non-compliance with, or breaches of, the provisions of the Code and to investigate and, where appropriate, prosecute such complaints before the Code of Conduct Tribunal which is also established under the Constitution to hear complaints referred to it by the Code of Conduct Bureau and, where appropriate, impose punishments on public officers for breaches of the Code.

Nigeria seeks to take a strong anti-corruption stance through anti-corruption legislation such as the Corrupt Practices and Other Related Offences Act No. 5 of 2000, the Economic and Financial Crimes Commission (Establishment etc) Act, Money Laundering (Prohibition) Act, amongst others. These laws prohibit and prescribe penalties for corrupt practices and have been applied to prosecute and convict high ranking public and private officials and to trace, seize, confiscate and repatriate proceeds from corrupt activities. Recently, the CBN has used the Economic and Financial Crimes Commission ("**EFCC**") to enforce the provisions of the laws against some of the banks. Other initiatives of the EFCC include corruption prevention through in-house institutional monitoring, the establishment of a national anti-corruption volunteer corps programme, forming a national anti-corruption coalition bringing together NGOs, community based organisations, professional bodies and other stakeholders with a vested interested in ending corruption and integrity education and outreach programmes.

Under former President Obasanjo's administration, the Budget Monitoring and Price Intelligence Unit (the "**Due Process Office**") was established with a determination to offset the widespread notion that Nigeria is a corrupt nation, and prevent further practices of embarking on development projects without due process and monitoring. The primary goal of the Due Process Office was to ensure full compliance with guidelines and procedures for the procurement of capital and to monitor capital projects as well as associated goods and services. The Guidelines for Implementation of Due Process Certification of Contract were released in July 2002.

In 2007, the Public Procurement Act was enacted and amongst other objectives, it established the Bureau of Public Procurement (the "**BPP**"). The BPP's functions include the formulation of policies and guidelines for procurement within the public sector in Nigeria, the monitoring of the prices of tendered items and the certification of procurement by the Federal Government prior to the awarding of contracts. Thus, subject to stated thresholds set by the National Council on Public Procurement, the BPP must issue a Certificate of "No Objection" in respect of all contracts which fall within the purview of the Public Procurement Act, prior to the award of such contracts. The BPP is also empowered to de-bar from further dealings contractors and service providers who contravene the provisions of the Act.

As a further step to reduce corruption, the country acceded to the United Nations Convention against Corruption and the African Union Convention on Prevention and Combating Corruption in December 2004 and September 2006 respectively.

In the First NIP, the Government has identified making Nigeria corruption-free as a key strategic objective with a view to restoring and improving public confidence in the system, and aims to improve Nigeria's ranking on the Corruption Perception Index to 60th by 2013. In order to achieve this, the First NIP outlines several strategies, including (among others) the establishment of an institutional framework for fighting corruption, promoting transparency in government finance by enacting and implementing laws on financial reporting and disclosure requirements, ensuring the timely publication of funds released by the Federation Accounts Allocation Committee and instituting whistle-blowing protections.

Despite the progress and various reform efforts, corruption continues to be a serious problem impacting Nigeria. See "*Risk Factors—Failure to adequately address actual and perceived risks of corruption may adversely affect Nigeria's economy and ability to attract foreign direct investment*".

PUBLIC DEBT

Overview

Public debt management is considered to be strategic in Nigeria, and became widely accepted as such when Nigeria's debt became unsustainable and a constraint on economic growth in the 1990s and early 2000s. In recognition of this, the Government established the DMO to serve as a central body for managing public debt. According to the DMO, as at 31 December 2010, Nigeria's external debt was US$4.8 billion (provisional), of which US$2.8 billon (provisional) was owed by the Federal Government and US$1.9 billion (provisional) was owed by State Governments and guaranteed by the Federal Government. Further, the Government had ₦4.5 trillion (provisional), approximately US$29.8 billion, in domestic debt outstanding as at 31 December 2010.

Additionally, in December 2010, the Federal Government entered into a US$899.5 million credit facility agreement with the Export-Import Bank of China to fund certain infrastructure projects. Drawdowns under the facility are tied to project completion milestones and as at 31 December 2010 no amounts had been drawn. See "*The Federal Republic of Nigeria—Foreign Relations—China Relations*".

In recent years, Nigeria has made substantial progress in managing its external debt, which decreased from US$20.5 billion as at 31 December 2005 to US$4.8 billion as at 31 December 2010. External debt also decreased as a portion of total public debt from 63.4 per cent. as at 31 December 2005 to 13.8 per cent. as at 31 December 2010. During the same period, Nigeria increased its domestic debt stock from US$11.8 billion as at 31 December 2005 to US$29.8 billion as at 31 December 2010.

As at 31 December 2004, Nigeria's external debt totalled approximately US$35.9 billion, of which nearly US$30.4 billion was due to the Paris Club. Original loans from the Paris Club totalled approximately US$8 billion in 1985, increasing to US$16.7 billion in 1990. The high debt servicing costs on the Paris Club debt placed a significant strain on Government resources, resulting in approximately US$6.4 billion in arrears by 2005. In October 2005, Nigeria negotiated the exit from its Paris Club debt through the cancellation of US$18 billion in debt by the Paris Club and the repayment of US$12.4 billion by Nigeria in three tranches. In April 2006, all of the outstanding balance of Paris Club debt under this relief arrangement was repaid. Another agreement was reached in 2006 with the London Club whereby US$2.15 billion in public debt was repaid.

Debt Management Office

The DMO was established in October 2000 to, inter alia, prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels in line with the country's desire for economic growth and development. In 2008, the DMO articulated a five year medium-term debt strategy in the form of the National Debt Management Framework, 2008-2012 ("**NDMF**"). The NDMF is anchored on three principal areas, namely external debt, domestic debt and sub-national debt. The operations of the DMO are governed by the DMO Act 2003, which provides for a Supervisory Board chaired by the Vice-President of Nigeria and the Minister of Finance as the Vice-Chairman.

Since its establishment in 2000, the DMO has initiated and adopted a number of measures to promote prudent debt management at the federal and state level while at the same time promoting the development of the domestic debt securities market. Some of these measures include:

- the resuscitation of the domestic bond market through its Bond Issuance Programme and Monthly Bond Auction. Tenors of domestic bonds are three, five, seven, ten and twenty years;
- the introduction of a primary dealer market maker system to promote an active secondary market for Federal Government of Nigeria Bonds ("**FGN Bonds**"), thereby creating a sovereign yield curve to serve as a benchmark for other domestic borrowers. The sovereign

yield curve, which was initially limited to short tenors, was extended to 20 years through the issuance of the first 20-year FGN bonds in November 2008;

- the extension of debt management practices to the sub-national level through capacity building (training and secondments for State Government officials) and actively encouraging the enactment of relevant legislation on fiscal and debt management such as the Fiscal Responsibility Act; and
- the publication of various guidelines, notably the Sub-National Borrowing Guidelines and the External Borrowing Guidelines.

Public Debt

Total public debt outstanding was US$34.6 billion (provisional) at 31 December 2010, compared to US$25.8 billion as at 31 December 2009 and US$21.4 billion as at 31 December 2008. Nigeria's public debt profile over the last five years is marked by a shift from predominantly external debt to predominantly domestic debt. This shift resulted from the repayment of the London Club and Paris Club debts, and also reflects the significant increase in the issuance of government bonds in the domestic bond market. Nearly all of the outstanding public debt is at a fixed rate.

The table below sets out certain information regarding Nigeria's total public debt as at the dates indicated.

	As at 31 December					
Type	**2005**	**2006**	**2007**	**2008**	**2009**	**2010(1)**
			(US$ millions)			
External Debt	20,477.9	3,544.5	3,654.2	3,720.4	3,947.3	4,783.1
Domestic Debt	11,828.8	13,805.2	18,575.7	17,678.6	21,870.1	29,837.3
Total	**32,306.7**	**17,349.7**	**22,229.9**	**21,399.0**	**25,817.4**	**34,620.4**

(1) Provisional.

Source: *DMO*

The table below sets out certain information regarding the original maturity of Nigeria's public debt as at the dates indicated.

		As at 31 December				
Type		**2005**	**2006**	**2007**	**2008**	**2009**
				(US$ millions)		
External Debt	Short-term(1)	0.0	0.0	0.0	0.0	0.0
	Long-term	20,477.9	3,544.5	3,654.2	3,720.4	3,947.3
	Sub-Total	**20,477.9**	**3,544.5**	**3,654.2**	**3,720.4**	**3,947.3**
Domestic Debt	Short-term(2)	6,626.6	5,472.4	4,922.3	3,595.7	5,403.0
	Long-term	5,202.2	8,332.8	13,653.4	14,082.9	16,467.1
	Sub-Total	**11,828.8**	**13,805.2**	**18,575.7**	**17,678.6**	**21,870.1**
Total		**32,306.7**	**17,349.7**	**22,229.9**	**21,398.9**	**25,817.4**

(1) Short-term external debt is debt with less than one year original maturity.

(2) Short-term domestic debt consists of 91, 182 and 364 days Treasury Bills. Long-term domestic debt consists of Treasury Bonds, FGN Bonds and FRN Development Stocks.

Source: *DMO*

The table below sets out certain information regarding Nigeria's total public debt service payments for the periods indicated.

Type	For the year ended 31 December					
	2005	2006	2007	2008	2009(1)	2010(1)
			(US$ millions)			
External Debt	8,940.9	6,729.2	1,022.0	464.6	428.0	354.4
Domestic Debt	1,166.3	1,313.7	2,162.9	3,590.7	1,907.5	2,408.4
Total	**10,107.2**	**8,042.9**	**3,184.9**	**4,055.3**	**2,335.5**	**2,762.8**

(1) Provisional.

Source: DMO

External Public Debt

The external debt management strategy is to prudently access financing, primarily concessionary financing which is defined as a loan with a grant element of at least 35 per cent. (considering tenor, grace period, interest rate and other charges), and use such financing to fund growth and development in the real sectors of the economy. Nigeria is issuing the Notes as part of its external debt management strategy with the view to setting a benchmark interest rate and to use the proceeds for general budgetary purposes. See *"Use of Proceeds"*.

The table below sets out certain information regarding Nigeria's outstanding external debt by creditor category, as at the dates indicated.

	As at 31 December					
	2005	2006	2007	2008	2009	2010(4)
			(US$ millions)			
Official:						
Bilateral						
Paris Club	15,412.4	0.0	0.0	0.0	0.0	0.0
Non-Paris Club(1)	461.8	326.1	184.9	182.4	181.6	163.2
Multilateral(2)	2,512.2	2,608.3	3,080.9	3,172.9	3,504.5	4,422.1
Sub-Total	**18,386.4**	**3,035.5**	**3,265.8**	**3,355.3**	**3,686.1**	**4,585.3**
Private:						
London Club	1,441.8	0.0	0.0	0.0	0.0	0.0
Promissory Notes	649.8	509.0	0.0	0.0	0.0	0.0
Other Commercial(3)	0.0	101.1	388.4	365.1	261.2	197.8
Sub-Total	**2,091.6**	**509.0**	**388.4**	**365.1**	**261.2**	**197.8**
Grand Total	**20,477.9**	**3,544.5**	**3,654.2**	**3,720.4**	**3,947.3**	**4,783.1**

(1) In 2009 Non-Paris Club Bilateral Debt comprised debt from the Exim Bank of Korea and the Chinese Exim Bank.
(2) Multilateral loans comprise both concessional and non-concessional loans. In 2009, concessional lenders included the IDA, IFAD, ADF, EDF and the IDB. Non-concessional lenders comprised the IBRD and the AfDB.
(3) Comprises loans from the private sector which in 2009 were guaranteed by the China Exim Bank.
(4) Provisional.

Source: DMO

As at 31 December 2010, debts to multilateral institutions constituted the bulk of total outstanding debt, 89.5 per cent. of which was concessional funding.

The table below sets out information regarding Nigeria's concessional funding as at 31 December 2010.

Funding Sources	Amount Outstanding[(1)]	Amount Outstanding as a per cent. of Total Debt
	(US$ millions)	
Concessional Creditor Categories		
International Development Association	3,649.6	76.3
International Fund for Agricultural Development	61.2	1.3
European Investment Fund	113.7	2.4
African Development Fund	450.8	9.4
Islamic Development Bank	3.2	0.1
Sub-Total	**4,278.5**	**89.5**
Non-Concessional Creditor Categories		
International Bank for Reconstruction and Development	45.5	1.0
African Development Bank	98.0	2.0
Non-Paris Commercial:	197.8	4.1
Bilateral	163.2	3.4
Sub-Total	**504.5**	**10.6**
Grand Total	**4,783.1**	**100.0**

(1) Provisional.

Source: *DMO*

The table below sets out information regarding the currency composition of Nigeria's external debt as at 31 December 2009.

Currency	Debt in Original Currency	₦ Exch Rate	Debt in ₦	US$ Exch Rate to ₦	Debt in US$	% of Total
EUR	252,159,005.00	212.69	53,632,102,074.00	147.6	363,361,125.16	9.2
USD	668,253,539.00	147.71	98,704,946,858.20	147.6	668,732,702.29	16.9
JPY	9,461,759.00	1,597.17	15,112,076,386.00	147.6	102,385,341.37	2.6
CHF	8,374,330.00	144.65	1,211,340,071.00	147.6	8,206,911.05	0.2
SDR	1,786,620,228	231.39	413,412,096,263.00	147.6	2,800,894,961.13	70.9
NGN	435,787.00	1.00	435,787.00	147.6	2,952.49	0.0
KRK	2,185,989.00	115.70	252,918,927.00	147.6	1,713,542.87	0.1
IDB UNITS	1,262,403.00	233.84	295,200,000.00	147.6	2,000,000.00	0.1
Total					**3,947,297,536.36**	**100.0**

Source: *DMO*

The table below sets out information regarding the maturity profile of Nigeria's external debt as at 31 December 2009.

Creditor category	Less than 1 year	1-3 years	Over 3 years
Multilateral			
IBRD	24.69	79.0	0.00
IDA	0.00	0.00	2,746.74
IFAD	0.00	0.00	60.12
A/DB	15.23	51.40	104.44
ADF	0.00	0.00	289.27
EDF	0.00	0.00	131.62
IDB	0.00	0.00	2.00
Non-Paris Club	3.77	40.50	398.52
Total	**43.69**	**170.90**	**3,732.72**

Source: *DMO*

In line with Nigeria's external debt management strategy as stated above, the table below sets out information regarding the utilisation of external debt proceeds by economic sector as at 31 December 2009.

Economic Sector	Amount Outstanding
	(US$ millions)
Agriculture	558.8
Air Transport	9.8
Education and Training	379.9
Energy-Electricity	410.4
Energy-Gas	15.9
Environment	190.3
General	151.2
Ground Transport	71.9
Health and Social Welfare	730.2
Housing and Urban Development.	85.6
Industrial Development	15.4
Investment	19.3
Irrigation and Related Activities	58.4
Manufacturing-Exchange textile	6.9
Monetary Policy	62.9
Multisector	42.8
Rail Transport	1.7
Road Transport	201.5
Rural Development	62.4
Scientific and Tech Equipment	206.4
Telecommunications	93.6
Water Supply	466.2
Others	105.9
Total	**3,947.3**

Source: *DMO*

External debt service payments were US$354.4 million (provisional) for the year ended 31 December 2010. Total external debt service payments for 2009 were US$428 million, reflecting a decrease of 7.9 per cent., compared to US$465 million in 2008. As at 31 December 2009, total external debt service payments constituted 0.26 per cent. of GDP and 10.84 per cent. of total external debt outstanding.

The table below sets out information regarding external debt service payments for the periods indicated.

	For the year ended 31 December					
Creditor Category	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**[(2)]
			(US$ millions)			
A. Official:						
1. Bilateral:						
Paris Club	8,070.8	4,519.9	0.0	0.0	0.0	0.0
Non-Paris Club	11.4	25.6	27.5	6.6	12.7	23.8
2. Multilateral	471.7	426.6	392.8	380.6	260.5	212.6
Sub-Total	**8,553.9**	**4,972.1**	**420.3**	**387.3**	**273.2**	**236.4**
B. Private:						
1. London Club (oil warrants)[(1)]	169.9	1,584.6	102.6	41.7	41.7	41.7
2. Promissory Notes	213.6	170.8	476.6	0.0	0.0	0.0
3. Others (including Non-Paris Commercial)	3.7	1.6	22.6	35.7	113.1	76.3
Sub-Total	**387.1**	**1,757.1**	**601.8**	**77.4**	**154.9**	**118.0**
Grand Total	**8,940.9**	**6,729.2**	**1,022.0**	**464.6**	**428.0**	**354.4**

(1) The 2008-2010 payments made to London Club debt were in respect of Oil Warrants only, as there has been no London Club debt since the end of 2007.

(2) Provisional.

Source: DMO

Debt service payments on multilateral debt declined from US$471.7 million in 2005 to US$260.5 million in 2009, decreasing further to US$212.6 million (provisional) in 2010, whilst the actual amount of debt due to multilateral lenders increased during the same period from US$2.5 billion in 2005 to US$3.5 billion in 2009 and to US$4.4 billion (provisional) in 2010. This demonstrates a decrease in the interest rates and overall cost of funding for such loans during this period.

During the same period, the cost of funding for commercial loans increased from US$3.67 million in 2005 to US$113.13 million in 2009. Nigeria has had to utilise higher-cost commercial loans to meet the Government's financing gaps. The commercial loans were used to finance critical infrastructure such as rural telephones, gas plants, energy and roads.

Therefore, for the year ended 31 December 2009, although 86.42 per cent. of Nigeria's external debt came from concessional sources, 75.55 per cent. of its external debt service payments were made in respect of non-concessional debts.

Relationship with External Creditors

Following the exit from the Paris Club debt in 2006, Nigeria has made it a priority to manage its debt in a sustainable manner and since that time Nigeria has consistently and promptly met its debt service obligations as and when due. Nigeria believes that it has a strong relationship with all of its external creditors. In addition to its membership of the World Bank and the IMF, Nigeria is one of the shareholders in the AfDB and occupies an executive position. Nigeria hosts routine visits by most of its external creditors and some creditors (such as the World Bank, the IMF and the IFC) provide support in the form of technical assistance. Nigeria's Minister of Finance is the current Chairman of the Joint Board of Governors of the IMF and the World Bank.

Domestic Debt

Nigeria's strategy with respect to its domestic debt portfolio is to lengthen the maturity structure of the portfolio, broaden and deepen the domestic bond market through the introduction of a variety of government securities, use technology to aid the effective and efficient issuance and trading of domestic bonds and improve the regulatory framework for the effective operation of the bond market.

Composition

Domestic debt consists primarily of:

- FGN Bonds, which are currently issued in tenors of three, five, seven, ten and twenty years;
- treasury bills ("**NTBs**"), typically with a tenor of one year or less;
- treasury bonds and development stocks, both of which are legacy debt instruments with tenor range of between thirteen years and twenty-three years (new securities are no longer issued); and
- promissory notes, a new debt instrument issued in 2009 with a tenor of one year.

The table below sets out information regarding the composition of Nigeria's domestic debt by instrument, as at the dates indicated.

	As at 31 December					
Instruments	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**[1]
			(₦ billions)			
FGN Bonds	250.8	643.9	1,186.2	1,445.6	1,974.9	2,901.6
NTBs	854.8	695	574.9	471.9	797.5	1,176.1
Treasury Bonds	419.3	413.6	407.9	402.3	392.1	372.9
Development Stocks	0.9	0.7	0.6	0.5	0.5	0.2
Promissory Notes	0.0	0.0	0.0	0.0	63.0	0.0
Total	**1,525.9**	**1,753.3**	**2,169.6**	**2,320.3**	**3,228.0**	**4,450.8**

(1) Provisional.

Source: DMO

The FGN Bond market has grown substantially in the previous five years, from ₦250.83 billion in 2005 to ₦1,974.93 billion in 2009, increasing to ₦2,901.6 billion (provisional) in 2010. FGN Bonds are generally long dated, and the large increase in FGN Bonds compared to other types of government securities relates to the Government's strategy to extend the maturity profile of its domestic debt to a 75:25 ratio of long-term to short-term instruments.

The table below sets out information regarding the holding structure of Nigeria's domestic debt by instrument as at 31 December 2009.

Instrument	**Central Bank**	**Banks and Discount Houses**	**Non-Bank Public**	**Special Fund**	**Amount Outstanding**
			(₦ billions)		
FGN Bonds	0.0	1,274.5	700.5	0.0	1,974.9
Treasury Bills (NTBs)	1.9	0.0	644.8	150.8	797.5
Treasury Bonds	258.3	0.0	0.0	133.8	392.1
Development Stocks	0.0	0.1	0.3	0.1	0.5
Promissory Notes	63.0	0.0	0.0	0.0	63.0
Total	**323.2**	**1,274.6**	**1,345.6**	**284.7**	**3,228.0**
% of Total	**10.01%**	**39.48%**	**41.68%**	**8.82%**	**100.00%**

Source: DMO

The table above demonstrates that the non-bank public holds the largest portion of domestic debt followed by banks and discount houses. This reflects the increased level of activity in the secondary market for FGN Bonds and the increasing acceptance of domestic debt instruments as a viable investment category for investors.

The table below sets out information regarding the holding of Nigeria's domestic debt by investor type, as at the dates indicated.

	As at 31 December					As at 30 June
Holder Category	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
			(₦ billions)			
Central Bank	501.97	335.53	290.59	289.37	323.18	311.80
Banks and Discount Houses	759.61	882.85	1,394.75	1,482.16	1,274.58	2,378.70
Non-Bank Public	71.88	365.38	484.29	428.03	1,345.55	928.12
Parastatals	192.45	56.34	0.00	0.00	0.00	0.00
Brokers	0.00	0.84	0.00	0.00	0.00	0.00
Special Fund	0.00	112.31	0.00	120.75	284.72	146.14
Total	**1,525.91**	**1,753.25**	**2,169.63**	**232.31**	**3,228.03**	**3,764.76**

Source: *DMO*

Maturity Profile

The table below sets out information regarding the maturity profile of Nigeria's domestic debt as at the dates indicated.

Year	**Short-Term**(1)	**Long-Term**(2)	**Total**
		(US$ millions)	
31 December 2005	6,626.59	5,202.17	11,828.76
31 December 2006	5,472.44	8,332.75	13,805.19
31 December 2007	4,922.26	13,653.42	18,575.68
31 December 2008	3,595.65	14,082.90	17,678.55
31 December 2009	5,830.03	16,040.09	21,870.12
31 December 2010(3)	7,884.39	21,952.95	29,837.34
% in 2010	**26.42**	**73.58**	**100.00**

(1) Short-term domestic debt is debt with less than 1 year original maturity.
(2) Long-term domestic debt consists of Treasury Bonds, FGN Bonds and FRN Development Stocks.
(3) Provisional
Source: *DMO*

Debt Service

The table below sets out information regarding Nigeria's domestic debt service payments for the periods indicated.

Year	**Debt Service Payments**
	(₦ billions)
Year ended 31 December 2005	150.5
Year ended 31 December 2006	166.8
Year ended 31 December 2007	185.4
Year ended 31 December 2008	233.0
Year ended 31 December 2009	281.5
Year ended 31 December 2010(1)	361.9

(1) Provisional.

Source: *DMO*

The increase in debt service payments year on year reflects the increase in issuance of domestic debt.

Debt Sustainability Status

In light of Nigeria's debt profile before its repayment of debt from the Paris and London Clubs, the sustainability of Nigeria's debt is an important consideration for Government. To address these concerns and to ensure Nigeria can sustain its debt in the short, medium and long term, the DMO conducts an annual Debt Sustainability Analysis ("**DSA**") based on the World Bank/IMF Debt Sustainability Framework for Low Income Countries.

The World Bank's Country Policy and Institutional Assessment ("**CPIA**") provides a framework for classifying countries into debt sustainability categories, which then form the basis for the DSA. The CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of such information for development assistance. Each country is assigned a CPIA rating based on certain criteria which include economic management, structural policies, policies for social inclusion/equity and public sector management and institutions. The rating is also used to determine the thresholds beyond which the level of debt is deemed to be unsustainable for a particular country. Nigeria's current CPIA rating of 3.4 is unchanged from the level in 2009. This rating ranks Nigeria as a medium performer and implies that by staying below certain well-defined thresholds it is likely that Nigeria can maintain its total debt stock at sustainable levels. The thresholds are determined by and consistent with the CPIA.

The following table sets out Nigeria's debt sustainability ratios for the periods indicated.

	For the year ended 31 December								
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010[(1)]**
External Debt Stock (US$ millions)	30,991.87	32,916.81	35,944.66	20,477.97	3,544.49	3,654.21	3,720.36	3,947.30	4,783.06
Domestic Debt Stock (US$ millions)	9,636.36	10,283.99	10,314.79	11,828.76	13,805.20	18,575.67	17,678.55	21,870.12	29,837.34
Total Public Debt Stock (US$ millions)	40,628.23	43,200.80	46,259.45	32,306.73	17,349.69	22,229.88	21,398.91	25,817.42	34,620.40
GDP (US$ millions)	54,686.56	62,176.06	85,829.76	112,963.09	143,913.21	170,721.63	185,114.89	167,443.91	179,978.57
External Debt/GDP Ratio (%)	56.67	52.94	41.88	18.13	2.46	2.14	2.01	2.36	2.66
Domestic Debt Ratio (%)	17.62	16.54	12.02	10.47	9.59	10.88	9.55	13.06	16.58
Total Debt Ratio (%)	74.29	69.48	53.90	28.60	12.06	13.02	11.56	15.42	19.24
Recommended Thresholds (%)	30	30	30	30	30	30	30	40	40

(1) Provisional

Source: DMO

The DSA assesses how a country's current level of debt and prospective new borrowings affect its ability to service its debt in the future. Nigeria's DSA, which is conducted annually, was last performed in April 2010. The result of the 2010 DSA showed that Nigeria's total public debt is sustainable in the medium to long term under both the baseline and the optimistic scenario. The tables below show the details of the debt sustainability indicators under each of the baseline and the optimistic scenario for the 2010 DSA.

In performing its most recent DSA, Nigeria used two scenarios. The first is the baseline scenario which is based on the macroeconomic assumptions driving the 2010 Budget and contemporary global economic events. See "*Public Finance—2010 Budget*".

Baseline Scenario

	DSA Result					CPIA Sustainability Threshold
	2010	2011	2015	2020	2029	
Net present value ("**NPV**") of debt-to-GDP	16.2	12.4	5.5	2.2	0.9	40
NPV of debt to revenue	129.4	134.9	90.8	85.4	109.6	250
NPV of debt service to revenue	11.7	13.7	8.6	8.0	16.0	30

Source: DMO DSA Report, 2010

The second scenario is an alternative or optimistic scenario anchored on the assumptions driving Vision 20:2020 and the Seven Point Agenda. See "*The Economy—Overview*".

Optimistic Scenario

	DSA Result					CPIA Sustainability Threshold
	2010	2011	2015	2020	2029	
NPV of debt-to-GDP	16.5	16.3	8.2	4.6	1.4	40
NPV of debt to revenue	129.4	184.0	157.0	193.3	179.5	250
NPV of debt service to revenue	11.7	14.3	11.3	14.0	19.3	30

Source: DMO DSA Report, 2010

Some of the assumptions in the 2010 Budget and the Vision 20:2020 may not be satisfied. See "*Risk Factors — The Issuer may be unable to meets its economic growth and reform objectives and any failure or inability to continue to implement economic and fiscal reforms may have a negative effect on the performance of the Nigerian economy*".

Guarantees

From time to time, the Government will extend guarantees to ensure the safety and soundness of the financial system, to promote projects that are deemed to be in the public interest and to incentivise the public sector to finance projects. Loans guaranteed by the Government constitute contingent liabilities. Pursuant to the DMO Act, all external loans must be contracted directly or indirectly through the Government, and therefore the limit for such guarantees in the aggregate is the total amount of external debt to be contracted, which is included in each annual budget approved by the National Assembly. As at 31 December 2010, the total amount of loans outstanding under guarantees for external indebtedness was US$1.9 billion (provisional).

Additionally, the Federal Government has issued a number of guarantees relating to other potential contingent liabilities. These include guarantees issued by the CBN in connection with the banking crisis in 2009, in respect of all transactions in the interbank market and in respect of foreign creditors and correspondent banks' credit lines. These guarantees will remain in place until June 2011. Further, the amount of such Federal Government guarantees is expected to rise substantially in the near term with the proposed issuance of about ₦2.5 trillion, or US$16.6 billion, of guaranteed bonds by AMCON, of which approximately ₦1.0 trillion was issued in December 2010. See "*Monetary System—2009 Banking Crisis*". In addition, the Government has a number of other projects currently under way to promote lending to the real sector, which will contribute to an increase in Government guaranteed obligations. See "*Risk Factors—Significant increases in levels of government debt could have a material adverse effect on Nigeria's economy and its ability to service its debt, including the Notes*".

MONETARY SYSTEM

Monetary Policy and the CBN

The CBN, established pursuant to the Central Bank Act of 1958, is the central bank of Nigeria. Pursuant to various amendments to the original act, the CBN was placed under the authority of the Ministry of Finance. Today, the CBN operates pursuant to the CBN Act No 7 of 2007 (the "**CBN Act**"), which repealed the earlier act and all of its amendments. Pursuant to the CBN Act, the CBN is a fully autonomous body in the discharge of its functions under the CBN Act and the Banks and Other Financial Institutions Act, as amended ("**BOFI Act**") with the objective of promoting price stability. In line with this, the CBN Act widened the objects of the CBN to include ensuring monetary and price stability, the issuance of legal tender currency in Nigeria, the maintenance of external reserves and the promotion of a sound financial system, as well as giving economic advice to the Government. Pursuant to the BOFI Act, the CBN also has the power to withdraw licenses of distressed banks and appoint liquidators of these banks.

The CBN Act charges the CBN with the overall control and administration of the monetary and financial sector policies of the Government. The statutory mandates of the CBN are to issue legal tender currency, to maintain external reserves, to safeguard the international value of the legal tender currency, to promote monetary stability and a sound financial system in Nigeria and to act as banker and financial adviser to the Government. The CBN also acts as a collection agent with respect to the Excess Crude Account and holds and invests the funds on behalf of the three tiers of government.

The governing body of the CBN is the Board of Directors, which consists of the Governor of the CBN as Chairman, four Deputy Governors of the CBN, the Permanent Secretary of Ministry of Finance, the Accountant General of the Federation and five directors who are appointed by the President and confirmed by the Senate.

The CBN Act also mandated the formation of the Monetary Policy Committee, which has responsibility for formulating monetary and credit policy.

In its bid to attain bank soundness and effective liquidity management, the CBN introduced in 2006 a new framework for monetary policy implementation in the marketplace using the short-term interest rate as its benchmark rate. The benchmark rate, also called the Monetary Policy Rate ("**MPR**"), serves as an indicative rate for transactions in the inter-bank money market as well as money market rates. The ultimate goal of the framework is to achieve a stable value of the Naira through stability in short-term interest rates around the MPR which will be determined and operated by the CBN. The MPR replaced the existing Minimum Rediscount Rate ("**MRR**"), and was set at 10.0 per cent. using the current rate of inflation and the expected inflation rate outcome of 9.0 per cent. for the 2007 financial year as a guide to ensure that interest rates remain positive in real terms.

The main operating principle guiding the new policy is to control the supply of settlement balances of banks and motivate the banking system to target zero balances at the CBN, through an active inter-bank trading or transfer of balances at the CBN. This will engender symmetric treatment of deficits and surpluses in the settlement accounts, so that for any bank, the cost of an overdraft at the CBN would be equal to the opportunity cost of holding a surplus balance with the CBN. Although the new regime of MPR has been in operation for some time, the CBN in February 2008 formally announced the removal of the MRR based framework.

In 2009, the CBN reviewed the MPR downward twice, from 9.75 per cent. to 8.00 per cent. in April 2009 and to 6.00 per cent. in July 2009. As at 30 September 2010, the MPR was 6.25 per cent. A key priority of the CBN is to reduce interest rates over time and sustain the lower rates such that they provides access to lower cost of funds for the development of the real sector.

Recent Macroeconomic Environment and Policy

The Nigerian economy in 2009 and 2010 was influenced by developments in both the domestic and international economy. The major challenge to monetary policy in 2009 was the management of tight liquidity in the banking system, compared to excess liquidity in previous years. Specifically, growth rates in major monetary indicators were below planned targets. In particular, the growth in credit to the private sector slowed significantly. Inflation rate (year-on-year) moderated, yet remained in double digits at the end of the year. The Naira/US dollar exchange rate, which remained relatively stable during the first and second quarters, depreciated during the second half of 2009. Interest rates rose in 2009, influenced by the global financial crisis, which precipitated tight liquidity conditions in the banking system. Crude oil production improved in the second half of 2009 following the implementation of the amnesty programme by the Government in an effort to address the Niger Delta crisis.

In 2010 the CBN's key concerns were to ensure the strength and sustainability of the recovery process, to maintain liquidity and ensure the flow of credit towards the real economy. According to provisional data from the NBS, the overall GDP growth for 2010 was projected at 7.85 per cent. for 2010 compared with 6.96 per cent. recorded in 2009. However, the growth in credit to the private sector has remained marginal. Inflation has remained high throughout the year, with the year-on-year headline inflation standing at 12.8 per cent. in November 2010. Interest rates moderated but remained relatively high, with the average maximum lending rate standing at 21.85 per cent. in October 2010. The Naira/US dollar exchange rate remained relatively stable during most of the year but depreciated in December 2010.

The primary objective of the CBN's current monetary policy is to maintain monetary and price stability as a means of ensuring sustainable economic growth and development. In the short-to-medium term, monetary policy will focus on providing adequate liquidity that is consistent with Nigeria's overall economic activity on a non-inflationary growth path. In addition, the CBN will continue to ensure banking soundness and financial sector stability as well as enhance the efficiency of the payment system. As in previous years, the broad measure of money supply ("**M2**") shall continue to be monitored along with other money market indices. The CBN intends to maintain an average growth in M2 of 28.16 per cent. during 2011.

The Government intends that the conduct of monetary policy will continue to be proactive. The MPR shall remain the CBN's policy rate, to be adjusted from time to time in response to prevailing liquidity concerns, and the primary instrument of monetary policy will be Open Market Operations, supported by reserve requirements and discount window operations for enhanced effectiveness.

Inflation

Controlling inflation is one of the primary goals of the CBN and inflationary trends are largely influenced by monetary and fiscal policies. The annual inflation rate ranged from a level of 6.6 per cent. as at 31 December 2007 to a peak of 15.1 per cent. at 31 December 2008. Inflationary pressure moderated in 2009, as the inflation rate assumed a downward trend. The year-on-year headline inflation trended downward to 14.4 per cent. at the end of the first quarter 2009 to 10.4 per cent. by the end of the third quarter 2009. However, it had increased to 13.9 per cent. by 31 December 2009, reflecting an increase in demand pressure due to fuel shortages linked to the speculation that petroleum product prices would be deregulated. In June 2010 the NBS reweighted the CPI to lower the weight of food in the inflation basket from 63.8 per cent. to 50.7 per cent., resulting in a revision to the inflation rate for June 2010 to 14.1 per cent. from 10.3 per cent. Inflationary pressure has remained high in 2010 with an inflation rate above 13 per cent. for the first few months of the second half of the year, decreasing to 12.8 per cent. in November 2010. The CPI was reweighted to reflect the reality of household expenditure patterns in Nigeria.

The observed inflationary trend has both cost-push and demand-pull elements. These included increased liquidity as the M2 surpassed the Government's targets for most of the period and the depreciation of the Naira against the US dollar. Other factors include surging commodity prices, global food crisis, energy and infrastructure constraints and the global financial and economic crisis.

The table below sets out information regarding year-on-year headline inflation for the periods indicated.

Year	Yearly Average	End of year
	(%)	
2005	17.9	11.6
2006	8.5	8.2
2007	5.4	6.6
2008	11.6	15.1
2009	12.5	13.9

External reserves

Nigeria's external reserves are in the custody and under the management of the CBN. The CBN Act provides that the CBN shall at all times maintain a reserve of external assets consisting of all or any of gold coin or bullion, balance at any bank outside Nigeria where the currency is freely convertible and in such currency, notes, coins, money at call and any bill of exchange bearing at least two valid and authorised signatures and having a maturity not exceeding ninety days exclusive of grace, treasury bills having a maturity not exceeding one year issued by the government of any country outside Nigeria whose currency is convertible, securities of or guarantees by a government of any country outside Nigeria whose currency is freely convertible and the securities shall mature in a period not exceeding ten years from the date of acquisition, securities of or guarantees by international financial institutions of which Nigeria is a member, if such securities are expressed in currency freely convertible and maturity of the securities shall not exceed five years, Nigeria's gold tranche at the IMF or allocation of Special Drawing Rights made to Nigeria by the IMF. In recent years, the CBN undertook some significant initiatives to assist in the management of external reserves, including attempts to diversify the portfolio and to arrange for partnerships between local and foreign banks to manage external reserves.

Nigeria's external reserves derive mainly from the proceeds of crude oil production and sales. See *"The Economy — Principal Sectors of the Economy — Oil and Gas".*

The Nigerian external reserves witnessed an appreciable growth from 1998 to 2008. The stock of external reserves has increased from US$5.4 billion in 1999 to US$28.3 billion, US$42.3 billion, US$51.3 billion and US$53.0 billion in 2005, 2006, 2007 and 2008 respectively, before declining to US$42.4 billion in 2009. Gross external reserves as at 30 June 2010 was US$37.5 billion, a decline from US$42.4 billion as at 31 December 2009, and reduced even further to US$33.1 billion as at 30 November 2010. The decline in 2009 was primarily the result of the global economic crisis, which negatively impacted the country's foreign exchange receipts due to the collapse of the commodity market and large foreign portfolio managers who exited positions. Also contributing to the decline in reserves in 2010 was the simultaneous demand for foreign currencies at the WDAS due to the increase in importation of machines and raw materials for manufacturing.

2009 Banking Crisis

A number of Nigerian banks have significant non-performing margin loans backed by securities traded on the Nigerian securities market that suffered significant declines in value during the global financial crisis. Following the sharp decline in the Nigerian securities market in 2009, an increase in non-performing loans, worsening investor sentiment and lower consumer confidence had a significant adverse effect on some of the country's banks and financial institutions. In June 2009, the CBN embarked on a systemic reform of the banking sector with four key pillars: enhance the quality of the banks, establish financial stability, enable healthy financial sector evolution and ensure the financial sector contributes to the real economy. Some of the measures introduced by the CBN include the expanded discount window ("**EDW**"). The EDW allowed banks to borrow from the CBN at longer tenors (from overnight to 360 days) and expanded the types of collateral that could be used for borrowings. The CBN initiated its reforms with an audit of the Nigerian banking industry to determine what steps, if any, would be required to address the problems with the Nigerian banking industry and the Nigerian securities market. As part of the audit, the CBN ordered the special examination and investigation ("**Special Examination**") of the 24 banks that comprise the Nigerian banking system. The result of the Special Examination of the first set of 10 banks examined was published on 14 August 2009. This Special Examination revealed that five out of the 10 banks (the "**Intervened Banks**"), were the main users of the EDW over a nine-month period ending June 2009 with ₦434 billion of total outstanding EDW commitments at its peak and 90 per cent. of total EDW disbursements, which indicated to the CBN that these banks had the most severe liquidity issues. The Intervened Banks had substantial non-performing loans, representing 40 per cent. of their total loan portfolios and required a minimum capital injection of ₦204.94 billion (US$1.4 billion) to meet the minimum capital adequacy ratio of 10 per cent. There were significant weaknesses in the corporate governance and risk management policies of the Intervened Banks, and there was a large concentration in capital market and oil and gas portfolio exposure. When the CBN closed the EDW in July and in its place guaranteed interbank placements, it was observed that the Intervened Banks were the main net-takers under the guarantee arrangement.

As a measure to address these issues, the governor of the CBN replaced the chief executives and executive directors of the Intervened Banks; bailed out the banks through the injection of ₦420 billion; reaffirmed the guarantee of the local interbank market to ensure continued liquidity for all banks; and guaranteed foreign creditors and correspondent banks' credit lines to ensure confidence and maintain important correspondent banking relationships. These guarantees are still in place and will remain in place until June 2011.

The CBN also announced the completion of the Special Examination of the remaining 14 banks on 2 October 2009 and, after a thorough review, concluded that four of the 14 banks (the "**newly Intervened Bank**s"), are in a grave financial situation. The CBN came to this conclusion based on a number of criteria, set out in the BOFI Act, which were applied to determine whether any of these banks have been: (a) carrying on business in a manner detrimental to the interest of depositors and creditors; (b) contravening the provisions of the law in a material manner; or (c) acting in a manner contrary to public interest. These criteria were consistently applied to all 24 banks, measured, *inter alia*, by examining the true capital position and liquidity levels in the banks, as well as assessing the banks' corporate governance practices.

Consistent with the actions taken in August 2009, and in exercise of the powers conferred on him by the BOFI Act, the Governor of the CBN took a number of measures aimed at arresting the financial situation of the newly Intervened Banks, including the removal of the managing directors of these banks and the appointment of new management. In addition to addressing the corporate governance concerns of these banks, the CBN has injected a total of ₦200 billion into the newly Intervened Banks to enable them to meet their liquidity challenges and to continue normal business. The terms of this capital injection are the same as those announced on 14 August 2009, bringing the total amount of capital injected into the banks to ₦620 billion. The capital injection was in the form of Tier II capital structured as 7 year convertible long-term loans (the "**Initial Loans**"), initially at 11.0 per cent. interest rate but reduced to 8.0 per cent. in December 2009. The Initial Loans are callable on the fifth anniversary of the Initial Loans.

In July 2010, President Jonathan authorised the creation of AMCON, which was established to buy the bad debts of Nigerian banks. In November 2010, AMCON announced plans to issue up to ₦ 2.5 trillion, approximately US$16.6 billion, of three-year, zero-coupon bonds (the "**AMCON Bonds**"), to finance the purchase of the bad debts from the Nigerian banks. The AMCON Bonds will be guaranteed by the Federal Government. The proceeds from the sale of the AMCON Bonds will be used to purchase approximately ₦2.2 trillion aggregate principal amount of bad debts at a discounted purchase price of approximately ₦800 billion.

In completion of the first stage of this process, in December 2010, AMCON issued ₦1.03 trillion principal amount of the AMCON Bonds, with net proceeds of ₦770 billion. The proceeds from this bond issuance were used to purchase non-performing loans from all but one of the Intervened Banks and to purchase margin loans from each of the 21 Nigerian banks participating in the programme. The second stage, expected to be completed in the first quarter of 2011, will involve the issuance of the remaining portion of the AMCON Bonds and the application of those proceeds to purchase the non-performing loans from each of the remaining banks participating in the programme. The remaining proceeds from the sale of the AMCON Bonds will be used to recapitalise the Intervened Banks to zero equity. In connection with this recapitalisation, the Initial Loans will be converted into equity.

Also, in July 2010 the CBN agreed with Nigeria's 24 banks to establish a sinking fund to cover any net deficits incurred by AMCON. Each Nigerian bank has agreed to contribute 30 basis points of its total assets as at the date of its audited financial statements for the immediately preceding financial year to the sinking fund and the CBN will contribute ₦50 billion per year, each for 10 years. AMCON intends to use the sinking fund, plus recoveries earned on the bad assets purchased from the banks, to repay the AMCON bonds when they become due. The sinking fund is to be backed by a legislative act that shall have the full force of law.

The Government estimates the total net cost to recapitalise the banks and recover the bad debts will be between ₦1-1.5 trillion, most of which the Government expects to recover from the sinking fund, recoveries from the bad assets and dividends paid on the equity capital injected into the banks.

The Nigerian Banking System

In 2004, the CBN introduced a number of reforms, including a requirement that all banks raise their minimum capital base. Following the implementation of the reforms, 25 banking institutions emerged out of the 89 that existed in July 2004. As at 30 September 2010, there were 24 licensed commercial banks in Nigeria.

The banking industry, measured in asset size, grew by approximately 25.0 per cent. annually from 2001 to 2005. According to the CBN, total assets increased by 88.0 per cent. from US$34 billion in 2006 to US$64 billion in 2007. Total industry loans and advances during this time grew by 33.0 per cent. to US$16 billion, a significant improvement over the 14.0 per cent. increase in the previous year. Despite this growth, banking penetration remains low with total loans to nominal GDP estimated at 39 per cent. in 2009.

Nigeria's underdeveloped retail market is, however, considered to be the primary, long-term market opportunity and many industry players have shifted their focus to establishing consumer risk assets with higher yields.

The Government aims to improve funding to the real sector by lending directly, and has established a ₦300 billion power and aviation intervention fund ("**PAIF**") for lending to the power and aviation sectors, a ₦200 billion Small and Medium Enterprises Credit Guarantee Scheme for promoting access to credit by Small and Medium Enterprises in Nigeria and a ₦200 billion intervention fund for re-financing and restructuring of banks' loans to the manufacturing sector. In 2009, the Government also established a Commercial Agriculture Credit Scheme to provide finance for the country's agricultural value chain (including production, processing, storage and marketing).

Supervision and Regulation of Banks in Nigeria

The CBN is the regulator of the Nigerian banking sector. Since January 1999, the Bank has had autonomy from its previous supervision by the Ministry of Finance and now has the power to formulate and implement monetary and exchange rate policies.

The principal governing body of the CBN is the Board of Directors which consists of the Governor of the CBN, who is the Chairman, four Deputy Governors, the Accountant General of the Federation, the Permanent Secretary of the Ministry of Finance and five other Directors. Each Deputy Governor overlooks one of the four directorates of the CBN namely: Operations, Corporate Services, Financial System Stability and Economic Policy.

Under the purview of the Financial System Stability Directorate is the supervision of banks, and this includes off-site review and on-site examination of banks especially in relation to their financial condition, internal control systems, the reliability of information provided in the statutory returns, risk management and compliance with corporate governance codes. The CBN also monitors trends in the banking sector and generates industry reports at macro level on a monthly and quarterly basis, in addition to evaluating the development finance sector and monitoring other financial institutions. Activities such as the change of auditors, the publication of audited financial statements, the opening and closing of branches, change in control and the appointment of directors and top management by banks are subject to the prior approval of the CBN.

The statutory mandate of the CBN encompasses ensuring monetary and price stability, the issuance of legal tender currency (Naira and kobo), the maintenance of Nigeria's external reserves to safeguard the international value of the legal tender currency, the promotion of a sound financial system in Nigeria, and acting as both banker, economic and financial adviser to the Federal Government as well as banker and lender of last resort to commercial banks.

The CBN is also the agency of the government which maintains general surveillance over the Nigerian foreign exchange system. It licenses authorised dealers, who are licensed banks, to deal in foreign exchange. By virtue of Section 1(2) of the Forex Act, the CBN may also make regulations from time to time pertaining to foreign exchange.

The Nigeria Deposit Insurance Corporation ("**NDIC**"), established by statute in 1988, insures all deposit liabilities of licensed banks and other financial institution operating in Nigeria. The NDIC guarantees payments to depositors in case of imminent or actual suspension of payments by insured banks or other financial institutions up to the maximum amount of ₦100,000.00 per depositor for Primary Mortgage Institutions and Micro Finance Banks, and ₦200,000.00 per depositor for Universal Banks. The NDIC is also mandated to assist monetary authorities in the formulation and implementation of banking policy so as to ensure sound banking practice and promote fair competition among banks in Nigeria. The powers and functions of the NDIC are stated in the NDIC Act No 16 of 2006 which repealed the NDIC Decree of 1988.

As the regulator of the Nigerian banking sector, the CBN intends to continue to evolve and introduce a more robust and risk sensitive supervisory framework in line with global best practice, including greater collaboration among the financial sector regulators and supervisory agencies. The aim is to facilitate the evaluation of the banking industry as a whole through stress-testing and other methods and to bring to the attention of regulators the risks which the operations of each entity within the industry could bring to the sector as a whole to allow regulators to take proactive remedial actions.

Real Time Gross Settlement System

As part of its re-engineering and restructuring processes, the CBN has introduced a Real Time Gross Settlement System ("**RTGS**"). The CBN RTGS provides an on-line payment system in which processing and settlement takes place continuously in real time (i.e., without deferral) and gross (i.e., transaction by transaction). The system handles large-value, time-critical payments.

The settlement of credit transfer instructions is done when there is sufficient balance in the settlement account of the participants with the CBN and is guaranteed for its finality and irrevocability.

The central objective of the RTGS system is to reduce systemic risk, by preventing the failure of a payment or of a participant having knock-on effects on other participants and thereby endangering the stability of the financial system.

In addition, the system significantly reduces the risk associated with the previous net-settlement systems in operations and also accelerates the payment process while guaranteeing finality and irrevocability of transfers and settlement.

Nigerian Capital Market

The Nigerian Capital Market (the "**Market**") consists of equity and debt markets. The equity market comprises shares and stocks of Nigerian public companies and a couple of non-Nigerian companies, whilst the debt market consists of government and corporate bonds, notes, debentures and their derivatives, Treasury Bills, Treasury Certificates and other debt instruments. The Market is principally regulated by the Nigerian SEC while the Nigerian Stock Exchange ("**NSE**") is a self-regulating organisation.

The Securities and Exchange Commission

The Nigerian SEC is the highest regulatory organisation for the Market. It was formally created by the Securities and Exchange Commission Decree No. 71 of 1979 to replace the Capital Market Commission. Currently, the functions of the Nigerian SEC are set out in Section 13 of the Investments and Securities Act No. 29 of 2007 (the "**ISA**") which repealed the ISA No. 45 of 1999.

The Nigerian SEC undertakes supervisory oversight of the Market to ensure the protection of investors, maintain a fair, efficient and transparent market and reduce systemic risk. The Nigerian SEC is also the supervisory body of the NSE. The Nigerian SEC regulates and registers stock and commodity exchanges, capital market operators and venture capital funds and collective investment schemes, and is also responsible for reviewing, approving and regulating mergers, acquisitions, takeovers and all forms of business combinations.

The Investments and Securities Tribunal was established pursuant to Sections 274 and 284 of the ISA to, *inter alia*, exercise jurisdiction to hear and determine any question of law or dispute involving a decision of the Nigerian SEC relating to the operation of the ISA.

The Nigerian Stock Exchange

The NSE was established in 1960 but started operations in 1961, with the name Lagos Stock Exchange. In December 1977, the Lagos Stock Exchange was renamed The NSE and currently has thirteen branches (apart from the NSE's head office) with each branch having a trading floor and the Lagos branch also serving as the NSE's head office.

The listing of securities in Nigeria is carried out in accordance with the provisions of the Rules Governing Listing on the NSE (the "**NSE Listing Rules**"). The NSE Listing Rules provide, among other things, conditions for the listing of securities of companies having part of their capital already listed and the listing of securities of companies without listed capital. These conditions provide that the applicant company must be a public company and its securities must be registered with the Nigerian SEC. Also, the company is required to issue at least 25 per cent. of its authorised share capital to the public and to have a minimum of 300 subscribers, and its securities must be fully paid-up at the time of registration with the NSE. In addition, all public companies whose securities are listed on the NSE are expected to file periodic returns with the NSE, as stipulated in the NSE Listing Rules.

As at 30 September 2010, there were 263 securities listed on the NSE, of which 41 are Federal and State Government Bonds and 7 are industrial loans (debentures and preference shares). The table below sets out information regarding the market capitalisation of the NSE as at the periods indicated.

	Equities	**Debt**	**Total**
		(₦ billions)	
31 December 2005	2,524.8	375.3	2,900.1
31 December 2006	4,228.5	892.4	5,120.9
31 December 2007	10,301.0	2,993.6	13,294.6
31 December 2008	6,987.5	2,575.5	9,563.0
31 December 2009	4,992.0	2,575.5	9,563.0
30 September 2010	5,656.2	2,129.1	7,785.3

The emergence of highly capitalised banks and insurance firms following pension, banking and insurance reforms in early 2000s resulted in increased liquidity and stock market activity in 2005-2007. However, following the global financial crisis and the Nigerian banking crisis in 2008, market capitalisation dropped significantly.

Previously, the NSE had a two-tier market (with first-tier and second-tier securities) with two different listing requirements to suit every level of business operations. First-tier securities include securities of large companies with large market capitalisations. The second-tier securities market was introduced to assist small and medium-sized companies that are unable to meet the several requirements of the first-tier market in raising long-term capital. However, in July 2007, the third-tier market was introduced in a bid to help create a platform where small-scale indigenous companies would be nurtured and obtain the requisite support that would enable them to move up to second tier or first tier. The securities listed on the NSE are traded by qualified Nigerian broker firms registered by the Nigerian SEC, NSE and the Chartered Institute of Stockbrokers and admitted as "Dealing Members" of the NSE.

The Central Securities and Clearing System Limited ("**CSCS**") was incorporated in 1992, as a subsidiary of the NSE to provide central clearing services for securities quoted on the NSE. The concept of the CSCS provides for an integrated central depositary, clearing (electronic/book-entry transfer of shares from seller to buyer) and settlement (payment for bought securities) for all stock market transactions. All securities listed on the NSE must have their Certificates deposited in the CSCS before transactions can take place on the floors of the NSE. The CSCS was commissioned and commenced operations in April 1997. The CSCS provides computerised registration, clearing, settlement and delivery of securities in a centralised form thereby reducing the cost and time involved in processing trades on the NSE. The CSCS settles transactions within "T+3" days and serves as a central clearing point for dematerialisation of share certificates of quoted companies.

In April 1999, the NSE replaced the daily call-over system on the trading floors of the exchange with the Automated Trading System ("**ATS**"). The ATS allows dealers on the trading floors of the NSE to buy and sell orders for shares electronically. The ATS automatically generates trades when selling and buying prices match and interfaces with the CSCS system on a realtime on-line basis.

In 2005, the NSE introduced the "Trade Alert" to address the issue of unauthorised transactions, by informing investors by Short Messaging Service (SMS/text messages) on their mobile phones, whenever a transaction occurs on their accounts, enabling them to confirm the transaction or abort it if it was carried out without authorisation. The Trade Alert gives investors more security as they can now obtain real-time knowledge of in/out-bound transactions and stock balances on their accounts.

Subject to the approval of the Nigerian SEC and the NSE, the prices of newly issued securities of public quoted companies are determined by issuing houses and/or the prospective investors (where the pricing of the securities on offer is to be determined by way of a book-building process). Prices of already-quoted securities are determined by the interplay of market forces during trading on weekdays. These prices are published at the close of each day and carried in the national newspaper on the day following such trade. Companies listed on the NSE do not follow any regulated process for paying dividends and are able to declare interim and final dividends.

The NSE publishes a Daily Official List ("**DOL**") which provides information on daily transactions. The DOL is available to subscribers at the end of each trading day. Also, the information contained in the NSE's DOL is transmitted globally via the Reuters International Network to which the NSE is linked online. The code of the NSE on the Reuters networks is NSXA – B. The NSE also publishes weekly, monthly and quarterly reports and trading statistics. All foreign enquiries concerning investments or divestments through the NSE should be made from dealing members of the NSE (i.e. stockbrokers).

The Bond Market

The Nigerian Bond Market (the "**Bond Market**") is principally regulated by the ISA and the Rules and Regulations of the Nigerian SEC (the "**SEC Rules**"), made pursuant to the ISA. Private companies seeking to raise capital through issuance of bonds are not regulated by the ISA.

The Bond Market comprises bonds issued by the Federal Government and State Governments and by public companies. The Nigerian Sovereign Bonds have been in existence since the 1970s. However, the Bond Market became active in 2003 when the DMO launched four Federal Government bonds of maturities ranging from three years to ten years. About 37 Federal Government and State Government bonds have been issued since 2003 with the most recent being the Lagos, Imo and Kwara State Government bonds issued in 2009 and Bayelsa, Kaduna, Niger and Ebonyi State Governments in 2010. At least three other State Governments propose to issue bonds between the last quarter of 2010 and the first quarter of 2011. It is believed that previous successful State Government bond issuances have encouraged other states to raise funds from the bond market to finance infrastructural development and refinance subsisting debt arrangements.

Although Part XV of the ISA enables the Federal Government, the State Governments and their agencies, Local Governments and companies wholly-owned by the Government to raise funds by issuing registered bonds or promissory notes to execute specific projects, the approval of the Nigerian SEC is not required for primary offering of bonds by the Federal Government provided that where the securities are to be traded on an exchange, they shall be subject to the regulatory requirements relating to secondary market transactions. The DMO, which was established pursuant to the Debt Management Office (Establishment etc.) Act No. 18 of 2003, is the statutory body authorised to administer bonds issued by the Federal Government.

In the second half of 2006, the Primary Dealer Market Maker ("**PDMM**") system was created by the DMO. The PDMM's primary function is to ensure liquidity in Federal Government bonds; however, some sub-sovereign and corporate bodies are also using the PDMMs to create liquidity for their bonds. There are currently 21 PDMMs comprised of 16 banks and five discount houses. The OTC market for other bonds is informal and unregulated but every market maker is required to register with the Nigerian SEC and the Association of Security Dealers in accordance with the Nigerian SEC Rules.

The corporate bond market is also developing, and this may be attributable to the need for inexpensive long-term debt capital by companies coupled with investors' apathy to equity investments, following the impact of the global economic recession on the values of stocks. Companies including Guaranty Trust Bank Plc, UACN Property Development Company Plc, United Bank for Africa Plc and Flour Mills of Nigeria Plc have successfully issued bonds in the Nigerian capital market while a number of other corporate bond application are before the Nigerian SEC.

The ISA does not specifically provide for the regulation of corporate bonds, thus the broad provisions of the ISA regarding securities offering by a public company apply to corporate bonds. In addition to the general rules on securities offering, the SEC Rules also stipulates certain requirements that apply specifically to corporate bonds. The SEC Rules on corporate bonds was one of the initiatives introduced to encourage the development of the Nigerian corporate bond market.

To further encourage the development of the corporate and State Government bonds as well as bond issuance by supranational institutions such as the International Development Bank, in March 2010 the Government approved a waiver of taxes for these categories of bonds. The taxes covered by the approval are the Personal Income Tax, Value Added Tax, the Companies' Income Tax and the Capital Gains Tax. However, the requisite administrative and legislative processes to give legal effect to these waivers are yet to be concluded. It is expected that the waivers will be in place for a period of 10 years from the date of grant by the Government. Furthermore, the Nigerian banks are now allowed to treat state government bonds as liquid assets provided such bonds meet the requirement stipulated in the CBN circular.

Derivatives

Presently, there are no specific regulations regulating derivatives in Nigeria, although the ISA empowers the Nigerian SEC to regulate the derivatives market. Pursuant to Section 13(b) of the ISA, the Nigerian SEC has the authority to register and regulate futures, options and derivatives exchanges. Presently, Nigeria does not have a derivatives exchange for the trading of derivative instruments. There is however an over-the-counter market where banks and other counterparties carry out derivative transactions. The Financial Market Dealers' Association is also making efforts to develop the Nigerian derivatives market.

A draft Securitisation Bill is also being prepared, which, if passed into law, will regulate assets and/or mortgage-backed securities transactions in Nigeria. However, this bill has not yet been presented to the National Assembly (Nigeria's federal legislature) for consideration.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which, upon issue, will represent the terms and conditions applicable to all Notes, and, subject to completion and amendment, will be endorsed on each Note Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note (capitalised terms as defined below). The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note in definitive form to the extent described under "The Global Notes" section.

The U.S.$500,000,000 6.75% Notes due 2021 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 (Further Issues) and forming a single series with the Notes) of the Federal Republic of Nigeria (the "**Issuer**") are issued subject to and with the benefit of an Agency Agreement to be dated on or about 26 January 2011 (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, Deutsche Bank AG, London Branch, as fiscal agent and principal paying agent (the "**Fiscal Agent**") and as transfer agent, Deutsche Bank Trust Company Americas as U.S. paying agent, U.S. transfer agent and U.S. registrar (the "**U.S. Registrar**" and, together with Deutsche Bank AG, London Branch, each acting in its capacity as a transfer agent and as a paying agent respectively, the "**Transfer Agents**" and "**Paying Agents**") and Deutsche Bank Luxembourg S.A. as registrar (the "**Luxembourg Registrar**") (the U.S. Registrar and the Luxembourg Registrar each a "**Registrar**", which expression shall be deemed to mean both the Luxembourg Registrar and the U.S. Registrar taken together, as the context so requires) and the other agents named in it (together with the Fiscal Agent, the Registrar, the Transfer Agent and the other Paying Agents, the "**Agents**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the "**Noteholders**") at the Specified Office (as defined in the Agency Agreement) of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof, each an "**Authorised Denomination**". A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders (the "**Register**") which the Issuer will procure to be kept by the Registrar.

1.2 Title

Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions "**Noteholder**", and in relation to a "**Note**", "**holder**" means the person in whose name a Note is registered in the Register (or, in the case of a joint holding, the first named thereof).

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

Subject to Condition 2.4 (Closed Periods) and Condition 2.5 (Regulations), a Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the Specified Office of the Registrar or any of the Agents together with such evidence as the Registrar or Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided however that a Note may not be transferred unless the principal amount of the Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the Notes not transferred, are Authorised Denominations.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer or exchange of Notes will, within five business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the Specified Office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer, the Registrar, or any Agent but upon payment (or the giving of such indemnity as the Registrar or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 calendar days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder upon request.

3. STATUS

The Notes constitute direct, unconditional and (subject to the provisions of Condition 4 (Negative Pledge)) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, and with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. The full faith and credit of the Issuer is pledged for the due and punctual payment of the Notes.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not, save for the exceptions set out below in Condition 4.3 (Exceptions) create, incur, assume or permit to subsist any Security upon the whole or any part of its present or future assets, undertakings or revenues to secure (i) any of its Public External Indebtedness; (ii) any Guarantees in respect of Public External Indebtedness; or (iii) the Public External Indebtedness of any other person; without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other arrangement (whether or not comprising Security) as shall be approved by an Extraordinary Resolution of Noteholders.

4.2 Interpretation

In these Conditions:

(a) "**Guarantee**" means any obligation of a person to pay the Indebtedness of another person including, without limitation: an obligation to pay or purchase such Indebtedness; an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness; an indemnity against the consequences of a default in the payment of such Indebtedness; or any other agreement to be responsible for such Indebtedness;

(b) "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders (whether originally convened or resumed following an adjournment) duly convened and held in accordance with Schedule 6 of the Agency Agreement by a majority of not less than three quarters of the votes cast;

(c) "**Indebtedness**" means any obligation (whether present or future) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing);

(d) "**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, trust or other juridical entity, state or agency of a state or other entity, whether or not having a separate legal personality;

(e) "**Public External Indebtedness**" means any Indebtedness (i) expressed or denominated or payable or which, at the option of the relevant creditor may be payable, in any currency other than the lawful currency from time to time of the Federal Republic of Nigeria, and (ii) which is in the form of, or is represented by, bonds, notes or other securities with a stated maturity of more than one year from the date of issue which are, or are capable of being, quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system, over the counter or other securities market; and

(f) "**Security**" means any mortgage, pledge, lien, hypothecation, security interest or other charge or encumbrance including, without limitation, anything analogous to the foregoing under the laws of any jurisdiction.

4.3 Exceptions

The following exceptions apply to the Issuer's obligations under paragraph 4.1 (Negative Pledge) of this Condition:

(a) any Security upon property to secure Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing the acquisition or construction of such property and any renewal and extension of such Security which is limited to the original property covered thereby and which (in either case) secures any renewal or extension of the original secured financing;

(b) any Security securing Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project; provided that (A) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues of such project or the proceeds of insurance thereon as the sole source of repayments of such Public External Indebtedness and (B) the property over which such Security is granted consists solely of such assets and revenues; and

(c) any Security securing the Public External Indebtedness of the Issuer or any Guarantee by the Issuer of Public External Indebtedness of any other person which was in existence on 28 January 2011.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 28 January 2011 to but excluding the Maturity Date (as defined in Condition 7.1 (Redemption at Maturity)) at the rate of 6.75% per annum (the "**Rate of Interest**"), payable semi annually in arrear on 28 January and 28 July in each year (each an "**Interest Payment Date**").

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) seven days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12 (Notices) (except to the extent that there is any subsequent default in payment).

5.3 Calculation of Interest

The amount of interest payable on each Interest Payment Date shall be U.S.$6,750 in respect of each Note of U.S.$200,000 denomination and, where Notes are issued in Authorised Denominations in excess thereof, U.S.$33.75 in respect of each Calculation Amount (as defined below). If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

6. PAYMENTS

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by a cheque in US dollars drawn on a bank that processes payments in US dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made against presentation and surrender of the relevant Certificate at the Specified Office of any of the Paying Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition 6, a Noteholder's "**registered account**" means the US dollar account maintained by or on its behalf with a bank that processes payments in US dollars, details of which appear on the Register at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder's "**registered address**" means its address appearing on the Register at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (Taxation).

6.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition 6 (Payments).

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day, for value the first following day which is a Business Day) will be initiated on the due date for payment or, in the case of a payment of principal, if later, on the Business Day on which the relevant Certificate is surrendered at the Specified Office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 6 arrives after the due date for payment.

In this Condition 6 "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in London, New York City and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial Specified Offices are set out in the Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that there will at all times be:

(a) a Fiscal Agent, a Registrar and a Transfer Agent; and

(b) a Paying Agent in a Member State of the European Union (if any) that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in Specified Offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 28 January 2021 (the "**Maturity Date**").

7.2 Purchase and Cancellation

The Issuer may at any time purchase Notes in the open market or otherwise and at any price, provided that such purchase is made in accordance with the U.S. Securities Act of 1933, as amended (the "Securities Act") and any other applicable securities laws. Any Notes so purchased may be cancelled or held and resold (provided that any resales in the United States must be in accordance with an effective registration statement or in a transaction exempt from or not subject to the registration requirements of the Securities Act). Any Notes so purchased, while held by or on behalf of the Issuer shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of such meetings. Any Notes so cancelled will not be reissued.

8. TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(b) presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note for payment on the last day of such period of 30 days assuming, whether or not such is in fact the case, that day to have been a Business Day (as defined in Condition 6 (Payments)); or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

8.2 Interpretation

In these Conditions:

(a) "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12 (Notices); and

(b) "**Relevant Jurisdiction**" means the Federal Republic of Nigeria or any political subdivision or any authority thereof or therein having power to tax in respect of payments made by it of principal and interest on the Notes.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 8.

9. PRESCRIPTION

Claims in respect of principal and interest will become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8 (Taxation).

10. EVENTS OF DEFAULT

10.1 Events of Default

If any of the following events ("**Events of Default**") shall have occurred and be continuing:

(a) Non-payment

(i) the Issuer fails to pay any principal on any of the Notes when due and payable and such failure continues for a period of 15 business days; or

(ii) the Issuer fails to pay any interest on any of the Notes or any amount due under Condition 8 (Taxation) when due and payable, and such failure continues for a period of 30 days; or

(b) Breach of Other Obligations

the Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Agency Agreement, which default is incapable of remedy or is not remedied within 45 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) Cross-acceleration

(i) any other External Indebtedness of the Issuer becomes due and payable prior to stated maturity thereof by reason of default, or

(ii) any such External Indebtedness is not paid at maturity; or

(iii) any Guarantee of such External Indebtedness is not honoured when due and called upon,

and, in the case of (ii) or (iii), that failure continues beyond any applicable grace period;

provided that the aggregate amount of the relevant External Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred equals or exceeds U.S.$25,000,000 or its equivalent; or

(d) Moratorium

a moratorium on the payment of principal of, or interest on, the External Indebtedness of the Issuer shall be declared by the Issuer; or

(e) IMF Membership

the Issuer shall cease to be a member of the International Monetary Fund (IMF) or shall cease to be eligible to use the general resources of the IMF; or

(f) Validity

(i) the validity of the Notes shall be contested by the Issuer; or

(ii) the Issuer shall deny any of its obligations under the Notes (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise); or

(iii) it shall be or become unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or the Agency Agreement, including, without limitation, the payment of interest on the Notes, as a result of any change in law or regulation in the Federal Republic of Nigeria or any ruling of any court in the Federal Republic of Nigeria whose decision is final and unappealable or for any reason such obligations cease to be in full force and effect; or

(g) Consents

if any authorisation, consent of, or filing or registration with, any governmental authority necessary for the performance of any payment obligation of the Issuer under the Notes, when due, ceases to be in full force and effect or remain valid and subsisting,

then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall, give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

10.2 Interpretation

As used herein:

"**External Indebtedness**" means Indebtedness expressed or denominated or payable, or which at the option of the relevant creditor may be payable, in any currency other than the lawful currency from time to time of the Federal Republic of Nigeria.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register. So long as the Notes are admitted to listing on the Official List of the Financial Services Authority and to trading on the gilt edged and fixed interest market of the London Stock Exchange and the rules of that exchange so require, the Issuer will also publish notices to the holders of the Notes in a leading English language newspaper having general circulation in London (which is expected to be the Financial Times) or if such publication is not practicable in an English language newspaper having general circulation in Europe. Any notice shall be deemed to have been given (i) in the case of a letter sent by mail, on the fourth business day after being so mailed or (ii) if so published, the date of publication or, if so published more than once or on different dates, on the date of the first publication.

13. MEETINGS OF NOTEHOLDERS AND MODIFICATION

13.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification or abrogation of certain of these Conditions or certain of the provisions of the Agency Agreement (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two thirds, or at any adjourned meeting not less than one third, of the principal amount of the Notes for the time being outstanding. An "**Extraordinary Resolution**" means a resolution passed at a meeting duly convened and held in accordance with the provisions of the Agency Agreement by a majority of not less than three quarters of the votes cast and will be binding on all Noteholders, whether or not they are present at the meeting.

In addition, the Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a Reserved Matter, or 66 2/3 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them.

13.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12 (Notices).

14. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes, provided that either (i) such additional notes, for purposes of U.S. federal income taxation (regardless of whether any holders of such notes are subject to the U.S. federal income tax laws), are not issued with original issue discount (or are issued with a *de minimis* amount of original issue discount as defined in U.S. Treasury Regulation 1.1273-1(d)), or (ii) such additional securities are issued in a "qualified reopening" for U.S. federal income tax purposes).

15. GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing Law

The Notes (including any non-contractual obligations arising from or in connection with them) are governed by, and will be construed in accordance with, English law.

15.2 Jurisdiction

The Courts of England have exclusive jurisdiction to settle any dispute, claim, difference or controversy, arising from or connected with the Notes (including a dispute regarding the existence, validity or termination of and any non-contractual obligations arising out of or in connection with this Notes) or the consequences of their nullity (a "**Dispute**"). The Issuer agrees that the Courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. This Condition 15.2

(Jurisdiction) is for the benefit of the Noteholders only. As a result nothing in this Condition 15.2 (Jurisdiction) prevents any Noteholder from taking proceedings related to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent proceedings in any number of jurisdictions.

15.3 Process Agent

The Issuer confirms and agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to The High Commissioner of the Federal Republic of Nigeria, Nigeria House, 9 Northumberland Avenue, London WC2N 5BX. If such agent ceases to be able to act as a process agent or to have an address in England, the Issuer irrevocably agrees to appoint a new process agent in England as soon as practicable thereafter. Nothing in this paragraph shall affect the right of any party to serve process in any other manner permitted by law.

15.4 Consent to Enforcement and Waiver of Immunity

The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation but subject as provided in the following paragraph) the making, enforcement or execution against any property whatsoever of any order or judgment which is made or given in such Proceedings.

To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction (and consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any Proceedings). The Issuer does not hereby waive such immunity from execution or attachment in respect of (a) property, including any bank account, used by a diplomatic or consular mission of the Issuer or its special missions or delegations to international organisations, (b) property of a military character and under the control of a military authority or defence agency of the Issuer or (c) property located in the Federal Republic of Nigeria and dedicated to a public or governmental use by the Issuer (as distinct from property which is for the time being in use or intended for use for commercial purposes within the meaning of the State Immunity Act 1978).

16. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

FORM OF NOTES

Form of Notes

All Notes will be in registered form, without coupons attached. The Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of Unrestricted Global Note Certificates, which will be deposited with a common depositary outside the United States registered in the name of a nominee of Euroclear or Clearstream, Luxembourg. Until 40 days after the issue date of the Notes, beneficial interests in an Unrestricted Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg, unless delivery is made through the related Restricted Global Note Certificate in accordance with the certification requirements described below. The Notes sold to qualified institutional buyers in reliance on Rule 144A will initially be in the form of Restricted Global Note Certificates, which will be deposited with DTC, or a custodian of DTC, and registered in the name of a nominee of DTC.

The Notes (including beneficial interests in the global note certificates) will be subject to certain restrictions on transfers, set forth in the Notes and in the relevant agency agreement and will bear a legend regarding such restrictions as provided in the "*United States Transfer Restrictions*". Under certain circumstances, transfer may be made only upon receipt by the Registrar of a written certification in the form of Schedule 8 (*Form of transfer Certificate*) to the Agency Agreement.

Book Entry Ownership of Global Notes

The Federal Republic has applied to Euroclear and Clearstream, Luxembourg for acceptance in their respective book entry settlement systems of the Unrestricted Global Notes. The Federal Republic has also applied to DTC for acceptance in its book entry settlement system of the Restricted Global Notes.

Principal and interest payments on the Notes will be made by the Federal Republic through the Paying Agents to a nominee of Euroclear and Clearstream, Luxembourg as the holder of the Unrestricted Global Notes and to a nominee of DTC as the holder of the Restricted Global Notes. All payments duly made by the Federal Republic as aforesaid shall discharge the liability of the Federal Republic under the Notes to the extent of the sum or sums so paid. Therefore, after such payments have been duly made, none of the Federal Republic or any of the Paying Agents will have any direct responsibility or liability for the payment of principal or interest on the Notes to owners of beneficial interests in the global notes. Payment by DTC Participants (as defined below) (which include certain underwriters, securities brokers and dealers, banks, trust companies and clearing corporations and which may in the future include certain other organisations) and Indirect DTC Participants (as defined below) (which include banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly) to owners of beneficial interests in the Restricted Global Notes will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in "street name", and will be the responsibility of the DTC Participants or Indirect DTC Participants. None of the Federal Republic or any of the Paying Agents will have any responsibility or liability for any aspect of the records of the DTC relating to payments made by DTC on account of beneficial interests in the Restricted Global Notes or for maintaining, supervising or reviewing any records of DTC relating to such beneficial interests. Substantially similar principles will apply with regard to the Unrestricted Global Notes and payments to owners of interests therein.

Exchange of Interests in Notes

On or prior to the fortieth day after the issue date of the Notes, a beneficial interest in an Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg, unless delivery is made through the related Restricted Global Note in accordance with the certification requirements described in this paragraph.

A holder of a beneficial interest in an Unrestricted Global Note may transfer the note within the United States to a person who takes delivery in the form of an interest in the related Restricted Global

Note in accordance with the rules and operating procedures of DTC, Euroclear and Clearstream and only upon receipt by the Registrar of a written certification in the form of Schedule 8 (*Form of Transfer Certificate*) to the Agency Agreement from the transferors. Where such transfer or exchange is to occur prior to the fortieth day of the issue date of the Unrestricted Global Note Certificate, the certificate shall include a statement that the transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a qualified institutional buyer and that the transaction is being made in reliance on Rule 144A. After the fortieth day of the issue date of the Notes (but not earlier), investors may also hold interests in a Unrestricted Global Note through organisations other than Euroclear or Clearstream, Luxembourg that are either DTC Participants or Euroclear participants or Clearstream, Luxembourg participants.

Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note without any written certification from the transferor or the transferee.

Beneficial interests in a Restricted global note may be transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note only upon receipt by the Registrar of a written certification in the form of Schedule 8 (*Form of Transfer Certificate*) from the transferor to the effect that such transfer is in accordance with the transfer restrictions applicable to the Notes and Rule 903 or 904 of Regulation S or Rule 144 under the US Securities Act (if applicable). If such transfer occurs on or prior to the fortieth day after the issue date of the Notes, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg.

Any beneficial interest in one of the global notes that is transferred to an entity who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Transfer of interests in global notes within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some States of the United States require that certain persons receive Individual Notes in respect of their holdings of the Notes. Consequently, the ability to transfer interests in a global note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a global note to pledge such interest to persons or entities which do not participate in the relevant clearing system or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Notes described above and under "*United States Transfer Restrictions*", cross market transfers between DTC Participants, on the one hand, and Clearstream, Luxembourg or Euroclear participants, on the other, will be effected in the Register.

DTC has advised the Federal Republic that it will take any action permitted to be taken by a holder of the Notes (including, without limitation, the presentation of global notes for exchange as described below) only at the direction of one or more participants in whose account with DTC interests in global notes are credited, and only in respect of such portion of the aggregate principal amount of the global note as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the Restricted Global Notes for Individual Notes (which will bear the legend set out under "*United States Transfer Restrictions*").

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in global notes among participants and account holders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Federal Republic, the Registrar nor any Paying Agent will have any responsibility for the performance of

DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

Individual Notes

The Federal Republic will issue the Notes in individual form only if:

(i) (in the case of any Restricted Global Note only) DTC is unwilling or unable to continue as depositary, is ineligible to act as depositary or ceases to be a "**clearing agency**" registered under the US Securities Exchange Act of 1934, as amended (the "**US Exchange Act**"), and the Federal Republic is unable to locate a qualified successor within 90 days after (i) DTC notifies the Federal Republic or (ii) the Federal Republic becomes aware of this situation; or

(ii) (in the case of any Unrestricted Global Note only) Euroclear or Clearstream, Luxembourg is closed for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to permanently cease business; or

(iii) (in the case of any Unrestricted Global Note only) the Federal Republic, at its option, elects to terminate the book entry system through Euroclear or Clearstream, Luxembourg; or

(iv) an event of default has occurred and is continuing, upon request of a noteholder.

Global Depositaries

The information set out below in connection with DTC, Euroclear and Clearstream, Luxembourg (together the "**clearing systems**") is subject to change in or reinterpretation of the rules, regulations and procedures of the clearing systems currently in effect. The information in this section concerning the clearing systems has been obtained from sources that the Federal Republic believes to be reliable, but neither the Federal Republic nor any Joint Lead Manager takes any responsibility for the accuracy of such information. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the applicability of the rules, regulations and procedures of the relevant clearing system. Neither the Federal Republic nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of interest in the Notes held through the facilities of, any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC

DTC has advised the Federal Republic as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "**banking organisation**" within the meaning of the Banking Law of the State of New York a member of the United States Federal Reserve System, a "**clearing corporation**" within the meaning of the State of New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the ¬¬ Exchange Act. DTC was created to hold securities for its participants ("**DTC Participants**") and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book entries, thereby eliminating the need for the physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organisations. Indirect access to the DTC system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("**Indirect DTC Participants**"). DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Investors who are not DTC Participants may beneficially own securities held by or on behalf of DTC only through DTC Participants.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have advised the Federal Republic as follows:

Euroclear and Clearstream, Luxembourg hold securities and book entry interests in securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

TAXATION

The following discussion summarises certain US federal income and Nigeria tax considerations that may be relevant to a holder of Notes who is not a resident of Nigeria. This summary does not describe all of the tax considerations that may be relevant to the holder or such holder's situation, particularly if the holder is subject to special tax rules. The holder should consult its tax adviser about the tax consequences of holding debt securities, including the relevance to such holder's particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Nigeria Taxation of Non-Residents

This section describes the material Nigeria tax consequences of owning and disposing of Notes for investors that are not considered to be Nigerian residents for Nigeria tax purposes ("**Non-residents**")

Pursuant to Section 9 of the Companies Income Tax Act (as amended by the Companies Income Tax (Amendment) Act 2007) ("**CITA**"), tax is generally payable upon the profits of any company accruing in, derived from, brought into or received in Nigeria in respect of any business, trade, rents, dividends, interests, royalties or any amounts deemed to be income. Pursuant to section 3 of the Personal Income Tax Act ("**PITA**") (which applies to individuals and unincorporated entities), tax is generally payable on the income of every taxable person in respect of dividends, interest or discount. The Issuer has agreed to pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction of income tax under the provisions of the CITA and PITA shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction.Under the Capital Gains Tax Act ("**CGTA**"), capital gains tax is generally payable on gains accruing to any person on disposal of assets at the rate of 10 per cent. However, section 31 of the CGTA exempts from capital gains, all gains accruing to a person from the disposal of securities of the Nigerian government. Accordingly, holders of the Notes will not be subject to capital gains tax or other similar taxes in Nigeria in connection with their disposal of the Notes.

US Federal Income Taxation

The following is a description of the principal US federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a US Holder (as defined below) thereof. This description only applies to Notes held by a US Holder as capital assets and does not address, except as set forth below, aspects of US federal income taxation that may be applicable to holders that are subject to special tax rules, such as: certain financial institutions; insurance companies; real estate investment trusts; regulated investment companies; grantor trusts; tax-exempt organisations; persons that will own Notes through partnerships or other pass through entities; dealers in securities or currencies; traders in securities or currencies who mark their positions to market; holders that have a functional currency other than the US dollar; certain former citizens and long-term residents of the United States; or holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for US federal income tax purposes.

Moreover, this description does not address the US federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of Notes and does not address the US federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective purchaser should consult its tax adviser with respect to the US federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This description is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), final, temporary and proposed US Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a US Holder is a beneficial owner of Notes who for US federal income tax purposes is: (i) a citizen or resident of the United States; (ii) a corporation organised in or under the laws of the United States or any state thereof, including the District of Columbia; (iii) an estate the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust (A) that was in existence on August 20, 1996 and that validly elects under applicable US Treasury Regulations to be treated as a US person for US federal income tax purposes or (B)(1) the administration over which a US court can exercise primary supervision and (2) all of the substantial decisions of which one or more US persons have the authority to control.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to its consequences.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, the Issuer hereby informs you that the description set forth herein with respect to US federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the US Internal Revenue Code. Such description was written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

Interest

It is expected and this discussion assumes that the Notes will be issued with no more than a *de minimis* amount of original issue discount ("**OID**"). Therefore, interest paid to a US Holder on a Note, including any additional amounts with respect thereto as described under "*Terms and Conditions of the Notes— 8. Taxation*," will be includible in such holder's gross income as ordinary interest income at the time it accrues or is received, in accordance with such holder's usual method of tax accounting. In addition, interest on the Notes will be treated as foreign source income for US federal income tax purposes which may be relevant to certain holders in calculating their foreign tax credit limitation. US Holders should consult their own tax advisers regarding the availability of foreign tax credits.

Sale, Exchange or Retirement

Upon the sale, exchange or retirement of a Note a US Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and such holder's adjusted tax basis in the Note. A US Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such holder. Any gain or loss recognised on the sale, exchange or retirement of a Note (other than amounts attributable to accrued but unpaid interest) will be capital gain or loss. In the case of a non-corporate US Holder, the maximum marginal US federal income tax rate applicable to the gain will be lower than the maximum marginal US federal income tax rate applicable to ordinary income (other than certain dividends) if such holder's holding period for the Notes exceeds one year (i.e., such gain is long-term capital gain). Any gain or loss realised on the sale, exchange or retirement of a Note generally will be treated as US source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations under the Code.

US Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain holders of Notes that are US persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a US payor or US middleman, on a Note to a holder of a Note that is a US person, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Backup withholding is not an additional tax. A holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's US federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership, disposition and retirement of Notes. Prospective purchasers of Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

EU Savings Directive

Under Council Directive 2003/48/EC (the "**Directive**") on the taxation of savings income, each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or secured by such a person for, an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg will (unless during such period they elect otherwise) instead operate a withholding system in relation to such payments. Under such a withholding system, the recipient of the interest payment must be allowed to elect that certain provision of information procedures should be applied instead of withholding. The current rate of withholding is 20% and it will be increased to 35% with effect from 1 July 2011. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner resident in, or certain limited types of entity established in, a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those countries and territories in relation to payments made by a person in a Member State to an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. The Issuer is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any such law.

SUBSCRIPTION AND SALE

Each of the Joint Lead Managers named in the table below has, pursuant to a Subscription Agreement (the "**Subscription Agreement**") to be dated on or about 26 January 2011 jointly and severally agreed to subscribe or procure subscribers for the principal amount of Notes at the issue price of 98.223 per cent. of the principal amount of Notes. The Issuer will pay the Joint Lead Managers a combined management and underwriting commission of 0.05 per cent. of the aggregate principal amount of the Notes.

The Issuer will reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities (including liabilities under the Securities Act) incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the net subscription money in respect of the Notes to the Issuer. The Joint Lead Managers have agreed, severally but not jointly, to indemnify the Issuer against certain liabilities incurred by the Issuer if that Joint Lead Manager does not comply with certain selling restrictions.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US Persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed to offer the Notes for resale in the United States initially only to persons they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered and sold, and will not offer and sell, the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, US persons. Accordingly, neither such Joint Lead Manager nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and such Joint Lead Manager, its affiliates and any persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulations S. Each Joint Lead Manager has agreed that, at or prior to confirmation of sale of the Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or the account or benefit of, US persons.

United Kingdom

Each Joint Lead Manager has represented and agreed, that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Federal Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Nigeria

Each Joint Lead Manager has undertaken that offers and sales of the Notes will not be made in the Federal Republic of Nigeria except in compliance with all applicable rules and regulations.

UNITED STATES TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser of Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S under the US Securities Act are used herein as defined therein):

1. it is not an "**affiliate**" (as defined in Rule 144 under the US Securities Act) of the Federal Republic or acting on behalf of the Federal Republic and (A) (i) is a qualified institutional buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A, and (iii) is acquiring such Notes for its own account or the account of a qualified institutional buyer or (B) is outside the US and is not a US person;

2. it acknowledges that the Notes have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the US except as set forth below;

3. it understands and agrees that if in the future it decides to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes other than a Regulation S global note, such Notes may be resold, pledged or transferred only (A) by an initial investor (i) to the Federal Republic, (ii) to a person whom the seller reasonably believes is a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A under the US Securities Act, (iii) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S under the US Securities Act or (iv) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 under the US Securities Act (which may or may not be available) (resales described in sub clauses (i) through (iv) of this clause (A), "**Safe Harbor Resales")**, or (B) by a subsequent investor, in a Safe Harbor Resale or pursuant to any other available exemption from the registration requirements under the US Securities Act (*provided that*, as a condition to the registration of transfer of any Notes otherwise than in a Safe Harbor Resale, the Federal Republic or the Fiscal Agent may require delivery of any documents or other evidence (including but not limited to an opinion of counsel) that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption), and in each of such cases, in accordance with any applicable securities laws of any state of the US and any other jurisdiction;

4. it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 3 above, if then applicable;

5. it understands and agrees that (A) Notes initially offered in the US to qualified institutional buyers will be represented by Rule 144A global notes and (B) that Notes offered outside the US in reliance on Regulation S will be represented by Regulation S global notes;

6. it understands that the Notes, other than the Regulation S Notes, will bear a legend to the following effect unless otherwise agreed to by the Federal Republic:

   THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**US SECURITIES ACT**"). THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF THE FEDERAL REPUBLIC OF NIGERIA (THE "**FEDERAL REPUBLIC**") THAT THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) BY AN INITIAL INVESTOR (AS DEFINED BELOW)(1) TO THE FEDERAL REPUBLIC, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE US SECURITIES ACT ("**RULE 144A**"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL

BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE US SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE US SECURITIES ACT (WHICH MAY OR MAY NOT BE AVAILABLE) (RESALES DESCRIBED IN SUBCLAUSES(1) THROUGH (4) OF THIS CLAUSE (A), "**SAFE HARBOR RESALES**"), OR (B) BY A SUBSEQUENT INVESTOR, IN A SAFE HARBOR RESALE OR PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT (*PROVIDED THAT*, AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN IN A SAFE HARBOR RESALE, THE FEDERAL REPUBLIC OR THE TRANSFER AGENT MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE (INCLUDING BUT NOT LIMITED TO AN OPINION OF COUNSEL) THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION), AND IN EACH OF SUCH CASES, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION, AS PROVIDED IN THE AGENCY AGREEMENT. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE FEDERAL REPUBLIC THAT IT WILL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

FOR ALL PURPOSES OF THIS NOTE, THE TERM "**INITIAL INVESTOR**" MEANS ANY PERSON WHO, IN CONNECTION WITH THE INITIAL DISTRIBUTION OF THIS NOTE, ACQUIRES SUCH NOTE FROM THE FEDERAL REPUBLIC OR ANY JOINT LEAD MANAGER (AS SUCH TERM IS DEFINED IN THE FISCAL AGENCY AGREEMENT) PARTICIPATING IN SUCH DISTRIBUTION OR ANY AFFILIATE OF ANY OF THE FOREGOING.

7. it acknowledges that, prior to any transfer of Notes or of beneficial interests in global notes, the holder of Notes or the holder of beneficial interests in global notes, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Agency Agreement; and

8. it acknowledges that the Federal Republic and the Managers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representation and agreements and agrees that, if any of such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of Notes are no longer accurate, it shall promptly notify the Federal Republic, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

GENERAL INFORMATION

Trading information

The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg. The relevant trading information is set out below:

For the Notes

Unrestricted Notes:	Common Code	—	058443514
	ISIN	—	XS0584435142
Restricted Notes:	Common Code	—	058543756
	ISIN	—	US65412AAA07
	CUSIP	—	65412A AA0

Application has been made for the Notes to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange.

Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Notes prior to the date of this Prospectus. The issue of the Notes has been authorised and cleared by the National Assembly, the Federal Executive Council, the Federal Ministry of Finance and the Federal Ministry of Justice. In addition, the Ministry of Finance has issued the guarantee required pursuant to Section 21(2) of the DMO Act in respect of the Notes.

Litigation

Save as disclosed in this Prospectus in the sub-section entitled "Legal Proceedings" on pages 44-46, the Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering the previous 12 months which may have or have had in the recent past a significant effect on the Issuer's financial position or which are material in the context of the issue of the Notes.

Documents available for inspection

For so long as any Notes shall be outstanding, copies of the budget for the current fiscal year may be inspected during normal business hours at the specified offices of the Fiscal Agent.

Significant Change

Since 31 December 2009, there has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) public debt, save as disclosed in the section entitled "Public Debt" (pages 112-121), (iii) foreign trade and balance of payment figures, save as disclosed on page 96 with respect to Imports and Exports and page 98 with respect to Balance of Payments, (iv) external reserves, save as disclosed on page 124 with respect to External Reserves, (v) financial position and resources, save as disclosed on pages 55-56 with respect to GDP, page 64 with respect to oil production, pages 101-103 with respect to the Excess Crude Account and the Sovereign Wealth Fund and pages 123-126 with respect to inflation, external reserves and the banking crisis and (vi) income and expenditure figures, save as disclosed in pages 104-110 with respect to Public Accounts, the 2010 Budget and the 2011 Proposed Budget.

Interested Persons

No person involved in the Offering has any interest in the Offering which is material to the Offering.

Managers transacting with the Issuer

Certain of the Managers and their affiliates have engaged, and may in the future engage in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer in the ordinary course of business.

ISSUER

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LUXEMBOURG REGISTRAR

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U.S. REGISTRAR, U.S. TRANSFER AGENT, U.S. PAYING AGENT

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