IMPORTANT NOTICE

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE NOTES WILL BE OFFERED AND SOLD: (A) IN THE UNITED STATES TO PERSONS WHO ARE "**QUALIFIED INSTITUTIONAL BUYERS**" (AS DEFINED IN RULE 144A ("**RULE 144A**") UNDER THE SECURITIES ACT) ("**QIBS**") AND (B) TO PERSONS LOCATED OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")).

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the prospectus following these two pages (the "**Prospectus**") and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached Prospectus is intended for only you as the addressee of the email sent by Citigroup Global Markets Limited or Deutsche Bank AG, London Branch, and you agree you will not forward this electronic transmission or the attached Prospectus to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A OR (2) OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

IN THE UNITED KINGDOM THE COMMUNICATIONS CONTAINED IN THE ATTACHED PROSPECTUS ARE ONLY MADE TO OR ARE DIRECTED AT PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (SUCH PERSONS ARE REFERRED TO AS "RELEVANT PERSONS"). THE ATTACHED PROSPECTUS MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THE ATTACHED PROSPECTUS RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

THE ATTACHED PROSPECTUS IS PERSONAL TO YOU AND 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. ADDRESS. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of Your Representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the Notes, you must be (i) outside the United States for the purposes of Regulation S or (ii) a QIB that is acquiring the Notes for its own account or for the account of another QIB.

The attached Prospectus is being sent at your request. By accepting the email and accessing, reading or making any other use of this Prospectus, you shall be deemed to have represented to Citigroup

Global Markets Limited and Deutsche Bank AG, London Branch that (1) you understand and agree to the terms set out herein, (2) you and any customers you represent are "**Authorised Persons**" because either (a) in respect of Notes being offered pursuant to Rule 144A, you are (or the person you represent is) a QIB, and the electronic mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is utilised by someone who is a QIB, or (b) in respect of Notes being offered outside the United States in an offshore transaction pursuant to Regulation S, you and the electronic mail address that you gave to Citigroup Global Markets Limited or Deutsche Bank AG, London Branch and to which this email has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia, (3) you consent to delivery of the Prospectus by electronic transmission, (4) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers, and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the attached Prospectus has been delivered to you on the basis that you are a person into whose possession such 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 authorised to, deliver the attached Prospectus to any other person and in particular to any United States address.

The materials relating to the 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 underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

Restrictions: Nothing in this electronic transmission constitutes an offer of securities for sale to persons other than Authorised Persons to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you are not an Authorised Person and have gained access to this transmission, you will be unable to purchase any of the Notes described in the attached Prospectus.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful.

THE FEDERAL REPUBLIC OF NIGERIA

US$500,000,000 5.125 per cent. Notes due 2018

Issue Price 98.917 per cent.

and

US$500,000,000 6.375 per cent. Notes due 2023

Issue Price 98.193 per cent.

Application has been made to the Financial Conduct 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 5.125 per cent. Notes due 2018 (the "**2018 Notes**") and for the US$500,000,000 6.375 per cent. Notes due 2023 (the "**2023 Notes**" and, together with the 2018 Notes, 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 2018 Notes will, unless previously redeemed or cancelled, be redeemed at their principal amount with payment in full on 12 July 2018. The 2023 Notes will, unless previously redeemed or cancelled, be redeemed at their principal amount with payment in full on 12 July 2023. See "*Terms and Conditions of the Notes—7. Redemption and Purchase*".

The 2018 Notes will bear interest from and including 12 July 2013 at the rate of 5.125 per cent. per annum payable semi-annually in arrear on 12 January and 12 July in each year. The 2023 Notes will bear interest from and including 12 July 2013 at the rate of 6.375 per cent. per annum payable semi-annually in arrear on 12 January and 12 July in each year. The first payment of interest on each of the 2018 Notes and the 2023 Notes will be made on 12 January 2014 for the period from and including 12 July 2013 to but excluding 12 January 2014. 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 are expected to be rated BB- by Fitch Ratings Ltd. ("**Fitch**") and BB- by Standard & Poor's Credit Market Services Europe Ltd. ("**S&P**"). All references to S&P and Fitch included in this document are to the entities as defined in this paragraph. 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. Each of S&P and Fitch is established in the European Union and 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**"). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation, unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is pending.

An investment in the Notes involves certain risks. Prospective investors should consider the factors described in "Risk Factors" beginning on page 10.

The Notes have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "**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 except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the 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 under the Securities Act ("**Rule 144A**")) in reliance on, and in compliance with, Rule 144A; and (b) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**"). Each purchaser of the Notes will be deemed to have made the representations described in "*United States Transfer Restrictions*" 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 12 July 2013. See "*Subscription and Sale*".

2018 Notes sold in offshore transactions in reliance on Regulation S will be issued initially in the form of a registered global note certificate (the "**2018 Unrestricted Global Note Certificate**") and 2023 Notes sold in offshore transactions in reliance on Regulation S will be issued initially in the form of a registered global note certificate (the "**2023 Unrestricted Global Note Certificate**" and, together with the 2018 Unrestricted Global Note Certificate, the "**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. 2018 Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued initially in the form of a registered global note certificate (the "**2018 Restricted Global Note Certificate**") and 2023 Notes sold to qualified institutional buyers in reliance on Rule 144A will be issued initially in the form of a registered global note certificate (the "**2023 Restricted Global Note Certificate**" and, together with the 2018 Restricted Global Note Certificate, the "**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 Unrestricted Global Note Certificates together with the Restricted Global Note Certificates are collectively referred to as the "**Global Note Certificates**". See "*Form of Notes*".

Joint Lead Managers and Bookrunners

Citigroup **Deutsche Bank**

The date of this Prospectus is 10 July 2013.

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 the purposes of Article 5 of the Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the "**Prospectus Directive**"). 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 or the Joint Lead Managers. 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 to persons in Nigeria. See "*Subscription and Sale*".

Generally, investment in emerging markets such as Nigeria is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

Such risks include, but are not limited to, higher volatility and more limited liquidity in respect of the Notes, 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 more mature markets, which could affect the ability of governments to meet their obligations under issued securities.

Investors should also note that emerging markets such as Nigeria are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

None of the Joint Lead Managers 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 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 or the Joint Lead Managers 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 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 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 the 2018 Notes and US$500,000,000 in aggregate principal amount of the 2023 Notes.

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.

The Issuer is relying on an exemption from registration under the 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 and the Joint Lead Managers 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 or the Joint Lead Managers (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 in the United States 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, thereby adversely affecting Nigeria's budget; and
- 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:

- a failure to continue to implement reforms in the oil and gas industry, banking and power sectors or other industries or economic sectors;
- the climate for foreign direct investment, ability to grow the non-oil sector of the economy and the pace, scale and timing of privatisations;
- the inability of Nigeria to implement appropriate fiscal policies successfully;
- changes in the monetary policy applicable in Nigeria which could affect inflation and/or growth rates;
- political and electoral factors 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 inability of Nigeria to eliminate violence in the north of the country and in the Niger Delta region successfully; and
- the inability of Nigeria to address its infrastructure deficiencies adequately, such as those in the power sector, which may affect its ability to implement the Government's Vision 20:2020 plan effectively 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, the NBS (each as defined below) and the Office of the Accountant General. 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, the financial and economic information set out in this Prospectus may be subsequently adjusted or revised. While the Issuer 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 NSS include 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 2012 Article IV consultation with Nigeria (published in May 2013), 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 the lack of good source data and insufficient computerisation, inadequate information on sub-national public finances and large errors and omissions in the balance of payments data, all of which continue to hinder compilation of timely and consistent data.

While there have been significant efforts to improve the compilation of Nigeria's balance of payments data in recent years, there continue to be large errors and omissions in the balance of payments, which according to the IMF may suggest that the current account surplus is overestimated by a significant (but unknown) amount. Further, in 2010, the Government revised balance of payment information due to a change in the methodology to estimate imports and to take account of additional sources of data available.

Historically (and for each year presented in this Prospectus), the Issuer has prepared real GDP on the basis of 1990 constant basic prices and nominal GDP on the basis of the current basic prices of that year. In 2012, the Issuer, through the NBS, announced its intention to change the base year for determining GDP to 2010 in the first quarter of 2013. However, due to difficulties in gathering data, the release of the updated data has been postponed, first to the third quarter of 2013 and now to 2014.

According to the UN Statistics Division, a country should rebase GDP every five years, whereas Nigeria has not done so since 1990. Following the rebasing, it is expected that Nigeria's GDP will significantly increase because new activities (that were not included in 1990) will be added to the estimation of GDP. This will also result in an increase in GDP per capita and a decrease in Nigeria's debt-to-GDP ratio.

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;
- "**BOI**" refers to the Bank of Industry;
- "**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 1999 (as amended);
- "**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;
- "**FDI**" refers to Foreign Direct Investment;
- "**Federal Government**", "**Federal**", "**FGN**" or "**Government**" refers to the Federal Government of Nigeria;
- "**Federation**" refers to the Federal Government, State Governments and Local Governments;
- "**Federation Account**" refers to 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, and managed by the Federal Government;
- "**First NIP**" refers to the National Implementation Plan for the period 2010-2013;
- "**FPC**" refers to Foreign Private Capital;
- "**FPI**" refers to Foreign Portfolio Investment;
- "**GDP**" refers to the gross domestic product;
- "**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 National Electoral Commission of Nigeria;
- “**IOCs**” refers to international oil companies;
- “**Local Government**” refers to the local governments of the State Government and the FCT;
- “**LPG**” means liquefied petroleum gas;
- “**mbd**” refers to million barrels per day;
- “**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;
- “**Naira**” and “**₦**” refer to the Nigerian Naira, the lawful currency of Nigeria;
- “**NBS**” refers to the National Bureau of Statistics;
- “**Nigeria**” refers to the Federal Republic of Nigeria;
- “**NITEL**” refers to Nigerian Telecommunications Limited;
- “**NNPC**” refers to the Nigerian National Petroleum Corporation;
- “**OPEC**” refers to the Organisation of the Petroleum Exporting Countries;
- “**PDP**” refers to the People’s Democratic Party;
- “**PHCN**” refers to the Power Holding Company of Nigeria Plc;
- “**PIB**” refers to the Petroleum Industry Bill;
- “**PSCs**” refers to Production Sharing Contracts;
- “**RDAS**” refers to the Retail Dutch Auction System;
- “**State Governments**” refers to the state governments of Nigeria;
- “**SURE-P**” refers to the Subsidy Re-investment and Empowerment Programme;
- “**Transformation Agenda**” refers to the Transformation Agenda 2011-2015 introduced by President Goodluck Jonathan;
- “**UN**” refers to the United Nations;
- “**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;
- “**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 licences 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**
		(N:US$1.00)		
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
2011	153.86	158.83	150.00	158.27
2012	157.50	158.62	157.21	157.33
2013 (through June)	157.04	157.33	155.74	155.75

Source: CBN

As at 3 July 2013, the Official Rate was ₦155.76: 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 judgments are obtained in the High Courts in 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 Issuer has submitted to the jurisdiction of the English courts under the terms of the Notes. See "*Terms and Conditions of the Notes*".

The second regime for the enforcement of foreign judgments in Nigeria, the Act, applies to judgments obtained in the superior courts of any country (other than Nigeria) subject to the satisfaction of the following two conditions: (i) Nigerian judgments 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, judgments 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 judgments are only registrable where the judgment 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.

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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 had a population of approximately 167 million at the end of 2012. Nigeria consists of 36 states and the FCT of Abuja, which is located in central Nigeria. According to the National Population Commission, Kano State is the most densely populated state, followed closely by Lagos State.

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 2011 and resulted in the election of Goodluck Jonathan who represents the PDP. The PDP is the ruling party in Nigeria and has been in power since 1999.

The current Constitution, which was adopted in May 1999 and amended in January 2011, 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, is made up of members elected for a four-year term. Each Nigerian state elects three senators while the FCT elects one senator and there are 109 senators in total. The House of Representatives, the lower chamber, 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 after South Africa. Nigeria's economy has experienced significant GDP growth in recent years.

- *GDP*

  Real GDP grew 6.56 per cent. in the first quarter of 2013 as compared to the corresponding quarter of 2012, 6.58 per cent. in 2012, 7.43 per cent. in 2011 and 7.98 per cent. in 2010. This growth was largely attributable to the continued growth in non-oil GDP, which grew 7.88 per cent. in 2012, 8.80 per cent. in 2011 and 8.51 per cent. in 2010. Overall GDP growth for 2013 is estimated at 6.5 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. In 2012, the oil sector accounted for 13.8 per cent. of real GDP and approximately 89.4 per cent. of total gross federally collectible revenue. Crude oil prices increased from US$93.0 per barrel in December 2010 to US$111.4 in December 2011 and further increasing in 2012 to US$113.0 per barrel in December 2012. Average crude oil prices remained unchanged in the first quarter of 2013 and amounted to US$112.8 per barrel in March 2013. Oil production in 2012 was estimated at 2.3 mbd, as against 2.4 mbd in 2011. In July 2013, production is expected to be 1.9 mbd.

- *External sector*

  Since 2009, 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 resulted in a current account surplus, which represented 7.9 per cent. of GDP in 2012 compared to 5.2 per cent. in 2011. The external reserves position increased in recent years from US$32.6 billion as at 30 December 2011 to US$43.8 billion at the end of December 2012. As at 10 June 2013, external reserves were US$48.5 billion.

- *Fiscal deficit*

  The overall fiscal deficit decreased from ₦1,158.52 billion in 2011 to ₦975.72 billion in 2012.

- *Public Debt*

  As at 31 December 2012, Nigeria's total public debt was US$48.5 billion. External debt was US$6.5 billion as at 31 December 2012, a decrease from US$20.5 billion as at 31 December 2005, principally attributable to the repayment and subsequent cancellation of the Paris Club debt and the repayment of the London Club debt. Nigeria's domestic debt was US$42.0 billion as at 31 December 2012, compared to US$11.8 billion as at 31 December 2005. The increase in domestic debt reflected the significant increase in borrowings through Government bonds in the domestic market.

  Additionally, the Federal Government has issued a number of guarantees relating to other potential contingent liabilities. The largest guarantee is the one relating to bonds issued by AMCON with a face value of approximately ₦5.7 trillion and a discounted value of approximately ₦4.0 trillion ("**AMCON Bonds**"). The Federal Government guarantee was given in favour of the bondholders of AMCON Bonds issued by AMCON for the acquisition of non-performing loans ("**NPLs**") and other eligible bank assets of eligible financial institutions in order to support the banking sector as a result of the global financial crisis. As at 31 December 2012, the total amount of AMCON Bonds outstanding was ₦5.7 trillion. As at 31 December 2012, the value of the Federal Government's guarantee on AMCON Bonds was ₦1,742 billion.

- *Inflation*

  Nigeria's year-on-year inflation rate for December 2012 was 12.0 per cent. Since the start of 2013, inflation has been below 10.0 per cent. Inflation was 9.0 per cent. in January, 9.5 per cent. in February, 8.6 per cent. in March, 9.1 per cent. in April and 9.0 in May.

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. These key reforms 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 adopted the First NIP as the medium- term plan for

2010-2013 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 sectors 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 – building a knowledgeable workforce and ensuring widespread access to Information, Internet and Communication Technology;
- Governance and General Administration – focusing on electoral reform and combating corruption; and
- Regional Geopolitical Zone Development – fostering accelerated, sustainable social and economic development among regions in Nigeria by encouraging economic competition.

Currently, the First NIP is being reviewed and the results of the review will form the basis for the development of the Second NIP in 2013, for the years 2014 to 2017. The Second NIP is expected to be announced in the third quarter of 2013.

- *Transformation Agenda*

In early 2011, the current administration announced the introduction of the Transformation Agenda, a blueprint of key policies, programmes and projects to be implemented in 2011-2015. The Transformation Agenda prioritises the key projects and programmes in Vision 20:2020 and the First NIP that can be delivered within the four year tenure of the current Presidential administration. Some of the key reforms include focusing on job creation, public expenditure management, education and infrastructure. See "*The Economy–Vision 20:2020–Transformation Agenda*".

The Transformation Agenda's key priority projects are the product of discussions with 20 MDAs where a total of 1,613 projects were identified.

- *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 partial reduction in the fuel subsidy, have recently been adopted.

- *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 35,000 megawatts by 2020, a total investment of US$10 billion per annum will be needed throughout the whole power sector over the next seven years, most of which it aims to obtain by incentivising the private sector to make such investments. The Government has made progress with its power sector privatisation initiative and expects to transfer 15 of the 17 successor companies of the PHCN (the state power company) to the private sector by the end of 2013.

In addition, the Government has established and appointed the governing board of the Nigerian Bulk Electricity Trading Company Plc (the "**Bulk Purchaser**"), a government-owned bulk buyer which intends to carry out contract management and bulk trading on behalf of the successor distribution companies until the industry stabilises (including in terms of demand and pricing). The presence of the Bulk Purchaser is expected to act as an incentive for new investment into the power generation market and to help stabilise the market.

In February 2012, the Nigerian Electricity Regulatory Commission ("**NERC**") in conjunction with the Bureau of Public Enterprises ("**BPE**") announced that electricity prices were set to rise by an estimated 11 per cent. further to the removal of electricity tariffs under the NERC's Multi-Year Tariff Order programme. The new tariff, which commenced on 1 June 2012, is part of the privatisation plan of the power sector. It is expected that the increase in tariff will encourage potential investors in the power sector who were concerned about the return on their investment under the former tariff regime.

- *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 then 24 banks that comprised 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 created in July 2010 that has purchased a significant portion of the NPLs in the Nigerian Banking sector. Since its establishment, AMCON has issued AMCON Bonds and has acquired an estimated ₦7 trillion of non-performing assets in the banking sector. However, to combat moral hazard concerns, AMCON is no longer empowered to purchase NPLs in the banking sector. The CBN implemented additional initiatives to reform the Nigerian financial system and, in particular, the banking sector. See "*Monetary System—Banking Reforms*" for additional information on AMCON and banking reforms.

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. Data shown for 2012 are estimates or provisional, where indicated.

	For the year ended 31 December				
	2008	2009	2010	2011	2012
Domestic Economy					
Nominal GDP (₦ billions) [1]............	24,296.3	24,794.2	33,984.8	37,409.9	40,544.1
Real GDP (₦ billions) [2]	672.2	719.0	776.3	834.0	888.9
Nominal GDP (US$ billions)...........	181.8	167.4	227.8	238.0	260.3
Real GDP (growth rate) (%)	5.98	6.96	7.98	7.43	6.58
Nominal GDP per capita (US$)........	1,401	1,110	1,465	1,522	1,637

	For the year ended 31 December				
	2008	2009	2010	2011	2012[3]
Balance of Payments (₦ billions)					
Exports of Goods	10,161.5	8,363.3	11,662.5	14,826.1	15,003.0
Imports of Goods	(4,722.7)	(4,583.0)	(6,944.2)	(9,485.1)	(8,367.1)
Trade Balance	5,438.8	3,780.3	4,718.3	5,341.0	6,635.9
Current Account................................	3,455.6	2,064.8	2,165.2	1,931.4	3,191.5

	For the year ended 31 December				
	2008	2009	2010	2011	2012
Public Finance (₦ billions)					
Total Gross Federally Collectible Revenue	7,633.23	4,525.9	6,359.0	9,987.6	8,975.8
Total FGN Revenue	2,970.4	2,479.2	2,941.6	3,140.6	3,154.9
Total FGN Expenditure	3,018.0	3,289.1	4,047.1	4,299.2	4,130.6
Overall Deficit	(47.56)	(809.87)	(1,105.43)	(1,158.52)	(975.72)

	For the year ended 31 December				
	2008	2009	2010	2011	2012
Public Debt (US$ billions)					
External Debt	3.7	3.9	4.6	5.6	6.5
Domestic Debt	17.7	21.9	30.5	35.9	42.0
Gross Public Debt as % of real GDP .	11.7	15.4	15.4	17.5	18.6

(1) At current basic prices.
(2) At 1990 constant basic prices.
(3) Provisional.
Sources: IMF, NBS, CBN, Office of the Accountant General and DMO.

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 5.125 per cent. Notes due 2018 (the "**2018 Notes**") US$500,000,000 principal amount of 6.375 per cent. Notes due 2023 (the "**2023 Notes**" and, together with the 2018 Notes, the "**Notes**")
Issue Date	12 July 2013.
Maturity Date	The 2018 Notes will mature on 12 July 2018. The 2023 Notes will mature on 12 July 2023.
Interest	5.125 per cent. per annum in respect of the 2018 Notes and 6.375 per cent. per annum in respect of the 2023 Notes, in each case 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 on the 2018 Notes and the 2023 Notes semi-annually in arrear on 12 January and 12 July of each year. The first payment of interest will be made on 12 January 2014 for the period from and including 12 July 2013 to but excluding 12 January 2014. See "*Terms and Conditions of the Notes—5. Interest*".
Issue Price	98.917 per cent. of the principal amount of the 2018 Notes. 98.193 per cent. of the principal amount of the 2023 Notes.
Yield to Maturity	Based on the issue price, the yield to maturity of the 2018 Notes is 5.375 per cent. Based on the issue price, the yield to maturity of the 2023 Notes is 6.625 per cent.
Redemption	The Federal Republic will redeem the 2018 Notes at their principal amount on 12 July 2018. The Federal Republic will redeem the 2023 Notes at their principal amount on 12 July 2023. 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 in excess thereof.

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. 2018 Notes and 2023 Notes sold in offshore transactions in reliance on Regulation S will be represented on issue by the 2018 Unrestricted Global Note Certificate and the 2023 Unrestricted Global Note Certificate, respectively, 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. 2018 Notes and 2023 Notes sold to qualified institutional buyers in reliance on Rule 144A will be represented on issue by the 2018 Restricted Global Note Certificate and the 2023 Restricted Global Note Certificate, respectively, 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 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. Meetings of Noteholders and Modification*".
Use of Proceeds	The gross proceeds of the issue of the 2018 Notes are expected to amount to US$494,585,000. The gross proceeds of the issue of the 2023 Notes are expected to amount to US$490,965,000. 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$850,000. The proceeds of the issue will be used to fund various projects in the power sector. See "*Use of Proceeds*".
Ratings	The Notes are expected to be rated BB- by Fitch and BB- by S&P. 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. Each of Fitch and S&P is established in the European Union and 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 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 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.

2018 Notes

ISIN	XS0944707651 for the Unrestricted Global Note Certificate and US65412ACE01 for the Restricted Global Note Certificate.
Common Code	094470765 for the Unrestricted Global Note Certificate and 095177646 for the Restricted Global Note Certificate.
CUSIP Number	65412A CE0 for the Restricted Global Note Certificate.

2023 Notes

ISIN	XS0944707222 for the Unrestricted Global Note Certificate and US65412ACD28 for the Restricted Global Note Certificate.
Common Code	094470722 for the Unrestricted Global Note Certificate and 095178014 for the Restricted Global Note Certificate.
CUSIP Number	US65412A CD2 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. Although significant progress has been made in reforming Nigeria's economy, political and judicial systems, since the country's current Constitution came into effect in 1999 and through various initiatives implemented by the current presidency Nigeria is still in the process of developing the necessary infrastructure and regulatory framework that is essential to support market institutions and broad-based social and economic reforms. Emerging markets can also experience more instances of corruption by government officials and misuse of public funds than more mature markets, which could affect the ability of governments to meet their obligations under issued securities. Investors should also note that emerging markets such as Nigeria are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Any such political risks, budget deficits, lack of sufficient infrastructure or unimplemented government reforms may adversely impact Nigeria's economy and its ability to make payments under the Notes.

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, the First NIP and the Transformation Agenda and has commenced the implementation of these initiatives, no assurance can be given that such initiatives will be adequately funded, will achieve or maintain the necessary long-term political support, will be fully implemented or prove successful in achieving their objectives. According to the DMO, Nigeria's nominal GDP grew from US$167.4 billion in 2009 to US$227.8 in 2010, US$238.0 billion in 2011 and US$260.3 billion in 2012. This growth exceeded the First NIP target of US$237.78 billion for 2011. The Government is currently reviewing the First NIP in order to identify the gaps in the macroeconomic framework and other sector targets during the period. The results of the review will form the basis for the development of the Second NIP in 2013, for the years 2014 to 2017. Continued pursuit of long-term objectives such as those set forth in Vision 20:2020 and the Transformation Agenda will depend on a number of factors including continued political support at many levels of the Nigerian society and across multiple government administrations, adequate funding, the outcome of policy reviews, improved security, power sector reform, availability of human capital 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 pursue adequately all of the public capital projects set forth in Vision 20:2020 and the Transformation Agenda.

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 2011 and 2012 assumptions in the Transformation Agenda, including GDP growth rate and inflation rates, may 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. The on-going privatisation in the power sector may be affected by the inability of some of the preferred bidders to secure loans from their banks and the Government's inability to resolve pending labour and legal issues. If the Government is not able to fund or implement the medium-term objectives contained in the Transformation Agenda, 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 and the Issuer's ability to service the Notes.

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

In 2012, the oil sector accounted for an estimated 13.8 per cent. of real GDP, 96.8 per cent. of export earnings and 89.4 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 oil-producing regions, internal and political decisions of the OPEC and other oil-producing nations as to whether to decrease or increase production of crude oil, domestic and foreign supplies of oil (including the recent increase in shale oil production in the US), consumer demand, environmental 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$75.1 per barrel in December 2009, US$93.0 per barrel in December 2010, US$111.4 per barrel in December 2011 and US$113.0 per barrel in December 2012.

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, which decreased from 2.4 mbd in 2011 to 2.3 mbd in 2012. 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. In addition to militant activity, there are increasing levels of oil theft in the Niger Delta region which causes significant disruption to oil production. For example, in April 2013 Royal Dutch Shell was forced to close its Nembe Creek pipeline for repairs as a result of oil theft, halting production of 0.15 mbd. See "*Risk Factors—There are risks related to political instability, security, religious differences, ethnicity and regionalism in Nigeria*" and "*The Economy—Principal Sectors of the Economy—Oil and Gas—Midstream—Oil Refining—Oil refining capacity constraints and proposed reforms*".

The level of oil production by Nigeria may also be adversely affected by other factors, including changes in oil production quotas by the 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, vandalism and bunkering of oil pipelines 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 the 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. Any such unplanned reduction in revenues could require significant reductions in public spending which could negatively affect economic growth and have a material adverse effect on Nigeria's ability to make payments under the Notes.

The regulatory environment in the oil and gas sector in Nigeria is subject to significant on-going 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 has been debating the adoption of the PIB for a number of years which, if adopted, would make a number of significant changes in the way that the oil and gas industry is structured and regulated in Nigeria. If the PIB is adopted, it will have a significant impact on Nigeria's oil and gas industry, the Nigerian economy and the Federal Government's 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 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 to decline to pursue certain investments or exit existing investments as a result of the new framework. For example, in February 2013, Royal Dutch Shell announced that it had postponed two new projects in Nigeria worth up to US$30 billion as a result of uncertainty over regulation;

- that the proposed changes in the tax structure for oil and gas companies operating in Nigeria may lead certain IOCs to curtail their operations or future investment;

- that the proposed deregulation of the oil and 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 benefits from subsidised prices;

- that 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;

- that initiatives proposed in the PIB may cause political divisions between regions of Nigeria; and

- that the proposed National Oil Company may not be successful.

Similarly, the Nigerian Oil and Gas Industry Content Development Act 2010 ("**Nigerian Content Act**"), which was enacted in April 2010, introduced reforms in the Nigerian oil and gas industry, which include providing for preferential treatment to Nigerian companies and promoting the awarding of contracts to Nigerian companies for services provided and goods manufactured in Nigeria. Prior to the enactment of the Nigerian Content Act, local content promotion and development in the Nigerian oil and gas industry was loosely regulated. The Nigerian Content Act has thus far provided business and growth opportunities for Nigerian businesses, although it also has reduced the level of FDI in the oil and gas sector. However, there can be no assurance that IOCs will not continue to reduce investment in this sector as a result of the local content requirements or that the Nigerian Content Act will be consistently implemented or that it will achieve its stated objectives. Such a failure may impact negatively on the Nigerian economy which may in turn result in a material adverse effect on Nigeria's ability to make payments under the Notes.

Failure to adequately manage the Government's oil and gas revenues could have adverse impacts on the Nigerian economy.

For approximately the last ten years, the Government has been actively managing its oil and gas revenues in an attempt to ensure budget stability during times of lower oil prices. The Excess Crude Account, an account set up to assist in stabilising the Government's finances to address volatility in crude oil prices and production, was historically 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. After accumulating large balances and reaching US$19.1 billion as at 31 December 2008, withdrawals from the Excess Crude Account reduced the balance to US$2.6 billion as at 31 December 2010. The balance then increased to US$4.6 billion as at 31 December 2011 and further to US$8.7 billion as at 31 December 2012. On 31 March 2012, ₦202.6 billion (approximately US$1.3 billion) was withdrawn from the Excess Crude Account for the purposes of distribution to Federal, State and Local Governments. Also, in January 2013, President Goodluck Jonathan approved the withdrawal of US$1.0 billion from the Excess Crude Account to be shared amongst the 36 states and the FCT to fund development projects. In June 2013, an additional amount of US$1 billion was withdrawn from the Excess Crude Account for the purpose of supplementing Government revenues due to lower oil production in June 2013. The lower oil production was a result of continued oil theft in the Niger Delta region.

No assurance can be given that the Excess Crude Account will not 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. Moreover, the IMF notes that the reference oil price per barrel that is found in the budget is set by negotiations between the Federal Government and the National Assembly. This is unusual amongst resource-rich countries with similar savings schemes, where expert determination or automatic rules are the norm.

On 27 May 2011, the President signed the Nigeria Sovereign Investment Authority (Establishment etc.) Act into law, creating the Nigeria Sovereign Investment Authority ("**NSIA**") and authorising the establishment of the Future Generations Fund, the Infrastructure Fund and the Stabilisation Fund (the "**Sovereign Wealth Funds**" or "**SWFs**"). The purpose of the SWFs is to build a savings base for future generations of Nigerian citizens, fund development of the infrastructure sector and provide stabilisation support in times of economic stress. The SWFs are jointly owned and supervised by the three tiers of Government. Although the Nigeria Sovereign Investment Authority Act provides that initial funding of the SWFs should be provided by the Federal, State, FCT and Local governments and

Area Councils of Nigeria, the initial funding of US$1.0 billion in fact came from the Excess Crude Account. Future funding for the SWFs will be derived from residual funds received into the Federation Account from excess oil revenues, being those over and above the amount needed to fund Nigeria's national budget. The initial funding and all subsequent allocations to the SWFs will then be allocated between the three SWFs for the purpose of making investments to support the aims of the SWFs, as described above. J.P. Morgan has been appointed custodian of the SWFs and the Ministry of Finance plans to grow the fund to US$5 billion by 2015.

Whilst the creation of the SWFs represents an improvement in the management of Nigeria's inflow from oil exploration funds, the SWFs are still in their infancy and there can be no assurance as to whether they will have the necessary safeguards in place to shield them from misappropriation and political pressures, whether further funding will be made into the SWFs (as this is dependent on the price of oil and the benchmark budget oil price), whether they will make profitable investments or achieve their strategic objectives or how they will be perceived by ratings agencies or other parties. Further, there is still a pending claim before the Supreme Court instituted by State Governors challenging the constitutionality of the funding of the SWFs from the Excess Crude Account. The State Governors are of the view that pursuant to the Constitution, all revenues generated ought to be transferred to the Federation Account before distribution amongst the three tiers of Government (including the SWFs) in accordance with the provisions of the Constitution. Any failure to adequately manage the Government's oil and gas revenues generally and in particular to maintain the transparency of withdrawals from the SWFs may negatively affect the Nigerian economy and therefore Nigeria's ability to service the Notes.

There are risks related to the banking sector.

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 then 24 banks that comprised the Nigerian banking system, the CBN found significant irregularities and capital adequacy deficiencies at ten of the 24 banks (the "**Intervened Banks**"). To address these issues, the CBN replaced some of the senior management of eight of the Intervened Banks and injected a total of ₦620 billion into the Intervened Banks to enable them to meet their minimum capital adequacy ratios and continue operations and to prevent a systemic banking crisis.

Since its establishment, in July 2010, AMCON has issued AMCON Bonds with a face value of approximately ₦5.7 trillion and a discounted value of approximately ₦4.0 trillion and has acquired an estimated ₦7 trillion of NPLs in the banking sector. See "*Monetary System—Banking Reforms*" for additional information on AMCON and its activities. Approximately ₦1.7 trillion of AMCON Bonds are maturing in 2013, and a further ₦737.4 billion in 2014.

The ability of AMCON to service and repay its existing debt is dependent on many factors, including the availability of cash from the sinking fund created by the banking sector, recovery on AMCON's NPL portfolio and/or the availability of refinancing. AMCON has recently announced a plan to repay or refinance the ₦5.7 trillion AMCON Bonds maturing in 2013 and 2014 by retiring approximately ₦2.0 trillion of AMCON Bonds during 2013/2014 and refinancing approximately ₦3.6 trillion (pursuant to a bilateral agreement with the CBN, following which, the CBN will be the sole holder of AMCON Bonds). However, no assurance can be given that the proposed repayment and refinancing plan will be implemented in the timetable currently envisioned or that the CBN will be able to repay or refinance all of the outstanding AMCON Bonds.

If the AMCON repayment and refinancing plan or other reforms introduced by the CBN fail to achieve their stated objectives, there may be an adverse effect on investment and confidence in, and the performance of, the Nigerian banking sector, which in turn could impact government revenues (including through a claim on the Government guarantee of the AMCON Bonds), the overall performance of the economy and Nigeria's ability to repay its obligations, including those under the Notes.

Nigeria has limited refinery capacity and relies heavily on imported oil and petroleum products 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. Between 2002 and 2004, the DPR issued nine licences to private investors with total refining capacity 0.46 mbd, but none of these refineries has come onstream. In 2010, the NNPC announced the Government's intention to build three refineries to be sited in the Kogi, Lagos and Bayelsa states but 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 oil and petroleum products is implemented. Due to the limited production capacity of its oil refineries, Nigeria relies heavily on imported petroleum products to meet its energy and transport requirements. Accordingly, any 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 petroleum products and exerts upward pressure on prices. To alleviate the impact on consumers, the Government currently regulates the prices of certain petroleum 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 petroleum products in Nigeria.

In late 2011, the Government announced the complete removal of petroleum subsidies effective 1 January 2012. Immediately upon the subsidy removal coming into effect, protests and violence broke out across Nigeria and in early January Nigeria's national labour unions called for an indefinite nationwide strike until the subsidies were reinstated, resulting in significant economic and political uncertainty. By mid-January 2012, President Goodluck Jonathan announced that the Government would instead reduce the fuel subsidy by nearly a third and the national strikes were called off. At the time, President Goodluck Jonathan announced that the partial subsidy reinstatement was temporary and the Government remained committed to deregulating the downstream sector and removing all subsidies on petroleum products.

If the Government's plans are eventually enacted into law, the petroleum products market will be deregulated and subsidies and price controls on petroleum products 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 further protests or other unrest or have an adverse effect on the segments of the economy required to bear the resulting higher prices.

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 sectors 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 and the Transformation Agenda equally focuses on infrastructure development. In addition, the Government recently approved the framework for the National Integrated Infrastructure Master Plan for 2014 – 2043. It is expected that the plan will be finalised by August 2013 and implementation will commence in 2014.

Failure to significantly improve Nigeria's infrastructure could adversely affect Nigeria's economy, competitive ranking 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 investment in the power sector in recent years, lack of reliable electricity supply remains a serious impediment to Nigeria's economic growth and development. According to the IMF, surveys show that 83 per cent. of businesses identified the lack of power as the biggest obstacle to doing business in Nigeria. Insufficient power generation, aging infrastructure, inadequate funding, weak distribution networks and overloaded transformers result in frequent power outages, high transmission and distribution losses and poor voltage output. Currently only approximately 40 per cent. of Nigeria's population have access to the public electricity supply due to inadequate transmission and distribution networks, and the IMF reports that approximately one third of Nigeria's installed capacity is not in operation. According to a 2011 World Bank research paper, average electricity consumption per capita declined from 152 kilowatt hour in the mid-2000s to approximately 108 kilowatt hour in the late 2000s.

The Government has identified the improvement of electricity generation, transmission and distribution infrastructure as a critical element in meeting economic growth and development objectives. To address these issues, the Government is pursuing a number of policy initiatives, including those set forth in the First NIP and the "Roadmap for Power Sector Reform". The "Roadmap for Power Sector Reform" seeks to remove obstacles to private sector investment in the power sector, begin the privatisation of generation and distribution companies, facilitate the construction of new transmission networks and reform the fuel-to-power sector with the goal of achieving 35,000 megawatts of electricity generation capacity by 2020.

In order to meet this target, the Government estimates that it will require investments of at least US$10 billion each year over the next seven years. In addition to funding, reforms in the power sector require significant coordination and human capital investment across several MDAs. No assurances can be given that Nigeria will be able to obtain the necessary funding or resources to achieve this target or to effectively reform the power sector, or that the reforms will not cost significantly more than currently estimated.

Failure to adequately address the significant deficiencies in Nigeria's power generation, transmission and distribution infrastructure could lead to lower GDP growth, hampering the development of the economy and Nigeria's ability to meet its debt obligations, including those under the Notes.

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

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. as at 31 December 2008. Inflationary pressure moderated in 2009, as the inflation rate assumed a downward trend initially. However, it increased from 10.4 per cent. as at 30 September 2009 to 13.9 per cent. by 31 December 2009, reflecting an increase in demand pressure, mainly due to fuel shortages linked to the speculation that petroleum product prices would be deregulated and to increasing food prices. In 2010 inflationary pressure remained high, with a slight decrease to 11.8 per cent. as at 31 December 2010, further decreasing to 10.3 per cent. as at 31 December 2011. Inflation then rose to 12.0 per cent. as at 31 December 2012. However, since the start of 2013, inflation has been below 10.0 per cent., reaching 9.0 per cent. in January, 9.5 per cent. in February, 8.6 per cent. in March, 9.1 per cent. in April and 9.0 in May. For more information on historical inflation rates see "*Monetary System – Inflation*".

A major factor affecting inflation is that a significant portion of Nigeria's food is imported. Although Nigeria has recently experienced growth in the agricultural sector and improved harvests, the country continues to rely heavily on food imports. The Government has launched two comprehensive initiatives aimed at stimulating growth in the agricultural sector. The Agricultural Transformation Action Plan is intended to cut Nigeria's dependency on food imports and industrialise food production, particularly in poorer regions in rural Nigeria, whilst the Agricultural Transformation Agenda aims to stimulate private sector investment in agriculture throughout Nigeria. The Government is hoping that with these two programmes it can increase Nigeria's agricultural output to 20 million tonnes of food per year and create 3.5 million jobs and reduce dependence on food imports.

Although tighter monetary policies may help to curb inflation, Nigeria is still exposed to the risk of high inflation as the impact on inflation of higher food, fuel and other import prices is beyond Nigeria's control. 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 and Nigeria's ability to meet its debt obligations, including those under the Notes.

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. Nigeria is ranked 139 out of 174 in Transparency International's 2012 Corruption Perceptions Index and 131 out of 185 in the World Bank's Doing Business 2013 report. 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 created the Economic and Financial Crimes Commission ("**EFCC**") which is mandated to combat economic and financial crimes (using its powers of investigation and prosecution) and to enforce the provisions of certain laws and regulations relating to economic and financial crimes. The Nigerian Financial Unit of the EFCC has, between 2006 and 2012, signed Memoranda of Understanding ("**MoU**") with the financial intelligence units of over twenty countries and is currently negotiating additional MoU. In addition, the EFCC has entered into strategic alliances with a number of international agencies, such as the US Federal Bureau of Investigation and the UK Serious Fraud Office. Furthermore, in 2003, Nigeria was one of the first countries to adopt the Extractive Industries Transparency Initiative to help improve governance in the oil and gas sector. An independent audit of the oil and gas sector from 1999 to 2004 was commissioned. Finally, following the partial removal of the fuel subsidy in 2012, the Government commissioned an audit of the implementation of the fuel subsidy regime.

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 state governor, a former Inspector General of the Police and chief executives of companies. In addition, a number of ministers and judges have been dismissed for corruption 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, CBN, Ministry of Finance, Ministry of Petroleum, Ministry of Trade and Investment and Ministry of Environment all produce statistics relating to Nigeria and its economy. Although collaborative efforts are being taken by the relevant MDAs in order to produce accurate and consistent social and economic data, there may be inconsistencies in the compilation of data and methodologies used by some of these MDAs, and in common with many developing economies, given the relative size of the informal economy in Nigeria there may be material omissions or misstatements in the statistical data prepared by such MDAs. As a result, there can be no assurance that these statistics are as accurate or as reliable as those published by more developed countries. Some of the statistics contained in this Prospectus for 2012 and 2013 may be indicated as estimated or provisional figures that are subject to later revision. In particular, prospective investors should be aware that figures relating to Nigeria's GDP, its balance of payments and other 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.

A significant portion of the Nigerian economy is not recorded.

A significant portion of the Nigerian economy, estimated to be 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 a lack of revenue for the Government, 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 assurance 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 affected Nigeria particularly through the resulting fluctuations in oil prices and increased investor aversion to risk which resulted in a withdrawal of 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, the deterioration of the Nigerian equity markets in 2009, falling commodity prices, reduced net capital inflows and the increased bad debt exposure of Nigerian banks. As the global economy began to improve, the real GDP growth of the country rose to 7.98 per cent. in 2010, from 6.96 per cent. in 2009. However, real GDP growth started to decline thereafter, amounting to 7.43 per cent. in 2011 and 6.58 per cent. in 2012, according to the NBS. If the global economy further weakens this may have an adverse effect on the Nigerian economy and on Nigeria's ability to meet its debt obligations, including those under the Notes.

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, moving from a high of ₦116.64 to US$1.0 in 2008 to a low of ₦151.37 to US$1.0 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. External reserves were reduced from US$32.3 billion as at 31 December 2010 to US$32.6 billion as at 31 December 2011. However, more recently, external reserves have been increased to US$43.8 billion as at 31 December 2012 and US$48.5 billion as at 10 June 2013. The exchange rate stood at ₦157.33 to US$1.0 as at 31 December 2012. The CBN's foreign exchange policy allows the official exchange rate to fluctuate within a band of plus or minus 3.0 per cent. over a median Naira exchange rate. Since November 2011, the median Naira exchange rate has been ₦155 to US$1.0.

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 petroleum products and food, 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. Such decline could prompt the CBN to 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 or that inflation will be under control. Any further currency fluctuations and/or fluctuations in Nigeria's external reserves may negatively affect the Nigerian economy and therefore Nigeria's ability to meet its external debt obligations, including those under the Notes.

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

Over the last ten 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. The non-oil sector continued to be a major driver of growth for the economy, recording an average growth of 7.88 per cent. in 2012, compared to 8.80 per cent. for the year 2011 and 8.51 per cent. for the year 2010, according to the NBS. The growth in this sector has largely been attributed to growth in the telecommunications, manufacturing, building and construction, hospitality and business services sectors.

However, the lack of infrastructure (including inadequate power supply and transportation systems), reduced credit availability, reduced consumer demand, local shortages of skilled managers and workers and unimplemented government policies may constrain further 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, which may in turn result in a material adverse effect on Nigeria's ability to meet its debt obligations, including those under the Notes.

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

By law MDAs are obligated to remit independent revenue they generate to the Federation Account for onward 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 collectible revenue may lead to higher budget deficits, leading to an increased debt burden on Nigeria, which may result in a material adverse effect on its ability to service the Notes.

Existing wage and pension arrears in relation to the staff of privatised companies and other outstanding liabilities of the 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 Sunti Sugar Company, NICON Insurance, Nigeria Reinsurance, Nigerian Postal Service, Delta Steel Company and the Aluminium Smelter Company and the PHCN which are currently in the process of being privatised, as well as NITEL which is currently in the process of being liquidated. As at January 2013, this liability was ₦411 billion. With regards to the PHCN, in accordance with the terms of the agreement between the Government and the labour unions, the Government is expected to pay severance benefit totalling ₦373 billion to the existing employees of the PHCN. A three-phase payment cycle has been designed for the payment of the severance benefit due to funding constraints and all payments are expected to be completed in June 2013. In addition, the Government has set up the Nigeria Electricity Liability Management LTD/GTE ("**NELMCO**"), a special purpose vehicle which has acquired the third party liabilities and pension liabilities of the PHCN. As at January 2013, NELMCO had acquired over ₦500 billion outstanding liabilities. The Government is currently considering a stable source of funding for NELMCO.

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 of the Government.

There are risks related to political instability, security, 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 Jonathan was sworn in as President, in accordance with the Constitution, on 6 May 2010 and was elected as President in the general elections in April 2011. While the 2011 elections were generally considered by international observers to be largely transparent and orderly, there was significant political and social unrest in the country leading up to the election and some post-election violence, particularly in the North of the country. The next general election is scheduled for 2015.

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 has alienated their Christian and other non-Muslim 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.

Since the last quarter of 2011, there has been an increase in the number and frequency of attacks and cases of kidnapping across various parts of Nigeria, particularly in the northern states of Nigeria. It is believed that these attacks are being carried out by Islamist militia groups based in the north such as Boko Haram and Ansaru. On 14 May 2013, President Goodluck Jonathan declared a state of emergency in the three north eastern states of Borno, Yobe and Adamawa, following a series of attacks by Islamist militants. The state of emergency was accompanied by the proscription of the Boko Harem and Ansaru organizations on 4 June 2013. Under the state of emergency, the Nigerian military was given the mandate to enter the affected areas in order to restore law and order, which resulted in a reduction in the number of terrorist attacks in the three states under the state of emergency and the re-opening of schools in the area. The President emphasised that, while the Government will continue to invest effort in dialogue and political measures, the escalating situation required the immediate deployment of troops to restore security. At the same time, the President offered an amnesty to militants who agree to surrender.

Additionally, there has recently been an increase in violence, oil theft, 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 and the perceived unfair allocation of oil revenue among the regions of the country. The theft and violence have mainly been focused against oil interests in the region, and oil production from onshore fields has slowed as a result. 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.

In spite of the Government's efforts, continued criminal activity, unrest and political and religious conflicts in the country may lead to lower oil production, deter FDI and lead to increased political instability that could have a material adverse effect on Nigeria's economy and therefore on Nigeria's ability to meet its debt obligations, including those under the Notes.

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 2012, Nigeria's external debt was US$6.5 billion, of which US$4.1 billion was owed by the Federal Government and its parastatals and US$2.4 billion was owed by the States and the FCT, which debt is guaranteed by the Federal Government. Further, the Government had ₦6.5 trillion (approximately US$41.9 billion) of domestic debt outstanding as at 31 December 2012. Although the level of external debt is relatively low for a country with Nigeria's GDP, any significant future borrowings, including the issuance of debt to fund fiscal deficits, infrastructure spending and other requirements, could negatively impact Nigeria's debt sustainability analysis and sovereign credit rating, and may impair Nigeria's ability to service the Notes. In addition, as at 31 December 2012, AMCON had approximately ₦5.7 trillion in AMCON Bonds (which are guaranteed by the Federal Government) outstanding. Approximately ₦1.7 trillion of AMCON Bonds needs to be refinanced in 2013 and a further ₦737.4 billion in 2014. Although AMCON expects to be able to fund its debt service requirements through recoveries made on the bad assets it holds and by using a sinking fund that was established by a levy on Nigeria's banks, and has recently announced a comprehensive plan for repaying or refinancing its ₦5.7 trillion AMCON Bonds maturing in 2013 and 2014, the total amount of debt guaranteed by the Issuer in connection with this programme is substantial. Any default by AMCON in repaying principal and interest on AMCON Bonds or any difficulty refinancing the bonds could have an adverse impact on the Issuer's credit rating and its ability to service the Notes.

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

Total FPC investment into Nigeria, which comprises total FDI, FPI and other investments but excludes re-investment earnings, increased from US$5.7 billion in 2009 to US$7.9 billion in 2011 and US$16.6 billion in 2012, an increase of over 110 per cent. compared to 2011. Total FDI, which comprises equity capital and other capital inflows, increased from US$0.7 billion in 2010 to US$1.7 billion in 2011 and US$2.0 billion in 2012. However, according to the UNCTAD World Investment Report 2012, FDI inflows to Africa as a whole declined for the third successive year in 2012 to $42.7 billion. The decline in FDI inflows to the continent in recent years was largely caused by the impact of political instability on FDI in North Africa and in particular, inflows to Egypt and Libya, which had previously been major recipients of FDI. Notwithstanding the decline in FDI inflows to Africa, Nigeria continued to be one of the major recipients of FDI inflow into Africa.

Despite the increase in 2011 and 2012, FDI remains low for a country with Nigeria's population and GDP, and security concerns continue to disrupt investment activities into the country. According to UNCTAD, Nigeria lost over ₦1.33 trillion FDI in 2012 due to security matters and a similar trend was observed through 2012. Absent a decrease in the perceived risks associated with investing in Nigeria, including those described in this Prospectus, there may not be any appreciable increase in FDI, which could adversely affect the Nigerian economy and limit sources of funding for infrastructure and other projects requiring significant investment by the private sector.

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 the World Bank, in 2011 Nigeria had an HIV prevalence of approximately 3.7 per cent. among its population of adults aged between 15 and 49 years old. By 2012, according to a report published by the National Agency for the Control of AIDS, the national median HIV prevalence had risen to 4.1 per cent. and the total number of persons living with HIV is estimated to be in the region of 3.5 million. No assurance can be given that the high prevalence rate of HIV/AIDS, malaria, typhoid or other diseases in Nigeria will not have a material adverse effect on the economy of Nigeria and therefore on Nigeria's ability to meet its debt obligations, including those under the Notes.

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, 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. 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 diseases 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 "*Risk Factors—The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable*".

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. In addition, liquidity may be limited if the Issuer makes large allocations of the Notes to a limited number of investors. 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 economic and political 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 or 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 are expected to be rated BB- by Fitch and BB- by S&P. Each of Fitch and S&P is established in the European Union and registered under the CRA Regulation. 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. Other than pursuant to Article 16 of the Prospectus Directive, 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.

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, located in Nigeria. The waiver of immunity also does not extend to any actions brought against Nigeria in the United States under any US securities law. 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.

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 (the "**Directive**"), 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, Luxembourg and Austria will (unless during that period they elect otherwise) instead operate a withholding system in relation to such payments. The current rate of withholding under the Directive is 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange information procedures relating to interest and other similar income. The Luxembourg government has announced that Luxembourg will elect out of the withholding system in favour of automatic exchange of information with effect from 1 January 2015.

A number of non-EU countries and certain dependent or associated territories of certain Member States have agreed to adopt similar measures to the Directive.

If 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. The Issuer is, however, 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 2018 Notes are expected to amount to US$494,585,000 million. The gross proceeds of the issue of the 2023 Notes are expected to amount to US$490,965,000 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$850,000. The proceeds of the issue will be used to fund various projects in the power sector.

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 the 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 currently 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 People's 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 for 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, Yakubu Gowon was overthrown in a bloodless coup and was replaced by Brigadier Murtala Mohammed. In February 1976, Murtala Mohammed was assassinated in an unsuccessful coup and Lieutenant General Olusegun Obasanjo succeeded him. In 1979, under Olusegun 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.

In 1979, five parties competed in national elections, marking the beginning of the Second Republic. The presidential succession from Olusegun 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 and alleged corruption by 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 and the winners in the various elections were sworn into their respective offices. Presidential elections then were held in June 1993 and it was believed that initial results indicated that Chief Moshood 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. Ibrahim 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 Moshood 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. Sani Abacha served as a military dictator until his death in June 1998 and Chief Moshood Abiola died shortly afterwards.

Upon Sani 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 Chief Olusegun Obasanjo to stand for election for a third term. In April 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 Jonathan (then Vice-president) was sworn in as President, in accordance with the Constitution, on 6 May 2010 and was elected as President in the April 2011 general elections. See "*The Federal Republic of Nigeria— Political Parties—2011 Elections and the 2010 Electoral Act*". The next general elections are expected to be conducted in April 2015.

Population, Education and Health

Population

According to Nigeria National Population Commission, Nigeria's population was approximately 167 million in 2012 and is expected to reach 174 million in 2013.

Nigeria has a relatively young population, with only 3.0 per cent. of the population being over 65 and 43.8 per cent. being under 15 years of age. The World Bank estimated the average population density for the country in 2011 at 178 people per square kilometre. Nigeria's population is unevenly distributed across the country. According to the National Population Commission, Kano State is the most densely populated state, followed closely by Lagos State. Other densely populated states are Kaduna, Katsina, Oyo and Rivers States. Based on the NBS General Household Survey, in 2010 approximately 51.4 per cent. of Nigeria's population are male and approximately 48.6 per cent. are female .

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

The table below sets out selected comparative macroeconomic statistics regarding certain socioeconomic indicators for 2011 (unless otherwise indicated) for Nigeria and for certain other countries:

	Nigeria	Ghana	Zambia	Cote D'Ivoire	South Africa
GNI per capita (current US$)[1]	1,342	1,410	1,160	1,090	6,960
GDP growth (annual %)	7.4	14.4	6.4	(4.7)	3.1
Population Growth (annual %)	2.5	2.3	4.2	2.1	1.2
Life expectancy at Birth (years)	51.9	64.2	49.0	55.4	52.6
Primary School Enrolment (% net)	57.6[2]	84.0	95.5	61.5[3]	85.1[3]
Mortality Rate, under -5 (per 1,000)	158.0	77.6	82.9	114.9	46.7

(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. GNI figure for Nigeria is according to the NBS.
(2) Figure for 2010.
(3) Figures for 2009.

Source: NBS, World Bank, World Development Indicators database, 2011 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. According to the Federal Ministry of Education, in 2012 there were 110,471 primary schools in Nigeria with 23.4 million children enrolled. 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

According to the Federal Ministry of Education, in 2012 there were 19,678 junior secondary schools in Nigeria with 4.1 million children enrolled and 15,056 senior secondary schools with 3.1 million children enrolled. The level of primary and junior secondary school enrolment was 54 per cent. male and 46 per cent. female, while for senior secondary schools the level was 51 per cent. male and 49 per cent. female.

Tertiary

Tertiary education encompasses all forms of post-secondary education, which includes universities, colleges, polytechnics and monotechnics. As at 2011, there were 38 monotechnics in Nigeria with 19,923 students enrolled and 55 polytechnics with 225,171 students enrolled. As at the date of this Prospectus, there are 129 universities in Nigeria, according to the National University Commission. The National Open University of Nigeria was founded in 2002 to provide tertiary education through a network of local study centres located in different parts of the country.

Quality of Education

According to the NBS, the adult literacy rate (age 15 and over) in 2010 was 57.9 per cent. (65.1 per cent. for males and 50.6 per cent. for females) in the English language and 71.6 per cent. (79.3 per cent. for males and 63.7 for females) in any language. The youth literacy rate (age 15-24) stood at 76.3 per cent. (81.0 per cent. for males and 71.4 per cent. for females) in the English language and 85.6 per cent. (89.4 per cent. for males and 81.6 per cent. for females) in any language.

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 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 Tertiary Education Trust Fund ("**TET Fund**", formerly, the Education Trust Fund and the Education Tax Fund) was established by the Government to manage, disburse and monitor the education tax (a 2 per cent. tax on the assessable profit of all registered companies in Nigeria) for the benefit of public tertiary institutions in Nigeria at the federal and state levels. The funds disbursed are for essential physical infrastructure, teaching, teaching material and equipment, research, publications, academic staff training and for maintaining and improving overall quality and standards.

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 (the most recent information available), Nigeria had 23,640 health care facilities, 85.8 per cent. of which were at the primary level, 14.0 per cent. of which were at the secondary level and 0.2 per cent. of which were at the tertiary level. The Federal Ministry of Health estimated that 38 per cent. of the health care facilities were owned by the private sector which accounted 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 2013, the maternal mortality rate in Nigeria is estimated at 630 per 100,000 live births. According to the NBS Multiple Indicator Cluster Survey for 2011 ("**MICS**"), the under-five mortality rate is estimated at 158 per 1000 live births. 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 malnutrition.

According to the World Bank, in 2011, life expectancy at birth was approximately 51 years for men, as compared to 50 years in 2008, and 53 years for women, as compared to 51 years in 2008. According to the 2013 HDI Report, in 2012, life expectancy in Nigeria was 52.3 years for both men and women. According to the World Bank in 2011 Nigeria had an HIV prevalence of approximately 3.7 per cent. among its population of adults aged between 15 and 49 years old. According to a report published by the National Agency for the Control of AIDS, the national median HIV prevalence had risen to 4.1 per cent. in 2012.

According to the 2011 MICS, 59 per cent. of the total population had access to improved drinking water, representing approximately 73 per cent. of the urban population and 51 per cent. of the rural population.

Millennium Development Goals

The Millennium Development Goals ("**MDGs**") represent a global partnership resulting from the Millennium Declaration at the UN's 2000 Millennium Summit. 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 programme.

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. In the 2013 Appropriation Act, an amount of ₦33.95 billion was allocated for programmes related to the MDGs.

The OSSAP has introduced a number of initiatives to achieve the MDGs by the 2015 deadline. In particular, the OSSAP has introduced the UN MDGs Acceleration Framework ("**MAF**"), in partnership with the UN and the UNDP. The MAF is a UN methodological framework offering governments and their partners a systemic way to identify and prioritise bottlenecks to progress off-track MDGs. The MAF in Nigeria initially focused on MDG 5 (improving maternal health, combatting HIV/AIDS, malaria and other diseases). The OSSAP has also initiated a Countdown Strategy to increase efficiency and progress across all of the MDGs.

Set forth below is a summary of Nigeria's status as at 2010 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, but there is a worry that the consequences of climate change on agriculture may reverse such a trend.
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 empowerments 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. However, in the run up to the 2015 deadline, the OSSAP is taking a number of steps to address the lack of data for informing progress after 2010 and has commissioned the NBS to conduct a national household survey that is designed to report on numerous MDGs target areas. The results are expected in the second half of 2013. In addition, the OSSAP has established a Post-2015 Consultation Agenda to assess Nigeria's progress with the MDGs and to feed into the UN's Post-2015 Agenda.

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) and prescribes the qualifications that such individuals must possess before being appointed or elected to exercise such powers.

The Constitution has been amended three times since it came into force in 1999. In July 2010, the Constitution of the Federal Republic of Nigeria (First Alteration) Act No. 5 of 2010 (the "**First Amendment**") was enacted into law. The First Amendment mainly dealt with issues relating to elections and circumstances when the President or a Governor is absent from the country.

Following the enactment of the First Amendment, in November 2010, the Constitution of the Federal Republic of Nigeria (Second Alteration) Act No. 2 of 2010 (the "**Second Amendment**") was passed.

The Second Amendment provided for grounds when the Supreme Court had exclusive appellant jurisdiction to hear and determine appeals from the Court of Appeal.

In February 2011, the Constitution of the Federal Republic of Nigeria (Third Alteration) Act was passed, creating the National Industrial Court as a court of record to deal with matters relating to the interpretation of the provisions of a collective agreement between employers and employees or labour union.

There are currently a number of bills before the House of Representatives which, if enacted into law, will further amend the Constitution.

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 governmental department. 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 current House of Representatives, constituted following the general elections held in April 2011, is made up of 360 members who represent constituencies of nearly equal proportion as far as possible. Members serve four-year terms. The number of seats per state is based on the population of each state. 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, amounting to109 seats in total. The Head of the Senate is referred to as the Senate President.

The two Houses of the National Assembly work in collaboration with the executive branch in areas such as budgetary appropriation, appointment of certain officers and the enactment of laws. A bill for an act may originate from either of the Houses; however, before the President can assent it, 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 of each state; the Sharia Court of Appeal and the Customary Court of Appeal in states which have established these courts and the National Industrial Court (which deals with labour matters).

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 is also the Investments and Securities Tribunal, which handles disputes in relation to capital markets activities.

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 and the National Industrial Court. 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. It has jurisdiction in respect of disputes (i) between the Federal Government and the states, (ii) between the states of the Federation, if and in so far as the disputes involve any question (whether of law or fact) on which the existence or extent of a legal right depends, (iii) between the National Assembly and the President, (iv) between the National Assembly and a state and (v) between the National Assembly and a State House of Assembly. 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 the Supreme Court 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 such number of 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, the Federal High Court, the Sharia Courts of Appeal of the states or of the FCT, the 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 jurisdictions. 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. There are currently 36 divisions of the Federal High Court spread across the States in Nigeria.

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.

The National Industrial Court

The National Industrial Court has exclusive jurisdiction in civil cases and matters relating to labour, employment, trade unions, industrial relations, terms of service and matters arising in relation to the workplace. The Court also has exclusive jurisdiction on matters relating to or arising from the Factories Act, the Trade Disputes Act, the Trade Unions Act, the Employees' Compensation Act or any other legislation relating to labour, employment, industrial relations or workplaces. In May 2013, President Goodluck Jonathan approved the appointment of 12 new judges for the National Industrial Court, in addition to the nine existing judges and the President of the Court.

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.

State and Local Government

Nigeria is subdivided into 36 states and the FCT. Each state is governed by a Chief Executive (known as the Governor) who is elected for a four-year term and is eligible for one further term. The Governor is assisted in carrying out his or her functions by a Deputy Governor. The Governor is empowered to appoint commissioners and advisers and to assign responsibilities to them.

The legislative powers of a state are vested in a unicameral legislative body called the House of Assembly. The House of Assembly of each state may legislate in respect of matters within its legislative competence, as set out in the Constitution. It is made up of representatives from all the local government areas within the state and exercises identical functions at the state level to those of the National Assembly at the federal level. A state House of Assembly shall consist of not less than 24 and not more than 40 members.

State governments are vested with the power, for example, to collect personal income tax from its residents, impose sales tax and impose and collect certain forms of stamp duties.

The states are further divided into Local Governments. There are 774 local government councils in Nigeria. Each local government area is administered under a local government council consisting of a Chairman who is the Chief Executive of the local government area and other elected members who are referred to as councillors. The functions of local governments include the consideration and the making of recommendations to a state commission on economic, administrative and urban planning issues including the economic development of the state, collection of rates, radio and television licences and establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm, the naming of roads and streets and the numbering of houses and such other functions as may be conferred on a local government council by the State House of Assembly. The Local Government councils receive their funding from the State Government, which in turn is financed by statutory allocations from the Federation Account.

Political Parties

According to the INEC, there are 25 political parties currently registered in Nigeria. In addition to the ruling PDP, which has been in power since 1999, the main political parties, until recently, included the All Nigeria People's Party, the Action Congress of Nigeria, the Labour Party, the Democratic People's Party, the Congress for Progressive Change and the All Progressive Grand Alliance. The Action Congress of Nigeria (formerly known as Action Congress), which won 83 seats in the 2011 National Assembly election, was the main opposition party. The Congress for Progressive Change, which won 41 seats in the same election, was the second largest. The PDP won 275 out of 467 seats in the 2011 elections.

In February 2013, the largest opposition parties, Action Congress Nigeria, All Nigeria People's Party, a faction of the All Progressive Grand Alliance and the Congress for Progressive Change announced a plan to merge to contest the 2015 elections and formed the All Progressive Congress. The INEC has stated that it has no objection to the proposed merger provided that the relevant parties comply with the requirements of the INEC. The parties have held their respective national conventions to approve the proposed merger and the dissolution of their respective existing parties. The parties submitted their application for registration to the INEC on 7 June 2013. INEC has 30 days within which to either register, or decline registration of, the All Progressive Congress.

The 2010 Electoral Act and the 2011 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 the President 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 lists 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 candidates 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.

The Electoral Act 2010 was amended in 2011. The Presidency had 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, were rejected by the National Assembly in favour of amendments which sought 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. The only amendment that was made to the Electoral Act was to decrease the number of days for registration of voters for any general election from 60 to 30 days and this amendment was passed on 27 January 2011 as the Electoral (Amendment) Act (No.2) 2011.

The last presidential elections were held in April 2011 and resulted in the election of Goodluck Jonathan, who represents the PDP. The PDP is the ruling party in Nigeria and has been in power since 1999. President Goodluck Jonathan obtained 57 per cent. of the vote, receiving 22.5 million votes and the runner-up, General Muhammadu Buhari of the Congress for Progressive Change, received 12.2 million votes. According to international observers, the 2011 elections were considered more transparent and credible than the previous ones and polling overall was free and fair. The African Union observer team stated that it was Nigeria's most transparent poll in decades.

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 was 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 and in 2011 the parties decided to suspend the arbitral proceedings in order to pursue a mediation process and reach a settlement. Following negotiations, the parties reached an agreement on the major heads of the dispute and signed a settlement agreement on 1 May 2013. The settlement agreement does not entail any financial payments to Global and the parties are currently working to implement the settlement agreement and end the dispute.

Dispute with Korea National Oil Corporation

In 2005, the Korea National Oil Corporation ("**KNOC**") and its Nigerian affiliates were awarded oil prospecting licences 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 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 20 August 2009, the court issued 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 26 August 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. The appeal process in the Court of Appeal, Abuja Division was later dropped and both parties filed appeals and cross-appeals with the Supreme Court. The proceedings are ongoing and no dates have been set yet for the appeal and cross-appeal hearings at the Supreme Court.

Dispute with Continental Transfer Technique Ltd

In May 1999, Continental Transfer 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 London. 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. Whilst all proceedings in the Nigerian courts have since been abated, on 26 March 2013 the U.S. District Court of the District of Columbia issued a judgment that grants Continental an award in the amount of US$276.1 million (compared to the amount claimed by Continental of US$423.2 million), including post-judgment interest at a rate of 3.3 per cent. per annum. On 25 April 2013, the Government filed an appeal against the judgment granted by the U.S. District Court in the U.S. Court of Appeal for the D.C. Circuit.

Dispute between the 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 four separate proceedings which the contractor parties (Nigeria Agip Exploration Limited ("**NAE**"), Shell Nigeria Exploration and Production Company ("**SNEPCO**"), Esso Exploration and Production Nigeria Limited ("**Esso**") and Statoil (Nigeria) Limited ("**Statoil**")) have instituted against the NNPC. The issues for determination before the arbitral panels are:

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

The four arbitral tribunals have been constituted, directions hearings have been held, pleadings filed and exchanged by the parties and awards given. However, following the issuance of the arbitral awards, the NNPC filed applications to the Federal High Court, Abuja challenging the arbitration proceedings on the basis that the exclusive jurisdiction to determine tax disputes lies with the Federal High Court of Nigeria pursuant to Section 251 of the Constitution. Consequently, the arbitral award in the Esso case was set aside by the Federal High Court on 24 May 2012, while the court is yet to determine the cases involving NAE, SNEPCO and Statoil.

In addition, the Nigerian Federal Inland Revenue Service ("**FIRS**") also commenced proceedings at the Federal High Court against NNPC and each of NAE, SNEPCO, Esso and Statoil, challenging the propriety of the arbitrations in view of Section 251 of the Constitution and claiming that the Federal High Court has exclusive jurisdiction in matters relating to Nigerian tax. These proceedings have been ruled in favour of FIRS, and the judgments are currently being challenged on appeal.

Under these circumstances, and due to the ongoing nature of the disputes, the amount of damages in dispute cannot 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 the Congo, Chad and Bosnia. Nigeria is currently leading the International Support Mission in Mali (AFISMA). 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 the 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 tenth EDF is coming to an end and the eleventh, for the years 2014-2020, will soon begin. Its overall budget will be approximately €34.2 billion, which represents a 13 per cent. increase compared with the tenth EDF budget. The amount allocated to Nigeria has yet to be determined.

US Relations

In August 2009, the US Secretary of State, Hillary Clinton visited Nigeria, and President Goodluck 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. FDI in Nigeria is concentrated in the petroleum/mining and wholesale and trade sectors. Exxon-Mobil and Chevron are the two largest US corporations 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 United States and Nigeria formed the US/Nigeria Bi-National Commission to provide a platform for a more productive and strengthened bilateral cooperation between the two countries. On 4 June 2012, the two countries launched the seventh meeting of the Bi-National Commission in Washington. During this two-day event, several working groups, including the Governance, Transparency and Integrity Working Group and the Agricultural and Food Security Working Group, discussed Nigeria's achievements and opportunities. In 2012, Nigeria's oil exports to the US amounted to ₦3,969.5 billion (17.44 per cent. of total exports) while total imports from the US amounted to ₦766.3 billion (13.90 per cent. of total imports).

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, the 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, which came into force in January 2010.

To date, China has set up a number of solely funded companies or joint ventures in Nigeria. Some of the main projects contracted or undertaken by Chinese companies in Nigeria are the rehabilitation of Nigerian railways, construction of houses at the Games Village of the National Stadium Complex in Abuja and the construction of the corporate headquarters of the Nigerian Communications Commission.

In June 2009, the Fifth Session of the Nigeria-China Joint Economic and Trade Commission 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.

In 2010, the NNPC signed a MoU with the China State Construction Engineering Corporation Limited ("**CSCEC**") 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. In the aftermath of the strikes and public disorder caused by the attempt to fully deregulate petroleum products pricing in January 2012, the Minister of Petroleum Resources established the National Refineries Special Task Force ("**NRSTF**") to assist the Ministry of Petroleum in putting in place a plan for ensuring self–sufficiency of petroleum products in Nigeria, within a strong commercial framework, in the shortest possible time. According to the report produced by the NRSTF, the refineries proposed to be developed with the CSCEC are still at the stage of preliminary discussions and full negotiations are yet to commence. 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 loan agreements with the Export-Import Bank of China for two loans with a total value of US$899.5 million in order to provide funding for two key infrastructure projects in Nigeria: the Abuja-Kaduna Railway project (US$500 million) and the Nigerian National Public Security Communication System project (US$399.5 million). The loans are for 20 years (with a 7-year grace period) and interest is 2.5 per cent. per annum.

In November 2012, the Federal Government entered into another loan agreement with the Export-Import Bank of China in the amount of US$500 million for the Abuja Light Rail project. The loan has similar terms of 20 years (with a 7-year grace period) and interest rate of 2.5 per cent. per annum.

Disbursements on the three loans and execution of the projects are on-going.

Membership of International and Regional Organisations

United Nations

Nigeria has been a member of the UN since 7 October 1960. Nigeria is a member of the Human Rights Council as well as other agencies of the UN. Nigeria made a commitment to the Millennium Declaration at the UN's Millennium Summit of 2000 and the MDGs. See "*The Federal Republic of Nigeria—Millennium Development Goals".*

Both ECOWAS and the AU have endorsed Nigeria's candidacy for a non-permanent seat on the UN Security Council, which means that Nigeria will be the only African candidate in the election scheduled for October 2013.

IMF/World Bank

Nigeria has been a member of the World Bank since 14 November 1961 and the IMF since 30 March 1961. In February 2013, the IMF concluded the 2012 Article IV Consultation, which involves discussion of economic policies that the IMF regularly holds with each member country. The final 2012 Article IV Consultation report was published by the IMF in May 2013. The IMF met with the Minister of Finance, the Governor of the CBN and other senior government officials and representatives of the private sector. The discussions focused on recent developments in the Nigerian economy, the outlook for 2012 and 2013, 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 in March 2013, the IMF commended the Nigerian authorities for prudent macroeconomic policies that have underpinned a strong economic performance in recent years. Looking ahead, the IMF noted that widespread unemployment (estimated at 23.9 per cent. in 2011 by the NBS) and poverty remain key challenges for policymakers and called for renewed efforts to make economic growth more broad-based and inclusive. In addition, the IMF noted that key economic risks to the country include a sharp decline in oil prices and any potential slow progress implementing the Government's key fiscal reforms due to consensus issues or security concerns. The IMF commended the Nigerian authorities success in restoring financial stability after the 2009 banking crisis, including the new fiscal reforms and the CBN's tight monetary policy, and in light of this achievement, recommended winding down the operations of AMCON to curb moral hazard and fiscal risks.

In 2008, Nigeria met the US$1,005 level of Gross National Income (GNI) per capita, the World Bank's threshold to qualify as middle-income country (MIC), and was reclassified by the World bank as lower-middle-income country (LMIC), compared to the previous classification as a low-income country (LIC) and has been delisted from countries that enjoy the IDA's concessionary window.

On 21 April 2013, at the World Bank/IMF Spring Meetings in Washington, it was announced that the World Bank is going to lend US$300 million to Nigeria to develop a sound mortgage financing structure so as to provide affordable housing to Nigerians. See "*The Economy - Principal Sectors of the Economy – Housing*".

OPEC

Nigeria became a member of the OPEC in 1971. The 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 the OPEC meetings and arrived at by consensus. They are technically voluntary as the OPEC members reserve the rights to their sovereignty; however, there can be pressure to ensure compliance from other member countries. The current OPEC allocation for Nigeria is 1.66 million barrels per day of crude oil (excluding condensates, which are not included in the OPEC quota).

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 the ECOWAS. See "*Foreign Trade and Balance of Payments—Foreign Trade—Trade Policy*".

African Organisations

<u>African Union</u>

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 Nkosazana Dlamini Zuma, a South African politician. 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**"). The 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 and 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.

<u>African Development Bank</u>

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 the ECOWAS. The ECOWAS was established on 28 May 1975 with the signing of the Treaty of Lagos. The 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). 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 the ECOWAS as a share of total trade remains limited due to the lack of harmonisation of the economies.

According to a press release issued by the ECOWAS in November 2012, the ECOWAS region had a population of approximately 300 million, with Nigeria accounting for slightly more than half of that number. The ECOWAS press release also estimated the region's aggregate GDP at approximately US$316 billion, with Nigeria's economy accounting for nearly two thirds of that total.

Nigeria is also a member of the Economic Community of West African States Monitoring Group ("**ECOMOG**"). The ECOMOG was founded in 1990 under the auspices of the ECOWAS countries who were concerned about the threat of instability in the region during the Liberian Civil War. The 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 the 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 BB- (Stable Outlook) by Fitch and BB- (Stable Outlook) by S&P.

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, mainly the subsistence-based and informal agricultural and trade sectors (according to the IMF) of the economy. Real GDP grew 6.58 per cent. in 2012, 7.43 per cent. in 2011 and 7.98 per cent. in 2010. This growth was largely attributed to continued growth in non-oil and gas GDP, which grew 7.88 per cent. in 2012, 8.80 per cent. in 2011 and 8.51 per cent. in 2010.

However, the Nigerian economy remains highly dependent on the oil and gas sector, which accounted for 13.8 per cent of real GDP, 96.8 per cent. of export earnings and 89.4 per cent. of total gross federally collectible revenue in 2012. 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 and gas revenues.

Reforms in recent years have contributed to the diversifying growth of non-oil and gas GDP. Since 2005, the non-oil and gas 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:

	2012	
Economic Sector	**Contribution to real GDP (%)**	**Growth rate (%)**
Agriculture	39.2	3.97
Crude Petroleum and Natural Gas	13.8	(0.91)
Wholesale and Retail Trade	19.9	9.61
Manufacturing	4.2	7.55
Telecommunications and Post	7.1	31.83

Source: NBS

The Government seeks to continue this trend of diversifying the economy by pursuing a range of economic reforms, including power and banking sector reforms, privatisation programmes to address poor infrastructure, including power and transportation, oil and gas reforms to reduce overdependence on oil and gas as a major source of income and policies to improve economic coordination as the uncoordinated economic policies of previous Nigerian governments 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 wellbeing 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 the first stage of Vision 20:2020 and the first of three expected national implementation plans. The First NIP is intended to move the nation towards its Vision 20:2020 objectives as well as to help meet the MDGs by 2015. In early 2011, the current administration announced the introduction of the Transformation Agenda, which prioritises the key projects and programmes in Vision 20:2020 and the First NIP which can be delivered within the four-year tenure of the current Presidential administration. See "–*Transformation Agenda*".

The First NIP has six main areas of focus:

- Physical Infrastructure – focusing on power, transport and housing;
- Productive Sector – focusing on the key sectors 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 – building a knowledgeable workforce and ensuring widespread access to Information, Internet and Communication Technology;
- Governance and General Administration – focusing on electoral reform and combating corruption; and
- Regional Geopolitical Zone Development – fostering accelerated, sustainable social and economic development among regions in Nigeria by encouraging economic competition.

Currently, the First NIP is being reviewed and the results of the review will form the basis for the development of the Second NIP in 2013, for the years 2014 to 2017. The Second NIP is expected to be announced in the third quarter of 2013.

In March 2010, the Federal Executive Council (the "**FEC**") and the National Economic Council approved the results-based National Monitoring and Evaluation ("**M&E**") framework for monitoring and evaluating public expenditure and investment including investments and projects under the First NIP. The report of the M&E (the "**M&E Report**") on the performance of Federal MDAs, with respect to Vision 20:2020 and the First NIP for 2010, was presented to the FEC in May 2011 and to the public in July 2011. According to the M&E Report for 2010 only three sectors – namely, oil and gas, transportation and wholesale and retail trade – were able to meet the growth targets set for them in 2010 in the First NIP. The manufacturing sector, utilities (including electricity) and building and construction sectors, which are critical to achieving Vision 20:2020, performed poorly in relation to the targets set. In respect of agriculture, the M&E Report indicates that massive floods in Sokoto and some other locations in the northern part of the country in 2010 largely contributed to the decline in output growth. The M&E Report also suggested, however that the marginal decline of agriculture's contribution to GDP was consistent with the First NIP, which anticipated that with the development of the economy, the contribution of agriculture to GDP was likely to decline. An evaluation of the manufacturing sector also showed a marginal decline in the growth rate. This was attributed to poor infrastructure, the sub-optimal business environment and high costs of funding. The M&E Report identified that there was a need for special intervention by the Government to ensure that the First NIP targets could be met by the manufacturing sector. In relation to water resources, the M&E Report confirmed that key performance indicators showed that the sector did not meet most of the targets set for it in Vision 20:2020 in 2010. This was attributed to the de-merger of the Federal Ministries of Water Resources and Agriculture. The minerals and metals sector also failed to meet the 2010 targets set for it in Vision 20:2020 and the First NIP. Obtaining reliable data on Nigeria's minerals and metals sector remained a fundamental problem during the period.

An analysis of the key performance indicators for the oil and gas sector showed that the sector met most of the targets set for it in 2010 in Vision 20:2020 and the First NIP. The improved performance of the crude oil sector in 2010 was attributed primarily to rising oil prices in the world oil market and improved oil production associated with relative peace in the Niger Delta region, occasioned by the implementation of the amnesty programme. The tourism sector also appeared to meet most of the targets set for it in 2010 in Vision 20:2020 and the First NIP.

The second M&E Report, for the year ended 2011, is currently being finalised. The Nigerian National Planning Commission ("**NPC**") has indicated that current levels of growth experienced by the Nigerian economy in 2011 and 2012 surpassed the assumptions of the First NIP targets and suggests that the prospects for implementation of many of the macroeconomic reforms contained in the First NIP are good. The Government is currently reviewing the First NIP to identify the key issues and challenges. The results of this review will form the basis for the development of the Second NIP expected to be announced in the third quarter of 2013, for the years 2014 to 2017.

Transformation Agenda

Following his election in 2011, President Goodluck Jonathan introduced the Transformation Agenda, which was based on the goals contained in Vision 20:2020 and the First NIP. A key issue identified in implementing the First NIP was the lack of coordination amongst the various goals to be achieved. Therefore, a key purpose of the Transformation Agenda is to prioritise key goals set out in Vision 20:2020 and the First NIP to be implemented within the four year tenure of the current Presidential administration (2011-2015). The following is a summary of the key points in the Transformation Agenda.

<u>Macroeconomic Framework and Economic Direction</u>

The key policies to be pursued by the Government during the Transformation Agenda period are as follows:

- Key macroeconomic policy choices – ensuring greater harmony between fiscal and monetary policy and pursuing sound macroeconomic policies including fiscal prudence to contain inflation in single digits. The budget process will be reviewed to provide greater clarity of roles between the executive and legislature and to ensure that the appropriation bill is enacted into law within the first month of any year. The existing revenue allocation formula will be reviewed to achieve a more balanced fiscal federalism.

- Job creation – in recent years, the Nigerian economy experienced growth without a corresponding growth in employment, as the rate of growth of the labour forces exceeded employment opportunities that were being created. Composite employment data showed that the rate of unemployment increased from 11.9 per cent. in 2006 to 14.6 per cent. in 2007, 21.4 per cent. in 2010 and 23.9 per cent. in 2011. A significant portion of the unemployed are youths. The Transformation Agenda aims to curb unemployment by:

    - Implementing a youth employment safety net support programme that includes conditional cash transfer and vocational training;
    - Developing industrial clusters to increase jobs;
    - Reviewing university curricula to align with industry job requirements;
    - Enforcing mandatory sub-contracting and partnering with locals by foreign construction companies; and
    - Implementing mandatory skills transfer to Nigerians by foreign construction companies.

- Public Expenditure Management – since 1999, recurrent spending in Nigeria has consistently exceeded capital expenditure, making infrastructure improvements increasingly difficult. Short-term policy measures to address this include:

    - Limiting total recurrent spending as a percentage of GDP to 6 per cent., while increasing capital expenditure as a percentage of GDP to exceed 6.5 per cent.; and
    - Aligning recurrent expenditure with non-oil revenue and devoting a larger portion of oil revenue to capital expenditure.

Governance

During the Transformation Agenda period, policies and programmes directed at addressing governance challenges will focus on public service, security, law and order, legislature, anti-corruption measures and institutions, the judiciary, economic coordination and support for private investment.

Human Capital Development

The Transformation Agenda will focus on education, health and labour with the following key goals:

- Education – promote primary enrolment of all school age children, regardless of income; increase education infrastructure and reduce the pupil/teacher ratio and provide training, capacity building and motivation to teachers and administrators.

- Health – more fully develop the policies underpinning Vision 20:2020 through the National Strategic Health Development Plan with the aim of achieving the MDGs and other local and international targets.

- Labour – implement the National Action Plan on Employment Creation targeted at creating 5 million new jobs annually within the next three years; establish more skills and training institutes and implement local content policy in all sectors of the economy, but in particular in the oil and gas industry.

Real Sector

The following seven sectors have been identified as the main growth drivers during the Transformation Agenda period: agriculture, water resources, solid minerals, manufacturing, oil and gas, trade and commerce and culture and tourism. Performance in these sectors has been constrained by several challenges, including low level of private sector investment, shortage of skilled manpower, poor regulatory environment and the poor state of the infrastructure. Specific policy goals include focusing on securing domestic food supply, promoting private sector investment in manufacturing and strengthening capacity building programmes in core technical areas in oil and gas.

Infrastructure

Infrastructure development is critical for the development of the economy and the well-being of all Nigerians. The following key priority policies will be aimed to develop infrastructure:

- Power – the total proposed investment envisaged in the power sector for 2011-2015 is approximately ₦1.9 trillion. This will be aimed at improving power generation, transmission, distribution and distribution capacity.

- Information and Communication Technology – the proposed investment in this sector for 2011-2015 is ₦22.2 billion. The objectives are to develop a knowledge-based economy, create a friendly investment environment to stimulate FDI in the sector and to develop infrastructure, particularly global connectivity to improve domestic productivity.

- Niger Delta – the proposed investment in the Niger Delta region is ₦335.1 billion. The primary aim is to promote peace and stability in order to encourage sustainable socio-economic development.

- Transportation – the proposed investment in the transportation sector is approximately ₦4.5 billion. This investment will cover the development of roads, railways, inland waterways, ports and airports.

The Transformation Agenda assumes baseline GDP growth of 11.7 per cent. per year and is expected to result in a real and nominal GDP of approximately ₦428.6 billion and ₦73.2 trillion, respectively, by 2015 (as calculated before the rebasing of GDP, which is expected to occur in 2014). GDP growth is expected to be driven by the oil and gas sector, agriculture, telecommunications, manufacturing and building and construction sectors.

The assumptions with respect to GDP growth in 2011 and 2012 were not met, as GDP growth was 7.43 per cent. in 2011 and 6.58 per cent. in 2012. To the extent that some or all of the macroeconomic assumptions are not met, adjustments may be needed to achieve the Transformation Agenda's objectives, which could make the implementation of the Transformation Agenda 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 Transformation Agenda will cost approximately ₦25.7 trillion in total for the period 2011-2015, of which ₦14.6 trillion (56.8 per cent.) will be contributed by the public sector and the remaining ₦11.1 trillion (43.1 per cent.) is expected to be invested by the private sector. Of the public sector contribution, ₦7.7 trillion is expected to come from the Federal Government and ₦6.9 trillion is expected to come from State and Local Governments.

The following table sets forth the amount of estimated Government funding requirements for the Transformation Agenda:

	2012 (₦ million)	**2013 (₦ million)**	**2014 (₦ million)**	**2015 (₦ million)**	**Total 2012-2015 (₦ million)**	**% share of Total**
Real sector	**209,769.80**	**228,950.73**	**242,972.37**	**240,062.06**	**921,754.16**	**14.4**
- Agriculture & Rural Development	112,007.72	120,841.69	136,221.85	131,724.63	500,795.89	7.8
-Water Resources	70,325.41	77,612.00	75,768.00	76,294.67	300,000.08	4.7
- Trade & Investment	14,534.90	16,156.17	16,413.36	16,975.56	64,080.00	1.0
- Mines & Steel Development	12,901.77	14,340.87	14,569.16	15,068.20	56,880.00	0.9
Physical Infrastructure	**592,350.00**	**601,860.00**	**660,870.00**	**736,960.00**	**2,592,040.00**	**40.5**
-Transport	172,800.00	122,180.00	120,560.00	152,980.00	568,520.00	8.9
Roads & Bridges	150,000.00	170,000.00	185,000.00	190,500.00	695,500.00	10.9
FERMA (for Maintenance of Roads)	45,300.00	55,150.00	74,550.00	75,000.00	250,000.00	3.9
Ports	2,750.00	2,980.00	3,210.00	2,860.00	11,800.00	0.2
Aviation (excluding BASA Funds)	35,000.00	45,850.00	17,500.00	14,320.00	112,670.00	1.8
Railways	89,750.00	98,200.00	140,300.00	170,300.00	498,550.00	7.8
- Oil & Gas	18,750.00	22,500.00	24,750.00	32,500.00	98,500.00	1.5
-Power	78,000.00	85,000.00	95,000.00	98,500.00	356,500.00	5.6
Regional Development	**263,424.67**	**293,944.96**	**258,158.73**	**251,922.65**	**1,067,451.01**	**16.7**
- Housing	41,647.71	47,615.74	54,183.24	59,537.65	202,984.34	3.2
- Federal Capital Territory	142,466.00	105,700.00	35,600.00	4,004.00	287,770.00	4.5
- Niger Delta	45,000.00	90,000.00	103,403.53	111,381.00	349,784.53	5.5
Knowledge-Based & ICT	17,155.48	25,314.61	32,485.98	38,500.00	113,456.07	1.8
Science and Technology	13,060.00	20,555.00	27,505.00	38,500.00	99,620.00	1.6
Information Communication Technology	4,095.48	4,759.61	4,980.98	0	13,836.07	0.2
Human Capital Development	**109,420.75**	**206,140.51**	**214,910.58**	**245,646.98**	**746,118.82**	**11.7**
-Education	9,850.00	100,000.00	106,500.00	128,000.00	344,350.00	5.4
-Health	45,310.00	54,000.00	60,000.00	70,000.00	229,310.00	3.6
-Women & Social Development	7,103.45	7,519.03	7,129.33	6,619.58	28,371.39	0.4
Environment	20,000.00	20,000.00	20,000.00	20,000.00	50,000.00	0.8
- Youth Development	11,833.61	10,270.42	6,285.14	6,812.41	35,201.58	0.6
- Labour & Productivity	15,323.69	14,351.06	14,996.11	14,214.99	58,885.85	0.9
General Administration	**50,077.42**	**50,986.32**	**52,357.45**	**50,841.92**	**204,263.11**	**3.2**
Defence & Security	**159,846.06**	**158,791.21**	**161,796.57**	**168,366.15**	**648,800.00**	**10.1**
GRAND TOTAL	**1,184,933.22**	**1,408,179.12**	**1,453,019.72**	**1,522,320.46**	**6,130,428.90**	**95.8**
Government Contribution to Bankable Projects**					111,660.00	1.7
Funds for Other Priority Projects not Listed***					107,911.10	1.7
Total Funds available					**6,399,998.20**	**100**

Source: NPC

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.

Historically (and for each year presented in this Prospectus), the Issuer has prepared real GDP on the basis of 1990 constant basic prices and nominal GDP on the basis of the current basic prices of that year. According to the UN Statistics Division, a country should rebase GDP every five years, whereas Nigeria has not done so since 1990. In November 2011, the Issuer, through the NBS, announced its intention to change the base year for determining GDP to 2010. However, due to difficulties in gathering data, the rebasing has been postponed, first to the third quarter of 2013 and now to 2014. Following the rebasing, it is expected that Nigeria's GDP will significantly increase because new activities that were not included in 1990 will be included in the calculation of GDP.

Nigeria's nominal GDP grew from US$167.4 billion in 2009 to US$260.3 billion in 2012, which improved Nigeria's international ranking from 48th to 39th position (according to the World Bank's Development Indicators). In Naira terms, according to the NBS, the nominal GDP for 2012 was estimated at ₦40.5 trillion. Real GDP growth was estimated at 6.58 per cent. in 2012, down from 7.43 per cent. in 2011. Non-oil real GDP growth was 7.88 per cent. in 2012, a decrease from 8.80 per cent. in 2011.

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 (₦ millions, except percentages; at 1990 constant basic prices)					
	2008	**2009**	**2010**	**2011**	**2012**	**2013[(1)]**
Agriculture	283,175.4	299,823.9	317,281.7	335,180.1	348,490.9	65,376.69
Crop production	252,469.7	267,179.7	282,605.1	298,414.4	309, 643.7	55,801.16
Livestock	17,877.6	19,036.3	20,264.4	21,506.9	22,699.4	5,490.94
Forestry	3,587.6	3,797.5	4,016.8	4,244.6	4,486.7	1,164.78
Fishing	9,240.5	9,810.4	10,395.4	11,014.2	11,661.1	2,919.81
Coal Mining	0.2	0.2	0.2	0.2	0.2	0.6
Crude Petroleum and Natural Gas	116,594.6	117,121.4	123,268.9	123,444	122,316.5	28,622.78
Metal Ores	10.6	11.9	13.2	14.8	16.4	2.83
Quarrying and other mining	2,107.5	2,362.2	2,647.5	2,978.6	3,351.7	649.53
Oil Refining	914.9	978.5	1,049.8	1,116.5	1,185.6	320.81
Cement	554.8	614.9	679.9	753.4	840.7	257.46
Other Manufacturing	26,337.0	28,397.5	30,531	32,810.7	35,274.1	1,624.47
Electricity	22,035.9	22,682.8	23,353.7	24,020.2	24,778.1	4,504.44
Water	948.8	1,045.4	1,152.1	1,269.8	1,399.0	353.64
Building and Construction	12,338.8	13,816.3	15,454.0	17,325.6	19,504.6	6,346.07
Wholesale and Retail Trade	117,002.9	130,438.8	145,074.3	161,519.9	177,049.7	46,099.08
Hotels and Restaurants	3,104.5	3,473.6	3,888.6	4,360.4	4,890.1	1,430.33
Road Transport	16,400.6	17,534.5	18,728	20,017.9	21,394.4	5,265.74
Rail Transport and Pipelines	2.0	2.1	2.2	2.4	2.5	0.35
Water Transport	383.3	405.1	426.8	450.3	476.1	120.74
Air Transport	396.0	427.3	458.7	492.3	526.5	139.69
Transport Services	1,022.3	1,078.2	1,137	1,198.9	1,266.1	333.20
Telecommunications	19,159.2	25,812.4	34,803.4	46,970.7	62,045.5	16,397.88
Post	441.3	486.4	535.9	590.4	651.9	146.89
Financial Institutions	24,611.8	25,543.4	26,495.4	27,489.2	28,537.6	7,296.34
Insurance	982.3	1,076.5	1,174.0	1,280.7	1,396.6	384.60
Real Estate	10,970.8	12,171.0	13,479.3	14,901.7	16,452.3	4,071.91
Business Services	799.9	849.4	900.2	955	1,013.6	257.19
Public Administration	4,678.3	4,884.8	5,089.8	5,297.4	5,519.7	1,380.66
Education	1,311.1	1,442.3	1,583.8	1,737.3	1,1908.4	509.51
Health	300.9	331.0	364	398.7	435.2	117.68
Private Non Profit Organisations	25.1	27.9	31.0	34.3	37.9	10.39
Other services	5,058.5	5,558.9	6,101.3	6,713.3	7,397.5	1,851.54
Broadcasting	533.47	578.73	626.7	676.6	733.7	190.91
Total GDP	**672,202.8**	**718,977.3**	**776,332.4**	**834,001.3**	**888,893.0**	**194,063.4**
Non-Oil GDP	555,608.2	601,855.9	653,063.5	710,557.3	766,576.5	165,440.6
Total GDP Growth Rate	5.98	6.96	7.98	7.43	6.58	6.56
Oil GDP (% change)	(6.19)	0.45	5.25	0.14	(0.91)	
Non-Oil GDP (% change)	8.95	8.32	8.51	8.80	7.88	

(1) For the three months ended 31 March 2013; Estimates
Source: NBS

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

Activity Sector	For the year ended 31 December (₦ millions, except percentages; at current basic prices)					
	2008	2009	2010	2011	2012	2013[1]
Agriculture	7,981,397.5	9,186,306.1	10,310,655.6	11,593,434.2	13,413,842.4	2,697,962.6
Crop production	7,114,794.00	8,200,921.70	9,196,004.50	10,323,648.70	11,965,513.67	2,299,689.75
Livestock	512,943.60	583,623.50	662,143.80	756,030.90	863,546.24	233,661.65
Forestry	99,022.70	111,071.50	124,322.90	140,184.40	156,553.54	39,030.33
Fishing	254,637.20	290,689.40	328,184.40	373,570.20	428,229.01	125,580.89
Coal Mining	0.5	0.6	0.7	0.8	0.99	0.37
Crude Petroleum and Natural Gas	9,097,750.70	7,418,148.90	14,505,759.30	15,285,004.20	15,004,619.95	3,681,051.51
Metal Ores	31	34.7	39.1	45.1	54.42	19.51
Quarrying and other mining	36,158.60	40,577.50	45,691.80	52,412.30	59,333.33	15,967.26
Oil Refining	47,582.10	53,958.90	61,313.70	70,693.40	80,135.56	25,997.84
Cement	17,162.70	19,556.60	22,230.70	25,789.80	30,213.96	8,043.75
Other Manufacturing	520,828.30	538,793.40	559,525.80	598,330.90	651,117.48	29,620.61
Electricity	50,417.90	59,613.40	67,433.20	77,444.00	87,389.33	22,804.29
Water	2,252.70	2,535.10	2,860.60	3,286.10	3,915.94	1,000.33
Building and construction	306,581.60	347,690.70	394,666.20	456,284.90	539,676.12	145,220.73
Wholesale and retail trade	3,503,181.70	4,082,351.80	4,648,697	5,385,815.10	6,284,923.68	1,795,908.18
Hotels and Restaurants	86,058.70	98,961.70	113,791.80	130,821.00	151,813.86	41,644.96
Road Transport	450,329.80	475,907.30	495,756.20	529,193.40	621,214.30	120,480.83
Rail Transport and Pipelines	9.7	10.2	10.8	11.7	13.42	1.67
Water Transport	1,184.80	1,248.40	1,353.70	1,508.70	1,736.27	298.49
Air Transport	4,622.60	5,243.10	5,866.00	6,579.90	7,696.55	1,789.86
Transport Services	22,979.80	24,312.00	25,999.70	28,498.60	33,121.74	5,262.69
Telecommunications	248,102.10	254,195.40	260,707.90	292,539.10	331,502.79	80,609.44
Post	1,781.30	1,808.30	1,849.10	1,947.40	2,199.08	528.02
Financial Institutions	380,445.60	430,991.60	492,574.90	650,865.60	615,822.47	180,367.65
Insurance	11,598.80	13,244.40	15,224.40	17,362.50	20,209.23	5,383.89
Real Estate	1,002,303.20	1,142,366.60	1,268,182.40	1,424,064.90	1,708,645.69	360,856.07
Business Services	62,130.40	70,643.10	80,044.50	91,236.70	104,700.42	25,629.36
Public Administration	174,030.00	197,262.30	224,188.40	253,332.30	288,075.17	72,401.99
Education	39,394.10	47,095.70	56,091.00	65,482.30	76,893.58	20,107.56
Health	9,961.70	11,085.90	12,470.20	14,238.30	16,084.02	4,208.51
Private Non Profit Organisations	188.1	212	244.3	276.5	327.98	83.81
Other services	235,118.80	267,194.90	308,520.60	350,167.20	405,328.81	149,551.16
Broadcasting	2,744.7	2,888.4	3,004.8	3,193.7	3,491.2	976.48
Total GDP	**24,296,329.50**	**24,794,239.00**	**33,984,754.40**	**37,409,860.60**	**40,544,099.92**	**9,493,779.44**
Non-Oil GDP	15,198,578.80	17,376,090.10	19,478,995.10	22,124,856.40	25,539,479.97	5,812,727.93
Total GDP Growth Rate	17.62	2.05	37.07	10.08	8.38	
Oil GDP (% change)	20.77	(18.46)	95.54	5.37	(1.83)	
Non-Oil GDP (% change)	15.81	14.32	12.10	13.58	15.43	

(1) For the three months ended 31 March 2013; Estimates
Source: NBS

Principal Sectors of the Economy

Oil and Gas

The oil and gas sector is very important 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 13.8 per cent. in 2012, despite it constituting 89.4 per cent. of total gross federally collectible revenue and 96.8 per cent. of export earnings. The huge oil and gas resource base has positioned the country as one of the key players in the global supply of energy. 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 DPR, controls and supervises the activities of all players in the Nigerian petroleum industry. The scope of the DPR activities ranges 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 is the state-owned oil corporation through which the Federal Government regulates and participates in the country's petroleum industry. The NNPC was established by statute 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 four 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 NNPC estimates Nigeria's crude oil reserves at 36.0 billion barrels as at 31 December 2011. Nigeria exported 818,200,116 barrels out of the approximately 853.13 million barrels of the oil it produced in 2012 and approximately 20 per cent. of this was exported to the United States. According to the NBS, oil exports in 2012 remain geographically diversified with approximately 39 per cent. of total oil exports exported to Europe, approximately 30 per cent. to the Americas, 26 per cent. to Asia and the remaining 5 per cent. to Africa. Oil production which was not exported was consumed in the domestic market. Oil reserves will run out in approximately 46 years if no new discoveries are made.

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 was first discovered in 1956 in Oloibiri, Bayelsa State in the Niger Delta by Shell D'Arcy. Oil production began in 1958.

In the 1950s and 1960s, several major international oil companies acquired licences 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 mbd 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 mbd but declined again to an average of 2.2 mbd in 2007 due to the unrest in the Niger Delta and the OPEC quota constraints. Production declined further in 2008, when production fell to an average of approximately 2.1 mbd. 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, the IOCs 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.

Production began to increase again in the second half of 2009, with an average of 2.1 mbd, and increased further to an average of 2.46 mbd in 2010. Production has however declined over the last two years, falling slightly to 2.45 mbd in 2011 and to 2.3 mbd in 2012 and is expected to fall to 1.9 mbd in July 2013. The renewed decrease in oil production is believed to be a consequence of the higher levels of disruptions due to facility shut downs resulting from vandalism and oil theft, which has affected production from the Bonny, Forcados and Qua Iboe terminals. Pipeline vandalism has led to significant financial costs (involving crude product losses and pipeline repairs) totalling approximately ₦167 billion in 2011, as well as to violence and loss of human lives. See "*Risk Factors—The Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil*" and "*There are risks related to political instability, security, religious differences, ethnicity and regionalism in Nigeria*". The Government has taken several steps to address the problem of pipeline vandalism and oil theft including the implementation of the amnesty programme, the deployment of technology and security personnel in the affected areas, and more recently, the establishment of community policing where communities become stakeholders in pipeline infrastructure and are therefore encouraged to protect the pipelines and maintain security. In April 2012, the Minister of Petroleum announced plans to increase oil production capacity to 4 mbd by 2020. It is expected that the increased oil production will be achieved through a combination of exploration in new fields and increased production efficiency in existing fields.

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 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 the OPEC, as a primary aim of the 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 licences for oil exploration and production. The licences that can be issued pursuant to the Petroleum Act 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 IOCs. The OMLs are held by the Government and IOCs in proportion to their respective ownership interests and the relationship between the Government and the IOC is governed by a Joint Operating Agreement. Over the last two years, divestments by IOCs of certain interests in oil and gas assets have resulted in some joint ventures involving indigenous companies.

- Production Sharing Contract ("**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 – an arrangement pursuant to which the OML holder farms-out those fields within its licence. In 2003, IOCs were compelled to farm-out fields that had remained unproduced for more than ten 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. As at 31 December 2012, there were 12 joint ventures and approximately 47 PSCs in place. Other oil companies, including independents and domestic oil companies, may operate in partnership with IOCs under sole risk or other arrangements.

Concessions/Sole Risk

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 into 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 MoUs 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.

Between 2010 and 2012, Shell, Total and AGIP divested their joint 45 per cent. participating interest in several concessions owned by the NNPC/Shell/Total/AGIP joint venture to various consortia including Nigerian indigenous companies. As part of each of these divestments, new joint ventures were established between the NNPC and the new owners of the 45 per cent. interest.

The table below sets out information regarding the joint venture arrangements with their equity holdings as at 31 December 2012:

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%
NNPC/Seplat	55%	45%
NNPC/FHN	55%	45%
NNPC/Shoreline	55%	45%
NNPC/Neconde	55%	45%
NNPC/NDWestern	55%	45%
NNPC/Elcrest	55%	45%

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 IOCs developed alternative funding arrangements, whereby 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.

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 are 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 change between different cost recovery limits or profit splits. 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 (related to the upstream) 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.

<u>Marginal Field Development Programme</u>

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 had held their OML licence for more than ten 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 IOCs 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 DPR. 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.

<u>Service Contracts</u>

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 the NPDC and Sinopec, which is yet to reach production.

Fiscal Arrangements

Oil revenue is a significant source of revenue for Nigeria, constituting 89.4 per cent. of all federally collectible revenue in 2012. 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
- licence 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				
	2008	**2009**	**2010**	**2011**	**2012**
			(*US$ millions*)		
Oil Revenue	6,530.6	3,191.9	16,796.70	25,416.40	20,939.30
Sales of Crude oil	3,533.1	1,798.5	10,069.1	14,304.0	9,010.3
Sales of Gas[(1)]	180.8	58.6	1,664.3	2,276.2	2,334.0
Taxes and fees[(2)]	2,135.9	924.9	4,861.8	8,234.8	8,877.1
Royalties	680.8	410.0	201.5	601.4	717.9

(1) Includes NGL and LPG.
(2) Includes bonuses and rents.
Source: The Office of the Accountant General of the Federation

The reduction in the amount of oil revenues for 2012 compared to 2011 was a result of lower crude oil production and export.

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 the 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 at 31 December 2012. The next licensing round is under consideration.

In 2012 a total of 3,440 square kilometres of 3D seismic data was acquired and 11,604 square kilometres was processed or reprocessed by joint ventures and PSC companies. 31 rigs were in operation and 133 wells were drilled. In 2011 a total of 3,414.5 square kilometres of 3D Seismic data was acquired by joint ventures and PSC companies, and a total of 10,080.8 square kilometres of 3D Seismic data was processed or reprocessed by joint ventures and PSC companies. Out of the total data acquired, companies in joint venture arrangements with the NNPC acquired 374.2 square kilometres, while PSCs acquired 3,066 square kilometres. 31 rigs were in operation in 2012. The joint venture companies had 19 rigs, PSCs had 12 rigs and the service contract companies had none. In the same year, 133 wells were drilled, which included 93 developmental wells, 21 workover or completion wells, ten appraisal wells, and nine 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 *(mbd)*				
	2008	**2009**	**2010**	**2011**	**2012**
Production	2.1	2.1	2.5	2.4	2.3
Exports	2.0	2.1	2.4	2.3	2.2

Sources: NNPC, CBN

	For the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
			(barrels)		
Production	768,745,932	780,347,940	896,043,406	866,245,232	853,126,649
Exports	724,479,796	769,195,205	864,702,101	822,084,235	818,200,116

Source: NNPC

The total crude oil and condensates production in Nigeria averaged 2.3 mbd in 2012, a decrease from the 2.4 mbd in 2011 and 2.5 in 2010. Nigeria produced a total of approximately 853.13 million barrels of crude oil in 2012 compared to the approximately 866.2 million barrels of oil produced in 2011. This decrease was mainly due to rising levels of production disruptions due to facility shutdowns resulting from vandalism and oil theft.

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		
	2010	**2011**	**2012**
		(barrels)	
Company			
Joint venture companies	530,703,945	521,517,352	465,329,329
Production Sharing Companies	316,887,117	289,333,720	320,434,163
Service Contracts	2,711,402	2,802,031	3,056,412
Independent/Sole Risk Companies	41,937,495	44,511,369	46,245,466
Marginal Fields Companies	3,803,447	8,080,760	18,061,279
Total	**896,043,406**	**866,245,232**	**853,126,649**

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 reserves with four major discoveries brought onstream at 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 January 2006 and December 2012, there were 6,167 reported cases of oil spill incidents, which included a total volume of 201,496 spilled barrels. During the same period, a total of 1,562 oil-impacted sites were remedied and rehabilitated by the relevant oil companies under the guidance and supervision of NOSDRA. 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.*"

In December 2011, NOSDRA and the Nigerian Maritime Administration and Safety Management Agency ("**NIMASA**") recommended that the Government fine Shell Nigeria Exploration and Production Company ("**SNEPCO**") US$11.5 billion for an oil spill in the Bonga field. NOSDRA recommended that SNEPCO be fined US$5 billion and NIMASA recommended an additional US$6.5 billion fine for the same spill. The Bonga oil spill was caused by a rupture in an export hose that caused an estimated 40,000 barrels of crude oil to spill across 950 square kilometres of water, severely affecting the environment and the surrounding communities. SNEPCO is contesting the fine, claiming that there is no legal basis for the proposed fines. In April 2013, the Nigerian House of Representatives announced that it will try to intervene in order to mediate between the parties.

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 in Nigeria 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 (such as naphta). 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 2012, the total quantity of dry crude oil and condensate refined by the refineries in Nigeria was estimated at 4,544,000 metric tonnes, down from 5,779,737 metric tonnes in 2011. This decrease was attributable to incidents of vandalism of pipelines, shutdowns due to non-evacuation of refined products, and to shutdowns for safety maintenance. In 2012, the total value of imported petroleum products was US$9.25 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 14.62 mmtpa of white oil products and 6.14 mmtpa of gasoline, problems such as fire, sabotage, poor management, lack of turnaround maintenance and non-commercial business models have meant that the refineries have on average produced only about 19.05 per cent. of installed capacity for white oil products (2.78 mmtpa) and 19.75 per cent. of installed capacity for gasoline (1.2 mmtpa) respectively over the past ten 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 products and the need to increase imports to meet domestic demand. Current efforts to rehabilitate and revamp these refineries are designed to enable refineries to reach about 90 per cent. of installed capacity, producing approximately 13.6 mmtpa of white products and 5.53 mmtpa of gasoline. See "*Oil and gas— Midstream—Oil refining capacity constraints and proposed reforms*".

The combined average refining capacity utilisation for 2012 was 24.6 per cent, compared to 24.0 per cent. in 2011.

Oil refining capacity constraints and proposed reforms

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 petroleum products remains a very sensitive political and social issue, and is one of the elements currently under consideration in connection with the PIB. See "*The Economy—Principal Sectors of the Economy— Oil and Gas—Oil and Gas Reforms*". In 2012, the combined average capacity utilisation of the refineries was 24.61 per cent., slightly up from a 24 per cent. capacity utilisation rate in 2011. In the first quarter of 2013, the combined average capacity utilisation of the refineries was 31.91 per cent. According to the NNPC 2012 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 2,736 incidents of pipeline vandalism were recorded compared to 2,230 incidents recorded during 2011, representing a 23 per cent. increase.

As of December 2012, there were 24 licensed private refinery projects which when completed are expected to contribute an aggregate of 253,000 barrels per stream day to Nigeria's refining capacity in the short term (during the next 24-48 months) and 726,000 barrels per day in the long term (during the next 5-6 years). These include, among others, 12,000 barrels per stream day facilities located in Eket in Akwa Ibom State and 100,000 barrels per stream day facilities located in Ibeno in Akwa Ibom State, as well as additional facilities in Rivers State, Imo State and Lagos. A "stream day" refers to the maximum number of barrels of input that a facility can process within a 24-hour period. The refineries are at various levels of completion. In June 2010, the DPR certified the completion of key units of the first phase of the Amakpe International Refinery for 6,000 barrels per stream day. Other refinery projects are ongoing. These reforms include the rehabilitation of three refineries at an estimated cost of US$1.8 billion. Upon completion of the rehabilitation programme, the Government estimates that the three refineries will be at 90 per cent. of capacity, satisfying between 60 and 70 per cent. of domestic demand for refined oil products at an average consumption of petroleum products growth rate of 4 per cent. per annum.

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 construct two refineries in 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) are expected to be refurbished and upgraded pursuant to a rehabilitation and maintenance programme in the coming months. Indications from the NNPC are that with turnaround maintenance, the capacity utilisation of the refineries can be increased to 90 per cent. by the end of 2015. Rehabilitation costs are estimated to be in the region of US$1.8 billion, US$849 million for the Warri refinery alone, US$458 million for the Kaduna refinery, and US$463 million for PHRC.

In 2010, the NNPC executed an MoU with the CSCEC to seek jointly 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 stream 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.

In the aftermath of the strikes and public disorder that followed the attempt to fully deregulate petroleum products pricing in January 2012, the Minister of Petroleum Resources established the NRSTF to assist the Ministry of Petroleum Resources in putting in place a plan for ensuring self–sufficiency of petroleum products in Nigeria in the shortest possible timeframe. The terms of reference for the work of the NRSTF included the conduct of diagnostic review of the refineries, a review of private refinery licensing and partnership models for greenfield refineries. The report of the NRSFT was submitted to the Minister of Petroleum Resources in August 2012. A summary of its findings are below:

- NNPC Refineries – The NRSFT recommended that the Government relinquish control of the operation and management of the three Nigerian refineries by divesting a majority of its equity to competent, resourceful and experienced refining private partner(s) in accordance with the Public (Privatisation and Commercialisation) Enterprises Act in an aggressive but workable time-frame.

- Pricing – The NRSFT recommended full deregulation of prices in the downstream sector prior to the completion of the privatisation process, but subject to putting in place adequate controls to improve the associated social and economic burden on the populace.

- Refineries Licensing - The NRSFT also examined 35 greenfield private refinery licensees/applicants and seven were found to have reasonable potential.

Following the submission of the NRSFT's report in November 2012, the Government established a committee to prepare a White Paper on the report for consideration by the FEC. According to the NRSFT's report, the refineries proposed to be developed with the CSCEC are still at the stage of preliminary discussions and full negotiations have yet to begin.

Natural Gas

According to data from the Ministry of Petroleum Resources, Nigeria possesses natural gas reserves of 182.7 trillion cubic feet (associated and non-associated) as at 31 December 2012.

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 (that is, the burning of natural gas found with crude oil deposits as a waste product). 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 of Petroleum Resources was however authorised to permit gas flaring upon being satisfied 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 domestic consumers. This lack of infrastructure is mainly due to the refusal of IOCs to build internal pipeline for the domestic markets. The existing domestic gas pricing structure has also not encouraged investments in exploring and developing non associated gas fields.

Previously, the Gas Flaring (Prohibition and Punishment) bill, which was originally introduced to the National Assembly in 2007, had proposed to set a target of zero gas flaring by 31 December 2008 and had provided for incentives for the production and use of gas. The bill was passed by the Senate on 2 July 2009 but was then rejected by the House of Representatives prior to the expiration of the tenure of the then residing National Assembly in 2011. The Gas Flaring Bill was subsequently reintroduced to the Senate in March 2012 and has now been consolidated into the latest draft of the PIB which is currently before the National Assembly. The provisions in respect of gas flaring in the PIB do not prescribe a specific flare-end date but rather vest the Minister of Petroleum Resources with the power to prescribe a date from which flaring will be completely illegal.

A total of 2,580.1 bscf of natural gas was produced by 15 oil producing companies (six joint ventures, four PSCs, one service contract company and four independent/marginal field companies) in 2012 compared to a total of 2,400.4 bscf in 2011, representing an increase of 7.5 per cent. Out of the quantity produced in 2012, 2,156.5 bscf (83 per cent.) was utilised, while in 2011 a total of 1,781.3 bscf (74 per cent.) was utilised. In 2012 423 bscf (17 per cent.) of natural gas produced was flared while in 2011, a total of 619.0 bscf (26 per cent.) of natural gas produced was flared. The total natural gas liquid ("**NGL**") produced in 2012 was 0.995 million metric tonnes (0.989 million metric tonnes was lifted) and the share between the NNPC and Mobil was 41.5 per cent. and 58.5 per cent. respectively while in 2011, the total NGL produced was 1.265 million metric tonnes (1.268 million metric tonnes was lifted), out of which Mobil had about 52 per cent. and the NNPC 48 per cent. In 2012 LPG production was approximately 0.379 million metric tonnes (with lifting slightly above 0.355 million metric tonnes), while in 2011 a total amount of 0.337 million metric tonnes was produced (with lifting slightly above 0.327 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-kilometre 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-Ikot 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 Liquefied Natural Gas ("**NLNG**") – This is an export facility at Bonny that has a 22 mmtpa capacity. It has been in operation since 1999 and currently has six producing trains. The plant is owned by the NNPC (49 per cent.), Shell (25.6 per cent.), Total (15 per cent.) and Agip (10.4 per cent.).

- 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 per cent.), the NNPC (25 per cent.), Shell (18 per cent.), Takoradi Power Company (16.3 per cent.), Société Togolaise de Gaz (2 per cent.) and Société BenGaz S.A. (2 per cent.).

In addition, the following projects are under development:

- The two-train, 10 mmtpa capacity Brass LNG project is planned to be developed at Brass River by the NNPC (49 per cent.), ConocoPhillips (16.25 per cent.), Eni (16.25 per cent.), Total (13.50 per cent.) and others (5 per cent.). In 2009, the Government approved the divestment of 10 per cent. of the 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 mmtpa capacity Olokola (OK) LNG project is planned to be developed in the Ogun State by the NNPC (40 per cent.), Chevron (19.50 per cent.), Shell (19.50 per cent.), BG (14.25 per cent.) 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 bscf per day of gas to Algeria and onwards to European markets.
- The Escravos-Lagos Offshore Pipeline System will have a capacity of 1.25 bscf per day and will transport gas from Escravos to Lagos. Significant progress has been made and about 300 kilometres, (out of 600 kilometres, of this expansion work has been concluded and is in operation, resulting in increased gas supply to power plants.

In its current form, the 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 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. The six trains of the NLNG facility are now fully operational, and the plant has a production capacity of 22 mmtpa of LNG and 5 mmtpa of NGLs (LPG and condensates) from 3.5 bscf per day of natural gas.

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. In December 2012 following an initial announcement by ConocoPhillips that it was considering an exit from its Nigerian operations, the Nigerian indigenous oil company, Oando Plc. announced that its affiliate, Oando Energy Resources, had entered into agreements with ConocoPhillips to acquire its entire business interests in Nigeria, including ConocoPhillips' 17 per cent. stake in Brass LNG.

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 southeastern 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.

Following an initial screening process of potential bidders in early 2009, 15 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. Significant progress has since been made with respect to the pipeline network of the gas infrastructure programme. The expansion of the key 600 kilometres ELPS's capacity from 1billion cubic feet per day to 2 billion cubic feet per day has commenced and approximately 300 kilometres (Escravos Warri Oberi Geregu; Itoki Olorunshogo) of the expansion has already been completed and is in operation. The expansion has resulted in an increase in gas supply to power plants. In addition, work has commenced on the 120 kilometres east-west gas pipeline, providing a vital link between the reserves-rich eastern area of Nigeria and demand-intensive markets in the west and the north. Furthermore, the engineering design for the South-North Calabar to Kano pipeline has been completed and the procurement of line pipes is underway. The construction of the pipeline is expected to commence following the procurement of pipes.

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. Some of the incentives include 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 mbd of crude oil and over 4 billion cubic feet of gas per day by the end of 2013. Out of this amount, the Government is expected to provide approximately US$3.1 billion. The Government has also proposed the creation of a purpose-built, gas-based industry park where fertiliser, methanol and other petrochemical industries will be located. 2,500 hectares of land in Delta State have already been secured for the industrial park and geotechnical surveys and environmental impact assessments are currently being carried out.

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 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 of 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 introduced 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 makes 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.

In early 2012, the Federal Government decided to deregulate the downstream oil sector by removing existing subsidies on refined petroleum products. Following nationwide strikes and negotiations with trade unions, the Government instead adopted the policy of reducing existing subsidies and channelling the savings to the SURE-P. The SURE–P covers a number of priority projects of the Federal Government that will be implemented during the 2012-2015 period using the savings from the fuel subsidy reduction. The programme has been initiated as part of Vision 20:2020 and primarily seeks to stimulate the economy and alleviate poverty through critical infrastructure projects.

Following the partial removal of the fuel subsidy and in order to improve transparency and data collection with respect to petroleum imports, the Government commissioned an audit of the subsidy regime. Two separate and independent audit teams monitor the subsidy process, with one team monitoring the arrival of vessels carrying petroleum products imported into the country and conducting a physical verification of the quantity of petroleum products discharged by each vessel, and the second team conducting fiscal verification by comparing the statistics collected by the first audit team to the numbers reported by the importers before payments for subsidy on petroleum products are made.

If the PIB is adopted as currently envisaged, the petroleum products market will be deregulated and subsidies and price controls on refined oil will eventually be eliminated. See "*The Economy—Principal Sectors of the Economy— Oil and Gas—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 initial introduction of the PIB in 2008 and the enactment of the Nigerian Content Act in 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:

- enhancing exploration and exploitation of petroleum resources;
- separating policy, regulation and commercial activities;
- creating a competitive business environment;
- significantly increasing domestic gas supplies, especially for power generation and industrial purposes;
- establishing a fiscal framework that is flexible, stable and competitive;
- the creation of efficient regulatory institutions;
- the promotion of the management and allocation of petroleum resources in accordance with principles of good governance, accountability, transparency, and the promotion of sustainable development and economic value in Nigeria;
- the promotion of better community relations and the development of Nigerian content; and
- the promotion and protection of health, safety and the environment.

The PIB covers upstream, midstream and downstream sectors of the Nigerian oil and gas industry. Key highlights of the PIB are as follows:

Institutions

The PIB seeks to completely reorganise and restructure the institutions charged with responsibility for the regulation of the Nigerian oil and gas industry. In addition to the Ministry of Petroleum Resources, the PIB also provides for the following regulatory bodies:

- The Petroleum Technical Bureau ("**PTB**") – an advisory council to the Minister with no independent, direct regulatory powers. The PTB has the functions of the former Frontier Exploration Services;
- The Upstream Petroleum Inspectorate – technical and commercial regulator for upstream activities and operations within the industry; and
- The Downstream Petroleum Regulatory Agency – technical and commercial regulator for downstream activities and operations within the industry.

In addition to the foregoing regulatory agencies, the PIB also provides for the establishment of the following agencies:

- The National Asset Management Corporation ("**NamCorp**"). The NamCorp is required to operate on commercial principles and has responsibility for acquiring and managing investments of the Government in the Nigerian upstream petroleum industry;
- The Nigerian Petroleum Assets Management Company ("**NamCom**") – The NamCom is to be established as a limited liability company under the Companies and Allied Matters Act, 1990. It is charged primarily with holding the Government's interests in the joint ventures and any other assets and liabilities which may be transferred to it;
- The NNOC – The NNOC is also to be incorporated as a limited liability company. The current draft of the PIB contemplates that the Government will sell 30 per cent. of the NNOC on the Nigerian Stock Exchange, The NNOC is to be the holder of concessions in the Government's production sharing contracts; and
- The National Gas Company – to be incorporated as a limited liability company and to take over the assets, liabilities and functions of the subsisting Gas Company of Nigeria.

Fiscal

The PIB proposes comprehensive changes to the fiscal regime for upstream activities and operations in the Nigerian oil and gas industry, including the following:

- Abolition of the existing Petroleum Profits Tax and the introduction of the Nigerian Hydrocarbon Tax (in addition to the obligation to pay general corporate income tax). This change is designed to increase the Government's take from operations under PSCs and produces the following effective tax rates for oil companies:
  - 55 per cent. for deep offshore and frontier areas (currently 50 per cent.); and
  - 80 per cent. for onshore operations (currently 85 per cent.).

In addition to the foregoing tax rates, the PIB also proposes the introduction of a new requirement for operators to make a monthly payment of 10 per cent. of net profits to a dedicated fund for the development of economic and social infrastructure of communities in petroleum producing areas.

Aside from fiscal and institutional issues, the PIB also contains provisions which seek to give existing gas flaring and the National Domestic Gas policies legal backing.

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. The 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 and second readings in the House of Representatives and the Senate between December 2008 and July 2009. Public hearings on the PIB were held in both chambers of the National Assembly in July 2009 at which the inter-government agency team of the Government (comprised of representatives of relevant ministries and departments), 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 continued to engage key stakeholders on the PIB. Subsequently, on 9 December 2010, the Senate slated the report of its Petroleum Resources Committee for consideration; the report was, however, stood down with the expectation that it would subsequently be considered. The Committee of the House of Representatives released its report on the PIB in early 2011. Neither of the reports was eventually considered by the respective chambers of the National Assembly and the PIB was not passed before the end of the tenure of the sixth National Assembly in May 2011, which meant that it then lapsed. Prior to the end of the tenure of the sixth House of Representatives, its standing rules were amended to provide for the re-introduction of bills such as the PIB which failed to progress beyond the committee stage of the legislative process. In line with these rules, the report of the sixth House of Representatives on the PIB was reintroduced as a revised version of the PIB on 26 July 2011. Following civil unrest occasioned by the removal of the fuel subsidy, the Minister of Petroleum Resources established the eight-member NRSTF and a Technical Committee with a mandate to review all previous versions of the PIB, and prepare an updated version for submission to the National Assembly. The NRSTF, together with the Technical Committee, submitted the revised PIB to the Federal Government on 29 June 2012. On 18 July 2012, the President re-submitted the PIB to the National Assembly. After its formal introduction and subsequent readings, in March 2013, the PIB finally passed a second reading in the Senate. Following the second reading, the PIB was referred to an ad-hoc Committee of the House of Representatives and in the Senate it was referred to committees on Petroleum (Upstream and Downstream), Gas and Judiciary, Human Rights and Legal Matters. The committees have commenced public hearings across the country and are expected to report back to the respective chambers of the National Assembly.

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 PIB will be passed by the two chambers of the National Assembly and will be forwarded to the President for assent. It is not clear when the PIB will be passed into law, or whether the final form of any PIB ultimately adopted will differ significantly from current proposal. 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 Content Act

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 of 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 Nigerian 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.

As a result of the Nigerian Content Act, Nigeria has seen growth in the domestic ownership of oil and gas assets in the marine sector (through the ownership of land, swamp and offshore rigs), established a scheme for the production of Nigerian-made steel pipes, built the largest dry dock facility for vessel maintenance in West Africa and developed training and employment opportunities using domestic industry projects, including training on environmental remediation and geosciences training. Reforms have also focused on developing programmes for domestic suppliers in the oil and gas industry.

Subsidy Re-investment and Empowerment Programme - SURE-P

The SURE-P is a special intervention programme devised in February 2012 as a means of utilising the savings from reduction in fuel subsidy. The objectives of the SURE-P are:

- To mitigate the immediate impact of the partial petroleum subsidy removal on the population by laying a foundation for the successful development of a national safety net programme that targets the poor and vulnerable on a continuous basis. This applies to both the direct and indirect effects of subsidy withdrawal;
- To accelerate economic transformation through investments in critical infrastructural projects, so as to drive economic growth and achieve Vision 20:2020; and
- To promote investment in the petroleum downstream sector.

The SURE-P has intervened in various sectors of the economy, spending approximately ₦572 billion in its first year of operation.

Agriculture

Agriculture is a major driver of economic growth in Nigeria, and is becoming increasingly important in the effort to diversify the Nigerian economy from reliance on oil. It is comprised of four sub-sectors namely crop production (including food crops), forestry (including tree crops), livestock (including poultry) and fishery. In 2012, agriculture contributed approximately 39.2 per cent. to real GDP, down from approximately 42 per cent. in 2011, principally due to flooding in various food-producing regions in 2012. The agriculture sector grew by 3.97 per cent. in 2012, compared to

5.64 per cent. in 2011. According to the IMF, the Nigerian agricultural sector employs over 50 per cent. of the labour force.

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 39.2 per cent. in 2012, 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. The agriculture sector accounted for approximately 34.1 per cent. of all non-oil exports in Nigeria in 2012.

Currently in Nigeria agriculture is largely subsistence-based, but there are a number of 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 level of agricultural imports by 50 per cent. To achieve this goal the Government has plans to breed and distribute high-yield disease-resistant crop species, livestock and fisheries, strengthen the research capacity of 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, establish new irrigation projects, adequately capitalise the Nigerian Agriculture Cooperative and Rural Development Bank (currently the Bank of Agriculture), attract youths to agricultural production, incorporate modern technology and incentives (such as scholarships, grants and soft loans) to sustain agricultural growth and 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 Projects, the Fertiliser Revolving Fund, the presidential initiatives on cassava, rice, vegetable oil, tree crops and livestock and the restructuring and recapitalisation of the Bank of Agriculture. 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. Production of cassava increased from 33 mmtpa in 1999 to 60.87 mmtpa in 2012 whilst production of rice increased from 3.3 mmtpa to 5.61 mmtpa 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.

The Agricultural Transformation Agenda

In 2012, the Federal Government launched the Agricultural Transformation Agenda. In a significant departure from previous approaches, the Agricultural Transformation Agenda seeks to treat agriculture in Nigeria as a business, not a development programme, focusing on improving agricultural productivity, efficiency and competitiveness. The Agricultural Transformation Agenda sets out to create over 3.5 million jobs in the sector and to provide more than ₦300 billion of additional income to Nigerian farmers. The ultimate goal is to add over 20 mmtpa to the domestic food supply by 2015, and attain self-sufficiency in rice production and reduce wheat importation by 40 per cent.

The Agricultural Transformation Agenda of the Federal Ministry of Agriculture and Rural Development, is based on:

- focusing on agriculture as a business instead of a developmental project;
- transforming the agricultural sector to create jobs and wealth and ensure food security;
- focusing on value chains where Nigeria has a comparative advantage; and
- an emphasis on youth and women.

The Agricultural Transformation Agenda is being implemented through the following programmes:

Nigeria Incentive-based Risk Sharing for Agricultural Lending ("**NIRSAL**")

The Federal Ministry of Agriculture and the CBN, working with the Alliance for Green Revolution in Africa developed the NIRSAL which is expected to generate an additional US$3 billion in financing from commercial banks into agricultural value chains and increase agricultural lending from 1.4 to 7 per cent. of total bank lending within ten years. NIRSAL is expected to increase lending to small farmers through pooling mechanisms such as value-chains, microfinance institutions and cooperatives and reach 3.8 million agricultural producers by 2020. NIRSAL is also expected to reduce banks' break-even interest rate to borrowers in the agricultural sector from 14 to 7.5-10.5 per cent.

NIRSAL is being implemented through the following five pillars, with US$500 million provided by the CBN:

- Risk-sharing Facility (US$300 million). This addresses banks' perception of high-risks in the sector by sharing losses on agricultural loans.
- Insurance Facility (US$30 million). This expands insurance products for agricultural lending with the introduction of new products, such as weather index insurance, new variants of pest and disease insurance etc.
- Technical Assistance Facility (US$60 million). This equips banks to lend sustainably to agriculture, producers to borrow and use loans more effectively and increase output of better quality agricultural products.
- Holistic Bank Rating Mechanism (US$10 million). This mechanism rates banks based on the effectiveness and the social impact of their agricultural lending.
- Bank Incentives Mechanism (US$100 million). This mechanism encourages banks to participate in the scheme by offering the most successful banks in the previous category cash awards.

Growth Enhancement Scheme ("**GES**") and Electronic Wallets ("**E-Wallet**")

The GES aims to provide support directly to farmers to enable them to procure agricultural inputs at affordable prices by providing subsidised seeds and fertilisers through the private sector. The GES aims to increase agricultural productivity from 13kg/ha to 50kg/ha through increased use of fertilisers.

The GES has contributed to rapid private sector growth in the agricultural sector. Fertiliser companies in Nigeria sold a total of ₦15 billion (approximately US$100 million) of fertilisers directly to farmers in 2012. Seed companies sold a total of ₦1.5 billion (approximately US$10 million) to farmers during the same period. The role of the Government in fertiliser procurement has changed from directly procuring and distributing fertiliser, to being a facilitator of procurement, regulator of fertiliser quality and catalyst for active private sector participation in the fertiliser value chain.

In order to be able to communicate directly with farmers, the FMARD launched a registration programme in order to compile a national database of farmers. As part of this programme, farmers' biometric information was collected, creating unique identification cards. The Government estimates that a total of 10 million farmers (out of an estimated 14 million in total) have been registered so far.

In addition to the creation of the registration programme and database, the FMARD has developed the E-Wallet system to provide farmers with access to subsidised seeds and fertilisers through their mobile phones. Farmers receive electronic vouchers for subsidised seeds and fertilisers, which can be redeemed at registered agro-dealers across the country. Since the deployment of the E-Wallet system, 1.5 million farmers have used their mobile phones to receive subsidised seeds and fertilisers, and with the national farmers' database nearing completion, the target is to reach 10 million farmers with subsidised farm inputs through their mobile phones by the end of 2013. As the use of E-Wallet requires a bank account, which only approximately 40 per cent. of farmers currently have, the growth in the use of E-Wallets may be hindered. However, the expanding database is expected to have a positive influence on the availability to farmers of banking services, including loans, savings and insurance products.

In May 2013 the Bank of Agriculture entered into a partnership with Cellulant Ltd. of Kenya to provide a mobile money banking services to those farmers who do not have bank accounts. This service is expected to broaden to include money transfers, bill payments, mobile banking, micro-insurance payments, mobile wallets and agency banking. The service is scheduled for launch in August 2013, with an initial participation base of 4 million users, more than 3,000 access points and more than 300 micro-finance institutions. The participation rate is expected to grow to 30 million farmers over the following 18 months.

Rice Transformation Agenda

The primary target of the Rice Transformation Agenda is to make Nigeria self-sufficient as regards rice by 2015. The focus of the Rice Transformation Agenda was therefore to raise productivity, improve the capacity and quality of rice milling and incentivise domestic rice production. To achieve this goal, the Government has supported private seed companies by implementing policies which provide them with access to cheap financing from banks. Significant quantities of rice seed varieties were produced and distributed free of charge to farmers in the first main farming season of 2012, using mobile phones and the E-Wallet system. The Federal Government has also provided support for the cultivation of dry season irrigated rice across the country. In addition, the Government increased tariffs on imported brown rice and milled rice and raised incentives for domestic milling of locally produced paddy rice. This has resulted in an increase in the number of rice mills from three when the Rice Transformation Agenda was launched, to 14 as at the end of December 2012, and the number is expected to rise to 25 by the end of 2013.

Staple Crops Processing Zones

Staple Crops Processing Zones are being established to encourage agribusinesses to set up processing plants in areas of high food production, for the processing of commodities into food products. The Government is putting in place appropriate fiscal, investment and infrastructural policies to support the development of the zones.

Marketing Corporations

Access to markets for farmers will be enhanced through the establishment of commodity marketing corporations that would be supported by the Government but operated by the private sector. The corporations will coordinate the production and export of target commodities whilst reducing price volatility.

Agricultural Value Chains

The focus of the value chain is to bring together the various aspects of the Agricultural Transformation to ensure the provision of adequate and good quality inputs such as seeds, fertilisers and agro-chemicals; the production of staple crops and the development of processing zones; adequate financial services and credit to farmers through NIRSAL; and, the promotion of market outlets all with a special focus on youth and women.

The value chains being promoted are: cassava, cocoa, cotton, fisheries, fruit juice, horticulture, livestock, palm oil, rice and sorghum.

Reforms

Pursuant to the Agricultural Transformation Agenda, there have been a number of significant reforms in recent years. One significant accomplishment was ending corruption in the fertiliser sector by the FMARD. Historically, the FMARD procured and distributed fertilisers in the domestic market. However, the system was vulnerable to corrupt practices, and only 11 per cent. of farmers received the Government-distributed fertiliser. The rest of the fertiliser was illegally exported. In September 2011, the FMARD abolished the central distribution of fertilisers and replaced it with a scheme for farmers to buy fertilisers directly from the sellers.

Another significant reform introduced under the Agricultural Transformation Agenda is the substitution of cassava flour for wheat flour in the production of bread. This substitution is expected to have significant and wide-reaching effects on the economy by reviving cassava processing plants, providing opportunities to SMEs focused on trading or processing cassava flour and increasing exports of cassava products. For example, in 2012, 2.2 million metric tonnes of dried cassava chips were exported to China. 2012 was the first year in Nigeria's history in which dried cassava was commercially exported.

Additionally, in an effort to target the MDG of halving the number of malnourished 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. The programme was implemented solely with Nigeria's own financial resources (approximately US$45 million), and the FAO provided technical and managerial support to the Government. A Project Coordination Unit in the FMARD 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. Furthermore, the programme substantially improved food security and productivity, especially in marginal areas, which prompted the Government to double the number of project sites to 327.

Despite the improvement in the quantum of food production, 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 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.

To address the protracted issues of inadequate credit and high interest rates on agricultural lending, the CBN, in collaboration with the FMARD, established the Commercial Agricultural Credit Scheme (the "**CACS**") 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. The second tranche of ₦100 billion commenced in February 2010. As at end-December 2012, the total amount released by the CBN under the CACS to the participating banks was ₦199.12 billion for 269 projects. The beneficiaries included 30 state governments. In addition, Nigeria has received significant international support in the form of aid and loans for its Agricultural Transformation Agenda from various international entities such as, among others, the World Bank, the IFAD, the China Export-Import bank, the African Development Bank, the Bill and Melinda Gates Foundation, the Ford Foundation, OPIC and the UK Department for International Development.

While access to credit remained a major challenge to farmers in Nigeria generally, rural farmers and other micro-enterprises were particularly disadvantaged. To address this, the FMARD, assisted by the IFAD, established the Rural Finance Institution Building Programme. This programme is to be implemented over a seven-year period (2010-2017) and financed by 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 has initiated various activities to address the issue of deforestation. See "*Environment—Deforestation*".

The Impact of the 2012 Flood on Food Supply

The heavy rainfall experienced in Nigeria in 2012 led to extensive flooding in many parts of Nigeria, with major food producing states, such as Benue and Taraba, affected. This led to concerns that crop losses in the flooded areas could lead to a food shortage. Despite that, according to the FMARD, the 8.1 million metric tonnes of crops added to the domestic food supply in 2012 through the Agricultural Transformation Agenda mitigated the impact of crop losses from the flood. The total flooded area was 1.4 million hectares, of which the cultivated area was 467,000 hectares, or 1.17 per cent. of the country's total cultivated land mass. The National Emergency Management Agency estimates that the 2012 flooding caused approximately US$16.9 billion (₦2.6 trillion) of damage.

Crops

Palm oil and cassava are the traditional Nigerian production crops. It is estimated that in 2012 0.85 million metric tonnes of palm oil and 60.87 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				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
			('000 metric tonnes)		
Palm Fruit/Oil	1,058.0	1,233.1	1,233.1	970.8	850.0
Cassava	33,216.4	36,807.4	36,822.3	53,174.0	56,365.0
Cocoyam	2,814.1	2,984.5	3,033.3	3,289.0	3.265.0
Cotton	4,478.3	531.5	532.2	602.4	602.4
Yam	27,211.1	29,092.0	29,092.0	37,035.0	37,115.0
Groundnuts	2,872.7	2,976.2	2,977.6	2,976.2	2,976.2
Maize	9,113.7	7,358.3	7,358.3	9,302.0	9,674.0
Beans	2,096.8	2,370.3	2,371.6	3,368.2	3,368.2
Millet	4,367.8	4,884.9	4,930.0	5,170.4	5,170.4
Rice	3,369.7	3,540.9	3,546.3	4,601.0	4,969.0
Melon	378.0	370.4	402.6	507.0	507.0
Guinea Corn	5,218.4	5,279.2	6,665.2	7,014.4	7,575.5

Source: FMARD/NBS

Livestock

According to the FAO statistics, the gross production index of livestock (based on 2004/2006 data) increased from 117.35 in 2010 to 122.97 in 2011, an increase of 5.62 per cent. In particular, beef production increased by approximately 15 per cent. from 243,100 tonnes in 2010 to approximately 280,000 tonnes in 2011 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 remained unchanged in recent years and stood at approximately 155.5 million cubic meters at 2011 according to the FAO. In order to sustain wood production, the Forestry Research Institute of Nigeria has intensified the supply of improved breeder seedlings to replace the harvested tree stocks.

Fishing

According to the NBS, the production of fish through aquaculture increased from 819,526 tonnes in 2010 to 861,625 tonnes in 2011, representing a growth rate of 5.1 per cent.

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, including limestone, stone aggregates, laterite, sand, lead and gold. In 2012, the solid mineral sector contributed 0.38 per cent. to Nigeria's real GDP. Nigeria is endowed with over 34 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 (the "**MMSD**") 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 MMSD 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 MMSD 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**") is the principal legislation in respect of the mining industries and the sector is regulated by the MMSD. In 2008, the Government continued to implement relevant policies aimed at reforming the mining sector. Such policies included:

- The reformation of the Nigerian Mining Cadastre System.
- The development of a National Minerals and Metals Policy.
- The enactment of the Minerals and Mining Act, 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.
- 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.

Following the enactment of the Minerals and Mining Act, the existing Mining Cadastre Department was re-established as an autonomous body with the responsibility for the administration and management of mineral titles and the maintenance of Cadastre registers. In September 2011 the MMSD issued the Nigerian Minerals and Mining Regulations 2011, which were intended to establish a more coordinated and accountable solid minerals sector in the country and to stamp out the discretionary grant of mineral titles. The purpose of the Regulations was to set out rules, procedures and processes for the acquisition of mineral titles in accordance with the Minerals and Mining Act. Following the issuance of the Regulations, the Mining Cadastre Office, in October 2011, issued Guidelines on Mineral Title Application to clarify the procedures, timing and qualifications for the procurement of mining licences and leases. The Mining Cadastre Office has also successfully completed the implementation of a computerised Mining Cadastre System which takes into account the Regulations. Consistent with the Minerals and Mining Act, the 2011 Regulations defined various categories of licences and leases to be issued in relation to mining activities and prescribed qualifications, procedures and processes for the regulation of exploration and mining operations generally, including acquisitions of the titles to engage in such operations.

The MMSD has identified seven strategic minerals that are considered critical to Nigeria's industrial development. These are gold, coal, barites, limestone, lead/zinc, iron ore and bitumen. As of 31 December 2012, the MMSD had granted 6,775 mineral titles and issued 5,793 licences out of 14,549 applications registered. The Artisanal and Small-Scale Mining departments of the MMSD have registered 525 mining cooperatives (which have also been certified), quarry associations and small-scale miners out of the 1,300 applications received. The MMSD has also verified and registered 32 private mineral buying centers, which are expected to serve as an interface between mining cooperatives, licensed miners, local users and export markets.

The MMSD 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 MMSD 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.

According to the NBS, solid minerals increased in 2012 relative to the preceding year, increasing from an aggregate output of 7,629 million tonnes in the first half of 2011 to 13,442 million tonnes in the first half of 2012. The increase was due to an increase in the production of marble aggregates, limestone, clay, shale, columbite and iron. For example, the production of limestone was 7,142.1 million tonnes as at mid-2012 as compared to 3,445.6 million tonnes in the corresponding period of 2011. The commencement of gold mining by an Australian company with an investment of ₦1 billion in Osun state in 2010 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. In addition, local steel production (mainly from scrap melting) has increased from 950,000 tonnes in 2011 to over 1.2 million tonnes in 2012.

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. The M&E Report for 2010 indicated that the minerals and metals sector failed to meet the First NIP targets for 2010. The 2011 M&E Report is presently being reviewed; it is expected to show significant improvements, given that during the course of the year, the MMSD issued the Nigerian Minerals and Mining Regulations.

Manufacturing

Nigeria manufactures a variety of goods, including 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 Plc (which is also part of the Dangote Group) invested in the construction of a cement plant in 2007, which is the largest cement production plant in Sub-Saharan Africa with production capacity of five million tonnes of cement per annum and an estimated capacity of ten million tonnes per annum by 2012. Similarly, the Lafarge Cement WAPCO Nigeria Plc embarked on a cement expansion project which was completed in 2011 (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, 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 the 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 BOI is the managing agent for the MIF and is responsible for its day-to-day administration.

According to the NBS, in 2012, the manufacturing sector contributed 4.2 per cent. to Nigeria's real GDP, a slight increase compared to 4.16 per cent. contributed by the sector in 2010 and 2011. The average capacity utilisation rate in the sector slightly increased from 55.28 per cent. in 2009 to 56.17 per cent. in 2010. 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.

In the first M&E Report manufacturing performed poorly, primarily due to poor infrastructure (including power shortages), business environment and cost of funds.

The Government is targeting manufacturing to grow at an average rate of 14.4 per cent. with its share of 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 sub-sector contributed approximately 2.2 per cent. to real GDP in 2012, compared to 2.1 per cent. in 2011. This sub-sector comprises road, rail, bridges, buildings, ports and waterways.

The building and construction sector is considered a driver of growth in the non-oil GDP recording real GDP growth rates of 12.6 per cent. and 12.1 per cent. in 2012 and 2011, respectively. In future periods, the Government expects this sector to benefit from investments in infrastructure as the

Government implements the First NIP and the Transformation Agenda. 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. The Federal Government is in the process of awarding a concession for the design, build, finance and operate ("**DBFO**") of a second Niger Bridge at Onitsha-Asaba in Anambra/Delta States under a Public Private Partnership Scheme. The new bridge is categorised as critical national infrastructure and will be procured with support from the Government through the SURE-P. See "*The Economy—Transport*" below.

Wholesale and Retail Trade

According to the NBS, the wholesale and retail trade sector increased its contribution to real GDP from ₦117,002.9 million in 2008 to ₦177,049.7 million in 2012 and from 17.4 per cent. of real GDP in 2008 to 19.9 per cent. of real GDP in 2012, along with a steady decrease of imports and increase of 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 Zuma 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, chaired by the President;
- the National Committee on Oral and Tangible Culture Heritage, chaired by the Minister of Culture and Tourism; and
- the Nigerian Tourism Development Corporation.

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, the 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 (Obudu Cattle Ranch and Calabar Carnival), Kebbi (the Annual Argungu Fishing Festival), Osun (Annual Osun-Osogbo 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, Sofitel, Protea, Meridien, Radisson, Southern Sun and Best Western. According to the NBS, the hotel and restaurant sub-sector contributed 0.55 per cent. to Nigeria's real GDP in 2012.

According to the Federal Airports Authority of Nigeria, in 2011 the number of passengers on international routes increased, with 3.6 million passengers on international flights, compared to 3.2 million in 2010 and 3.0 million passengers in 2009. International airlines that service Nigerian airports include British Airways, Virgin Atlantic, Delta, Lufthansa, Air France, Qatar Airways, Emirates, South African Airways and US Airways. Domestic air travel increased to 11.3 million passengers in 2011 from 10.7 million in 2010 and 9.5 million passengers in 2009.

Informal Economy

According to the NBS, a significant portion, estimated to be approximately 46.5 per cent. of the Nigerian economy, is not included in the formal sector, meaning that it operates outside the scope 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, in particular 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). According to the CBN, as at September 2012 ₦235 billion had been disbursed to 522 projects under the SME refinancing and restructuring programmes. See "*The Economy— 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 some textile materials. 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.

According to the NBS, in 2010, approximately 48.6 million people were engaged in some form of economic activity. The agriculture sector was the main sector of activity and employed 30.5 per cent. of the total workforce. Other key sectors included the wholesale and retail trade sector (24.9 per cent.), manufacturing (11 per cent.), other services (7.1 per cent.) and the accommodation and food services sector (5.6 per cent.).

The Government currently has wage and pension liabilities in relation to the staff of privatised companies such as the PHCN, the Delta Steel Company, the Aluminium Smelter Company and NITEL (which is currently in the process of being liquidated). According to the Bureau of Public Enterprises, the obligations due to the staff of NITEL for salary arrears and pension have been settled except for claims by employees providing ancillary services being rendered at NITEL offices. The amount due to the staff of Delta Steel Company is estimated at ₦5.2 billion, while the amount due to the staff of the Aluminium Smelter Company of Nigeria is estimated at ₦2.37 billion. The amount negotiated for payment to staff of the PHCN is ₦373 billion and arrangements are being made for the settlement of all these obligations. In the past, the Government has paid arrears as soon as the proceeds of the privatisation process were received. Thus, between 2000 and December 2012, about ₦230 billion of salary and pension arrears were paid out to the staff of privatised enterprises in a number of sectors of the economy.

According to the NBS, the national unemployment rate in Nigeria was estimated at approximately 23.9 per cent. in 2011 compared to 21.4 per cent. in 2010. The NBS also estimates that in 2011, the rate of unemployment in the urban areas was approximately 17.1 per cent. and 25.6 per cent in the rural areas. 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 further increased 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 1993 to advise the Government on national income policies and recommends the proportions of income growth which shall be utilised for general wage increase. According to the 2012-2013 World Economic Forum etitiveness Index ("**GCI**"), Nigeria showed improvement in the labour market.

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 ratified 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 NOSDRA has put in place measures that are expected to minimise the impact of oil spills on the environment. Such measures include the mandatory requirement of all the oil companies in Nigeria to have Oil Spill Contingency Plans ("**OSCP**") and an oil spill response system aimed at providing the required resources to respond to oil spills. In 2010, the NOSDRA activated about 36 OSCPs of oil companies operating in Nigeria. Between January 2006 and December 2012, a total of 1,562 oil-impacted sites were remedied and rehabilitated by the relevant oil companies under the guidance and supervision of the NOSDRA. NOSDRA uses laboratory sample testing of the affected area in order to establish the amount of oil spilled, the degree of impact, the sensitivity and nature of the terrain and other factors in order to decide which, if any, remedial measures should be taken. Nigeria recently developed an Environmental Sensitivity Index ("**ESI**") Map covering the entire coastline of Nigeria from Lagos to Calabar, and extending 50 kilometres inland.

There are collaborative ties between the National Emergency Management Agency, the 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 1978 to address issues relating to land management.

Deforestation

Nigeria was historically rich in forest resources such as high forests, woodlands, plantations and trees 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 square 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 and restoration of 360 hectares of degraded forests in eight states (Plateau, Edo, Niger, Taraba, Ebonyi, Kwara, Ekiti and Kogi) in the 2008/2009 planting season and another 93 hectares of plantations in Osun, Cross River and Kaduna States in the 2009/2010 planting season, 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 halting desertification by acceding to the UN 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 UN Framework Convention on Climate Change and the Kyoto Protocol, and consequently has prepared the first National Communication on Climate Change. It has also established a national focal point, which is the Department of Climate Change within the Federal Ministry of Environment. The Department collaborates with other MDAs through 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 the Convention on Biological Diversity, the RAMSAR Convention on Wetlands, the Habitat II Agenda, the Convention Concerning the Protection of World Culture and Nature Heritage (UNESCO's World Heritage Convention), the United Nations Framework Convention for Climate Change and the Kyoto Protocol.

In an attempt to control the negative impact of development activities in Nigeria the Environmental Impact Assessment Act was enacted in 1992. This 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 transports 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 "*The Economy—Public Private Partnerships*".

Roads

Nigeria has 193,200 kilometres of roads, 36,183 kilometres of which are federal roads. The Government recognises the importance of investing in infrastructure. During the First NIP, the Government aimed to complete road network projects through a major road programme, which involved the rehabilitation of at least 30 per cent. of the 7,677 kilometres of existing federal roads by 2013. According to the 2010 M&E Report, at the end of 2010 the stock of roads in good condition had only increased by 1 per cent, taking the proportion of roads in good condition to only 31 per cent. of the total. This fell short of the 12 per cent. target for recovery of bad roads in 2010 under the First NIP. To achieve its objectives, the Government has carried out a direct rehabilitation and reconstruction of the major trunk roads, secured private funding for major and viable routes and secured funding arrangements from the public and private sectors for the remaining 40 per cent. of the federal roads in need of repair. The Government has adopted a PPP approach for the development of selected federal roads and bridges which will entail design, build, operate and transfer arrangements with local and international concessionaires. According to the Ministry of Works' 2012 Annual Report, in 2012, 14 major road projects worth approximately ₦54.1 billion were completed and 33 locations on the federal road network that had deteriorated were addressed to restore normal traffic flow. The Ministry also adopted the Strategic Highway Investment for (Economic) Transformation programme which is a new plan for greenfield projects developed by the Ministry of Works. In addition, the Lagos/Ibadan express road which was originally concessioned to Bi-Courtney Consortium Limited under a Design Build Operate and Transfer Scheme was re-awarded to Julius Berger and RCC, following the termination of the Bi-Courtney concession due to concerns over implementation.

Several rehabilitation projects began in 2012. For example, the rehabilitation of the Benin-Ore-Sagamu expressway started in October 2012 and is ongoing. The construction of a second Niger bridge is in its second phase. The contract was awarded to Julius Berger and detailed project survey and environmental impact assessment have begun, which will lead to preliminary site work. The AfDB has provided a US$300 million loan to finance the reform of the road transport sector. Also, in 2012, the road development aspects of the SURE-P commenced. The programme is in two broad categories, (a) the Niger Delta Development Programme which focuses on accelerating the completion of the long-standing East-West project, which involves 338 kilometres of roads connecting Effurun/Warri – Ughelli – Patani – Kaiama – Mbiama – Ahoada – Elele – Emouha – Choba – Port Harcourt – Onne – Ogoni – Eket – Oron and Calabar; and (b) the Roads and Bridges Programme, which focuses on the completion of core road projects across the six geo-political zones in Nigeria. Projects in this category include the Abuja - Abaji – Lokoja Dual Carriageway (200 kilometres); the Benin - Ore - Sagamu Dual Carriageway (295 kilometres); the Onitsha - Enugu - Port Harcourt Dual Carriageway (317 kilometres), the Kano – Maiduguri Dual Carriageway (510 kilometres); the Oju/Loko-Oweto Bridge and the second Niger Bridge. The costs of the two programmes are ₦21.7 billion and ₦85.5 billion, respectively.

Railways

Nigeria's rail network consists of 3,505 route kilometres and 4,332 track kilometres, mainly comprising narrow gauge single track. The network also includes a 19-kilometre narrow gauge single track extension from Port-Harcourt to the Onne deep sea port and a-277 kilometre standard gauge rail from Ajaokuta to Warri.

In the 2013 budget ₦4.82 billion was allocated for the rehabilitation and repair of railways. The rehabilitation programme of the railway system includes rehabilitation of tracks on the Jebba – Kano, Port-Harcourt – Markurdi, Makurdi – Kuru, Kuru – Maiduguri and Zaria – Kaura-Namoda routes, supply of new engines, the upgrade of signalling and telecommunication systems, the rehabilitation of workshops, equipment and service support and the rehabilitation of stations and marshalling yards.

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 at a cost of approximately US$875 million, of which US$500 million is being provided by the Chinese Export-Import Bank as a concessional loan. The Export-Import Bank of China is also providing a US$500 million loan for the Abuja Light Rail project to improve transportation in the city of Abuja.

As at March 2013 the status of the railways rehabilitation programmes and initiatives was as follows:

- the rehabilitation of the Apapa Port railway network was near completion and awaiting certification by the Government Inspector of Railway and Commissioning;
- the Lagos-Kano rail line has been fully rehabilitated and is functional;
- contracts have been awarded for rehabilitating 3,329 kilometres of narrow and standard gauge lines; and
- the Apapa Port to Ebute-Metta line was near completion.

The railway sector also benefited from the SURE-P intervention in 2012. The intervention encompassed three main areas: (a) the rehabilitation of the Western Line (Jebba-Kano); (b) the rehabilitation of the Eastern Line (Port Harcourt-Maiduguri); and (c) the Nigerian Railway Modernisation (Abuja – Kaduna). In relation to these projects, a total of six contracts were executed with a total value in excess of ₦33 billion. The commissioning of the entire Western Line took place on 21 December 2012. The projects are expected to positively impact the national economy by boosting trade and commerce, as well as reducing freight traffic on roads. Work on the Eastern line is ongoing.

Inland Waterways

Nigeria's natural inland water transport system includes over 10,000 kilometres of navigable waterways, including rivers, creeks, lagoons and lakes, and intra-coastal waters. Nigeria has 18 major inland navigable rivers, totalling approximately 3,800 kilometres in length. The main rivers are Rivers Niger and Benue. Nigeria has approximately 852 kilometres of coastline, which allows for the movement of goods and passengers from the coast to its surrounding areas.

Under the First NIP, the Government has aimed 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 from Baro (Niger) to Warri (Delta) covering 572 kilometres has now been 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**"). The 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 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 between 2006 and 2012.

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 has commenced in 2011. In early 2013, the legal framework for the Lekki port was finalised, including all required regulatory permits and agreements with third parties. The construction of the port is expected to be carried out throughout 2013-2015 with operations starting in 2015.

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 was enacted to restrict the use of foreign vessels in domestic coastal trade in Nigeria and to promote the development of indigenous tonnage. This 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 22 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 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 22 airports in Nigeria. The 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.

In September 2012, the Minister of Aviation announced the launch of a comprehensive road map, aimed at transforming and modernising Nigeria's air transport industry. The road map includes the following three phases:

- Short-term phase: includes a two-stage programme for the remodelling and reconstruction of all 22 airports across the country;

- Medium-term phase: will include the construction of five new international terminals in Lagos, Abuja, Port Harcourt, Kano and Enugu; and

- Long-term Aerotropolis project: will include the development of 'airport cities' that will provide clusters of businesses ranging from manufacturing, information and communication technology, hospitality, recreation and retail, amongst others.

As of March 2013, six airport terminals have already been rehabilitated as part of the short-term phase of the road map, and the construction agreements for the construction of the five new airport terminals and several perishable and cargo terminals required for the medium-term phase have been finalised.

Telecommunications and Media

Telecommunications

This sector is regulated by the Nigerian Communications Commission. The telecommunications and post subsectors contributed 7.1 per cent. to real GDP in 2012 compared to 5.7 in 2011, with a growth rate of 31.8 per cent. in 2012. The number of mobile telecommunications subscribers has increased dramatically from less than one million in 1998 to approximately 112.7 million in 2012. The number of fixed land lines subscribers has however decreased from approximately 1.5 million in 2009 to 418,166 in 2012. The main mobile telephone operators are MTN, Globacom, Bharti Airtel, Etisalat and Mtel. Other operators include Starcomms, Visafone and Intercellular.

To improve competition in the sector, the Nigerian Communications Commission introduced Mobile Number Portability for GSM operators in April 2013.

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, 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		
	2010	**2011**	**2012**
	(Number of Subscribers)		
Fixed Line Telephone Subscribers	1,050,237	719,406	418,166
Mobile Telephone Subscribers	87,297,789	95,167,308	112,777,785
Total Telephone Subscribers	**88,348,026**	**95,886,714**	**113,195,951**

Source: The Nigerian Communications Commission

Media

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 in Nigeria are privately owned. According to the Nigerian Press Council, as at December 2012, there were approximately 400 newspapers and magazines in circulation in Nigeria. For 2013, Nigeria was ranked 115 out of 179 countries with regard to press freedom by Reporters Without Borders up from 136 out of 175 countries in 2009. The Freedom of Information Act (the "**FOI Act**") was passed in 2011. The FOI Act gives every Nigerian a legal right of access to information, records, and documents held by government bodies and private bodies carrying out public functions. The FOI Act is expected to become a vital tool in the fight against corruption and to assist with holding government officials and institutions accountable.

Electricity

The generation, transmission and distribution of electricity in Nigeria was historically coordinated by the PHCN, the Government-owned power sector utility company. The PHCN also produced approximately 80 per cent. of the country's electricity in 2012, while approximately 20 per cent. was produced by a number of Independent Power Producers ("**IPPs**") (such as Okpai, Afam, Omoku, Ibom, AES, Trans Amadi and Rivers). Power in Nigeria is currently generated from gas and oil-fired plants and hydropower plants located across the country.

In 2012, the average installed electricity generation capacity was approximately 5,388 megawatts, an increase of 21.5 per cent. compared to 2011. According to the Federal Ministry of Power, the average generation capacity reached 4,219 megawatts as at 29 March 2013, while the installed generation capacity was 5,128 megawatts as at 8 May 2013. The IMF Article IV Consultation Report however, notes that approximately one third of this capacity was not in operation. According to the CBN, in 2012 residential consumption accounted for over half the electricity consumed in Nigeria, with approximately 29.93 per cent. going to commercial and street lighting and 21.27 per cent. to industry. Overall, a 2011 World Bank research paper concluded that average electricity consumption per capita declined from 152 kilowatt hour in the mid-2000s to 108 kilowatt hour in the late 2000s.

Currently, only about 40 per cent. of Nigeria's total population have access to public electricity supply due to inadequate transmission and distribution networks. Furthermore, aging infrastructure, inadequate funding, 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. According to the IMF, surveys show that 83 per cent. of businesses identified the lack of power as the biggest obstacle to doing business in Nigeria. See "*Risk Factors—Nigeria Suffers from Chronic Electricity Shortages*".

The total available capacity predicted for December 2013 is 11,123 megawatts.

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 reforms began in 2000 when the 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 currently in the process of being privatised) consisting of six generating companies, one transmission company and eleven distribution companies. In addition, the Government set up the NELMCO, a special purpose vehicle which acquired third party and pension liabilities and other obligations of the PHCN that could not be transferred to any successor companies. As at January 2013, NELMCO had acquired over ₦500 billion outstanding liabilities. The EPSRA also established the 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 megawatts to the country's generating capacity within the next three years. An additional 4,259 megawatts of generation capacity from the NIPP Power Stations is expected by December 2013. In April 2013, the Government announced its plans to privatise the ten gas-fired power plants that make up the NIPP via the sale of 80 per cent. of its stake.

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 conducted bids for the 17 successor (generation and distribution) companies from the unbundling of the PHCN. In this process, 207 bidders were shortlisted from which preferred bidders emerged in October 2012 for 15 of the successor companies. The 15 preferred bidders all paid the initial deposit of 25 per cent. of the sale price by the deadline in March 2013 and the handover process is expected to be completed in the fourth quarter of 2013, after the payment of the balance by the preferred bidders. A fresh bidding exercise has been organised for the Afam Generation and Kaduna Distribution companies, in which 11 bidders have currently been shortlisted by the NCP.

In July 2012 the Government entered into a contract with Manitoba Hydro International ("**MHI**") of Canada, to manage the Transmission Company of Nigeria ("**TCN**") and inject international best practices, technical expertise and ensure the requisite restructuring of the company. MHI is contracted to manage the TCN for three years, with the possibility of an extension to five years. In March 2013, the contract was ratified by President Goodluck Jonathan.

The Government established a pricing regime and the new tariff regime replacing the national uniform tariff with a new cost-reflective ceiling on end-user tariffs was put in place in June 2012. The Government established the Bulk Purchaser in July 2010**,** a government-owned bulk buyer which will carry out contract management and bulk trading on behalf of the successor distribution companies. The Bulk Purchaser, which is now in operation, started entering into Power Purchase Agreements ("**PPAs**") with the successor generating and distribution companies of the PHCN and other IPPs in January 2013.

The Government's mid-term targets for power generation are 10,000 megawatts by the end of 2014, 20,000 megawatts by the end of 2019 and 35,000 megawatts by the end of 2020. In its "Roadmap for Power Sector Reform", the Government envisages that in order to meet the target of 35,000 megawatts by 2020, an investment of US$10 billion per year is needed over the next seven 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 35,000 megawatts target by 2020. However, given recent developments in the sector, these targets are currently being reviewed. The total proposed investment in the sector during the First NIP period was ₦880.98 billion.

A key objective of the Government in developing the power sector is to enhance security of supply for electric power by diversifying the fuel mix. It is therefore planned to fully exploit the country's resources of gas, coal, wind and hydropower potential. In this respect the Government embarked on the following:

- The Engineering Design for the 3,050 megawatts Mambilla Hydroelectric Power Project has been completed and preparation for flag-off in December 2013 is in progress.

- The development of a 10 megawatts wind power plant in Katsina State has reached commissioning stage.

It is expected that, in the long-term, most of the new sources of electricity will come from natural gas or hydroelectric power.

In addition to the efforts being made by the Federal Government, certain State Governments, such as Lagos, Rivers and Akwa-Ibom, have started generating power through their own state IPPs. For instance, the Lagos State currently has two IPPs in operation, the AES 270 megawatt facility which was originally established to provide electricity for industrial consumers in the Lagos State, and the Akute 12.5 megawatt 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 megawatt facility at Trans Amadi, a 150 megawatt facility at Omoku and a 20 megawatt at Alode-Eleme. In the Akwa Ibom State, the Government established a 190 megawatt 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 ("PPPs")

In a bid to address challenges constraining the growth of the Nigerian economy, the Federal Government inaugurated the Governing Board of the Infrastructure Concession Regulatory Commission ("**ICRC**") in 2008. The key mandate of the ICRC was to facilitate the creation and implementation of a sound framework which would provide best practice guidelines and procedures for the effective development and competitive procurement of PPP projects. The Infrastructure Concession Regulatory Commission (Establishment, etc) Act 2005 is the principal legislation governing PPP concessions in Nigeria. 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's infrastructure or development projects through concession or contractual arrangements, with the objective of achieving better value for money for infrastructure services and enhanced economic growth.

In April 2009, the ICRC approved the National Policy on Public Private Partnerships and its operational guidelines 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 PPP projects. The key projects initially identified are railways, roads, seaports, airports and the power sector.

In 2011, Nigeria and the World Bank signed an agreement regarding a US$315 million PPP support long term facility, which would include up to US$200 million in infrastructure financing and a credit component of US$115 million for financing PPP institutional, regulatory, capacity building and advisory services for project preparation and development. The PPP credit facility is currently being re-negotiated in order to better align the facility with Nigeria's national economic development plans in order to achieve the optimal PPP projects pipeline to support Nigeria's infrastructure needs.

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 and (according to the IMF) in 2011 fewer than 10 per cent. of SMEs had a loan or line of credit and only 5 per cent. of bank lending went to SMEs.

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 per cent., with lending banks granting credit at its prime rate of interest under a five year tenor);
- the Agricultural Credit Guarantee Scheme Fund ("**ACGSF**") (which guarantees credit facilities extended to farmers by banks up to 75 per cent. 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.

According to the CBN, as at September 2012, ₦235 billion had been disbursed to 522 projects under the SME Refinancing and Restructuring Facility. The scheme had also generated 20,000 new jobs, revived nine companies and increased manufacturing capacity utilisation from 25 to 36 per cent. It had also increased SMEs' turnover by 80 per cent from a pre-intervention level. Under the SMECGS, a total of 25 applications, valued at ₦1.2 billion, had been guaranteed by July 2012. In respect of the

ACGSF, as at September 2012, ₦198.4 billion had been disbursed to 232 private projects and 30 state government projects.

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, according to the NBS, only about 73 per cent. of the urban population and 51 per cent. of the rural population have access to improved drinking water sources based on the percentage of households out of total population and the main source of drinking water in 2011. 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 bases. Additionally, the Government has developed a number of plans and programmes that are awaiting approval or implementation by the appropriate authorities.

Housing

The ownership of all land is vested in the Governor of each state (except the FCT and some parts of Lagos) who holds the land on 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 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. According to the Minister of Finance and Coordinating Minister of the Economy, Dr. Ngozi Okonjo-Iweala, Nigeria currently has a substantial housing deficit of 17 million which is increasing by two million annually.

The proportion of the Nigerian population living in urban centres has increased rapidly over the years and so has the demand for housing. The Federal Housing Authority 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 ₦42.2 billion worth of NHF mortgage loans through 51 primary mortgage institutions and ₦62.5 billion of estate development loans.

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 FMBN by ₦250 billion.

The CBN in March 2013 released a Draft Regulatory and Supervisory Framework for the Operations of a Mortgage Refinance Company for inputs by stakeholders. The framework provides for the licensing and establishment of a Mortgage Refinance Company as a specialised second-tier institution which would provide short-term liquidity, long-term funding and/or guarantees to mortgage originators and housing finance lenders.

On 21 April 2013, the World Bank and Nigeria, at the World Bank/IMF Spring Meetings, announced that they were partnering to develop a sound mortgage financing structure so as to provide affordable housing to Nigerians. The World Bank will lend around US$300 million to Nigeria for this project. The loan will have a zero per cent. interest, a 0.7 per cent. commitment charge, a ten-year grace period and a 40-year repayment period. Local banks will work with the Government to develop a mortgage vehicle to manage housing development, the Government will have a small share in the project. The guidelines for establishing the structure of mortgage financing in the country are currently being developed and by the end of 2013 the institution will be set up, it will begin operation in early 2014.

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. The 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 the NEPZA by the Nigeria Export Processing Zones Act 63, of 1992. The Nigeria Export Processing Zones Act also confers on the NEPZA the power to approve and grant all licences and permits to the exclusion of all other agencies, enforce compliance with rules and regulations, define policy directions and provide a one-stop-shop for business transactions without bureaucracy.

Certain advantages, benefits and incentives are automatically conferred on investors who are located in the 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 licences 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 licences;
- 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 are permissible in the 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.

Over the years, the Free Zones scheme has evolved to satisfy the needs of investors and provide more opportunities for businesses. The scheme now covers not only manufacturing activities but also trade, agriculture, tourism and more.

The scheme is now liberalised and allows for the active participation of the private sector. There are three types of ownership: Public Free Zone, Private Free Zone and a combination of both. NEZPA operates different types of free zones, these include:

- Export Processing Zones: they are intended to promote the production of goods and services that are export-oriented;

- Border Free Zones: they are located at the border to boost international trade and formalise informal trade;

- Logistics Free Zones: they provide logistics services; and

- Oil & Gas Free Zones: they are for oil and gas activities.

There are currently 25 Free Zones in Nigeria established by the Federal Government, State Governments and private sector organisations. Ten are currently operational and the others are at various stages of development.

The 25 Free Zones employ 10,200 people. The principal sectors of the Free Zones are: multi-sectoral (15), logistics (5) and oil and gas (5). The value derived from the Free Zones of cumulative FDI is US$7.3 billion and in 2012 the value of FDI was US$96 million.

Name	Location	Status	Ownership
Calabar Free Trade Zone	Cross Rivers State	Operational	Federal Government
Kano Free Trade Zone	Kano State	Partially Operational	Federal Government
Oluyole Free Zone	Oyo State	Declaration	State Government
Lagos Free Zone	Lagos State	Under Construction	Private
Tinapa Free Zone and Tourism Resort	Cross Rivers State	Operational	Private/State Government
Olokola Free Zone	Ondo State and Ogun State	Under Construction	Private/State Government
Snake Island Integrated	Lagos State	Operational	Private
Maigatari Border Free Zone	Jigawa State	Partially 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	State Government
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
Kwara Free Zone	Kwara State	Declaration	State Government
Oils Integrated Logistics Free Zone	Lagos State	Declaration	Private
Brass LNG Free Zone	Bayelsa State	Declaration	Federal Government /Private
Abuja Technological Village	Abuja	Under Construction	Public/Private
Specialised Railway Industrial	Ogun State	Declaration	State Government
Imo Guongdong FTZ	Imo State	Declaration	State Government
ALSCON FPZ	Akwa-Ibom State	Operational	Federal Government /Private
Ogun Guandong Free Trade Zone	Ogun State	Operational	State Government/ Private
Sebore Farms	Adamawa State	Operational	Private
Koko Free Zone	Delta State	Declaration	State Government
Ibom Industrial Free Zone	Akwa-Ibom State	Declaration	State 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 now-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 (the "**BPE**") and the establishment of a Public Enterprises Arbitration Panel. The Privatisation Act also established the 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 has 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.

Since 2000, the BPE has successfully privatised several SOEs and in a number of instances, this has been done through core investor sales, assets sales, share flotations and liquidations. The total number of federal SOEs that have been privatised between 1988 and 2012 is 122 and about 36 SOEs have been set aside for privatisation after 2012.

The principal sector that the Government has been working on privatising in the past two years has been the power sector. The Government decided to privatise all the PHCN successor companies through core investor sales, concessions and a management contract. It was agreed that the privatisation of the distribution companies and the thermal generating plants would be carried out through core investor sales, hydro generating plants would be concessioned while a management contract model would be used for the Transmission Company of Nigeria. See "*The Economy—Principal Sectors of the Economy—Electricity—Power sector reforms*". At the end of 2010 and at the beginning of 2011, requests for expressions of interest in the core investor sales were published and were followed by a series of roadshows to promote the transactions. Throughout 2012, selected bidders were approved and shortlisted. In February 2013, the BPE and the preferred bidders for 15 of the 17 successor companies executed share sale and concession agreements while the successor companies executed, with the relevant counterparties (e.g. the Bulk Purchaser etc.) industry agreements. Bidders have also made initial payments of 25 per cent. of the bid price., and the remaining 75 per cent. is due to be paid in the fourth quarter of 2013. The entire proceeds from the sale of the 15 successor companies is expected to be approximately ₦352 billion. It is expected that substantially all of the sale proceeds will be used to settle outstanding employee and pension liabilities in connection with the successor companies. In April 2013, a transition committee for each successor company was set up and it is comprised of representatives of BPE, the management team of the successor company and that of the preferred bidder. The re-bid process for the remaining two successor companies is ongoing and bids were submitted in mid-April 2013. 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*".

Additionally, and following years of attempting to privatise NITEL, the Government has approved plans for the liquidation of the company and the BPE is currently in the process of evaluating prospective liquidators.

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 complex structures. The proposed laws allowing the privatisation of some of the SOEs were approved by the NCP in 2008 and submitted to the National Assembly for consideration and are awaiting approval.

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, in 2013 and 2014 the Government intends to sell minority stakes by way of a public offer in certain companies including NICON Insurance, Nigeria Reinsurance and the Transcorp Hilton.

FOREIGN TRADE AND BALANCE OF PAYMENTS

Introduction

Balance of Payments

The balance of payments is used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of:

- the current account, which comprises:
    - net exports of goods and services (the difference in value of exports minus imports);
    - net financial and investment income; and
    - net transfers; and
- the capital and financial accounts, which comprise the difference between financial capital inflows and financial capital outflows.

Current Account

One of the most important components of the current account is the trade balance. The four primary factors that drive the trade balance are:

- the relative rate of economic growth of a country as compared to that of its trading partners – generally, if a country's economy grows faster than that of its trading partners, its relative level of consumption of goods and services will tend to rise, and its level of imports will tend to increase more rapidly than its level of exports;
- the relative level of domestic prices against foreign prices, as reflected by the real exchange rate – generally, if a country's domestic prices rise relative to those of its trading partners, there is a tendency for the country's level of exports to decline, and for its level of imports to increase;
- changes in production costs, technology, and worker skills – more efficient production will tend to lower production cost, which in turn will tend to lower prices. As prices fall, there will be a tendency for the country's level of exports to increase; and
- changes in consumer tastes, which may affect the demand for a country's goods and services abroad, and the demand for foreign products in the domestic market.

Capital and Financial Accounts

The capital and financial accounts quantify FDI and monetary flows into and out of a nation's financial markets.

Foreign Trade

Although Nigeria had a large trade surplus during the years 2005-2009, it has substantially narrowed in the last few years as Nigeria increased its import levels. 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, or has recently executed, a series of preferential trade agreements, including the following:

- Nigeria – Portugal Investment Promotion and Protection Agreement.
- Nigeria – Belgium Investment Promotion and Protection Agreement.
- Nigeria – Canada Investment Promotion and Protection Agreement (not yet ratified).
- Bilateral Agreement on Economic Trade and Technical Cooperation between Nigeria and the United Arab Emirates (under discussion).
- EU Economic Partnership Agreement — An ongoing free trade negotiation with the EU to create a zero-tariff trade arrangement between the West African region and the EU. 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 CET regime of the 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. The review of the 2008-2012 CET is ongoing and consultations with ECOWAS partners are also ongoing. In addition to tariffs, imports are affected by other duties and charges. A value added tax of five per cent. applies to imported goods.

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 toothpicks, furniture, some textile materials, water and beverages and vehicles over ten years of age. The tariffs range from a 15-20 per cent. levy and a 10-20 per cent. duty.

According to the 2012-2013 World Economic Forum GCI, Nigeria has moved up to 115th out of 144 economies as a result of improved macroeconomic conditions (reflecting a positive account balance and a drop in inflation) and a financial sector that is recovering from the 2009 crisis. The GCI indicates that Nigeria has a number of further strengths, including its relatively large market (ranked 33rd), which provides its domestic businesses with opportunities for economies of scale, as well as sophisticated businesses by regional standards (ranked 66th), and an improvement in the labour market.

Industrialising the Nigerian Economy

Whilst the Nigerian economy has grown at a compound annual growth rate of 6.8 per cent. between 2002 and 2012, the industrial contribution to GDP has steadily declined from approximately 44.0 per cent. in the 1980s to approximately 24.0 per cent. as at 31 December 2012. Industrial exports make up only three per cent. of total exports, whilst 50 per cent. of imports are industrial products.

To support the industrial sector, the Federal Ministry of Industry, Trade and Investments launched an Industrial Revolution Plan ("**IRP**"). The main objectives of the IRP are to increase the contribution of the industrial sector to GDP growth and to create a competitive advantage for Nigeria by focusing on the development and distribution of appropriate skills that are sector-specific and industry-driven. The IRP is expected to create jobs, attract FDI and diversify the economy.

Imports and Exports

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

	For the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012[(1)]**
			(₦ *billions*)		
Imports	**(4,722.7)**	**(4,583.0)**	**(6,944.2)**	**(9,485.1)**	**(8,367.1)**
Oil sector	(1,261.9)	(1,017.7)	(1,666.0)	(2,952.5)	(2,996.8)
% of imports	26.7	22.2	24.0	31.1	35.8
Non-Oil sector	(3,460.8)	(3,565.3)	(5,278.2)	(6,532.6)	(5,370.3)
% of imports	73.3	77.8	76.0	68.9	64.2
Exports	**10,161.5**	**8,363.3**	**11,662.5**	**14,826.1**	**15,003.0**
Oil sector	9,913.6	8,067.2	11,257.6	14,326.5	14,526.8
% of exports	97.5	96.5	96.5	96.6	96.8
Non- Oil sector	252.9	296.1	404.8	499.5	476.2
% of exports	2.5	3.5	3.5	3.4	3.2
Balance of Trade	**5,438.8**	**3,780.3**	**4,718.3**	**5,341.0**	**6,635.9**
Oil Sector	8,651.7	7,049.5	9,591.7	11,374.0	11,530.0
Non- Oil Sector	(3,207.9)	(3,269.2)	(4,873.4)	(6,033.0)	(4,894.1)

(1) Provisional
Source: CBN

Historically, Nigeria has maintained a large trade surplus, owing primarily to oil exports which face very few barriers to entry in overseas markets. Following weak demand from Nigeria's trading partners as a result of the recession and due to the decline in crude oil prices (from a high of US$141.9 per barrel in July 2008 to US$75.1 in December 2009) the trade balance surplus contracted to a level of ₦3,780.3 billion as at the end of 2009, compared to ₦5,438.8 billion as at the end of 2008. The average spot price of crude oil (Bonny Light) started to gradually increase in 2010, reaching US$93.0 per barrel in December 2010, US$111.4 per barrel in December 2011 and US$113.0 per barrel in December 2012. Consistent with the increase in oil prices and oil exports Nigeria's trade balance increased over the same period, reaching ₦4,718.3 billion in 2010, ₦5,341.0 in 2011 and ₦6,635.9 billion in 2012.

Oil was the predominant export in each period under review, constituting over 96 per cent. of total exports in each period between 2008 and 2012. In 2012, total imports decreased compared to 2011, primarily as a result of the on-going reforms in the non-oil sector which resulted in a 17.8 per cent. drop in non-oil imports. Non-oil imports decreased in 2012 to 64.2 per cent. of total imports compared to 68.9 per cent. of total imports in 2011.

Capital goods and raw materials have constituted the largest portion of Nigeria's imports in each of the periods under review, followed by consumer goods. The import of consumer goods has steadily increased during the periods under review. The proportion of imports was highest in the boilers, machinery and appliances category, followed by base metals, vehicles and aircraft, vegetable products and chemicals and allied industries. The import of textiles 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 exports for the periods indicated.

	For the year ended 31 December				
	2008	2009	2010	2011	2012
			(₦ billions)		
Exports by continent					
Africa	1,098.0	1,267.1	1,547.9	2,027.5	2,118.7
ECOWAS	693.9	320.7	307.4	553.1	869.6
Americas	4,933.6	3,304.6	6,122.9	7,874.9	7,196.1
Europe	2,089.2	1,750.6	2,995.8	5,678.2	8,227.1
Asia	1,138.3	1,069.9	2,188.6	3,089.0	4,347.4
Main countries for Nigeria's exports					
United States	4,051.3	2,026.6	4,471.4	4,381.3	3,969.5
Brazil	620.8	593.5	908.0	1,632.8	1,692.1
Spain	327.3	324.3	425.3	1,146.0	1,299.1
France	394.2	407.4	526.9	1,140.1	934.3
Japan	34.5	34.5	59.0	59.9	109.7
Canada	175.9	261.4	382.5	225.2	388.3
Germany	148.0	67.7	84.3	197.2	372.0
Italy	314.3	309.7	458.0	991.0	1,379.4

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				
	2008	2009	2010	2011	2012
			(₦ billions)		
Imports by continent					
Africa	218.7	360.0	429.6	450.0	245.6
ECOWAS	111.0	7.9	37.7	129.5	33.8
Americas	654.2	1,071.1	1,992.7	3,359.6	1,421.9
Europe	1,223.7	1,631.8	1,618.6	2,684.8	1,490.4
Asia	1,162.0	1,896.1	2,496.6	3,165.9	2,319.9
Main countries for Nigeria's imports					
France	155.7	292.1	388.7	444.3	115.6
United States	267.7	303.7	1,192.8	1,781.0	766.3
Brazil	57.7	168.0	216.9	549.0	449.6
Japan	88.8	144.1	171.8	447.1	153.8

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				
	2008	2009	2010	2011	2012[1]
			(₦ *billions*)		
Current Account	3,455.6	2,064.8	2,165.2	1,931.4	3,191.5
Trade Balance	5,438.8	3,780.3	4,718.3	5,341.0	6,635.9
Exports fob	10,161.5	8,363.3	11,662.5	14,826.1	15,003.0
Imports fob	(4,722.7)	(4,583.0)	(6,944.2)	(9,485.1)	(8,367.1)
Services(net)	(2,621.1)	(2,453.7)	(2,743.2)	(3,259.5)	(3,392.3)
Income (net)	(1,785.0)	(2,144.7)	(2,921.8)	(3,505.3)	(3,487.1)
Current transfers (net)	2,417.8	2,883.0	3,112.0	3,355.2	3,435.1
Capital and Financial Account	(992.3)	1862.6	305.6	(831.4)	(1,949.2)
Financial account(net)	(992.3)	1862.6	305.6	(831.4)	(1,949.2)
Assets	(2,157.3)	248.2	(834.8)	(3,096.4)	(5,877.2)
Direct investment (Abroad)	(124.6)	(227.1)	(137.0)	(125.7)	(240.9)
Portfolio investment	(560.5)	(122.4)	(167.9)	(247.6)	(325.9)
Other investment	(1,275.8)	(966.1)	(2,021.4)	(2,676.1)	(3,562.4)
Reserve assets	(196.4)	1,563.7	1,491.5	(47.1)	(1,747.9)
Liabilities	1,165.0	1,614.4	1,140.3	2,265.0	3,928.0
Direct investment in reporting economy	971.5	1,273.8	905.7	1,360.3	1,113.5
Portfolio investment	157.2	70.9	556.6	792.4	2,687.2
Other investment liabilities	36.3	269.6	(322.0)	122.3	127.3
Net errors and omissions	(2,458.3)	(3,920.6)	(2,470.7)	(1,099.9)	(1,242.3)
Memorandum Items:					
Current Account Balance as % of GDP	14.2	8.3	6.4	5.2	7.9
Capital and Financial Account Balance as % of GDP	(4.1)	7.5	0.9	(2.2)	(4.8)
Overall Balance as % of GDP	0.8	(6.3)	(4.4)	(0.1)	4.3
External Reserves - Stock (US$ millions)	53,000.4	42,382.5	32,339.3	32,639.8	43,830.4
Number of Months of Imports Equivalent	15.7	16.3	8.3	6.3	(9.8)
Effective Central Exchange Rate (₦/$)	117.78	147.27	148.51	152.59	156.23
Average Exchange Rate (₦/$)	118.53	148.90	149.74	153.85	157.50
End-Period Exchange Rate (₦/$)	132.56	149.58	150.66	158.27	156.05

(1) Provisional
Source: CBN

The impact of the global financial crisis of 2008-2009 continued through the medium term, resulting in pressure on Nigeria's external sector which 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 resulted in a surplus outcome in the current account balance, which represented 7.9 per cent. of GDP in 2012 compared to 5.2 per cent. in 2011. 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 fluctuated over the period from US$53.0 billion in 2008 to US$42.4 billion in 2009, US$32.3 billion in 2010, US$32.6 billion in 2011 and US$43.8 billion in 2012. The decline in external reserves during the 2009-2011 period was the primary reason for the overall balance of payments deficit which equalled to (6.3) per cent. of GDP in 2009, (4.4) per cent. in 2010 and (0.1) per cent. in 2011. The overall balance of payments reached a surplus of 4.3 per cent. of GDP in 2012 due to the steady increase in external reserves throughout 2012 and the first quarter of 2013, rising to US$43.8 billion at the end of December 2012 and to US$48.5 billion as at 10 June 2013.

The deficit in the services account increased from ₦(2,621.1) billion in 2008 to ₦(3,259.5) billion in 2011, and further increased to ₦(3,392.3) billion in 2012. This was mainly attributed to payments on travel, communication, insurance and construction, among others.

The deficit in the income account doubled between 2008 and 2011, and further increased in 2012, reaching ₦3,487.1 billion. This was due to reinvestment earnings and employee compensation.

The surplus in current transfers increased from ₦3,112.0 billion in 2010 to ₦3,355.2 billion in 2011 and further increased in 2012 to ₦3,435.1. 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 2012, the capital and financial account had a deficit of ₦1,949.2 billion, or (4.8) per cent. of GDP, compared to a deficit of ₦(831.4) billion, or (2.2) per cent. of GDP, in 2011.

Net errors and omissions have significantly decreased from ₦(2,470.7) billion in 2010 to ₦(1,099.9) billion in 2011 and increased to ₦1,242.3 billion in 2012. The principal explanation for the large errors and omissions is the lack of available data in certain categories of transactions. As indicated by the IMF Article IV consultation in 2012, significant efforts have been made by the Government, supported by IMF technical assistance, to improve the compilation of Nigeria's balance of payments statistics by expanding the range and quality of data sources used. However, there are still large errors and omissions in the balance of payments, which according to the IMF may suggest that the current account surplus is overestimated by a significant (but unknown) amount. Further efforts will need to be taken in order to strengthen the measurement of the balance of payments and the international investment position. See "*Risk Factors—The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable.*"

Foreign Private Capital

FPC flows into Nigeria have increased significantly following the deregulation of the economy in the 1980s. The major components of FPC in Nigeria are new capital importation, reinvested earnings, signature bonuses in connection with oil production and communication licence fees, as well as machinery and equipment. Although traditionally FPC 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 FPC in sub-Saharan Africa.

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 Content Act, 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, evincing receipt of the foreign investment capital within 24 hours of receipt of the imported funds. This Certificate 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 FPC for the periods indicated:

	For the year ended 31 December				
	2008	2009	2010	2011	2012
			(*US$ millions*)		
Foreign Direct Investment – Equity	4,597.7	3,305.7	668.4	1,498.9	1,932.0
Foreign Direct Investment - Other Capital	63.6	20.7	60.6	254.4	67.8
Sub-total FDI	**4,661.3**	**3,326.4**	**728.9**	**1,753.3**	**1,999.9**
Other Investments - Trade Credits	15.0	7.9	0.2	1.4	44.5
Other Investments – Loans	2,735.6	816.7	1,397.5	1,611.3	1,033.1
Other Investments - Currency Deposits	—	9.2	—	—	30.0
Other Investments - Other Claims	328.5	2.7	2.2	24.6	20.8
Sub-total Other Investments	**3,079.1**	**836.5**	**1,399.9**	**1,637.3**	**1,128.5**
Portfolio Investment – Equity	2,350.0	1,443.2	2,983.0	3,691.5	11,820.8
Portfolio Investment – Bonds	420.1	12.6	0.07	66.5	585.2
Portfolio Investment - Money Market Instruments	659.7	84.2	883.8	755.1	1,081.5
Sub-total FPI	**3,429.8**	**1,540.0**	**3,866.9**	**4,513.1**	**13,487.5**
TOTAL FPC[(1)]	**11,169.7**	**5,693.7**	**5,995.7**	**7,903.8**	**16,616.0**

(1) Not including re-investment earnings.
Source: CBN

FDI, which comprises equity capital and other capital inflows, increased from US$0.7 billion in 2010 to US$1.7 billion in 2011 and US$2.0 billion in 2012. Total FPC into Nigeria increased from US$6.0 billion in 2010 to US$7.9 billion in 2011 and further increased to US$16.62 billion in 2012, an increase of more than 110 per cent. compared to 2011.

In 2012, FDI 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$20.7 million in 2009 and increased to US$67.8 million in 2012. Nigeria aims to increase FDI flows by 150 per cent. by 2014.

The Federal Government has been taking significant measures to attract FDI. Some of these initiatives are the establishment of strategic inter-ministerial committees advising the Government on the areas of competitiveness and investors' challenges doing business in Nigeria, reducing the cost of doing business in Nigeria and organising national investment conferences in order to provide a platform for discussion regarding the various issues affecting the business and investment climate in Nigeria. The Nigerian Investment Promotion Commission has also established a National Investment Sector Specific Policy in May 2012 with the main objectives of creating a stable policy environment with equal standards to all investors, simplifying procedures and bringing down transaction costs, removing unnecessary controls, identifying focus areas which would generate additional employment opportunities, facilitating necessary technological and infrastructure upgrades and avoiding inverted duty structures.

In 2012, the United Kingdom was the largest source of foreign capital, accounting for 62.6 per cent. of the total amount of capital imported. The United States, South Africa, Belgium and Mauritius were the other single largest sources of capital in 2012.

PUBLIC FINANCE

General

The Nigerian budget sets out the Government's development plans, policies and spending priorities for the fiscal year and gives 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 assented 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. In limited circumstances, 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 revenues from oil and gas, 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 Constitution. 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 13 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 IOCs as their portion of capital and operating 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 be 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 Excess Crude Account has historically funded government subsidies of refined petroleum products and offset 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 Government levels. After accumulating large balances and reaching US$19.1 billion as at 31 December 2008, the balance of the Excess Crude Account was reduced to US$2.6 billion as at 31 December 2010. It has since increased to US$4.6 billion as at 31 December 2011 and US$8.7 billion as at 31 December 2012. See "*Risk Factors— Failure to adequately manage the Government's oil and gas revenues could have adverse impacts on the Nigerian economy"*. As at 31 March 2012, ₦202.6 billion (approximately US$1.3 billion) was withdrawn from the Excess Crude Account for the purposes of distribution to Federal, State and Local Governments. Also, in January 2013, President Goodluck Jonathan approved the withdrawal of US$1 billion from the Excess Crude Account to be shared amongst the 36 State Governments and the FCT to fund projects under the development programmes of the State Governments and the FCT. In June 2013, an additional amount of US$1 billion was withdrawn from the Excess Crude Account for the purpose of supplementing Government revenues due to lower oil production in June 2013. The lower oil production was a result of continued oil theft in the Niger Delta region.

The legality of the Excess Crude Account has been the subject of debate and litigation in recent years. 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 been 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 a lawsuit against the Federal Government claiming the right to manage their own savings. In 2007, the Federal Government signed a MoU with 31 of the 36 State Governments in an attempt to resolve the dispute. The dispute was ultimately not resolved and subsequently, in September 2012, the 36 State Governments filed an action in the Supreme Court challenging the constitutionality of the Excess Crude Account and the transfer of US$1 billion from the Excess Crude Account to the SWFs. The hearing in the Supreme Court was adjourned to enable the parties to reach an out-of-court settlement, however, the settlement attempts were not successful. In January 2013, following an earlier request (in December 2012) for US$1 billion from the Excess Crude Account to fund on-going projects, the 36 State Governors announced their intention to return to the Supreme Court for a final resolution of the matter. The parties filed all required briefs with the Supreme Court and the next hearing is currently expected to take place on 2 December 2013. On 21 March 2013, the National Economic Council of the Government approved the sharing of between US$1 billion and US$2 billion from the Excess Crude Account among the three tiers of Government.

Nigeria Sovereign Investment Authority (the SWFs)

On 27 May 2011, the President signed the Nigeria Sovereign Investment Authority (Establishment etc.) bill into law, creating the NSIA and authorising the establishment of the SWFs which are jointly owned and supervised by the three tiers of Government. The SWFs are:

- the Future Generations Fund – an intergenerational savings fund for the benefit of future generations of Nigerian citizens;
- the Infrastructure Fund – a fund that is focused on investing in critical infrastructure that would attract and support FDI, economic diversification and growth; and
- the Stabilisation Fund – this fund would serve as a secondary source of funding to support the national economy in periods of budget revenue shortfalls.

A key feature of the SWFs that distinguishes them from the Excess Crude Account is that they are intended to operate independently of political pressures, with more stringent procedures for withdrawals and transparent application of the funds. Although the Nigeria Sovereign Investment Authority Act provides that initial funding of the SWFs should be provided by the Federal, State, the FCT and Local Governments and Area Councils of Nigeria, the initial funding in fact came from the Excess Crude Account in the amount of US$1 billion. Future funding for the SWFs will be derived from residual funds received into the Federation Account from excess oil revenues, if any, being those over and above the amount needed to fund Nigeria's national budget. The initial funding and all subsequent allocations to the SWFs will then be allocated to the three funds described above. Currently, the future generations fund and the infrastructure fund each account for 32.5 per cent. of total holdings, the stabilisation fund for 20 per cent. and the remaining US$150 million remains unallocated. As at 31 December 2012, the balance of the SWFs was slightly over US$1 billion. The Stabilisation and Future Generations Funds are scheduled to start investing in June 2013, whilst the Infrastructure Fund will begin investing in the second half of the year and is restricted to investing only within Nigeria. J.P. Morgan has been appointed custodian of the SWFs and the Ministry of Finance plans to grow the fund to US$5 billion by 2015.

The Federal Government 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 Medium-Term Revenue and Expenditure frameworks. 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 the 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. These discussions lead 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, 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 of 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, Vision 20:2020 and the First NIP and the Transformation Agenda. The MTEF is further developed into a formal MTEF and Fiscal Strategy Paper. 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. Subsequently, the Budget Office in collaboration with the NPC, the Bureau of Public Procurement and the Federal Ministry of Finance, holds bilateral discussions with the MDAs to appraise their submissions' compliance with the Call Circular and the Government's development priorities. Complying submissions are thereafter consolidated into the proposed annual budget.

Presidential Approval

Following a series of subsequent reviews, the draft budget is presented by the Minister of Finance to the President for approval. Thereafter, 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 of Representatives and the 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 his assent into law – as the Appropriations Act.

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 public financial management reforms at the state level are 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 at the Federal level 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 3 per cent. of the national GDP. Since 2009, Nigeria's budget has recorded overall deficits ranging from ₦809.87 billion in 2009 to ₦975.72 billion in 2012, representing 2.85 per cent. of GDP in 2012. The budget deficit is expected to decrease to ₦887 billion in 2013, representing 1.85 per cent. of GDP in 2013. Nigeria's deficits have historically been primarily funded by the issuance of securities in the domestic debt markets and other funds, such as withdrawals from the Excess Crude Account.

The key components of Nigeria's Medium-Term (2012-2015) fiscal strategy are:

- To support inclusive growth and scale down spending under a regime of fiscal consolidation;
- To gradually phase out the fuel subsidy, which will free up to ₦1.2 trillion in savings;

- To rebalance the Government's expenditure from recurrent expenditure in favour of capital expenditure and to ensure that more funds are allocated to infrastructure projects; and

- To diversify the economy and to intensify the drive for increased revenue from non-oil sectors.

*The Office of the Auditor-General of the Federation ("**OAGF**")*

The OAGF is an independent entity whose existence, powers and duties are set out under Section 85 of the Constitution. The OAGF is responsible for auditing the Federation Accounts and the accounts of all federal MDAs. The Federation Account is audited on a quarterly basis. The Departments of the OAGF include the Treasury Audit, the Revenue Audit, the Ministries and the Extra-Ministerial Office & Agency.

The key goals of the OAGF include:

- enforcing accountability and responsibility in Ministries and Extra-Ministerial departments, and any other person or authority entrusted with public funds;

- ensuring prudent disbursement and utilisation of public funds, manpower resources and other public property;

- ensuring the regular and prompt auditing of all Ministries and Extra-Ministerial departments; and

- maintaining government auditing standard for public sector audits.

The Integrated Payroll and Personnel Information System ("IPPIS")

The IPPIS is a central payment process for all civil servants on the payroll of the Federal Government. It was launched by the Federal Government in collaboration with the World Bank in October 2006 and became operational by April 2007 with seven pilot MDAs. The IPPIS is aimed at improving public service productivity and increasing government revenues. The purpose of the IPPIS reform is to:

- improve the effectiveness and efficiency of Federal payroll services;

- improve public confidence in payroll costs and budgeting;

- improve management reporting and information availability;

- facilitate easy storage, updating and retrieval of personnel records for administrative and pension processing;

- aid personnel planning and budgeting; and

- ascertain actual personnel emoluments of Federal Government employees.

Between April 2007 and October 2012, the IPPIS has resulted in savings of approximately ₦25 billion, removed 50,000 "ghost workers" from the MDAs payroll and allowed for a ₦5 billion cut in personnel costs in the 2012 Federal budget.

Single Treasury Account

As part of the Government's efforts to improve efficiency and transparency in the management of public funds and the Government's expenditures, the Ministry of Finance, in collaboration with the office of the Accountant-General of the Federation and the CBN, launched in early 2012 the Treasury Single Account ("**TSA**"). The scheme has been designed to consolidate the accounts of the Federal Government with the CBN and the various MDAs into a single or connected system of accounts. The

TSA is maintained at the CBN with each MDA responsible for the management of its allocations but effecting payment through the TSA. Any unspent balances of cash allocated to MDAs after commitments entered into the TSA for both recurrent and capital expenditure will automatically lapse and the balances returned to the Consolidated Revenue Fund for appropriation by the National Assembly. Investment of any Government funds will be centrally coordinated by the Office of the Accountant-General of the Federation and the CBN.

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

	For the year ended 31 December				
	2008	**2009**	**2010**	**2011**	**2012**
	(*₦ billions*)				
Total Gross Federally Collectible Revenue	7,633.23	4,525.9	6,359.0	9,987.6	8,975.8
Oil Revenue	**6,530.6**	**3,191.9**	**5,392.5**	**8,848.6**	**8,025.9**
Sales of Crude oil	3,533.1	1,798.5	3,399.6	4,607.2	3,305.1
Sales of Gas	180.8	58.6	41.1	258.8	350.0
Taxes and fees	2,135.9	924.9	1,326.7	2,921.2	3,284.2
Royalties	680.8	410.0	625.1	1,061.4	1,086.7
Non-Oil Revenue	**1,102.6**	**1,333.9**	**966.47**	**1,139.0**	**949.8**
FGN Share of Federation Account	2,060.2	1,626.2	2,152.9	2,792.5	2,755.1
FGN Share of VAT	54.37	62.95	82.06	87.29	95.44
FGN Independent Revenue	114.9	73.2	153.6	190.7	206.8
Balance Transferred and Other Income	740.9	716.9	553.1	70.1	97.5
Total FGN Revenue	**2,970.4**	**2,479.2**	**2,941.6**	**3,140.6**	**3,154.9**
Statutory Transfers	162.6	172.1	201.3	326.3	306.6
Debt Service	381.3	251.8	415.6	527.1	679.3
Recurrent Expenditure	1,551.3	1,712.5	2,546.2	2,526.7	2,400.3
Capital Expenditure	922.8	1,152.8	883.9	919.1	744.4
Total FGN Expenditure	**3,018.0**	**3,289.1**	**4,047.1**	**4,299.2**	**4,130.6**
Overall Deficit	**(47.56)**	**(809.87)**	**(1,105.43)**	**(1,158.52)**	**(975.72)**
Overall Deficit (as % of GDP)	(0.2)	(3.2)	(3.7)	(3.3)	(2.85)

Source: The Office of the Accountant General of the Federation

Federal Government Budget Revenues

The Federal Government budget is primarily funded from three 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 year ended 31 December 2012 was ₦8,975.8 billion, being a decrease from ₦9,987.6 billion in 2011. The Federal Government manages the Federation Account on behalf of the three tiers of Government, namely, Federal, State and Local.

The Federation Account is funded from oil revenues and non-oil revenues (primarily taxes). Following a decrease in 2009, oil revenues have increased and have returned to pre-2009 levels (albeit with a decrease from ₦8,848.6 billion in 2011 to ₦8,025.9 billion in 2012.

Following a decrease in 2010, non-oil revenues increased in 2011 to ₦1,139.0 billion, reflecting the efforts of the Customs Service and Federal Inland Revenue Service to increase revenue collection from non-oil sources, although there was a decrease in 2012 to ₦949.8 billion.

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. 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. In addition, in mid-2012 the Government hired McKinsey & Company to advise on ways to improve compliance with the tax system and increase non-oil tax revenue. The McKinsey report sets out ways through which additional incremental income can be claimed by the Government. The Government is currently working to analyse and implement the recommendations of the report.

In April 2012, President Goodluck Jonathan launched a new national tax policy aimed at ensuring that all Nigerian citizens of working age pay taxes. As part of the efforts by the Government to increase tax enforcement, a new Tax Identification Number ("**TIN**") programme was launched in late 2011. The TIN programme was initiated by the Nigerian Joint Tax Board ("**JTB**") in collaboration with the Federal Inland Revenue Service and the 36 State Boards of Internal Revenue. The TIN is a nationwide electronic database system for the registration and storage of data relating to taxpayers in Nigeria. The programme is aimed at expanding the nationwide tax base, with consequent increase in revenue collection accruable to all tiers of government, as well as at modernisation of the Nigerian tax system in line with global best practices. According to the JTB, by the second half of 2013 all taxable persons within Nigeria will be required to have a TIN before carrying out any financial transactions, registering for driver's licences or receiving a passport. The TIN initiative, which was piloted in 2012, went live at the beginning of 2013 in approximately 20 states and is expected to be rolled-out to the remaining states in the upcoming months.

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 receives 15 per cent. of this pool, State Governments receive 50 per cent. and Local Governments receive 35 per cent. In February 2008, Lagos State filed a lawsuit 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, as amended (the "**VAT Act**"). Lagos State is seeking to invalidate the VAT Act and is challenging the powers of the Federal 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 constitutional power to pass a law for the collection of VAT in the states, except the FCT. The Federal Government has since filed objections to the lawsuit. Following preliminary hearings, on 4 February 2010, the Supreme Court advised Lagos State and the Government to try and settle the VAT dispute, failing which the court would resume the hearing of the lawsuit. The settlement attempts failed and the parties are currently filing the required briefs in order to resume court proceedings. The hearing of the matter has been set for 29 October 2013.

Independent Revenue

Independent revenue is the third major source of revenue which accrues 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 ₦3,154.86 billion in 2012, compared to ₦3,140.64 billion in 2011 and ₦2,941.63 billion in 2010. 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 ₦4,130.58 billion in 2012, compared to ₦4,299.16 billion in 2011 and ₦4,047.06 billion in 2010. Non-debt expenditure (total expenditure less debt service payments) was ₦2,400.30 billion in 2012 compared to ₦2,526.69 billion in 2011.

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 remittances to the National Judicial Council, the Niger Delta Development Commission, the Universal Basic Education Commission ("**UBEC**"), the National Assembly, the National Human Rights Commission and the INEC. 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 ₦679.28 billion in 2012, ₦527.07 billion in 2011 and ₦415.62 billion in 2010. Debt service payments have increased in 2012, primarily due to the increase in the domestic debt stock.

Recurrent Expenditure

Recurrent expenditure primarily consists of salaries for government employees, pensions and administrative costs. Recurrent expenditures were ₦2,400.30 billion in 2012, compared to ₦2,526.99 billion in 2011 and ₦2,546.24 billion in 2010. In 2012, 75 per cent. of recurrent expenditure was for salaries and pension costs and 25 per cent. was for administrative costs.

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 has an allocation of ₦1.62 trillion in the 2013 budget, which represents a 7 per cent. increase as compared to the amount approved in the 2012 Budget.

In 2012, capital expenditure was budgeted to certain priority sectors in the following proportion: 15 per cent. for power, 12 per cent. for works, 10 per cent. for security, 10 per cent. for health and education and 4 per cent. for the Niger Delta. 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 December 2012, the average capital utilisation of the MDAs was just under 56 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*".

2013 Budget

In December 2012, the National Assembly approved the annual budget for 2013. The 2013 annual budget was aimed at strengthening the economy following the negative effects of the global economic crisis. The budget was 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. The 2013 budget is focused on fiscal consolidation through the reduction of overall expenditure and as a result, reducing the need for debt financing. The 2013 budget is based on certain assumptions, including: oil production of 2.5 mbd, benchmark oil price of US$79/barrel, an exchange rate of ₦160/US$1, joint venture cash calls of ₦858.6 billion and a projected GDP growth rate of 6.5 per cent.

The table below sets out certain information regarding Nigeria's government budget for 2013:

	2013 Annual Budget (₦ *billions*)
Total gross federally collectible revenue	11,339.8
Oil Revenue	7,734.1
Sales of Crude oil	4,243.9
Sales of Gas	359.6
Taxes and fees	2,369.5
Royalties	761.1
Non-Oil Revenue	3,605.6
VAT Pool	945.3
Independent Revenue	455.8
Federation Account	8,305.4
Federal Government Retained Revenue	4,100.2
Total Expenditure	4,987.2
Statutory Transfers	388.0
Debt Service	591.8
MDA Expenditure:	
Recurrent Expenditure	2,386.0
Capital Expenditure	1,621.5
Overall Deficit	(887.0)
% of GDP	(1.85)
Financing:	
Foreign (net)	0.0
Domestic (net)	577.0
Proceeds of sales of Government Properties	0.0
Share of Excess Crude	225.0
Miscellaneous FGN Receipts	0.0
Share of Signature Bonus	75.0
Privatisation Proceeds	10.0

Source: Budget Office of the Federation

The Government intends to finance the 2013 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 and 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*".

It is estimated that a significant portion of the privatisation proceeds will come from the privatisation of the PHCN successor companies and substantially all of the sale proceeds have been earmarked for payment in connection with the settlement of outstanding employee and pension liabilities of these companies.

Transparency and Anti-Corruption

According to the Transparency International's Corruption Perception Index 2012, Nigeria was ranked 139 in corruption level out of 174 countries surveyed by Transparency International. 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, the 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 and the 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 EFCC to enforce the provisions of the laws against certain 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 the 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 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 UN Convention against Corruption and the AU 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. In June 2012, the Independent Corrupt Practices and Other Related Offences Commission launched its five-year strategic framework (2013 to 2017) aimed at more effective reporting, investigation and prosecution of corruption cases, reduction of system-induced corrupt practices and increased managerial effectiveness of the Independent Corrupt Practices Commission.

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 by the Government to be of strategic importance to Nigeria, in light of the fact that 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 2012, Nigeria's external debt was US$6.5 billion, of which US$4.1 billion was owed by the Federal Government and its Parastatals and US$2.4 billion was owed by State Governments and the FCT and guaranteed by the Federal Government. Further, the Government had ₦6.5 trillion in domestic debt outstanding as at 31 December 2012.

Additionally, the Federal Government has been borrowing from the Export-Import Bank of China to fund certain infrastructure projects. As at 31 December 2012, approximately 11 per cent. of Nigeria's total external debt was borrowed from Chinese entities. 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$4.6 billion as at 31 December 2010, but increasing to US$6.5 billion as at 31 December 2012. External debt also decreased as a portion of total public debt from 63.39 per cent. as at 31 December 2005 to 13.46 per cent. as at 31 December 2012. During the same period, Nigeria increased its domestic debt stock from US$11.8 billion as at 31 December 2005 to US$41.9 billion as at 31 December 2012.

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 set out 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 NDMF is currently being reviewed. The operations of the DMO are governed by the Debt Management Office (Establishment etc.) Act No. 18 of 2003 (the "**DMO Act**"), 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 restoration of the domestic bond market through its Bond Issuance Programme and Monthly Bond Auction. Tenors of domestic bonds are three, five, seven, ten and 20 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.

All public borrowing is conducted by the DMO and requires the approval of the Minister of Finance. While State Governments can borrow domestic debt independently in the domestic capital markets (after the review and approval of the DMO based on feasibility studies), only the Federal Government is allowed to borrow externally, either for itself or to on-lend the money borrowed to the relevant State. Any money borrowed by the Federal Government for on-lending to a State Government must be approved by the National Assembly and guaranteed by the Federal Government. The DMO maintains a database of all loans taken or guaranteed by the Federal or State Governments or any of their MDAs, and, on an agency basis, services external debts taken by State Governments and any of their MDAs where such debts are guaranteed by the Federal Government.

Public Debt

Nigeria's total public debt outstanding was US$48.5 billion as at 31 December 2012, compared to US$41.6 billion as at 31 December 2011 and US$35.1 billion as at 31 December 2010, primarily due to an increase in debt issuances in the same period. Nigeria's public debt profile since 2005 is marked by a shift from predominantly external debt to predominantly domestic debt. This shift resulted from the discharge 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.

Type	**2008**	**2009**	**2010**	**2011**	**2012**
			(*US$ millions*)		
External Debt	3,720.4	3,947.3	4,578.8	5,666.6	6,527.1
Domestic Debt	17,678.6	21,870.1	30,514.3	35,882.9	41,969.2
Total	**21,399.0**	**25,817.4**	**35,093.1**	**41,549.4**	**48,496.2**

Source: DMO

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

Type		As at 31 December				
		2008	2009	2010	2011	2012
		(US$ millions)				
External Debt	Short-term[1]	0.0	0.0	0.0	0.0	0.0
	Long-term	3,720.4	3,947.3	4,578.8	5,666.6	6,527.1
	Sub-Total	**3,720.4**	**3,947.3**	**4,578.8**	**5,666.6**	**6,527.1**
Domestic Debt	Short-term[2]	3,595.7	5,403.0	8,561.4	11,026.9	13,268.6
	Long-term	14,082.9	16,467.1	21,953.0	24,856.0	28,340.6
	Sub-Total	**17,678.6**	**21,870.1**	**30,514.3**	**35,882.9**	**41,969.2**
Total		**21,398.9**	**25,817.4**	**35,093.1**	**41,549.4**	**48,496.2**

(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	2008	2009	2010	2011	2012
			(*US$ millions*)		
External Debt	464.6	428.0	354.4	351.6	293.0
Domestic Debt	3,590.7	1,907.5	2,374.98	3,429.4	4,625.7
Total	**4,055.3**	**2,335.5**	**2,728.4**	**3,781.0**	**4,918.7**

Source: DMO

External Public Debt

The external debt management strategy is to substitute domestic debt with less expensive long-term external funding. The objective of this strategy is to achieve a composition of 40:60 external to domestic debt ratio by 2015. This will enable the Government to develop more infrastructure projects, while also providing ample borrowing space for the private sector to access long-term debt from the domestic debt market.

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

	As at 31 December				
	2008	2009	2010	2011	2012
	(*US$ millions*)				
Official:					
Bilateral[(1)]	182.4	181.6	163.2	453.8	703.03
Multilateral[(2)]	3,172.9	3,504.5	4,217.8	4,568.9	5,267.42
Sub-Total	**3,355.3**	**3,686.1**	**4,380.96**	**5,022.75**	**5,970.45**
Commercial:					
Eurobond	0.0	0.0	0.0	500.0	500.0
Other Commercial[(3)]	365.1	261.2	197.8	143.8	56.6
Sub-Total	**365.1**	**261.2**	**197.8**	**643.8**	**556.6**
Grand Total	**3,720.4**	**3,947.3**	**4,578.8**	**5,666.6**	**6,527.1**

(1) Bilateral Debt comprises debt from the non-Paris Club group of creditors, which are provided on semi-concessional terms.
(2) Multilateral loans comprise both concessional and non-concessional loans. Concessional lenders include the IDA, IFAD, ADF, EDF and the IDB. Non-concessional lenders include the World Bank and the AfDB.
(3) Comprises loans from private sector lenders.
Source: DMO

As at 31 December 2012, debts granted by multilateral institutions constituted the bulk of total outstanding external debt. The table below sets out information regarding Nigeria's external debt stock as at 31 December 2012.

Funding Sources	**Amount Outstanding** ***(US$ millions)***	**Amount Outstanding as a per cent. of Total Debt**
Multilateral		
International Development Association	4,622.91	70.8%
International Fund for Agricultural Development	84.31	1.29%
European Development Fund	104.32	1.59%
African Development Fund	406.45	6.22%
Islamic Development Bank	14.54	0.22%
ABEDA	2.65	0.04%
ADB	32.23	0.49%
Sub-Total	**5,267.42**	**80.70%**
Bilateral		
People's Republic of China	683.03	10.46%
France	20.0	0.31%
Sub-total	**703.03**	**10.77%**
Commercial		
ZTE, ALCATEL, CMEC	56.63	0.87%
Eurobond	500.0	7.66%
Sub-Total	**556.63**	**8.53%**
Grand Total	**6,527.07**	**100%**

Source: DMO

The official CBN Exchange Rate of ₦155.77/US$1 as at 31 December 2012 was applied for Naira/Dollar conversions.

The table below sets out information regarding the currency composition of Nigeria's external debt as at 31 December 2012 (thousands).

Currency	Debt Stock in Original Currency	Naira Exchange Rate	Debt Stock in Naira	Debt Stock in USD	% of Total
Euro	1,428,250.00	213.51	304,945,695.50	1,957,666.40	29.99
IDB Units	9,479.58	238.86	2,264,291.96	14,536.12	0.22
GBP	341,728.40	242.34	82,814,461.59	531,645.77	8.15
CHF	6,861.58	170.13	1,167,360.63	7,494.13	0.11
USD	3,532,974.45	155.77	550,331,430.08	3,532,974.45	54.13
JPY	41,608.60	1,807.30	75,199,230.75	482,758.11	7.40
Total			**1,016,722,470.51**	**6,527,074.98**	**100.00**

Source: DMO

The table below sets out information regarding the maturity profile of Nigeria's external debt as at 31 December 2012 (US$ millions)

Source	Short Term (0 - 1 year)	Medium Term (>1-3 years)	Long Term (Over 3 years)
Multilateral			
IBRD	0.00	0.00	0.00
IDA	0.00	2.39	4,620.52
IFAD	0.00	0.00	84.31
ADB	0.00	32.23	0.00
ADF	0.00	0.00	406.45
ABEDA	0.00	0.00	2.65
IDB	0.00	0.00	14.54
EDF	0.00	0.00	104.32
ICM (Eurobond)	0.00	0.00	500.00
Others	5.54	51.08	703.03
Sub-Total	**5.54**	**85.71**	**6,435.82**
Grand Total	**-**	**-**	**6,527.07**

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 2012.

Economic Sector	Amount Outstanding (*US$ millions*)	% of Total
Agriculture	788.77	12.08
Air Transport	31.60	0.48
Education and Training	539.21	8.26
Energy Electricity	422.29	6.47
Environment	316.03	4.84
Transport	629.74	9.65
Health and Social Welfare	847.56	12.99
Housing and Urban Development	133.71	2.05
Water Supply	461.28	7.07
Policy Support (Monetary)	126.38	1.94
Rural Development	111.93	1.71
Scientific and Tech Equipment	532.33	8.16
Telecommunications	29.04	0.44
Multi-sector/Others	1,557.21	23.86
Total	**6,572.07**	**100.00**

Source: DMO

External debt service payments were US$293 million for the year ended 31 December 2012 compared to US$351.6 million for 2011. As at 31 December 2012, total external debt service payments constituted 0.11 per cent. of GDP and 4.49 per cent. of total external debt outstanding.

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

Source	2008	2009	2010	2011	2012
			(US$ millions)		
A. Official:					
Bilateral	6.6	12.7	24.1	51.5	45.3
Multilateral	380.6	260.5	212.6	172.2	126.9
Sub-Total	**387.3**	**273.2**	**236.8**	**223.8**	**172.2**
B. Private:					
London Club (oil warrants)(1)	41.7	41.7	41.7	41.7	41.7
Others (including Commercial)	35.7	113.1	75.9	69.2	45.3
ICM (Eurobond)	0.0	0.0	0.0	16.9	33.8
Sub-Total	**77.4**	**154.9**	**117.6**	**127.8**	**120.8**
Grand Total	**464.6**	**428.0**	**354.4**	**351.6**	**293.0**

(1) The 2008-2012 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.

Source: DMO

Debt service payments on multilateral debt declined from US$212.6 million in 2010 to US$126.9 million in 2012, which is primarily due to a decrease in the interest rates and overall cost of funding for such loans during this period as some floating rate loans matured, although the principal amount of debt due to multilateral lenders increased during the same period from US$4.23 billion to US$5.3 billion.

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 of 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 International Finance Corporation ("**IFC**")) provide support in the form of technical assistance.

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 20 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 13 years and 23 years (new securities under this category are no longer issued); and
- promissory notes, a new debt instrument introduced in 2012 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.

Instruments	2008	2009	2010	2011	2012
			(₦ billions)		
FGN Bonds	1,445.6	1,974.9	2,901.6	3,541.2	4,080.0
NTBs	471.9	797.5	1,277.1	1,727.9	2,122.9
Treasury Bonds	402.3	392.1	372.9	353.7	334.6
Development Stocks	0.5	0.5	0.2	-	-
Promissory Notes	-	63.0	-	-	-
Total	**2,320.3**	**3,228.0**	**4,551.8**	**5,622.8**	**6,537.5**

Source: DMO

The FGN Bond market has continued to grow substantially in recent years, from ₦2,901.6 billion in 2010 to ₦4,080 billion in 2012. 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 FGN Bond market received recognition from the international financial community with the inclusion of three FGN Bonds in the J.P. Morgan Government Bond Index Emerging Markets (GBI-EM) in October 2012 and the inclusion of 13 FGN Bonds in Barclays' Emerging Markets Local Currency Bond Index (EM-LCBI) in March 2013. The inclusion of FGN Bonds in the international indices is expected to increase the inflow of FDI.

The table below sets out information regarding the holding structure of Nigeria's domestic debt by instrument as at 31 December 2012.

Instrument	Central Bank	Banks and Discount Houses	Non-Bank Public	Sinking Fund	Amount Outstanding
			(₦ billions)		
FGN Bonds	161.71	2,129.14	1,789.20	0.00	4,080.05
NTBs	62.32	1,451.28	609.32	0.00	2,122.92
Treasury Bonds	174.24	0.00	0.00	160.32	334.56
Total	**398.27**	**3,580.42**	**2,398.52**	**160.32**	**6,537.53**
% of Total	**6.09%**	**54.77%**	**36.69%**	**2.45%**	**100%**

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.

Holder Category	2008	2009	2010	2011	2012
			(₦ billions)		
Central Bank	289.37	323.18	343.1	348.8	398.27
Banks and Discount Houses	1,482.16	1,274.58	2,605.0	3,790.9	3,580.42
Non-Bank Public	428.03	1,345.55	1,459.3	1,336.6	2,398.52
Sinking Fund	120.75	284.72	144.4	146.5	160.32
Total	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.53**

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
		(₦ billions)	
31-Dec-08	674.77	1,645.54	2,320.31
31-Dec-09	1,197.75	2,030.28	3,228.03
31-Dec-10	1,520.16	3,031.66	4,551.82
31-Dec-11	2,203.08	3,419.76	5,622.84
31-Dec-12	3,044.75	3,492.79	6,537.54
% in 2012	**46.57%**	**53.43%**	**100.00%**

(1) Short-term domestic debt is debt with less than one 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 2008	233.0
Year ended 31 December 2009	281.5
Year ended 31 December 2010	354.1
Year ended 31 December 2011	537.4
Year ended 31 December 2012	720.5

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 the Paris and London Clubs' debts were forgiven, the sustainability of Nigeria's debt is an important consideration for the Government. To address these concerns and to ensure that Nigeria's debt remains sustainable 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 forms 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 is 3.45. 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.

	2005	2006	2007	2008	2009	2010	2011	2012	2013(1)
External Debt Stock (US$ millions)	20,477.97	3,544.49	3,654.21	3,720.36	3,947.30	4,578.77	5,666.58	6,527.07	6,414.15
Domestic Debt Stock (US$ millions)	11,828.76	13,805.20	18,575.67	17,678.55	21,870.12	30,514.33	35,882.86	41,969.16	40,087.16
Total Public Debt Stock(US$ millions)	32,306.73	17,349.69	22,229.88	21,398.91	25,817.42	35,093.10	41,549.44	48,496.23	46,501.31
GDP (US$ millions)	112,960.59	140,029.78	190,487.40	181,808.92	167,443.90	227,825.66	238,056.19	260,281.83	260,281.83
External Debt/GDP Ratio (%)	18.13	2.53	1.92	2.05	2.36	2.01	2.38	2.51	2.46
Domestic Debt Ratio (%)	10.47	9.86	9.75	9.72	13.06	13.39	15.07	16.12	15.40
Total Debt Ratio (%)	28.60	12.39	11.67	11.77	15.42	15.40	17.45	18.63	17.87
Recommended Thresholds (%)	30	30	30	30	40	40	40	40	40

(1) As at 31 March 2013 and assuming the GDP for 2013 is the same as the GDP for 2012.
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 is conducted annually and the results of the 2012 DSA, carried out in May 2012, show that Nigeria is at low risk of debt distress under the existing macroeconomic framework. However, if the price of crude oil falls below the US$50 per barrel mark, the risk of debt distress would increase. This indicates that the country's debt burden is highly susceptible to variations in the price of crude oil. The tables below show the details of the debt sustainability indicators under each of the baseline and the optimistic scenarios for the 2012 DSA.

In performing the 2012 DSA, Nigeria used three scenarios, two of which are shown below. The first is the baseline scenario which is based on the macroeconomic assumptions driving the country's budget and contemporary global economic events. See "*Public Finance—Public Accounts*".

Baseline Scenario (Federal and States)

	DSA Result					CPIA Sustainability Threshold
	2012	2013	2016	2022	2032	
Net present value ("**NPV**") of debt-to- GDP	20.2	18.0	13.0	8.1	3.0	40
NPV of debt to revenue	125.8	111.4	91.5	96.5	61.8	250
NPV of debt service to revenue	15.7	35.2	9.4	14.8	8.8	30

Source: DMO DSA Report, 2012

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

Optimistic Scenario (Federal only)

	DSA Result					CPIA Sustainability Threshold
	2012	2013	2016	2022	2032	
NPV of debt-to-GDP	18.9	16.1	12.8	5.4	1.4	40
NPV of debt to revenue	223.7	180.2	182.3	173.7	147.3	250
NPV of debt service to revenue	17	35.8	16.1	20.6	16	30

Source: DMO DSA Report, 2012

Some of the assumptions in the 2013 Budget and the Vision 20:2020 may not be satisfied. 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*".

Guarantees and Contingent Liabilities

Guarantees and contingent liabilities are not included in the public debt numbers and are not taken into account in the DSA.

The Federal Government has issued a number of guarantees relating to liabilities incurred by other entities. The largest guarantee is the one relating to the AMCON Bonds. The Federal Government guarantee was given in favour of the bondholders of the ₦1,742 billion 3-year zero-coupon 2013 AMCON tradable bonds issued by AMCON for the acquisition of NPLs and other eligible bank assets. As at 31 December 2012, the value of the Federal Government's guarantee on AMCON Bonds was still ₦1,742 billion. See "*Monetary System—Banking Reforms*". 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*".

The Government has outstanding wage and pension liabilities in relation to the staff of a number of privatised companies. As at January 2013, the Government had an outstanding liability of ₦411 billion representing wage, pension and creditors' liabilities of the privatised companies. 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. See "*Risk Factors–the Existing wage and pension arrears in relation to the staff of privatised companies and other outstanding liabilities of the privatised companies may weigh on Government spending and significantly reduce the proceeds of privatisations*".

MONETARY SYSTEM

Monetary Policy and the CBN

The CBN, established pursuant to the Central Bank Act of 1958, is the central bank of Nigeria. As a result of 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 (the "**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 licences of distressed banks and appoint liquidators of these banks. 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 the 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 is responsible 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 encourage symmetrical 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 the MPR had been in operation for some time, the CBN in February 2008 formally announced the removal of the MRR based framework.

The MPR was 6.25 per cent. as at December 2010 and increased to 12.0 per cent. in October 2011, where it has remained as of the date of this Prospectus. A key priority of the CBN is to reduce interest rates over time and sustain the lower rates such that they provide access to lower cost of funds for the development of the real sector.

Recent Macroeconomic Environment and Policy

The Nigerian economy in 2011 and 2012 was influenced by developments in both the domestic and international economy. The major task for monetary policy following the 2009 global economic crisis was to strengthen the industry, maintain liquidity, protect depositors and creditors and restore public confidence. The CBN implemented various programmes, strategic plans and initiatives to reform the Nigerian financial system and, in particular, the banking sector. See "- *Banking Reforms*" below. These initiatives are based on the promotion of the performance of the real economy as the key incentive to the sustainability of the banking sector. The key ten-year reform was named "The Alpha Project Initiatives of the CBN" and was based on four pillars: enhancing the quality of banks, establishing financial stability, allowing for a healthy financial sector evolution and ensuring that the financial sector contributes to the real economy. The reform has identified priority sectors and developed tailored interventions of direct lending to support and promote growth in these sectors.

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. M2 grew by 13.7 per cent. as at end-December 2012 compared to 15.4 per cent. in the corresponding period in 2011.

The Government intends to ensure that the conduct of monetary policy will continue to be proactive. The MPR shall remain the CBN's primary instrument of monetary policy, to be adjusted from time to time in response to prevailing liquidity concerns, and the framework for implementation of monetary policy decisions 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 observed inflationary trend has both cost-push and demand-pull elements. These include increased liquidity as M2 surpassed the Government's targets for most of the period and the Naira depreciated 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
	(%)	
2008	11.6	15.1
2009	12.5	13.9
2010	13.7	11.8
2011	10.8	10.3
2012	12.2	12.0

The annual inflation rate declined following the 2008-2009 global economic crisis, from a level of 15.1 per cent. as at 31 December 2008 to 11.8 per cent. as at 31 December 2010 and 10.3 per cent. as at 31 December 2011. Inflation rates increased in 2012, reaching 12.0 per cent. as at 31 December 2012; however, since the start of 2013, inflation rates have been below 10.0 per cent., reaching 9.0 per cent. in January, 9.5 per cent. in February, 8.6 per cent. in March, 9.1 per cent. in April and 9.0 in May. The fiscal reforms implemented by the Government as part of the Transformation Agenda aim to keep inflation in single digits.

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 increased from US$5.4 billion in 1999 to US$53.0 billion in 2008, before declining to US$42.4 billion in 2009. 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 in the country. The stock of gross external reserves further declined to US$32.3 billion as at 31 December 2010 and US$32.6 billion as at 31 December 2011. External reserves grew steadily in 2012 and as at 31 December 2012, the stock of gross external reserves was US$43.8 billion. This further increased to US$48.5 billion as at 10 June 2013.

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 31 December 2012 there were 24 licensed banks in Nigeria, comprising 21 commercial banks, two merchant banks and one specialised bank.

The banking industry, measured in asset size, grew by approximately 16.8 per cent. annually from 2008 to 2012. According to the CBN, total assets increased by 10.2 per cent. from ₦18.2 trillion in 2011 to ₦20.05 trillion in 2012. Total industry loans and advances during this time grew by 12 per cent. from ₦7.27 trillion in 2011 to ₦8.15 trillion in 2012. Despite this growth, banking penetration remains low with total loans (₦8.15 trillion) to nominal GDP (₦40.54 trillion) estimated at 20.1 per cent. in 2012.

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. For example, according to the IMF, only 10 per cent. of SMEs had a loan or line of credit and only 5 per cent. of bank lending went to SMEs in 2011.

The Government aims to improve funding to the real sector by lending directly, and has under the Alpha Project Initiatives of the CBN 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 SMEs in Nigeria, a ₦200 billion intervention fund for refinancing and restructuring of banks' loans to the manufacturing sector and a ₦200 billion Commercial Agriculture Credit Scheme to provide finance for the country's agricultural value chain (including production, processing, storage and marketing).

The CBN has also been taking steps to integrate the banking system into the global best practices in financial reporting and disclosure, through the adoption of the International Financial Reporting Standards, as well as through collaboration with foreign governments. In 2011, the CBN signed a US$510,000 grant from the United States Trade and Development Agency for a feasibility study towards the establishment of shared disaster recovery centres for the Nigerian banking sector, which would be used for the required technical, operational, business and regulatory requirements.

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 independently.

Under the purview of the Financial System Stability Directorate of the CBN 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 a macro level on a monthly and quarterly basis, in addition to evaluating the development of the 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, the change in control and the appointment of directors and top management by banks are subject to the prior approval of the CBN.

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 institutions 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 ₦200,000.00 per depositor for Primary Mortgage Institutions and Micro Finance Banks, and ₦500,000.00 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. With the appointment of Alhaji Umaru Ibrahim mni as managing director, the NDIC has undertaken a number of reforms in the recent years.

The main objective of the reforms is to strengthen the NDIC's capabilities to adequately deal with the existing risks and challenges in its operating environment. The key initiatives undertaken by the NDIC include:

- the development of an early warning system;
- the introduction of risk-based auditing; and
- the development of a disaster recovery and business continuity programme.

Some of the NDIC's key reforms in recent years include:

- collaboration with the CBN in monitoring Nigerian banks and implementing a risk-based supervision system;
- commencement of the Information Technology Disaster Recovery and Business Continuity project; and
- design and implementation of a new performance management system.

As a major stakeholder in the financial system, the NDIC is committed to carry out all the reforms necessary to achieve Nigeria's aim of becoming one of the top 20 economies in the world by 2020.

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. The CBN's foreign exchange policy allows the official exchange rate to fluctuate within a band of plus or minus 3.0 per cent. over a median Naira exchange rate. Since November 2011, the median Naira exchange rate has been ₦155 to US$1.0.

Banking Reforms

The CBN's post-crisis reforms and the establishment of AMCON

In June 2009, the CBN embarked on a systemic reform of the banking sector to assist and support the banking sector in overcoming the 2008-2009 global financial crisis and its impact. The reform was founded on 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. 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. Following a special examination and investigation of the 24 banks that comprised the Nigerian banking system, the CBN found significant irregularities and capital adequacy deficiencies at ten of the 24 banks (the "**Intervened Banks**"). The Intervened Banks had a substantial number of NPLs and significant weaknesses in corporate governance and risk management policies, and there was a large concentration in capital market and oil and gas portfolio exposure. As a measure to address these issues, the governor of the CBN replaced the chief executives and executive directors of most of the Intervened Banks, injected ₦620 billion into the Intervened Banks so as to prevent a systemic banking crisis, 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.

In July 2010, President Goodluck Jonathan authorised the creation of AMCON, which was established to buy the bad debts of Nigerian banks, thereby providing the required liquidity and restoring the confidence in the banking sector. In November 2010, AMCON announced plans to issue up to ₦2.5 trillion (approximately US$16.6 billion) of three-year, zero-coupon AMCON Bonds, to finance the purchase of NPLs from the Nigerian banks. In December 2010 AMCON issued ₦1.03 trillion principal amount of AMCON Bonds, with net proceeds of ₦770 billion. The proceeds from this bond issuance were used to purchase NPLs from all but one of the Intervened Banks and to purchase margin loans from each of the 21 Nigerian banks participating in the programme. Since its establishment, AMCON has issued AMCON Bonds with a face value of approximately ₦5.7 trillion and a discounted value of approximately ₦4.0 trillion and has acquired an estimated ₦7 trillion of non-performing assets in the banking sector. Approximately ₦1.7 trillion of AMCON Bonds needs to be refinanced in 2013, and a further ₦737.4 billion in 2014. The Government expects that AMCON, which has a proposed ten-year timeframe (from 2010 to 2020) in which to conduct its activities, will help rejuvenate the domestic economy and stimulate the recovery of the financial system by providing liquidity to the banks through the purchase of their NPLs, increasing access to refinancing opportunities for borrowers, increasing confidence in banks' balance sheets and encouraging a return of confidence to the capital markets.

On 5 August 2011, three of the Intervened Banks, (Afribank Plc, Bank PHB Plc and Spring Bank Plc) were determined by the NDIC not to have shown the necessary capacity and ability to recapitalise. The CBN subsequently revoked their banking licences and issued new banking licences to three bridge banks established by the NDIC to assume their assets and business (the "**Bridge Banks**"). On 6 August 2011, AMCON purchased the Bridge Banks from the NDIC thereby terminating their bridge bank status and appointed new boards of directors and chief executive officers to manage them. AMCON is currently in the process of divesting its holdings in the Bridge Banks. These banks may be acquired by existing Nigerian banks or other international banks that may want to establish a presence in Nigeria.

AMCON's achievements

As at the end of 2012, AMCON reform achieved its main strategic goals. The level of NPLs in the Nigerian banking sector was reduced below the five per cent. regulatory threshold for most banks, liquidity levels have increased by approximately 60 per cent., capital adequacy ratios improved, and major sectors of the economy (such as transportation, manufacturing, agriculture, construction and downstream oil and gas) were able to reduce the levels of their bad debts.

NPLs as a proportion of total loans were 6.3 per cent. as at 31 December 2008 and significantly increased to 32.8 per cent. as at 31 December 2009. Subsequent to the establishment of AMCON and its acquisitions of NPLs, the industry NPLs ratio dropped to 15.5 per cent. of total loans on 31 December 2010 and dropped further to 5.0 per cent. by the end of 2011. The level of NPLs of the top five banks in Nigeria was 2.8 per cent. at the end of 2012 and 3.1 per cent. in April 2013.

The banking industry capital adequacy ratios have also significantly improved during the last three years. Following the establishment of AMCON in 2010, the sector's capital adequacy ratio reached 15.7 per cent. at the end of 2010 and increased to 17.9 per cent. at the end of 2011. The capital adequacy ratio of the top five banks in Nigeria was 18.8 per cent. at the end of 2012 and 20.8 per cent. in April 2013. The CBN currently requires Nigerian banks with international banking operations to maintain a total capital adequacy ratio of 15 per cent. and domestic banks to maintain a total capital adequacy ratio of 10 per cent.

Profitability levels have also increased, as evidenced by current performance. The top five banks' profitability, as measured by the return on assets and return on equity, stood at 2.3 per cent. and 21.3 per cent., respectively, in 2012, and reached 3.3 per cent. and 25.3 per cent., respectively, as at April 2013 (on an annualised basis).

In order to accomplish the refinancing programme of AMCON Bonds, AMCON outlined a detailed strategic plan in the last quarter of 2012 which is based on: improving the liquidity and tradability of AMCON Bonds (by having AMCON Bonds rated by international and local rating agencies and establishing transparent primary trading system to allow market participants to actively trade the AMCON Bonds); appointing financial and legal advisers to improve investor education with respect to the AMCON Bonds; publishing all the required periodic reports and disclosure in all jurisdictions in which AMCON Bonds are traded and collaborating with regulators; and exploring refinancing options by using international financial instruments.

The Sinking Fund and AMCON refinancing

In July 2010, the CBN agreed with Nigeria's then 24 banks to establish a sinking fund to cover any net deficits incurred by AMCON. Each Nigerian bank agreed to contribute an amount equal to 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 agreed to contribute ₦50 billion per year. These contributions are expected to be made for a minimum of ten years and a maximum of 15 years. In early 2013, the banks' contribution to the sinking fund was reviewed to 50 basis points, and this is expected to result in contributions totalling approximately ₦81.7 billion in the 2013 financial year.

The sinking fund is managed by a board of trustees independent from AMCON and the fund constitutes up to 65 per cent. of AMCON's cash flows. To give the sinking fund legislative backing, in July 2011, the Asset Management Corporation of Nigeria (Amendment) Act Bill 2011 was introduced to the House of Representatives. The Bill seeks to amend the AMCON Act by providing for the establishment of the Banking Sector Resolution Cost Fund with a lifespan of ten years extendable by the Senate upon request from the CBN. The Bill also provides for the establishment of a board of trustees with representatives from the CBN, the Federal Ministry of Finance, the DMO and five financial institutions, for the management and administration of the fund. The Bill provides for annual contributions of ₦50 billion by the CBN and an amount equal to 30 basis points of total assets of every licensed bank, as at the date of its audited financial statements, subject to a maximum amount of ₦1 trillion (from all the banks) and ₦500 billion from the CBN. The Bill was referred to the banking committee of the House of Representatives, and the recommendations of the banking committee were adopted by the full House in September 2011. The Bill currently awaits its third reading and the final passing by the House of Representatives.

In April 2013, another Bill, the Asset Management Corporation of Nigeria (Establishment Act) (Amendment) Bill 2013, was presented before the Senate. The 2013 Bill, which currently awaits its second reading in the Senate provides for the establishment of a Banking Sector Resolution Cost Fund, into which, commencing 2014, the CBN will contribute ₦50 billion yearly. Every licensed bank is required to contribute an amount equal to 50 basis points of its total assets as at the date of its audited financial statements.

Occasionally, both Houses of the National Assembly deliberate on separate Bills involving the same subject, simultaneously. Ultimately, a joint committee of both legislative Houses meets to consolidate the Bill.

In May 2013, AMCON announced a plan for repaying or refinancing its ₦5.7 trillion zero coupon Bonds maturing in 2013 and 2014. Due to successful recoveries from NPLs and restructuring by AMCON, and the cooperation of the Nigerian banks in fulfilling their commitments to the sinking fund, AMCON is expected to be able to retire about ₦2.0 trillion of its Bonds during 2013 and 2014 and refinance approximately ₦3.6 trillion pursuant to a bilateral agreement with the CBN, following which the CBN will be the sole holder of AMCON Bonds.

*Financial System Strategy 2020 ("**FSS2020**")*

Another plan which is currently being developed is the FSS2020. The key pillars of the FSS2020 are as follows:

- to strengthen the domestic financial market;
- to enhance integration with external financial markets; and
- to build an international financial centre.

In 2012, the FSS2020 Program Supervisory Board ("**PSB**") was created with responsibility for delivering the programme. The aim of the FSS2020 is to reform Nigeria's financial, mortgage and insurance markets by 2020. The FSS2020 Legal Implementation Committee submitted several Bills to the National Assembly which are intended to further the FSS2020 objectives. These Bills include "*A Bill for an Act to Establish the Nigerian Financial Centre to Provide for a Financial Free Zone Offering a Full Range of Financial and Allied Services*" and "*A Bill for an Act to Establish the Office of the Nigerian Financial Ombudsman, an Independent Body Charged with the Responsibility for Resolving Financial and Related Disputes in the Nigerian Financial Services Sector and for Related Matters*". All the Bills have been passed by the House of Representatives of the sixth and seventh Assembly and will be enacted into law once approved by the Senate.

Cashless Policy

The CBN also introduced a cashless policy and piloted the programme in Lagos in 2012. The Government initially announced that the policy will be rolled out in five additional states (Abia, Anambra, Kano, Ogun, Rivers) and Abuja in July 2013 but this has now been deferred to 1 October 2013. It is expected that the policy will be implemented throughout Nigeria by the end of 2014. The cashless policy objectives include the following:

- to reduce the amount of physical cash and encourage electronic-based transactions;
- to modernise Nigeria's payment system; and
- to improve the effectiveness of monetary policies.

The benefits of the cashless policy for the Government include greater transparency in tax collection and greater financial inclusion. For companies it will reduce cash banking costs and foster access to capital. For consumers the policy will reduce risk of cash-related crimes and will provide cheaper access to banking services. According to the CBN, the total value of electronic funds transfers in the country has increased to about ₦80 billion per day in May 2013, as a result of the successful implementation and adoption of the cashless policy.

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 online 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 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 RTGS 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, NTBs, 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 agency responsible for the regulation of 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 market.

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 13 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 31 December 2012, there were 255 securities listed on the NSE. The table below sets out information regarding the market capitalisation of the NSE as at the periods indicated.

	Equities	**Debt**	**ETFs**	**Total**
		(₦ billions)		
31 December 2008	6,987.7	2,575.3	-	9,563.0
31 December 2009	4,996.6	2,034.2	-	7,030.8
31 December 2010	7,942.5	2,383	-	10,325.4
31 December 2011	6,536.7	3,737,7	1.0	10,275.4
31 December 2012	8,978.5	5,821.5	1.0	14,800.9

The emergence of highly capitalised banks and insurance firms following pension, banking and insurance reforms in the 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. During 2012, the NSE has rebounded to pre-crisis (2008) levels with the All-Share Index gaining approximately 35 per cent. during 2012 and additional 40 per cent. since January 2013 to date.

Previously, the NSE had a two-tier market (with first-tier and second-tier securities) with different listing requirements. 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. In July 2007 a 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 the second tier or first tier market. The securities listed on the NSE are traded by qualified Nigerian broker firms registered by the Nigerian SEC, the 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 real-time 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.

In 2012, the NSE continued to focus on the "five pillars" reform strategy including (1) targeted business development; (2) enhanced regulatory programmes; (3) 21st century technology strategies; (4) enhanced market structure; and (5) investor protection initiatives. As part of the regulatory initiatives, the NSE amended its listing rules to include quantitative measurements for profit, market capitalisation, price and public float, as well as providing transparency tools to brokers and brokerage firms and to listed companies. The NSE launched a new website in January 2012 with real time feed to tickers and introduced an improved VPN to enhance brokers' connectivity. The NSE is also in the process of testing a new trading platform (X-Gen) which is expected to start operating in 2013. In addition, the NSE launched a new Primary Market Making (PMM) programme in equities in the second half of 2012, along with securities lending and short selling. In 2012, the NSE made two strategic investments in alternative trading platforms, including the OTC market.

While the focus of the NSE in 2012 was mainly on cleansing, restructuring and making the market more accessible, the NSE plans to concentrate its efforts in 2013 mainly on technology-based innovation and product development, as well as on advancing further policy changes.

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 presented 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 NSE Alternative Securities Market

In April 2013, the NSE launched the Alternative Securities Markets ("**ASM**") for emerging businesses. The ASM has been structured particularly for emerging companies with high growth potential that the Federal Government believes to be the drivers of growth in the Nigerian economy (with focus on SMEs). According to the NSE, the ASM operates as a specialised board on the NSE where small to mid-sized companies can access the capital markets under less stringent rules and requirements to raise long term, low cost capital. The establishment of the ASM had been approved by the Nigerian SEC in 2010, with the objective of enabling indigenous companies, who could not meet all listing requirements, to take advantage of the capital markets. There is no limit to the amount of capital a company can raise on the ASM, as long as it is in line with other regulatory requirements, such as those of the Corporate Affairs Commission ("**CAC**") and the Nigerian SEC. There are currently 11 companies listed on the ASM.

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 were already in existence before Nigeria's independence in 1960. 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. In January 2011, the Federal Government issued US$500,000,000 Eurobonds with a ten-year maturity. As at 30 April 2013, the NSE has listed five of six bond applications. These are the Lagos State bonds (₦80 billion), the Osun State bonds (₦30 billion), the Gombe State bonds (₦20 billion), the C&I Leasing (₦940 million) corporate bonds and the IFC's (₦12 billion) Naija Bonds. The IFC bonds issued in February 2013 had to be increased from ₦8 billion to ₦12 billion due to the high level of demand. The bonds were issued at a coupon of 10.2 per cent. The IFC bond issue is the first international development institution to be listed on the NSE and this could generate further interest from other international issuers. 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. In total, in 2012 market capitalisation of bonds significantly increased by 55.6 per cent. to ₦5.82 trillion (US$37.44 billion) with the seven new State and corporate bonds issues and the three Federal Government bonds issues.

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 offerings 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 DMO Act, 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 PDMM to create liquidity for their bonds. There are currently 18 PDMM comprised of 14 banks and 4 discount houses. The OTC market for other bonds is informal and unregulated but every market maker is required to register with the CAC and be licensed as a Broker-Dealer by a Self-Regulatory organisation.

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 Market while a number of other corporate bond applications 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 were 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 IFC, 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. The exemption from Personal Income Tax has been granted for an unlimited period whilst the Companies' Income Tax and Value Added Tax exemptions are for a period of ten years from the date of the respective Orders issued by the Government. The administrative process to legalise the tax waiver on Capital Gains Tax on corporate bonds has however not been completed. In addition, in December 2012, the Federal Government announced the elimination of Value Added Tax and stamp duties on all stock market transactions. Furthermore, the Nigerian banks are now allowed to treat state government bonds as liquid assets provided such bonds meet the requirements stipulated in the Guidelines for Granting Liquid Asset Status to State Government Bonds issued by the CBN.

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.

The Nigerian SEC is in the process of developing guidelines on securitisation which will govern securitisation transactions in Nigeria when they are approved.

TERMS AND CONDITIONS OF THE 2018 NOTES

The following is the text of the Terms and Conditions of the 2018 Notes which, upon issue, will represent the terms and conditions applicable to all 2018 Notes, and, subject to completion and amendment, will be endorsed on each Global Note Certificate in respect of the 2018 Notes. The terms and conditions applicable to any 2018 Note in global form will differ from those terms and conditions which would apply to the Note in individual form to the extent described under "The Form of Notes" section.

The US$500,000,000 5.125 per cent. Notes due 2018 (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 10 July 2013 (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 US$200,000 and integral multiples of US$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 Condition 4.1 (*Negative Pledge*):

(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 12 July 2013.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 12 July 2013 to but excluding the Maturity Date (as defined in Condition 7.1 (*Redemption at Maturity*)) at the rate of 5.125 per cent. per annum (the "**Rate of Interest**"), payable semi-annually in arrear on 12 January and 12 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 US$5,125.00 in respect of each Note of US$200,000 denomination and, where Notes are issued in Authorised Denominations in excess thereof, US$25.63 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 US$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 twelve 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.

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 (*Notices*).

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 12 July 2018 (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 for 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 ten 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 US$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. Any notice shall be deemed to have been given on the fourth business day after being so mailed.

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 on redemption or maturity or the date for any such payment, to change the currency of payments under the Notes, or to change the quorum required at any meeting of Noteholders 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 such additional securities shall be issued under a separate CUSIP and/or ISIN unless 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 the 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 is for the benefit of the Noteholders only. As a result nothing in this Condition 15.2 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 judgment 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). The Issuer reserves the right to plead sovereign immunity under the US Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of or in the United States of America under any United States federal or State securities law.

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 the Notes, 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.

TERMS AND CONDITIONS OF THE 2023 NOTES

The text of the Terms and Conditions of the 2023 Notes which, upon issue, will represent the terms and conditions applicable to all 2023 Notes will be identical to those described under "*Terms and Conditions of the 2018 Notes*", with the following alternative or supplemental provisions, references to the "Notes" in the Terms and Conditions of the 2018 Notes being construed as references to the 2023 Notes:

(i) the reference in the first paragraph of the introductory section to "US$500,000,000 5.125 per cent. Notes due 2018" shall be replaced by a reference to "US$500,000,000 6.375 per cent. Notes due 2023";

(ii) in Condition 5.1 the interest rate of 5.125 per cent. shall be replaced by 6.375 per cent.;

(iii) in Condition 5.3, the amounts of interest payable of US$5,125.00 and US$25.63, shall be replaced with US$6,375.00 and US$31.88, respectively; and

(iv) in Condition 7.1 the words "12 July 2018" shall be replaced by "12 July 2023".

The terms and conditions of the 2023 Notes, subject to completion and amendment, will be endorsed on each Global Note Certificate in respect of the 2018 Notes. The terms and conditions applicable to any 2023 Note in global form will differ from those terms and conditions which would apply to the Note in individual form to the extent described under "The Form of Notes" section.

FORM OF NOTES

Form of Notes

All Notes will be in registered form, without coupons attached. The 2018 Notes and the 2023 Notes sold in offshore transactions in reliance on Regulation S will be represented on issue by the 2018 Notes Unrestricted Global Note Certificate and the 2023 Notes Unrestricted Global Note Certificate, respectively, which will be deposited with a common depositary outside the United States and 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 the 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 2018 Notes and the 2023 Notes sold to qualified institutional buyers in reliance on Rule 144A will be represented on issue by the 2018 Notes Restricted Global Note Certificate and the 2023 Notes Restricted Global Note Certificate, respectively, 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 relevant Agency Agreement.

Book Entry Ownership of the Global Note Certificates

The Federal Republic has applied to Euroclear and Clearstream, Luxembourg for acceptance in their respective book entry settlement systems of each Unrestricted Global Note Certificate. The Federal Republic has also applied to DTC for acceptance in its book entry settlement system of each Restricted Global Note Certificate.

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 respective Unrestricted Global Note Certificate and to a nominee of DTC as the holder of the respective Restricted Global Note Certificate. 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 respective Global Note Certificate. 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 includes 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 Note Certificates 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 Note Certificates 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 Note Certificates 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 the Unrestricted Global Note Certificates may be held only through Euroclear or Clearstream, Luxembourg, unless delivery is made through the respective Restricted Global Note Certificate in accordance with the certification requirements described in this paragraph.

A holder of a beneficial interest in each Unrestricted Global Note Certificate may transfer such interest within the United States to a person who takes delivery in the form of an interest in the respective Restricted Global Note Certificate 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 relevant 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 Certificates, 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 each Unrestricted Global Note Certificate through organisations other than Euroclear or Clearstream, Luxembourg that are either DTC Participants or Euroclear participants or Clearstream, Luxembourg participants.

Beneficial interests in the Restricted Global Note Certificates may be transferred to a person who takes delivery in the form of an interest in the respective Restricted Global Note Certificate without any written certification from the transferor or the transferee.

Beneficial interests in each Restricted Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the respective Unrestricted Global Note Certificate 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 144A under the 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 Note Certificates that is transferred to an entity who takes delivery in the form of an interest in the other respective Global Note Certificate will, upon transfer, cease to be an interest in such Global Note Certificate and become an interest in the other respective Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other respective Global Note Certificate for as long as it remains such an interest.

Transfer of interests in Global Note Certificates 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 Note Certificates in respect of their holdings of the Notes. Consequently, the ability to transfer interests in a Global Note Certificate 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 Certificate 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 Note Certificates for exchange as described below) only at the direction of one or more participants in whose account with DTC interests in Global Note Certificates are credited, and only in respect of such portion of the aggregate principal amount of the Global Note Certificates as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange an interest in a Restricted Global Note Certificate for Individual Note Certificates (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 Note Certificates 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 Note Certificates

The Federal Republic will issue the Notes in individual form only if:

(i) (in the case of each Restricted Global Note Certificate 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 each Unrestricted Global Note Certificate 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 each Unrestricted Global Note Certificate 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 each relevant 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. However, the Federal Government has issued the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011, which exempts principal and interest payments on bonds issued by the Federal Government from companies income tax from the date of the Order, being 2 January 2012. In addition, the proceeds from the disposal of bonds issued by the Federal Government are also exempt from VAT in accordance with the Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order 2011. This exemption also applies for an unlimited period from the date of the Order, 2 January 2012.

Pursuant to Section 3 of the Personal Income Tax Act Cap P8 LFN 2004 as amended by the Personal Income Tax Amendment Act 2011 ("**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. However, paragraph 31A of the Third Schedule to the PITA exempts from taxation, any income earned from bonds issued by the Federal Government. Thus interest payments by the Issuer to the Noteholders will not be subject to withholding tax under Nigerian law. 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.

Medicare Tax

For taxable years beginning after December 31, 2012, a US Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8 per cent. tax on the lesser of (1) such US Holder's ''net investment income'' (or undistributed "net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of such US Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between US$125,000 and US$250,000, depending on the individual's circumstances). A US Holder's net investment income will generally include its gross interest income and its net gains from the disposition of the Notes, unless such interest or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a US Holder that is an individual, estate or trust, you are urged to consult your tax advisor regarding the applicability of this tax to your income and gains in respect of your investment in the Notes.

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 under the Directive is 35 per cent. 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. The Luxembourg government has announced that Luxembourg will elect out of the withholding system in favour of automatic exchange of information with effect from 1 January 2015.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures to the Directive.

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.

United Kingdom Provision of Information Requirements

*The comments below are of a general nature and are based on current United Kingdom ("**UK**") tax law and published practice of HM Revenue & Customs ("**HMRC**"), the UK tax authorities. Such law may be repealed, revoked or modified (possibly with retrospective effect) and such practice may change, resulting in UK tax consequences different from those discussed below. The comments below deal only with UK rules relating to information that may need to be provided to HMRC in respect of certain payments in connection with the Notes. They do not deal with any other UK tax consequences of acquiring, owning or disposing of the Notes. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.*

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by or through whom payments derived from the Notes are made or who receive such payments (or who would be entitled to receive such payments if they were made), persons who effect or are a party to transactions relating to the Notes on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

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 10 July 2013 jointly and severally agreed to subscribe or procure subscribers for the principal amount of 2018 Notes at the issue price of 98.917 per cent. of the principal amount of 2018 Notes and for the principal amount of 2023 Notes at the issue price of 98.193 per cent. of the principal amount of 2023 Notes. The Issuer will pay the Joint Lead Managers a combined management and underwriting commission of 0.045 per cent. of the aggregate principal amount of the 2018 Notes and the 2023 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 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 qualified institutional buyers 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 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 Regulation S.

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 Issuer; 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 Securities Act are used herein as defined therein):

1. it is not an "**affiliate**" (as defined in Rule 144 under the 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) it is, or at the time the Notes are purchased will be, the beneficial owner of such Notes and is outside the United States (within the meaning of Regulation S);

2. it acknowledges that the Notes have not been and will not be registered under the 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 Unrestricted Global Note Certificate, 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 Securities Act, (iii) in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the 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 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 on issue by a Restricted Global Note Certificate and (B) that Notes offered outside the US in reliance on Regulation S will be represented on issue by a Unrestricted Global Note Certificate;

6. it understands that the Notes, other than the Unrestricted Global Note Certificates, 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 "**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 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 SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE 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 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 a Global Note Certificate, the holder of Notes or the holder of beneficial interests in a Global Note Certificate, 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 relevant 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 2018 Notes

Unrestricted Notes:	Common Code —	094470765
	ISIN —	XS0944707651
Restricted Notes:	Common Code —	095177646
	ISIN —	US65412ACE01
	CUSIP —	65412A CE0

For the 2023 Notes

Unrestricted Notes:	Common Code —	094470722
	ISIN —	XS0944707222
Restricted Notes:	Common Code —	095178014
	ISIN —	US65412ACD28
	CUSIP —	65412A CD2

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. The total expenses related to the admission to trading of the Notes are expected to be approximately US$11,400.

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 35-37, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have or have had during the 12 months prior to the date of this Prospectus, 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 2012, there has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) public debt, (iii) foreign trade and balance of payment figures, (iv) external reserves, (v) financial position and resources, save as disclosed in the sub-section entitled "GDP by sector" on pages 48-49 with respect to 2013 GDP figures, page 104 with respect to the Excess Crude Account withdrawals in 2013 and in the sub-section entitled "Nigeria Sovereign Investment Authority" on page 104 with respect to the Sovereign Wealth Fund investments in 2013 described on page 105, and (vi) income and expenditure figures, save as disclosed on pages 111-112 with respect to the 2013 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.

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