

2002 YEAR REVIEW AND OUTLOOK REPORT

KEY INDICATORS

	2002 (%)	2001 (%)	2000 (%)
Real GDP Growth - CBN	3.3*	3.9	3.8
Real GDP Growth - IMF	-0.9	2.9	4.2
91-day T-bill Rate (year end)	14.0	20.5	13.0
% Change in NSE All-Share Index	10.7	35.2	54.0

*- Estimate announced by President Obasanjo in November 2002

Highlights of the year 2002

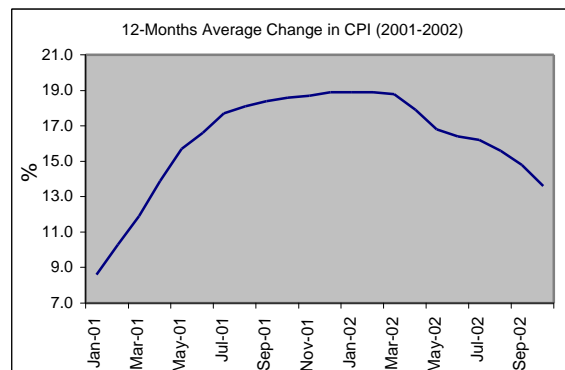
The following are among the most notable developments that influenced the performance of the economy, the financial markets and the sentiment of investors in the year 2002:

- Government revenue from crude oil production was limited by OPEC's restriction of the country's oil production quota. Nigeria's oil production quota peaked has declined steadily from 2.198 million bpd in October 2000 to 1.787 million bpd in January 2002.
- The Federal Government continued its program to deregulate the downstream petroleum industry by cutting its subsidy on crude oil supplied to the Nigerian National Petroleum Corporation (NNPC) for producing refined petroleum products for the Nigerian market. On January 1, the Federal Government pegged the price of crude oil sold to the NNPC at \$18 per barrel as against \$9.50 per barrel in 2001. The cut in the subsidy was followed by an increase in the pump price of refined petroleum products by at least 18% for essentials such as petrol, diesel oil and kerosene.
- A series of heavy explosions at an armory in Lagos State on January 27 stood out amongst several developments in the first quarter that raised fears of a violent and chaotic build up to the 2003 general elections. Other notable events that appeared to signal an imminent breakdown in law and order across the country include the assassination of the Attorney-General of the Federation in late December 2001, a strike by the police force and pockets of ethnic/ religious clashes in different parts of the country.
- The Federal Government's bid to provide an enabling environment for the productive sector of the economy by providing stable and reliable supply of electric power failed to materialise as the rehabilitation of NEPA, the government owned power company, remained constrained by inadequate funding.
- The pace of the government's privatisation programme was slowed down by mounting opposition from labour groups and the National Assembly. Furthermore, the failure of Investors International London Limited (IILL), the preferred bidder for NITEL, the government owned telecommunications company, to pay \$1.3 billion for the shares preferentially allotted to IILL in November 2001 had a significant impact on anticipated government revenue for the year.
- In March 2002, the Federal Government withdrew from the International Monetary Fund (IMF) Staff Monitored Program, stating a need to pursue a more appropriate homegrown alternative to the IMF's proposal ahead of the 2003 elections.
- The implementation of the federal budget for 2002 was constrained by disagreements between President Obasanjo and the National Assembly on the amount to be spent by the federal government in 2002. President Obasanjo resisted the legislators' attempt to increase his N762 billion budget by 41% to N1.06 trillion. Furthermore, the implementation of the budget was further hampered by a decline in expected revenue as a result of the botched sale of NITEL and OPEC's restriction of the country's oil production quota.
- The muscle flexing and bitter feud that existed between President Obasanjo and the legislators characterised the better part of 2002 and impeded the pursuit of sound economic programmes and the privatisation of several government establishments. The strained relationship between the presidency and the legislature reached a head when, in August, the House of Representatives threatened to impeach the president.

- The April 6 ruling of the Supreme Court on the sharing of revenue generated from oil and gas had a significant impact on fiscal policy during the year. The need to adjust the revenue sharing formula for the three tiers of government delayed payments for debt service and disbursements of allocations to the various tiers of government.
- Major changes in the political landscape of the country during the year included the registration of 27 new political parties, thereby increasing the number of political parties registered to contest the 2003 general elections to 30. However, the ruling People's Democratic Party remains the largest political party in the country.
- The rapid growth in the telecommunications industry was giving further impetus when, in August, Globalcom was issued a Second National Operator Licence after it paid the required \$200 million. The Company has announced plans to roll out its network in the first quarter of 2003.
- In order to reduce government's spending, against the background of the reduction in anticipated revenue for the year, the Federal Government reduced the overhead cost of federal ministries and agencies by 50%. The move helped to reduce inflation and limit the fiscal deficit to 5.8% of GDP¹.
- The Central Bank of Nigeria (CBN) played a crucial role in curbing the depreciation of the naira in 2002. The apex bank increased its surveillance of the foreign exchange market as it rolled out harsh sanctions on erring banks in the Inter-Bank Foreign Exchange Market (IFEM). Furthermore, the CBN succeeded in stemming the sharp depreciation of the naira by applying various policies aimed at rationing foreign exchange. These moves included the re-introduction of the Dutch Auction System for the sale of foreign exchange in July 2002 and the banning on the use of foreign exchange sourced from IFEM to fund the importation of "water, beer, manufactured tobacco and substitutes, cigarette lighters and other lighters".
- The CBN applied various incentives to stimulate the growth of the real sector of the economy. These included the reduction of the cash reserve ratio from 12.5% to 9.5% for banks that increase the credit they make available to companies operating in the real sector of the economy by a minimum of 20% above the level of credit extended at the end of June 2002. Furthermore, in November 2002, the CBN began to enforce an earlier directive to all banks to restrict their lending rates to a maximum of 400 basis points above the minimum rediscount rate.

Review of the Economy

Various local and international observers have announced diverse GDP growth estimates for 2002. While President Obasanjo announced a projected growth rate of 3.26%², an IMF report suggests that the Nigerian "authorities" project a growth of 1.0%. On its part, the IMF projects that the Nigerian economy contracted by 0.9% in 2002. However, in the midst of the contradictory estimates, the common theme amongst all the announcements is



¹ Source: IMF Staff Report for the 2002 Article IV Consultation

² Source: President Obasanjo's address to the joint session of the National Assembly in November 2002.

that the growth in the Nigerian economy slowed down in 2002. Factors responsible for the low level of economic growth include:

- The delay in the implementation of the budget for the year. - The disagreement between the Presidency and the National Assembly on the 2002 appropriation bill had a huge impact on government expenditure, moreso on capital expenditure. Furthermore, amid a decline in projected revenue for the year, the Federal Government significantly reduced capital expenditure for the year.
- Inadequate/dilapidated infrastructures continue to make cost of doing business high -The marked improvement in electric power supply that was supposed to follow the ongoing revitalization of NEPA, the government owned power Company, has failed to materialise.
- High lending rates – The cost of credit remained high in 2002 as the introduction of an MRR plus four percentage points limit for interest rates in November only helped to moderate the high cost of credit to the real sector of the economy.
- Political uncertainty, inconsistent economic policies and political interference in the privatization programme continued to limit potential foreign investments.
- Weak domestic demand as double-digit inflation eroded purchasing power.
- The depreciation of the naira continued to impact the cost of doing business and consumer prices. The naira lost 12% of its value against the dollar in 2002.
- Despite rising oil prices, revenue from crude oil production was restricted by the country's OPEC oil production quota.

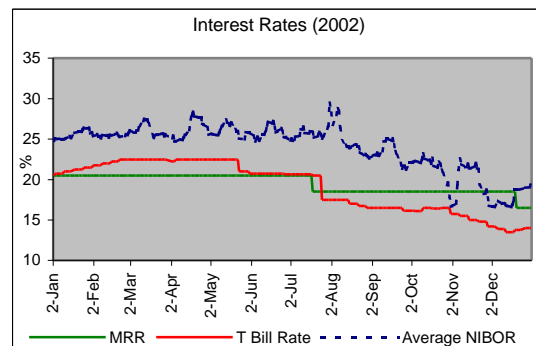
However, positive developments during the year include:

- The Central Bank's efforts to reduce speculative demand in the foreign exchange market and to ration the available foreign exchange helped to stem the depreciation of the naira in the second half of the year.
- The booming telecom sector continued to boost non-oil GDP in 2002. The telecom sector continued to grow in the year 2002 with the rapid expansion of GSM services across the country.
- Efforts to tighten monetary policies in late 2001 and early 2002 contributed to a fall in inflation from 18.9% in December 2001 to 13.6% by October 2002.

Financial Market Review

Fixed Income

- Though less volatile than the previous year, interest rates in 2002 remained relatively high in the first half of the year. Subsequently, however, the CBN's restriction of lending rates to a maximum of 400 basis points above the minimum rediscount rate and the softening of the apex bank's monetary policy



contributed to the decline in interest rates in the second half of 2002.

- Interest rates remained high in the first quarter as the CBN gradually increased the 91-day Treasury Bill (T-bill) rate by 200 basis points to 22.5% during the first two months of the year. Average NIBOR stood at between 24.5% and 27.5% in the first quarter.
- Interest rates remained high in the early part of the second quarter. Average NIBOR rose to 28% in April and then began to drop in late May, when the CBN began to ease its monetary policy by reducing the T-bill rate. As a result, the average NIBOR fell to 25% by the end of June.
- A liquidity squeeze triggered by the decision of the governors of the various states to challenge an executive order that amended the revenue sharing formula in favour of the federal government contributed to a rise in interest rates in late July and early August. However, by the end of the third quarter, the average NIBOR had dropped to 22% even as the CBN continued to soften its monetary policy stance by bringing down the T-bill rate and the minimum rediscount rate.
- The fourth quarter witnessed the restriction of lending rates by the CBN. In November, the CBN began to enforce the restriction of lending rates to a maximum of 400 basis points above the minimum rediscount rate. As a result, interest rates were restricted to a maximum of 22.5%. Subsequently, interest rates were limited to a maximum of 20.5% when the CBN reviewed the MRR to 16.5% in December.

Equities

- The announcement of attractive benefits by several blue chip companies fueled a rally in the first half of the year. The rally continued into the early part of the third quarter as the market peaked on August 2, when the NSE All-Share Index rose to an all time high of 13,005.05.

Equities Market Statistics

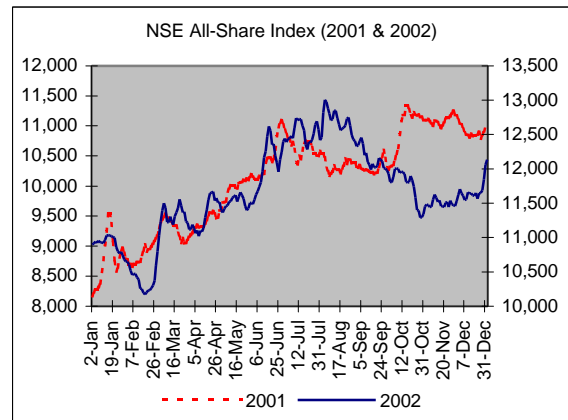
	2002	2001
Turnover (Volume)	6.6 billion	6.0 billion
Turnover (Value)	N59.2	N58.1 billion
Closing NSE All-Share Index	12,137.72	10,963.11
Change in NSE All-Share Index	10.71%	35.16%
Closing Market Capitalisation	N748.7 billion	N648.5 billion
Quoted Equities	195	194

- Following the February to July earnings season, a bear market was recorded from August to late October as profit taking by investors combined with the negative sentiment created by the announcement of poor results by a few blue chip companies to drag down share prices.
- Share prices were flat in November and December as the absence of exciting company results and cautious trading ahead of the 2003 elections were reflected in the moderate trades.
- Isolated demand for the shares of several companies was largely responsible for a rally in the last week of December. The NSE All-Share Index gained 5.0% over the last seven days of trading.
- When compared with other stock markets across the world, the Nigerian stock market performed relatively well in the year 2002. The year-to date growth (in dollar terms) of the NSE All Share Index as at December 27 was -3.82%. This is significantly

better than the performance of the US market as indicated by the S&P 500 (-23.75%), the UK market (-19.10%) amongst others³. (please turn to page 8 for more details)

Returns in the Equity Market

- Overall, 2002 was a disappointing year for investors in equities as moderate growth in the first half of the year was followed by declines in many share prices in the second half. However, a late rally in the last week of trading significantly improved the performance of several stocks. The NSE All-Share Index rose by 11% for the year amid a mixed performance for equities across the various sectors.
- The market reacted to the announcement of improved results and/or attractive benefits for shareholders of several companies. Such companies amongst the best performers include **Nigerian Breweries** (79%), **Smithkline Beecham** (67%), **Wema Bank** (65%), **7 Up Bottling** (65%), **Afribank** (52%), **Unilever** (52%), **Nestle** (46%) and **Guinness** (39%).
- A period of profit taking was followed by a season of cautious trading in the second half of the year, several traditional stocks recorded minimal or negative returns in 2002. These include **First Bank** (17%), **Guaranty Trust Bank** (6%), **Union Bank** (-9.35%), **Mobil Oil** (9%) and **Texaco** (7%).
- Poor results, particularly for several petroleum-marketing companies and cement companies, also contributed to the market's dismal performance. Companies that recorded negative returns for the year include **National Oil** (-49%), **African Petroleum** (-38%), **Agip** (-34%) and **WAPCO** (-4%).



Top Performers

RANK	Company	Price (N) 31-Dec-2001	Price (N) 31-Dec-2002	Dividend (N)	Bonus Ratio	Change in price (%)	Return (%)
1	JOS INT. BREWERIES PLC.	0.76	1.39	-	-	82.89	82.89
2	NIGERIAN BREW PLC.	35.00	30.20	2.25	1 for 1	(13.71)	79.00
6	SMITHKLINE BEECHAM NIG PLC	2.05	3.30	0.12	-	60.98	66.83
7	WEMA BANK PLC	3.76	5.76	0.45	-	53.19	65.16
8	7 UP BOTTLING COMP. PLC	5.00	5.98	0.78	1 for 4	19.60	65.10
9	AFRIBANK NIGERIA PLC	8.55	6.98	0.15	1 for 1	(18.36)	65.03
12	UNILEVER NIG. PLC	27.30	16.15	1.04	3 for 2	(40.84)	51.70
13	MANNY BANK PLC	1.36	1.81	0.05	1 for 9	33.09	51.55
14	CEMENT CO. OF NORTH NIG. PLC	3.07	4.55	-	-	48.21	48.21
15	NESTLE NIGERIA PLC	64.00	87.00	6.50	-	35.94	46.09
16	VITAFOAM NIG PLC	4.40	6.00	0.40	-	36.36	45.45
18	FLOUR MILLS NIG. PLC	16.20	16.53	0.75	1 for 3	2.04	40.68
19	ACCESS BANK NIGERIA PLC	1.30	1.82	-	-	40.00	40.00
21	GUINNESS NIG PLC	34.45	44.00	3.75	-	27.72	38.61
24	FSB INTERNATIONAL BANK PLC	8.30	6.02	0.45	2 for 3	(27.47)	26.31
25	NAL MERCHANT BANK PLC	3.92	3.70	0.25	1 for 4	(5.61)	24.36
29	NIG. BOTTLING CO. PLC	26.99	31.49	1.00	-	16.67	20.38
30	C.F.A.O. NIG. PLC	3.63	3.10	0.20	1 for 3	(14.60)	19.38
31	UNIPETROL NIGERIA PLC	49.88	52.00	2.25	1 for 5	4.25	19.19
33	FIRST BANK OF NIG. PLC	23.55	21.05	1.30	1 for 4	(10.62)	17.25

³ Source: Bloomberg and FSDH/CTSL Research

Worst Performers

RANK	Company	Price (N) 31-Dec-2001	Price (N) 31-Dec-2002	Dividend (N)	Bonus Ratio	Change in price (%)	Return (%)
1	CRUSADER INSURANCE PLC	2.70	0.79	0.14	-	(70.74)	-65.56
2	UNIC INSURANCE PLC	1.56	0.59	-	-	(62.18)	-62.18
3	JOHN HOLT PLC	2.29	0.88	-	-	(61.57)	-61.57
4	DN MEYER PLC	10.10	4.10	-	-	(59.41)	-59.41
7	UNION DICON SALT PLC	17.10	7.60	-	-	(55.56)	-55.56
8	JULIUS BERGER NIG PLC	43.00	20.00	-	-	(53.49)	-53.49
10	NATIONAL OIL CO PLC	29.80	14.69	0.50	-	(50.70)	-49.03
17	AFRICAN PETROLEUM PLC	19.34	12.02	-	-	(37.85)	-37.85
18	LASACO ASSURANCE PLC	1.64	0.90	0.13	-	(45.12)	-37.20
20	LION BANK OF NIG. PLC	1.35	0.83	0.05	-	(38.52)	-34.81
21	AIICO INSURANCE PLC	2.99	1.31	-	1 for 2	(56.19)	-34.28
22	AGIP (NIGERIA) PLC	34.62	21.06	1.90	-	(39.17)	-33.68
23	OKOMU OIL PALM PLC	9.92	6.28	0.40	-	(36.69)	-32.66
24	AFPRINT NIGERIA PLC	0.87	0.60	-	-	(31.03)	-31.03
27	TRANS INTERNATIONAL BANK PLC	2.18	1.39	0.15	-	(36.24)	-29.36
28	G CAPP A PLC	5.13	3.70	-	-	(27.88)	-27.88
32	UNIVERSAL TRUST BANK	3.02	1.99	0.29	-	(34.11)	-24.50
33	B.O.C. GASES PLC (IGL)	4.35	3.14	0.15	-	(27.82)	-24.37
35	UNITED BANK FOR AFRICA PLC	11.50	5.79	0.30	1 for 2	(49.65)	-21.87
38	WEST AFRICAN PROV.INS.COY.PLC	2.01	1.60	-	-	(20.40)	-20.40

Outlook for 2003**Economy**

While presenting the N765 billion appropriation bill for 2003 to the National Assembly, President Obasanjo announced the following macro-economic targets:

- Real GDP growth of 5%
- An exchange rate of N126/US\$
- Inflation rate of 9%

We view the targets as rather ambitious as we doubt the government's will to carry out the extensive reforms needed to stimulate such growth in the economy. Nevertheless, we would note that we expect the government to continue to implement policies geared towards maintaining a stable exchange rate, relatively low interest rates and low inflation, moreso if President Obasanjo gets the electorate's nod to remain in power for another four years.

A major challenge for the government, however, would be to contain expenditure in the build up to the general elections scheduled to hold in April 2003. The government's reaction to the Nigerian Labour Congress' clamour for a 12.5% wage increase and a rise in spending as we draw closer to the April elections could have a considerable impact on the macro-economy in the first half of the year. Hence, we anticipate that interest rates would at best remain stable in the first half of the year.

With the uncertainty surrounding who wins the April presidential elections, it is difficult to predict the performance of the economy in the second half of 2003. We would note that our forecast for the second half of the year is predicated on our optimistic view of the April elections; we anticipate a fairly peaceful transition of government. While it is tough to predict the policy thrust of the newly elected government, we expect the government to continue to pursue a policy of rationing foreign exchange in a bid to stabilize the exchange rate and conserve foreign exchange reserves. An increase in the Nigeria's oil production quota and relatively high oil prices could help to provide the much needed foreign exchange required by the CBN to meet the anticipated demand for foreign exchange and resultantly, to keep the exchange rate fairly stable.

Outlook for Fixed Income Market

- Interest rates are expected to remain relative low in the first quarter of the year. However, the CBN's resolve to maintain low inflation by tightening monetary policies may lead to a rise in interest rates in the second quarter. Therefore, we anticipate the average NIBOR for the first half to trend between 15% and 22%.
- We believe that the CBN may maintain a tighter monetary policy in the second half of the year. Hence, we anticipate that the average NIBORs would trend between 17% and 24% in the second half of the year.

Outlook for Equities Market

- **While assuming that the general elections are held without any major incident, we believe that returns from investments in the equities market would be better than returns recorded in 2002.** We anticipate a low level of depreciation in the exchange rate, a situation that augurs well for manufacturing companies that import raw materials. Furthermore, the growing popularity of gas as an alternative source of energy in some industrial areas could help to bring down production costs for several quoted companies. **We project a growth of between 10% and 15% in the first half of the year and possible between 15% and 20% by the end of the year.**
- **Our preferred sectors are as follows: banking, breweries, conglomerates, foods and beverages and real estate.**

Recommended Asset Allocation

	Q1, 2003	Q2, 2003	Q3, 2003	Q4, 2003
Equities	70%	65%	55%	60%
Fixed Income	30%	35%	45%	40%

To long-term investors, we recommend that portfolios should be skewed more towards the stock market in the first and second quarters. Subsequently, we advise investors to increase their holdings in fixed income securities in the third and the early part of the fourth quarter as we anticipate a lull in the stock market during this period. Furthermore, interest rates are expected to be relatively higher in the second half of the year, hence making fixed income investments more attractive to investors.

Model Equity Portfolio

We have created a model equity portfolio, which we recommend to investors who strive to achieve superior returns and hold a medium to long-term view on their investments. The portfolio mix would be reviewed every quarter to reflect changes in the market. The table below contains our projections for each stock that we recommend. **Please note that the exclusion of any stock at this point does not necessarily mean that it would not be included in the next quarter.**

CTSL RESEARCH –MODEL PORTFOLIO FOR Q1, 2003

S/N	COMPANY	PRICE (31/12/02)	FORECAST PRICE (31/03/03)	Q1 Low	Q1 High	RETURN	RECOMMENDED WEIGHT	WEIGHTED RETURN
1	Access Bank	1.82	1.90	1.82	2.00	4%	5%	0.22%
2	Guaranty Trust Bank	5.10	7.50	5.10	7.50	47%	18%	8.47%
3	First Bank	21.05	23.00	20.5	25.00	9%	15%	1.39%
4	Union Bank	21.33	24.00	21.33	26.00	13%	12%	1.50%
5	United Bank for Africa	5.79	6.50	5.79	8.00	12%	6%	0.74%
6	Ashakacem	13.99	16.00	13.76	18.00	14%	3%	0.43%
7	Guinness	44.00	48.00	44.00	50.00	9%	3%	0.27%
8	Nigerian Breweries	30.20	40.00	30.20	44.00	32%	13%	4.22%
9	UACN	4.10	5.50	4.28	5.50	34%	17%	5.80%
10	Unilever	16.15	16.50	14.99	16.50	2%	2%	0.04%
11	UACN Property	4.00	4.60	3.85	4.60	15%	6%	0.90%
	TOTAL PORTFOLIO RETURN							24.0%

World Stock Market Indices

North/Latin America	YTD Growth in US dollar terms (as at December 27, 2002)
Dow Jones Industrial Average	-17.14%
S&P 500 Index	-23.75%
NASDAQ	-30.87%
Brazil Stock Market Index	-45.92%
Europe/Africa	
FTSE/JSE Africa All Share	22.64%
Namibia Index overall	5.84%
Egyptian - CSE Index	2.83%
Botswana Stock Market Index	-2.39%
Tunisia Indices TUNI Index	-3.67%
NSE All-Share Index	-3.82%
MILAN MIB30 Index	-13.74%
Swiss Market Index	-14.42%
IBEX 35 Index	-15.07%
FTSE 100 Index	-19.10%
CAC 40 Index	-23.62%
Amsterdam Exchanges	-26.44%
OMX Index	-30.41%
DAX Index	-35.45%
Asia/Pacific*	
Pakistan Stock Index	115.25%
Japan Stock Market Index	-4.05%
NIKKEI 225 Index	-10.42%
China Se Shenz Composite	-16.87%
Hang Seng Index	-18.60%

Source: Bloomberg, FSDH/CTSL Research; *- As at December 30, 2002

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