

The Shell Petroleum Development Company of Nigeria Limited

Internal Investment Proposal

Summary Information

Directorate	Major Projects and Engineering Directorate			
Group equity interest	100% in SPDC, whereas SPDC is the Joint Venture (JV) operator of an unincorporated JV with a 30% interest.			
Other shareholders / partners	Nigeria National Petroleum Company (NNPC: 55%), Total: 10%, Nigeria Agip Oil Company (NAOC: 5%) in SPDC-JV			
Amount	US\$ 23.77mln Shell Share, MOD, 50/50 (US\$ 79.22mln 100% JV)			
Project	Pre-FID for Trans Niger Pipeline (TNP) Loop Project			
Main commitments		US\$ Mln 50/50		
	Description	100% JV	Shell Share	
	FEED	0.40	0.12	
	Survey (As-Built, Land / River)	0.66	0.20	
	Land Acquisition	0.22	0.07	
	SCD / ESHIA	0.49	0.15	
	PMT	0.45	0.14	
	(BP09) Sub Total	2.22	0.67	
	Line pipes Procurement	77.00	23.10	
	Total	79.22	23.77	
Source and form of financing	This investment will be financed with JV funding and Shell share capital expenditure will be met by SPDC’s own cash flow and / or the existing shareholder facility. Formal JV partners’ approval will therefore be obtained.			
Summary cash flow	Cost only Project. Cash Flow chart not applicable.			
Summary economics	Summary economics*	NPV (USD mln)	RTEP (%)	VIR7%
	Pre-FID	-3.3	NA	NA
	Full Project Scope (Cost only)	-39.6	NA	-0.26

Section 1: The proposal (management summary)

This Pre FID investment proposal is a re-submission of the earlier approved investment proposal SPDC 100581 and a later proposal SPDC 100724 which was withdrawn. The initial proposal (SPDC 100581) for \$3.58m did not include the cost of steel pipes while the latter revision included \$32.00m for steel pipes based on the existing Framework Commercial Agreement with SCC.

This latest revision includes the \$77.00m being the revised cost of steel pipes to accommodate the TNP design requirement for steel pipe grade, X65 with wall thicknesses of 17.5mm and 19.1mm for swamp and river crossings respectively. The SCC quotation for this steel pipes specification is \$77.00m. Current effort aims to engage NAPIMS, SCC and NCDMB to negotiate downward the cost of securing the line pipes to below current offer of \$77.00m.

The proposal seeks organizational approval for the funding of US\$23.17mln Shell share (US\$ 79.22mln 100% JV) to facilitate the execution of Pre-FID activities required for TNP Loophline Project. It also covers the order for line pipes at the recent price quotation from the SCC pipe mill in Abuja.

Due to protracted Ogoni crisis, SPDC freedom to operate and gain operational access to Bomu – Bonny section of the existing TNP trunk lines was threatened. Consequently, the statutory routine maintenance activities on the 24” and 28” legs of the TNP could not be executed since 1993. The proposed TNP Loophline Project will ensure SPDC continuous freedom and license to operate and enable the evacuation of over 460 Mbpd of current land east area production to Bonny terminal by 2014 and therefore improve the reliability of the pipeline system.

The objectives of executing Trans Niger Pipeline Project are to:

- To secure the evacuation of 460 Mbpd (gross) of current Land East production to Bonny Oil & Gas Terminal by providing an alternative route for the Oghale – Bonny section of the TNP which has outlived its design life, inaccessible for maintenance and has poor integrity status.
- Improve Trans Niger Pipeline technical integrity via system reliability enhancement.
- Overcome the production constraints in the TNP due to progressive de-rating of the TNP and its associated environmental risks.
- Provide ullage for developments from Gbaran Ubie, and thereby ensure gas supply to NLNG.
- Provide easy access maintainability, freedom to operate (FTO) and License to Operate (LTO).

The Trans Niger Pipeline Loophline (TNPL) Project was identified early 2007. An opportunity framing workshop was held on the 17th August 2007. A project initiation note passed DG-1 1st of April 2008. This was followed by project reframing which was done 17th April 2008. The project VAR2/3 was held from 15th – 17th of September 2008. While a DG 3 for the project was held on 26th May 2009. Front End Engineering Design (FEED) has been completed on 30th April 2010. Detailed Engineering Design is to commence in 2010 and will be concluded by End Q2 2011.

Although it is expedient to place an order for the line pipes and bends before GIP is approved, it is proposed that a notional budget be set up to capture any advance payment to be made on Long Lead Items with respect to Pre-FID fund as CAPEX.

The line pipes procurement order will be place with SCC mills in Abuja, in line with the Nigerian Oil & Gas Industry Content Development (NOGICD) act.

The line pipes and induction bends will be used in pipeline replacement campaign program East & West, which is currently in the maturation funnel, should the TNPL fail to receive FID approval.

Project Scope:

The activities covered by this proposal are consistent with the latest revised plan to mature the project to VAR4 in Q1, 2011 and FID in Q3, 2011. The cost estimate of \$23.77mln Shell share for pre-FID scope essentially covers post VAR3 activities to further define the Trans Niger Pipeline Loopline Project that include FEED, and part of EIA and R.O.W Survey/Land acquisition.

Table 1: Expenditure Phasing (US\$ Mln MOD 50/50)

Description	2010	2011	2012	2013	2014	2015	Total 100% JV	Total Shell Share
Pre-FID	2.22	77.00	0.00	0.00	0.00	0.00	79.22	23.77
Post-FID	0.00	15.00	257.00	241.00	28.00	6.00	547.00	164.10
Total Project Fund Required	2.22	92.00	257.00	241.00	28.00	6.00	626.22	187.87
Current Approved Budget BP09	2.22	52.00	200.00	228.00	140.00	5.00	627.22	188.17

Section 2: Value proposition and strategic and financial context

Trans Niger Pipeline Loop line Project is an integrity assurance project that will ensure SPDC continual LTO for the greater Port Harcourt fields. In view of the fact that routine maintenance has not been allowed in the past seventeen years due to socio-political crises on the sections of existing TNP that goes via Bomu axis (within Ogoni land), its integrity status has remained uncertain. However, evidence gathered from failed spots/sections in the past, limited inspection and evaluation has led to line pressure de-rating and evidence of progressive loss of containment integrity. There is the likelihood therefore of a catastrophic failure of the line at anytime besides the fact that the line has outlive its design life and has known poor integrity issues.

In the event of a failure, this would result in deferred oil volumes and loss of revenue over a three-year re-construction period. This delayed monetization of the crude oil volume is the value at risk, which is to be gained from the TNP Loop Project.

The proposed loop line therefore seeks to bypass Ogoni land as much as possible to forestall and mitigate impending HSE issues that are associated with the existing legs that go through Bomu. The HSE risks to avoid include environmental pollution, explosions/fire, fatalities and unending litigations.

This project particularly helps in securing liquids export from Gbaran-Ubie thereby ensuring gas export to NLNG in addition to other 3rd parties' production and Okoloma liquids.

Summary Economics

The Pre-FID economics of the TNP Loop project was evaluated as a cost only with the 50/50 level II cost estimate treated as OPEX. It is expected that the full project IP would be evaluated as CAPEX after final investment decision. The TNP Loop project is based on the premise to secure the evacuation of current Land East production to Bonny Oil & Gas Terminal as well as the supply of Gas to NLNG from Gbaran-Ubie and Okoloma Gas plant.

Additional sensitivities were carried out on the Pre-FID cost treatment as CAPEX, the project full life cycle 50/50 level II cost estimate which was treated as a CAPEX investment and the value at risk if this project was not executed at all. See table 2 below for details.

Table 2: Economics Grid - Pre-FID

	NPV (\$/S \$ mln)		VIR	RTEP	UTC (RT \$/bbl or \$/mln btu)		Payout-Time (RT)	Maximum Exposure (\$/S \$ mln)
Cash flow forward from:	0%	7%	7%	%	0%	7%		AT
Base Case								
SV (\$50/bbl RT10)	-3.5	-3.3	0.00	NA	NA	NA		
RV (\$60/bbl RT10)	-3.5	-3.3	0.00	NA	NA	NA	NA	3.67 (2011)
HV (\$80/bbl RT10)	-3.5	-3.3	0.00	NA	NA	NA		
BEP (RT \$/bbl)					NA	NA		
Sensitivities(Using RV-RT)								
Pre-FID as CAPEX		-3.5	-0.16				NA	9.00 (2011)
Full Project Scope - cost only		-39.6	-0.26				NA	113.00 (2013)
Value @ Risk* based on BP09 data		247.8	0.00				NA	0.0

*Value of NFA+STOG production that currently feeds into TNP which is at risk if TNP fails.

Table 3: Key project parameter data ranges (Shell Share)

Parameter	Unit	BP09	Low	Mid	High	Comments
Capex (MOD)	US\$ mln	-	-	-	-	
Investment Opex	US\$ mln	16.3	-	23.8	-	Provision expected in BP10
Sales Volume	mln boe	NA	-	NA	-	
Start Up Date	mm-yy	Jan-15	-	Jan-15	-	

Economics Assumptions

Base case

- Pre-FID Cost treated as Oil Independent OPEX
- NDDC levy 3% of total expenditure
- AGFA fiscal incentive applied.

Full Project Cycle

- Full project 50/50 cost estimates treated as CAPEX
- NDDC levy 3% of total expenditure.
- AGFA fiscal incentive applied.
- 10% of total project RT CAPEX treated as abandonment cost.

Value At-Risk

- Oil PSV of \$60/bbl RT10
- SPDC Generic Oil OPEX assumptions applied
- Education Tax of 2% oil assessable profit.
- Facility life span of 20years
- NDDC levy 3% of total expenditure

Section 3: Risks, opportunities and alternatives

<u>RISKS</u>	<u>MITIGATION MEASURES</u>
Technical / NCD – Implementation of the Nigerian Oil & Gas Industry Content Development (NOGICD) act. <ol style="list-style-type: none"> 1) In-country design capability is limited; and this can result in delay of the TNP Loop project schedule. 2) The use of HSAW linepipes which SCC mill in Abuja produces has no sufficient track record in hydrocarbon transportation when compared with LSAW formed pipes. 	<ol style="list-style-type: none"> 1) SciN FEED office will undertake TNPL Project Front End and Detailed Engineering design for early procurement / fabrication. 2) Project team is following up with discipline focal points in Shell reconfirm viability the TNPL project. Also with SCC to sort out the capability to cope with a large order.
Project Schedule: TNPL project First Oil Date P (10/90) is January 2014 exploring options for acceleration. P (50/50) First Oil Date is Q2 2015. Niger Delta security situation may impact the delivery dates.	Project strategy will adopt early engagement of JV partners (NAPIMS, NAOC & TOTAL) to get their buy-in, on key project decisions, so as to forestall funding and contracting challenges. Proactive engagement of communities that transverse the pipeline Right of Way will be adopted. National amnesty initiatives for the militants will douse the envisaged security tension.
Economic, Commercial & Statutory – Any late placement of execution contracts due to delays in JV approvals, statutory approvals / licences – EIA, PTS, OPL will impact start of execution with attendant impact on the project delivery date.	Regular engagement with NNPC – NAPIMS / NCD and other JV partners, DPR, NIWA etc.
Organizational- Resourcing of the Major Projects Team UIG/T/PP managing project.	Two Pipeline Engineers have been identified to join the project team during Q2 2010.
Political – General election is scheduled to hold in the country early next year 2011. This could impact the collation of data & Land acquisition due to increase restive nature of the youth during this period.	Continuous Community Engagement
Integrity – Integrity of TNP line (Bomu – Bonny Axis) over 17years span is suspect, since access to carry out integrity checks or maintenance has been denied.	Fast tracking of the TNPL project will forestall any eventualities, which may result in integrity issues.
HSE – Health and safety risks based on HSE-MS hazard registers. Implementation of Nigerian Oil & Gas Industry Content Development (NOGICD) act is now a challenge for all projects to be executed henceforth.	Measure will be carried out to ensure HSE risks are maintained at ALARP. In line with Nigerian Oil & Gas Industry Content Development (NOGICD) act, preference will be given to communities and Nigerian contractors where in-country capability is established in contractor's selection. For example arrangements are in place to buy line pipes from SCC pipe mill in Abuja.

<p>Delay in the issuance of EIA permit for the project execution phase commencement.</p> <p>Incessant illegal bunkering activities at the river banks using the block valve station, leading to catastrophic fire incidents and enormous fatalities.</p> <p>HSE Risks associated with pipeline operation (e.g. surge in pressure and stuck pigs during operation).</p>	<p>Environmental regulators and relevant government agencies will be engaged during ESHIA activities for steer and approval of the project with complete integration of health, sustainable community development and environmental impact assessment and mitigation. Compliance to Group Minimum Health Management Standard (MHMS) and Human Factor Engineering (HFE) requirement will also be monitored.</p> <p>A Quantitative Risks Workshop will be organized to secure approval for Block Valve Station (BVS) deletion. DPR will be fully represented in the workshop.</p> <p>These risks have been identified during HAZID workshop. Mitigating measures have been proffered during HAZOP workshop.</p>
<p>Security – The TNPL route transverse a lot of communities. As such, community interface, HSE and security issues are particularly significant on this route. This was heralded by the continuous hostage taking, armed attacks and attacks on the oil export pipeline and bunkering activities. Escalation in Niger Delta security situation can also impact this commitment.</p>	<p>Continuous community / Local/State governments' engagement. Allowance will be made available for community assistance/development program within the project costs.</p> <p>Recent Amnesty program declared by Federal Government, since Q4 2009, has brought relative peace to the volatile Niger Delta region.</p>
<p>Social Risks- MOSSOP/Ogoni Issue (Oghale Manifold): Any E&P activities in Ogoni by SPDC will result in a negative media backlash for SPDC.</p> <p>Non-Deployment of GMoU in Ogoni: GMoU is SPDC's interface model with cluster communities. Ogoni community will likely clamour for GMoU deployment in their area as part of FTO assurance.</p> <p>Alignment with Greater Port-Harcourt (GPH) Master Plan: Proposed routes might conflict with GPH master plan which will necessitate re-route and design mid-way into project execution.</p>	<p>Top level engagement with Rivers State Government to lead stakeholder/issues management in Ogoni in line with SPDC current issues management framework for Ogoni (Governor/SPDC MD).</p> <p>Project specific I-GMoU model will be deployed in Ogoni to manage interface with cluster communities.</p> <p>Project will latch on to on-going engagement with GPH on the AGBADA DOMGAS pipeline route to ascertain any impact on selected TNP route.</p>

Section 4: Corporate structure, and governance

NAPIMS and DPR were engaged severally and invited to project assurance review (PAR 2, 3), contract strategy workshop and VAR 3 audit exercise.

The existing corporate structure and arrangements of SPDC-JV with SPDC as operator will be used as the vehicle for the investment and operations. Meanwhile, an SPDC Decision Review Board (DRB) will continue to advise.

Section 5: Functional Support and consistency with Group and Business Standards

Functional support for the proposal is provided by Finance (EPF, GPB, FCG), Treasury (FT), Tax (FX), Legal (LG) and Contracting & Procurement (CP). The proposal has the strong support of the Nigerian government. In addition to supporting SPDC's license to operate, the project contributes to Shell's sustainable development efforts through improvement of Nigerian power generation and thus to economic development. Furthermore, the project directly enables the monetization of Shell equity gas.

Sustainable Community Development

A Social Performance & Community Affairs Plan is being developed for the project. The project will utilize the GMoU structure for interface management with about 44 communities in project area.

In line with Act 58 of 1988 an EIA process has commenced for the entire TNPL Route, with the collection of Biophysical, Social & Health data over two seasons before the end Q1 2011.

Continuous engagement of the community, including resolution of any legacy issues in impacted areas, shall continue in line with the new SCD principles / rules with regards to ensuring effective community engagement/participation, to guarantee Freedom to Operate (FTO) and eliminate community interface related to down time. All aspects of the project are being executed in line with the Statement of General Business Principles and other SPDC policies.

A stakeholder management framework will be developed to manage peculiar project interface in Ogoni land.

HSE and Security Management

The HSE performance for Trans Niger Pipeline Loopline (TNPL) Project will be consistent with SPDC's HSE targets. Since it is a swamp / offshore location, stringent HSE rules would apply, especially swimming and medical fitness of every personnel to be deployed. All water borne operations shall be carried out in accordance with SPDC's guidelines and policies. All land and marine transport activities shall comply with the procedures and standards set out in The Shell Transport Management system (LT-MS) Manual Doc. No SPDC 2000-082.

Site security management plan covering movement of materials, personnel and worksite will be in place and signed off.

Section 6: Project management, monitoring and review

The Major Projects Team UIG/T/PP is managing the project. This project has been matured in line with the Opportunity Realization Process (ORP) and has undergone all the mandatory Value Assurance Reviews (VARs). An Estimate and Schedule Review was carried out in April 2010. Key decision gates have been reviewed by SPDC's main Decision Review Board and the Project Manager appointed. Value delivery will be ensured through regular (PERT) reviews and challenge from EP-Projects, SGSI and various Performance reviews within the Major Projects Team organization in SPDC.

Section 7: Budget provision

The commitment of USD0.67mln Shell share is covered by the 2010 JV Base Budget. Additional \$23.10mln Shell share will be committed towards the procurement of line pipes which will be reflected in 2011 JV Base Budget.

Section 8: Group financial reporting impact

The financial impact of this proposal on Shell Group financial is as outlined in the table below-

US\$ mln	2010	2011	2012	2013	2014	Post 2014
Total Commitment	0.67	23.10	0.00	0.00	0.00	0.00
Cash Flow						
PreFID Expenditure	0.67	23.10	0.00	0.00	0.00	0.00
Capital Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenditure	0.02	0.69	0.00	0.00	0.00	0.00
Cash Flow from Operations	(0.20)	(6.71)	3.30	0.00	0.00	0.00
Cash Surplus/(Deficit)	(0.20)	(6.71)	3.30	0.00	0.00	0.00
Profit and Loss						
NIBIAT +/-	(0.10)	(3.50)	0.00	0.00	0.00	0.00
Balance Sheet						
Average Capital Employed	0.05	1.70	1.65	0.00	0.00	0.00

Section 9: Disclosure

Material disclosure, if any, will be done in line with the Group and SPDC Disclosure policies and guidelines.

Section 10: Financing

The project will be funded with JV funding and Shell share capital expenditure will be met by SPDC's own cash flow, as other major investments in SPDC. Formal JV partners' approval is already obtained to commence project.

Section 11: Taxation

The income tax from the project would be in accordance with Petroleum Profit Tax Rate and relevant income tax applicable.

Section 12: Key Parameters

Consideration is required of the soundness of the expenditure commitments for the following:

- Pre-FID commitment for the Trans Niger Pipeline Project requiring the amount of US \$23.77mln (Shell share).
- As the project is still at its pre-FID stage and pre-payment for the line pipe procurement will be required, we seek finance approval to raise a notional budget /charge capex WBS for the line pipe costs US\$23.10mln Shell share (US\$77.00mln 100% JV).

Section 13: Signatures

This Proposal is submitted to SPDC Technical OR Production Director OR Finance Director for approval.

Supported by:

Approved by:

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Bernard Bos

FUI/FB

Date/....../....

.....

Ian Craig

UIG/SEPA

Date/....../....

or

Initiator:

Amoo Oladele

(UIG/T/PP)

Date .../....../....