Group Investment Proposal

Summary Information

Business unit and company	The Shell Petroleum Development Company of Nigeria Limited (SPDC)
Group equity interest	100% in SPDC. SPDC is the JV operator of an unincorporated Joint Venture with a 30% interest.
Other shareholders / partners	Nigerian National Petroleum Corporation (NNPC: 55%); TotalFinaElf (10%); and Nigeria Agip Oil Company (NAOC: 5%).
Business or Function	Exploration & Production (EP)
Amount	This additional request is for **USD 117.5** mln Shell share (90/10 MOD), of which **USD 67.8** mln is CAPEX and **USD 49.7** mln is OPEX. *(Table to be reinserted after economics rerun)*

Description	100% JV			Shell Share		
	Previous IP (USD mln)	Current IP Request (USD mln)	Total IP (USD mln)	Previous IP (USD mln)	Current IP Request (USD mln)	Total IP (USD mln)
CAPEX:						
a) Flowline Replacement	57.02	234.43	291.45	17.11	70.33	87.43
10% OPEX Contingency	5.70	23.44	29.14	1.71	7.03	2.91
Total CAPEX (plus 10% contingency):	**62.72**	**257.87**	**320.59**	**18.82**	**77.36**	**96.18**
OPEX:						
Community Support total:	40.69	21.65	62.34	12.21	6.49	18.70
Damage Assessment and clean up total:	10.27	-0.92	9.35	3.08	-0.28	2.81
Repairs	102.59	-22.47	80.12	30.78	-6.74	24.04
Re-entry Support Total:	41.85	50.68	92.53	12.56	15.20	27.76
Dredging, Piling & Shore protection Total:	27.80	1.38	29.18	8.34	0.41	8.75
Estimate of Damages yet to be covered by JIVs:	20.00	-20.00		6.00	-6.00	
OPEX sub total	243.20	30.32	273.52	72.96	9.09	82.05
10% CAPEX Contingency	24.32	3.03	27.35	7.30	0.91	8.21
b) Total OPEX (plus 10% contingency):	**267.52**	**33.35**	**300.87**	**80.26**	**10.00**	**90.26**
Grand Total (a & b):	**330.24**	**291.22**	**621.46**	**99.07**	**87.36**	**186.44**

Project	SPDC-WEST Re-entry project.
Main commitments	1 - Restore the License to Operate through Community Support activities. 2 - Full re-instatement of those SPDC-West facilities that were damaged during the security crisis starting January/February 2006, with the aim to restore hydrocarbon production to pre-crisis levels. Detailed breakdown is in Appendix 1
Source and form of financing	This investment will be financed by JV funding arrangement.
Summary cash flow	See Cashflow plot in Figure 1 below.
Summary economics *(Table to be reinserted)*	

At Ranking PSV ($60/bbl RT09)	NPV7% ($ mln)	RTEP (%)	VIR
Base Project	25.19	30	0.60
High CAPEX (+40%)	20.94	22	0.36
Low Reserves (-20%)	14.61	21	0.35

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Section 1:   The Proposal (Management summary)

This proposal is a revised Investment Proposal that seeks business support/approval for the funding of **$213** mln (up by **$114 mln** from earlier approved **$99.0** mln - Shell share, 50/50, MOD) for the SPDC West Re-entry Project activities. These activities include rehabilitation and restoration of all facilities vandalized in SPDC-Western Division during the security crisis that commenced on 11/01/2006.

It would be recalled that SPDC West Production facilities were forcefully de-manned in early 2006 following violent attacks on her infrastructure by armed insurgents. An initial assessment of the damages indicated that it would require a total of $99.0mln (Shell Share, 50/50) to repair and restore the affected facilities to pre-crises operational status. A Re-entry IP (see attachment) for funding to the tune of $99.0mm (Shell Shares) based on the level of damage known then (2007) was subsequently sought and received.

In line with the execution strategies laid out in the earlier IP (such as: use of competent community based contractors, a dedicated West Re-entry Tender Board, implementation of sustainable community development projects and spill clean-ups before damaged facilities repair) the Re-entry project team has restored 26 facilities with production of about 260 mbopd at a cost of $95mln (Shell share) from 2006 to 2009.
There are however, some 7 facilities (and associated pipeline/flowline networks) with (16.42 mln boe) oil and gas generations potential yet to be restored. These facilities with associated damages will require some $118 mln (Shell share) to execute.

The extra cost requirement is mainly due to extensive level of damages observed from detailed assessment of these facilities upon gaining full Licence To Operate.

Cost Phasing ($mln Shell share MOD).

Year	**Prior Years (already spent)**				**2010**	**2011**	**2012**	**2013**	**Total**
	2006	**2007**	**2008**	2009					
Total	7.00	30.00	42.00	15.66	31.05	27.91	45.62	13.62	213.1

Section 2:   Value proposition and strategic and financial context

The proposal is consistent with Shell EP Priorities of having a production between 3.5 – 3.8 mln boe/d. Out of this target, SPDC Western Division can deliver 0.104 mln bopd (Shell share) of which ca 0.078 mln bopd has since been delivered by the West Re-entry project.

Successful completion of the West Re-entry Project will improve SPDC's Cash flow and make possible further development and growth activities in the Division. The completion of the 7 outstanding facilities (and associated pipelines/flowlines networks) is also critical to the continued production of oil from the Western Division, the continued building of community contractors' capacity and development of local content. The Project thus far has served to foster partnership with the communities in resolving Niger Delta crises. Furthermore, it would contribute to the realization of the Federal Government's aspiration of increased production, make SPDC and the Group be viewed favorably by Stakeholders as being able to manage her Community challenges and benefit from the positive impact in Shareholder Value.

Summary Economics

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The economics analysis was carried out on an incremental basis using the estimated re-entry cost of the 7 facilities and no-further activity (NFA) production of the facilities. The base case assumes gas sales to the Domgas network. Funding for this request is to be provided via the JV funding. 5 of the 7 facilities having AG solution and production volumes till end of field life were used. 1 facility would require NGC refurbishment and its production was truncated by end 2011. However, the sensitivity of a flare option with penalty, where production continues without AG solution was evaluated.

Sensitivities were carried out including unspent balance from previously approved GIP and the Full Life Cycle scenario. Also

Other sensitivities include high CAPEX, high OPEX, low reserves, cost-only scenario where re-entry fails, 1-year production schedule delay and concession expiration in 2019 (Shell JV). Details of the results are in table 1 below. The Tornado plot is shown in figure 2 below.

Table 1: West Re-entry Project Economics Grid (Shell Share) *- Needs to be rerun and reinserted*

PV Reference Date: 1/7/2009	**NPV (S/S $ mln)**		**VIR**	**RTEP**	**UTC (RT $/boe**		**Payout-Time (RT)**	**Maximum Exposure (RT)**
Cash flow forward from: 1/1/2009	**0%**	**7%**	**7%**	**%**	**0%**	**7%**		
Base Case								
SV ($50bbl RT09& $0.20/mmbtu RT09)	25.54	**12.66**	**0.30**	20	16.0	16.6		
RV ($60/bbl RT09& $0.50/mmbtu RT09)	44.36	**25.19**	**0.60**	30	16.0	16.6	2012	*$42.6mln in 2010*
HV ($80/bbl RT09& $0.80/mmbtu RT09)	79.71	**48.76**	**1.16**	49	16.0	16.6		
Oil BEP (RT $/bbl)						37.87		
Sensitivities (using RV)								
High Capex +40%		**20.94**	**0.36**				2013	*$57.1mln in 2010*
High Opex + 40%		**22.83**	**0.54**				2013	*$45.1mln in 2010*
Low Reserves -20%		**14.61**	**0.35**				2013	*$42.6mln in 2010*
Continuous Production - No shut (Flare with penalty option from 2012)		**55.89**	**1.33**				2012	*$42.6mln in 2010*
Cost Only (Non-oil Generating) Re-entry failure		**-25.71**	**-0.61**				N/A	*$42.6mln in 2010*
1-Yr Production Schedule Delay		**22.59**	**0.54**				2013	*$42.6mln in 2010*
Concession Expiration (2019)		**22.00**	**0.52**				2012	*$42.6mln in 2010*
Forward Look Economics (inclusive of unspent amount -$66.17m from 1st GIP)		**20.42**	**0.34**				2013	*$53.9mln in 2010*
Full Life Cycle (Capex - $320.6mln MOD 100%, OPEX - $300.9mln MOD 100%)		**368.53**	**3.86**				2007	*$5.4mln in 2007*

Key Project Parameter Data Ranges (Shell Share)

Parameter	**Unit**	**BP08 / Re-entry**	**Low**	**Mid**	**High**	**Comments**
Capex (MOD)	US$ mln	n/a		45.87		Incremental CAPEX for 2009 & 2010 under JV Funding
Opex (MOD)	US$ mln	n/a		41.49		Incremental OPEX for 2009 & 2010 under JV Funding
Production Volume	mln boe	16.42		16.42		Production volume forecast from 2011 to 2031 (Economic limit date)
Start Up Date	mm/yy	Jan-11	Jul-12	Jan-11	Jul-10	Base re-start Up production
Production in first 12 months	mln boe			4.46		Production vloume from Jan - Dec, 2011

Figure 1: West Re-entry Project GIP Cashflow (Shell Share) – *To be updated after econ rerun*

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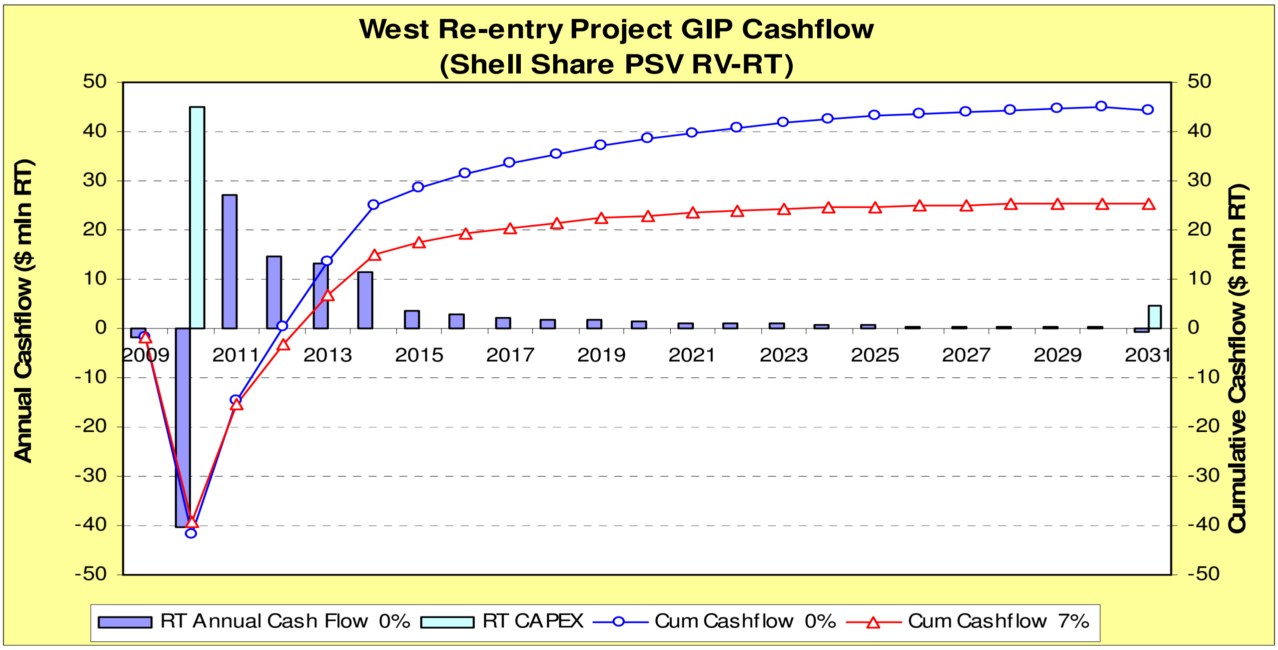
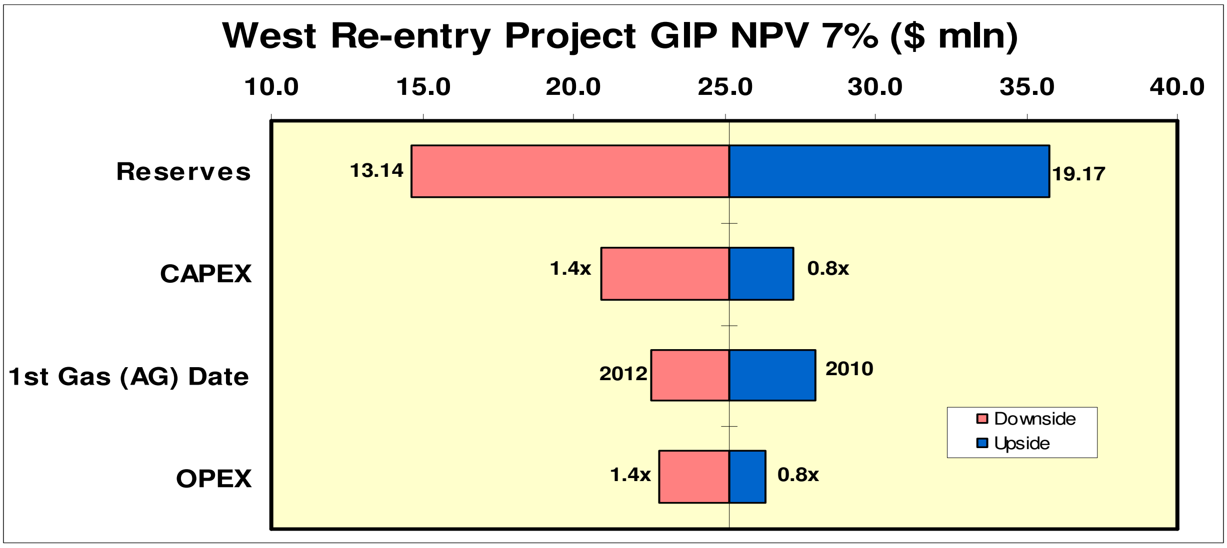


Figure 2: West Re-entry Project GIP Tornado Plot (Shell Share)



Economics Assumptions

The following assumptions were used in the evaluations:

- The forecast volumes used have been taken from the BP09 Q2 LV submission.
- All re-entry costs (CAPEX/OPEX) were treated as oil costs.
- The incremental request was treated under JV Funding.
- Gas Supply to Domgas in facilities with gas gathering infrastructure while the facilities without AG solution were truncated by end 2010. Facilities where there are on-going AG solution projects and where refurbishment of NGC compressors are expected to have production truncated by end 2011.
- NDDC Levy of 3% of total expenditure, excluding flare penalty.
- Education Tax of 2% assessable profit. ARPR 31/12/2008 OPEX for each facility utilized.
- 10% of total project CAPEX assumed as abandonment cost
- Assumption specific to the Full Life Cycle economics is:
  - actual production volumes from 2007 to 05/09 and forecast volumes thereafter used.

Section 3: Opportunities, Risks and alternatives.

Opportunities:

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The successful completion of this project creates the opportunity for SPDC to restore all Western Division oil production (about 350 Mb/d) shut-in due to the Niger Delta security crisis. It also restores the option to strive to achieve targeted and aspired growths in reserves and production.

Throughout the Re-Entry activities, continuous optimization has been pursued and will continue for the 7 outstanding facilities and associated pipeline/flowline networks in the following areas:

- **Economics:** To provide a more rational basis for allocating the expenditure at field/well level, the individual facility and well repairs will be executed on the basis of forward looking economics, taking into account production capacity, developed and undeveloped reserves, flares-out considerations and re-entry cost per field/wells.

- **Well open-up sequence:** Well repairs will be prioritized to deliver maximum production at minimum effort and cost. Focus will initially be on wells capable of natural production, followed by wells that can be kicked-off with gaslift and thereafter wells that require rig-less re-entry. A detailed bean-up sequence will be prepared to ensure wells to reach their full potentials.

- **Data gathering:** The opportunity will be taken to obtain static and dynamic performance data of the wells for proper well and reservoir management. Adequate provisions will be made for well testing and fluid sampling, ensuring shortest possible Production Chemistry laboratory turn around times.

- **Pipelines:** Along the main trunk line systems, the design of every single Block Valve Station (BVS), whether damaged or not, has been reviewed with the aim to simplify, increase flexibility and reduce the sensitivity to sabotage.

- **New Ways of Working:** The current crisis situation provides an opportunity to change SPDC's approaches and lay a foundation for more sustainable, more secure ways to operate in the future. Issues such as increased Community participation in our business, payment conditions to Community contractors, delivery of CD projects, delivery of GMoU's, and an "arm's length" approach with the JTF, will be pursued. The CAST (Communities And Shell Together) pilot initiative, currently tested in the East, will form part of the improved surveillance strategy for pipelines, flowlines and wells. The CAST initiative is aimed at reduced sabotage, reduced bunkering and improved community participation and income.

Risks:

S/N	Risk Description	Mitigation/Remedial Effort
1	Non acceptance as JV cost	Top-level engagements with JV Partners including NAPIMS have been done and are still on going to secure Partners' approval for the total Re-entry budget based on 90/10 estimates of the cost of repairing damages identified to date. Of the total re-entry budget of USD 710 mln NAPIMS have approved and funded their equity of $174 mln expended between 2006 and 2009. They have also indicated willingness to fund their equity (ca $217 mln) of outstanding works.
2	Delay in obtaining NAPIMS approval to Award	Constant engagements with NAPIMS ongoing, and to continue throughout contracting process.

3	Inadequate budget to meet the project execution phasing	Total revised IP budget is F$710.3 mln, to be phased and funded as follows: 2006: F$ 23.35 mln (Spent) 2007: F$100.28 mln (Spent) 2008: F$140.45 mln (Spent) 2009: F$ 52.21 mln (Spent) 2010: F$103.51 mln 2011: F$ 93.02 mln 2012: F$152.07 mln 2013: F$ 45.38 mln ------------------ Total: F$710.3 mln -------------------
4	The deliverables do not ensure LTO from communities	Re-entry activities / contracts using SPDC contracting process were and are still awarded largely to Local Community based Contractors who have influence within the communities to secure LTO during execution.
5	Lack of local contractors' capacity to deliver.	Capacity to deliver was and will continue to be assured through training and adequate site supervision by SPDC. Contracts have also been limited to manageable sizes that can be executed by community contractors.
6	Lack of adequate performance monitoring	Expenditures and Projects are constantly being subjected to continuous onsite QA/QC.
6	Delays in procurement/ delivery of long lead items.	Contracting process ongoing – NAPIMS engagement ongoing, to ensure quick contract approvals.
7	Security Issues	- Re-entry security strategy/plan, which aligns with our corporate security strategy, has been developed to reduce risks to personnel and guarantee LTO during and after re-entry. - A multi-disciplinary and independent Security Risk Management Team (RMT) to support the re-entry activities was set up and has been providing objective risk assessment at every stage of the project.
8	HSE Risk due to high number of contractors	- Detailed HSE Re-entry strategies and Plan/Risk Assessment were developed and used to mitigate associated risks to ALARP. This will continue to be deployed for outstanding works - Re-entry site HSE implementation strategies and compliance monitoring Matrix also developed for each activity.
9	Risk of cost overrun and schedule slippages for outstanding works	- The Re-entry Project cannot be compared to a "normal" project where scope can be fully defined before work starts. At inception of this project, SPDC didn't have full access to all damaged sites; hence the earlier approved IP was 50/50 estimate based on assessment of 70% sites. This revised IP is based on assessment of all SPDC-W damaged sites and therefore cost overrun is seen as very unlikely. The multi-disciplinary and independent Security Risk Management Team (RMT) would continue to provide the necessary support for security issues timely resolution and consequently reduce security impact on the project schedule.

Alternatives Considered:
Discontinuation of re-entry efforts in outstanding 7 facilities and associated pipelines/flowlines network.

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This is not considered a responsible or economically viable solution as the geographical axis for the outstanding work is home to a major source of LTO/FTO on which re-entry rode from inception. This option is not considered as a viable one.

No Further Investment:

a. NFI means SPDC would be unable to unlock ca 90mbopd from 7 outstanding facilities which may become subjected to further vandalization forcing SPDC to carry out proper abandonment and possible de-booking of associated reserves. The outstanding re-entry works were only considered last in the decision matrix because of the high investment required.

b. Restored production of ca 260mbopd may be lost through another wave of militant attacks as the stakeholders in the geographical axis of the 7 outstanding facilities have greater influence over those in the restored locations.

Section 4: Corporate structure, and governance

The existing corporate structure and governance arrangements of SPDC-JV with SPDC as operator will subsist for this investment

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

This proposal complies with Group Business Principles, policies and standards. Functional support for this proposal has been provided by finance, sustainable development, supplies chain management, HSE, operations /maintenance, legal, treasury and tax functions.

Section 6: Project management, monitoring and review

Whereas a project normally identifies, develops and executes a new business opportunity, with the West Re-Entry Project, this is not the case. The Re-entry Project consists of numerous smaller restoration, replacement, repair, maintenance and community support activities that under normal conditions individually would not require a full project approach. Due to the sheer magnitude of the number of similar activities to be executed throughout the West Re-Entry effort and the overriding security measures to be established, requiring a central coordination of these activities, the activities were combined into one single Re-Entry Project with the corresponding controls put in place.

For the West Re-Entry Project, the Project Governance Structure as defined in the Shell EP Opportunity and Project management Guide (2006 OPMG) has been enforced and will continue to be applied for the outstanding works. The most significant Governance roles for this project have been as follows:

- **Decision Executive (DE) - Vincent Holtam, General Manager, Onshore Assets**
    - Single point accountable for the Re-Entry Project

- **Business Opportunity Mgr (BOM) - Muhammad Shittu, General Manager, Flared Gas and West Re-entry**
    - Responsible for protecting the business case,
    - Liaison with all relevant external stakeholders to secure and maintain "Green Light" in the West Operations areas.

- **Project Manager (PM) – Stephen Oruerio, Manager, West Re-entry Project**
    - Responsible for the safe and effective technical execution of the Project
    - Generate Project Execution Plans and schedules
    - Lead the West Re-Entry Team consisting of all activity owners and disciplines required to successfully execute the Project
    - Responsible for continuous security risk assessment of all individual activities

Section 7: Budget provision

- Top-level engagements with JV Partners including NAPIMS have been done and are still on going to secure Partners' approval for the total Re-entry budget base on 90/10 estimates of the cost of repairing damages identified to date. Of the total re-entry budget of USD 622 mln NAPIMS have approved and funded their equity of $145 mln expended between 2006 and 2008. They have also indicated willingness to fund their equity (ca $197 mln) of outstanding works via the MCA arrangement

- Total IP budget is F$710.3 mln, to be phased and funded as follows:
  2006: F$ 23.35 mln (Spent)
  2007: F$100.28 mln (Spent)
  2008: F$140.45 mln (Spent)
  2009: F$ 52.21 mln (Spent)
  2010: F$103.51 mln
  2011: F$ 93.02 mln
  2012: F$152.07 mln
  2013: F$ 45.38 mln

  Total: F$710.30 mln

- For the 2010 budget, USD 103.5 mln has been allocated to re-entry.

Section 8: Group financial reporting impact – To be re-inserted after Economics

The financial impact is as shown below.

US$ mln	Prior Years	2007	2008	2009	2010	2011	Post 2011
Commitment Phasing	+0.0	+19.0	+0.0	+0.0	+0.0	+0.0	+0.0
Cash Flow							
Exploration expenditure	-	-	-	-	-	-	-
Capital expenditure	+0.0	+19.0	+0.0	+0.0	+0.0	+0.0	+0.0
Cash Flow from Operations	-1.3	-15.7	+13.2	+3.2	+3.2	+3.1	+0.5
Cash Surplus*	-2.6	-34.7	+13.2	+3.2	+3.2	+3.1	+0.5
Profit and Loss							
NIBIAT +/-	-1.3	-9.5	-0.2	-0.2	-0.2	-0.2	-2.1
Balance Sheet							
Average Capital Employed	+0.0	+13.8	+19.7	+11.2	+7.8	+4.4	+0.5
Impact on ROACE (EP)	+0.0	-0.42%	-0.07%	-0.03%	-0.02%	-0.02%	n/a

*Financial cash surplus

Section 9: Disclosure

Disclosures where required will be done in line with existing Group and SPDC policies and guidelines.

Section 10: Financing:

The project will be funded from SPDC's own generation of funds and existing shareholder facility.

Section 11: Taxation.

No specific Group, regional or country sensitivities exist. There are no unusual tax considerations.

Section 12: Key Parameters.

The following are the main aspects of this proposal for a funding of F$213 mln (up by F$114 mln from earlier approved IP of F$99.0 mln) for which approval is sought:

- The complete re-instatement of the SPDC-West facilities that were damaged during the security crisis that started in January/February 2006, with the aim to restore hydrocarbon production to pre-crisis levels.
- Community Support activities to facilitate the restoration of SPDC's License to Operate in the outstanding Western Assets in order to execute the rest of the re-entry activities.

Section 13: Signatures

Supported By:

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Simon Henry, EPF

Date …/…/…

For shareholder approval:

……………………………….

Malcolm Brinded, RDS-ECMB

Date …/…/…

Initiator: *Mutiu Sunmonu (**SPDC-EPG-P**)*

Date …/…./….

APPENDIX 1 (DETAILED BREAKDOWN OF THE COMMITMENTS)

	Total (US$ mln)	Shell Share (US$ mln)
CAPEX	**341.2**	**102.3**
Flowline Replacement	75.9	22.8
Pipeline Replacement (Oil)	131.2	39.4
Pipeline Replacement (Gas)	67.0	20.1
Power Generation Systems	42.0	12.6
Compressor Station	25.0	7.5
OPEX	**369.1**	**110.7**
Community Support	**66.9**	**20.1**
SCD - Ranked Legacy Projects	23.0	6.9
Micro-Credits	5.1	1.5
SCD - Relief Packages & Engagements	5.8	1.7
Installation of 21 Gen Sets	9.9	3.0
Operations and Maintenance of Generator Sets	6.6	2.0
Generator Set Storage Tanks	3.8	1.1
SPDC-West Interdependency/ Electrification Project	21.3	6.4
		0
JIV & Clean Up	**12.8**	**3.8**
JIV's and Clean Up	12.8	3.8
		0
Repairs	**112.9**	**33.9**
CLP Repair Works	15.5	4.7
Damaged Production Asset Repairs	43.9	13.2
Asset Team A internal repair works	4.2	1.2
Asset Team B internal repair works	12.0	3.6
Asset Team C internal repair works	7.1	2.1
Flowline/Pipeline Repairs	17.8	5.3
CCTV	-	-
EA Re-entry cost		-
WELLHEAD REPAIRS & BHP SURVEY	12.4	3.7
		0
Re-Entry Support	**119.0**	**35.7**
Logistics	80.4	24.1
JUB and Service Boats	9.2	2.8
Security	23.3	7.0
IT	3.7	1.1
Media & Publicity	1.0	0.3
HSE	1.4	0.4
		-
Dredging Piling and Shore Protection	**57.5**	**17.3**
Wellhead Slot Dredging in PWB/PWC	56.5	17.0
Piling and Shore Protection	1.0	0.3
		0
TOTAL cost (US$ mln)	**710.3**	**213.1**