

Investment Proposal for the Purchase of The Dumez Building in Abuja for Office Accommodation

Summary information

Business unit and company	The Shell Production and Development Company of Nigeria Limited (SPDC)
Group equity interest	100% in SPDC, 30% in SPDC JV
Other shareholders/partners	SPDC-JV; Nigerian National Petroleum Corporation (NNPC) – 55%, Total E&P Nigeria Limited (TEPNG) – 10% and Nigerian Agip Oil Company Limited (NAOC) – 5%
Business or Function	Upstream International
Amount	This proposal's headline size of US \$ 9.996M consists of the following: A. 30% Shell Share - US \$8.4M B. Legal Fees - US \$0.42M C. VAT- US \$0.42 M D. Stamp duty: US \$0.13M E. Perfection costs: US \$0.55M F. NCD: US \$0.1M
Project	Provide fit for purpose office for Shell in Abuja based on compelling business case to have a corporate presence in the Federal Capital Territory (FCT) Abuja
Main commitments	Approval for a Deed of Assignment Agreement between NNPC, SPDC, TEPNG and NAOC (<i>as Buyers</i>) with REHI Real Estate Company (<i>as seller</i>), to purchase DUMEZ Building in the Central Business District of Abuja.
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. Formal JV partners' approval will therefore be obtained.
Summary cash flow	Capex of \$9.996 M (Shell share) in 2011, actual cash out will be net of lease payments.
Summary economics	This represents PV7 capex of \$8.4M RT2011, excluding sunk costs.

Section 1: The proposal

Management Summary

This proposal seeks management approval for SPDC to execute a Deed of Assignment to acquire the Dumez Building in Abuja. The proposal is in line with the long-term plan of having a permanent office accommodation in Abuja to meet the current and future needs of SPDC as operator of the Joint Venture.

Background

In July 2006, SPDC leased an office at No. 2 Tapeta Street Abuja for a three-year period. The office was located in a residential district and situated outside the Abuja Central Business District, remote from our JV partners, and other IOC's. This space was considered functionally unsuitable against Group standards and inadequate to meet the needs of SPDC.

In July 2009, MTB approved a one-year extension of the lease with the directive to put concrete plans in place for a permanent, more befitting office accommodation in Abuja.

Two properties were identified as meeting the requirement to project the Abuja location as a branded, government relations hub as well as accommodate the likely increase in the number of Abuja-based staff. In September 2009, lease negotiations commenced with the two landlords - Aso Savings & Loans Ltd/REHI and Bank of Industry Ltd – for the lease of either of their buildings both located in the Central Business District (CBD) and within the proximity of NNPC Towers, Abuja.

In March 2010, SPDC eventually entered into an agreement with REHI for a 3-year lease for Dumez building with a Purchase Option Agreement featuring the right of first refusal if the building became available for sale. In the event of such a sale, the rental payments made by SPDC from (a total outlay of N900M or N300M/annum) less the lease period utilized would be converted to part payment of the Purchase price. It is pertinent to note that SPDC had received support from NAPIMS to purchase the building in early December 2009, based on an unsolicited offer from the Landlord of N4.8 Bn. SPDC decided not to follow through with the purchase when the owner unilaterally raised the asking price to N5.5Bn (\$36M).

There are demonstrable economic advantages in SPDC owning an office as opposed to a long-term lease. This informed the SPDC strategy to determine well within the current lease term whether the option of purchasing Dumez building would materialise as opposed to the 36 month period required to buy land & build a custom office. This position was buttressed by NAPIMS informing all IOC's in Nigeria around June 2010 that leasing of office accommodation would no longer be supported unless proof of transition to own one was evident. NAPIMS' preference, from various engagement sessions, has been for the outright acquisition of the Dumez building, subject to agreement on an acceptable sales price.

This proposal seeks support to purchase Dumez building for the sum total of \$33.3M (N4.9B) 100% JV, including VAT, Legal fees, NCD, perfection cost and Stamp duty. Advantages are:

- Avoiding staff relocation (cost, inconvenience) since the building is currently Shell-occupied,
- Known, high quality of the building in which SPDC has already invested more than \$1.3mln to improve functionality and ambience (e.g. emergency staircase, utilities upgrade and extensive internal fit out)
- This option is more cost effective in comparison to leasing of the Dumez building for ten years. The purchase price is only 5% higher than the most recent, NAPIMS-sanctioned valuation of N4.0B, but the best option in terms of quality and cost.

Section 2: Value proposition and strategic and financial context

The acquisition of Dumez building provides a strong strategic fit in the UIG business portfolio for the following reasons:

Demand

- Opportunity to fulfil the long term office demand requirements of the Shell Companies in Abuja. UIG LT has indicated that demand will not exceed the 200 capacity for the foreseeable future.

Location

- The prime location of the property (in the Central Business District) and which is within 1km of NNPC headquarters and other, key government parastatals.

Quality

- Opportunity to own and operate and maintain a building that meets the aesthetic and functional specification requirements for a representational office. The facility has been upgraded to meet Shell's specific needs.

Section 3: Risks, opportunities and alternatives

Principal risks and mitigation associated with the proposal are as follows:

<u>Risk Type</u>	<u>Risk</u>	<u>Mitigation</u>
Uncertain Demand	<ul style="list-style-type: none"> • Possibility that there would be a significant increase in demand for office space. This implies multiple office locations in Abuja to meet the demand. 	<ul style="list-style-type: none"> • Several opportunities exist to expand on Dumez site, either by reconfiguration of floor plans or by construction of additional offices within the premises (less than 25% of site is developed).
Economic (Capacity)	<ul style="list-style-type: none"> • Building capacity is significantly in excess of Shell's short-term demand. Currently, less than 30 workstations are required now while facility can accommodate up to 150 workstations. 	<ul style="list-style-type: none"> • Sublet excess space in the short-term, which provides income and reduces the financial burden to the JV. High grade commercial property is presently at a premium in Abuja Abuja market with many potential off-takers.
Legal and Political (Government)	<ul style="list-style-type: none"> • The land on which the building is situated is designated for public parking under the FCT/Abuja Master Plan, made pursuant to Federal Capital Territory Act. The land was subsequently allocated to the Landlord for multi-purpose use. Possibility of significant loss to Shell in the event that the relevant Government authorities seek to implement the said Master Plan and thereby make the building unusable for Shell. 	<ul style="list-style-type: none"> • The sale/purchase of the building will be conditioned upon the Landlord obtaining satisfactory, documentary evidence that the Lands on which the property is situated has been re-zoned by FCDA (i.e. Municipal authorities) to align with the Commercial/Multi-purpose use stated in the Certificate of Occupancy issued to REHL.

Alternatives

1. Do Nothing

The “do nothing option” implies the continued renewal of the lease of the Dumez building for a period of 10 years. This option has a number of derivable benefits which include:

- Avoidance of relocation and associated inconvenience/costs as compared to the alternative of buying or building another landed property.
- No down time on operations and services; this may arise from the option of relocation.

The economic analysis clearly demonstrates that this option is not commercially attractive due to the significantly higher opex, exposure to an uncertain lease market and is inconsistent with NAPIMS’ strategic direction. The PV7 capex for this option is \$8.8M vs. \$8.4M to purchase (all at RT2011).

2. Buy another landed property with existing building

This option provides higher capital outlay based on existing real estate market assessment due to the relatively low quality of finishing and often questionable integrity of available buildings. The conclusion is that an upgrade would be required to meet Shell’s standards and estimated costs to pursue this option are in excess of N5.5B.

3. Buy Land and build

This option appears attractive because it provides the opportunity to own a quality building consistent with Shell’s standards and which meets our functional requirements. However, the key constraint is that of timely delivery with the additional risk of escalation in property and construction costs. The estimate to exercise this ‘buy and build’ option is N5.2B, which includes N2B cost of land and also allows for schedule risk based on an analysis of historic performance.

Section 4: Corporate structure, and governance

The existing corporate structure and arrangements of SPDC-JV with SPDC as operator will be used as the vehicle for the investment and operations.

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

This proposal is consistent with Group HSE, ER and Sustainable Development policies. Functional Support from Finance, Tax, Treasury, HSE/SD, HR and Legal has been obtained.

Section 6: Project management, monitoring and review

The cross-functional project team comprising Real Estate, Finance C&P and Legal was set up in 2009 and a DRB governance structure is in place.

Section 7: Budget provision

There is presently no budget provision for the acquisition in 2011 JV budget (budget was provided in 2010). However, the JV process has been initiated to revise the budget to accommodate this transaction which is consistent with the JV's strategic direction.

Section 8: Group financial reporting impact

The financial impact of the acquisition will be \$9.96M Capex, incurred during Q2 2011.

Section 9: Financing

This project will be funded from SPDC's own generation of funds and existing shareholder equity. Formal JV partners' approval will therefore be obtained.

Section 10: Taxation

Applicable taxes include VAT (currently 5%) and 1.5% stamp duty to perfect title to the property. Neither Capital Gains Tax (CGT) nor Withholding Tax (WHT) is applicable.

Section 11: Key Parameters

The following are the main aspects of this proposal:

- Capex of \$9.96M, including legal fees, stamp duties and VAT for the purchase of Dumez Building, Abuja in order to exercise the purchase option in the subject lease agreement.

	Cost
Purchase price	1,260,000,000.00
Legal-5% of sales price	63,000,000.00
Vat-5% of sales price	63,000,000.00
Perfection Cost-6.5% of sales price	81,900,000.00
Stamp duty-1.5% of sales price	18,900,000.00
NCD-1% of sales price	12,600,000.00
Total	1,499,400,000.00
USD	9,996,000.00

Section 12: Signatures

This Proposal is submitted to Vice President, HSE, Infrastructure and Logistics for approval.

Supported by:

For Business approval:

Kayode Ogunjimi

Babs Omotowa