Investment Proposal for the Renewal of Title of Four Properties in Ikoyi

Summary information

Business unit and company	Shell Nigeria Infrastructure Development Ltd (SNID)
Group equity interest	100% Shell (SPNV)
Other shareholders/partners	N/A
Business or Function	Upstream International
Amount	This proposal's headline size not to exceed US$9.00mln (at NGN157/USD), Shell Share 100%, consists of the following: • Renewal of Certificates of Occupancy (C of O) **for the 4 properties** - US$9.00min • Professional Fees and other administrative expenses for the renewal of title - US$ 546,629 • Estimated professional fees for likely litigation to recover possession of the properties - US$ 441,401
Project	Recovery of four (4) properties in Ikoyi, Lagos
Main commitments	Payment of NGN 314.38 mln for each property totalling N1.26 bln (US$8.00 million) to Lagos State Government (LASG) to issue C of Os with a 99 year tenure each
Source and form of financing	This investment will be financed by an affiliate loan from Shell Nigeria Exploration and Production Company (SNEPCo).
Summary cash flow	N/A
Summary economics	Recovery expenses excluding likely litigation costs are ~50% of open market values (OMV estimated at US $18.8 mln) with significant, upside potential as the property market recovers.

Section 1: The proposal

Management Summary

This proposal seeks approval for SNID to recover four (4) properties in Ikoyi, Lagos, in respect of which Building Leases had been granted to Shell Company of Nigeria Ltd (SCON). The title to these properties expired between 1988 and 1995 and would have to be renewed by the Lagos State Government (LASG) for Shell to regain legal title. All four properties are currently occupied by third parties as listed below.

These properties, on approximately 1.136 acres (~4,600m^2) each, are located in the same prime area of Ikoyi with details as follows:

1. # 9 Osborne Road acquired in 1928 and currently occupied by Conoil Plc.
2. #8/10 Bayo Kuku Road acquired in 1934 and currently occupied by NAPIMS an arm of the Nigeria National Petroleum Cooperation (NNPC).
3. # 9 Bayo Kuku Road acquired in 1928 and currently occupied by Conoil Plc.
4. # 16 Temple Road acquired in 1935, and currently occupied partly by Sommerset Court, Hotel and the other part by unknown persons.

SCON, a company incorporated in the United Kingdom, is in the process of being wound up and has agreed to cede the properties to SNID as beneficial owner at no cost; save that SNID will bear all administrative and ancillary costs for the recovery and documentation. SNID's Board of Directors (Board) has approved this proposed transaction and SCON's Board has donated a Power of Attorney to SNID's Board to that effect. A formal Deed of Assignment may be required to transfer legal title in the properties to SNID after their recovery. Analysis of the estimated costs and net value of recovering these properties has been carried out (Attachment 1) hereto.

The recovery process for these properties was initiated in 2008. Due diligence checks carried out at the Lagos Lands registry, and enquiries of LASG officials in formal meetings indicate that there are no registered adverse ownership claims to the properties and that no re-allocation offers had been made to any other persons by LASG.

Searches at the offices of the Federal Lands Registry Lagos and the Federal Ministry of Lands, Housing and Urban Development (FMLHUD) Abuja reveal that there is no record of the properties in their database. Further unofficial searches at the FMLHUD revealed that the Minister had not issued title to any properties in Ikoyi as a whole to the current occupiers of the properties (i.e. Conoil Ltd, NAPIMS and Somerset Hotel).

Legal authorities are to the effect that title to all Lands previously under the control of the Colonial authorities (Crown Lands) became vested in the Federal Government of Nigeria following the independence of Nigeria. However, by virtue of laws passed in 1967, all Federal government lands in Lagos state were transferred to the care and control of Lagos State to be held in trust for the Federal Government. Accordingly, the Lagos State Government is the valid authority to grant interest/title in the 4 Properties in issue to anyone.

A reputable property consultant firm was subsequently engaged in January 2011 to interface with LASG to process the title renewals. Certified True copies of SCON's expired leases are in Shell's custody and LASG has notified SNID of its intention to renew the title to all the 4 properties subject to the payment of the applicable fees within 90 days of the said notification.

NAPIMS had been notified of Shell's exclusive ownership of the property (i.e. not SPDC JV) and plans to renew its title. NAPIMS responded expressing willingness to continue to occupy the Property on Shell's terms to be agreed.

<u>Background</u>

SCON, formerly called Shell Company of West Africa Ltd (SCOWA), had several business interests in Nigeria, foremost of which was Shell Nigeria Limited (SNL) which later changed its name to NOLCHEM (former National Oil). SCON owned 40% stake while the Federal Government of Nigeria's equity participation in NOLCHEM was 60%. In 2000, SCON divested its equity in a privatisation exercise jointly undertaken with the Federal Government to Conoil Plc and ceased operations in Nigeria thereafter.

SCON's other interests in Nigeria included ownership of the subject properties, acquired exclusively by SCON prior to existence of the SPDC JV, and which did not form part of the NOLCHEM divestment. Prior to the divestment, SPDC had used the properties either as senior management residences or company guest houses. It is to be noted that Conoil Plc has not undertaken any physical improvements on the 2 properties it occupies till date, such that they are in a dilapidated state and unusable, with only minimal security presence. An intriguing aspect of the discovery was the claim by Conoil Plc, on its website, to be successor–in–title to SCON the last registered owner of the subject properties (implying that SCON no longer existed, which assertion is false and potentially libellous).

Prior to engaging the property consultant to interface with LASG and pursue recovery, Shell Real Estate undertook the following activities:

- Property searches instituted to confirm initial information received in respect of #9 Osborne Road indicated that SCON was the last registered title-holder on the record in respect of this property and further identified 3 other properties in the same axis of Ikoyi assigned to SCON.
- Engaged LASG to establish if there were legitimate counter-claims to the property and received confirmation to the contrary and assurance of co-operation should Shell seek to regularise the expired titles. It is pertinent to note that Shell successfully renewed its expired title to another Ikoyi property, 37 & 38 Inner Crescent, in 2008 and LASG has since issued a fresh C of O for 99 years.
- Corporate searches conducted on SNL and NOLCHEM at the Corporate Affairs Commission (CAC) to ascertain their history and assets did not turn up any documentary evidence that Conoil Plc was the successor-in-title to SCON/SCOWA as claimed. SCON still exist today as a UK registered 100% Shell Company.
- The Bureau of Public Enterprise's (BPE) that undertook the divestment of NOLCHEM in 2000 provided a copy of NOLCHEM's Board Chairman letter annexed to the Prospectus for the sale of NOLCHEM's shares. Only No 9 Bayo Kuku Road, Ikoyi (of the 4 properties in issue) was listed therein as premises from which NOLCHEM operates. Nolchem was stated to have a 50 years lease from 1988 (same year SCON's lease expired) from the Federal Ministry of Works and Housing (FMWH) for the property. Legally such a long lease is required to be registered and this one is not so registered. Furthermore, searches carried out at the FMLUDH in February 2012 did not turn up any support to NOLCHEM/Conoil's claim on the property.
- Engaged SCON to clarify Conoil Plc's claim of being its successor–in–title. SCON representatives clarified that the company was still operational in the UK and NOLCHEM was not its successor–in–title. SCON Legal team further confirmed that the divestment was by sale of shares only and that no SCON owned assets were transferred to Conoil.

Section 2: Value proposition and strategic and financial context

The renewal sums demanded by LASG are less than 50% of the current property values with significant upside. Although the property market has largely been characterised by a severe decline in property values since 2008 when values were twice as much, a recovery is already underway. We are still reviewing potential redevelopment options for these sites and in the event we decide to dispose of the properties, the potential value to be realised far exceeds the lease renewal costs.

Section 3: Risks, opportunities and alternatives

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

Risk	**Mitigation**
LASG Offer Validity SCON initially planned to wind up in Q4 2010 but in view of current realities, has deferred this to whenever SNID concludes on the renewal of the titles and takes possession of the properties. LASG's demand notices vide letter dated Sept 30th 2011 expired on Dec 29th (90 days). If SNID fails to accept the offer within the prescribed window, it would have amounted to a loss of these properties with value estimated at ~US $19 mln.	a). A property consultant has been engaged to interface with LASG agencies to protect SNID's interest and facilitate an agreement to renew the titles. b). SNID has obtained its BoD's approval to accept the properties and took steps to secure required budget and funding within the available timeline (this GIP). c). In order to give room for further due diligence searches commissioned at the FMLHUD late December 2011, a request was

	sent to LASG for reduction in the renewal fees demanded, increment of the renewal years offered to 99 years and extension of time for acceptance of the renewal offer to aid conclusion of discussion on these 2 key terms. This was followed with other letters and meetings with officials of the LASG, resulting in negotiations and in effect the extension of the acceptance period for Shell. LASG have categorically stated that the fees are standard and coded into law hence could not be reviewed downward as requested. It has however agreed to increase the tenure to 99 years.
Possession Risk Current occupiers/encroachers may resist SNID's attempts to gain possession by instituting legal action to prevent or unduly delay recovery. In this case, recovery costs may exceed initial estimates and/or deterioration in future real estate property values could result in a net loss to SNID. SNID is legally required to take out a court case to evict any occupier who refuses to leave the properties upon being notified of SCON's legal title. Such litigation could take a minimum of 4 years in the court of first instance and thereafter go on appeal through to the Supreme Court lasting about 8 years. The total Legal fees to be incurred would be about N69.3million (includes VAT) (US$441,401) (estimate is for 3 properties only on presumption that NAPIMS would not subsequently challenge Shell's title). In the event that the final court decision is not in favour of SNID, the C of Os issued would be invalidated, SNID would be entitled to a refund of the renewal fees hitherto paid from LASG	A property consultant has been engaged to interface with government agencies to protect SNID's interest and facilitate an agreement to renew the titles. Once LASG renews title to the properties in SNID's favour, an external lawyer will be engaged to regain possession of the properties, should current occupiers refuse to peacefully quit. The lawyer would issue the statutory quit notices on behalf of SNID and follow through with court cases to ensure vacant possession. SNID will protect against value erosion by ensuring any additional commitments do not exceed the forced sale value of each property (without vacant possession). This is presently estimated at 50 - 60% of OMV. On recovery, SNID may negotiate with occupants or other 3rd parties for immediate sale of the properties as they are located within the Ikoyi mixed-use zone, on a major high street and hence regarded as prime real estate. To mitigate against the risk that the renewal fees will be paid and then LASG is unwilling to renew title in SNID's favour due to challenges raised by the existing occupiers, SNID will take various actions advised by Legal before paying the renewal fees to test the likely level of challenge, including notifying LASG of the current occupiers to assess whether they are willing to support the steps necessary to allow SNID to regain possession of the properties including the litigation that will follow.
Relationship between SNID and SCON	

The application to renew the title was made in the name of SNID while the expired building leases and all other documents furnished in support pertain to SCON. The implication of SNID completing the renewal of title to the properties in its own name rather than in the name of SCON is the absence of a link between itself and the original owner. Without such a link, the risk of SNID being granted a defective title which cannot be regularised by a C of O remains.	A Power of Attorney has been donated by SCON authorizing SNID to follow through re-possession of the properties. It is pertinent to note that both SNID and SCON are both 100% Shell affiliates with SNPV as the single shareholder. A formal Deed of Assignment may be required to transfer legal title in the properties to SNID after their recovery.

Alternatives

1. Do Nothing
   Do nothing by letting LASG's offer lapse is not considered prudent as Shell (SNID) will lose an excellent opportunity to recover valuable real estate for less than half the present open market value.

2. Pursue recovery using SPDC JV
   Consideration was given to pursue recovery using SPDC-JV's corporate structure, with SPDC as operator, so JV partners would proportionately share costs and benefits. In this case, Shell would request the C of O to be issued in the name of the SPDC JV and would require NAPIMS prior approval. Although NAPIMS has indicated its interest in continued occupation of #8/10 Bayo Kuku (as paying tenants) they are not inclined to co-fund renewal expenses and would be unable to approve this proposal in the required time frame.

Section 4: Corporate structure, and governance
SNID is a 100% Group Company with ownership vested in SPNV (NL). Governance follows the new UI SSA Operating model with Ian Craig (EVP Sub Saharan Africa) and Osagie Okunbor (VP HR) as the Executive Sponsor and Decision Executive respectively.

Section 5: Functional Support and consistency with Group and Business Standards
This proposal is consistent with Real Estate and Finance policies. Functional support from Legal, Finance, Treasury, Business Relations and Tax has been obtained.

Section 6: Project management, monitoring and review
A 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
Budget to recover the properties will be offset from the Lagos Infrastructure Development (LID) BP11 capex of US $22 mln (LE $4.7mln)

Section 8: Group financial reporting impact
The financial impact of the acquisition will be US $9.00 mln capex.

Section 9: Financing
This project will be financed exclusively by SNID (via an affiliate loan from SNEPCO) therefore JV partners' approval will not be required. Financing will be via a short term affiliate loan from SNEPCo; A group financing proposal will be initiated for that purpose.

Section 10: Taxation
The only taxes applicable are stamp duties for renewal of leasehold for a 99 year term and VAT for professional fees. Neither Capital Gains Tax (CGT) nor Withholding Tax (WHT) is applicable.
SCON has given SNID an irrevocable Power of Attorney (POA) and intention is for C of O to be issued in favour of SNID, hence no transfer of asset and associated payment.
All correspondences and application in respect of the subject matter have been via SNID.

Section 11: Key Parameters
The following are the main aspects of this proposal:

- Funding (not to exceed USD 9.00m) for renewal fees payable to LASG and other sundry professional fees and associated costs.

Section 12: Signatures
This Proposal is submitted to Vice President, Human Resources for approval.

Supported by:	**For Business approval:**
Bernard Bos	Osagie Okunbor
VP Finance, SSA	VP Human Resources, SSA

IKOYI FOUR PROPERTIES - SUMMARY SHEET OF FEES PAYABLE COMPARED TO MARKET VALUE

Details of Requested Fees

Location of Property	Size (M^2)	LASG Approved Renewal (NGN)	Agreed Agent Prof. Fees @ 6.5 % (NGN)	Litigation Fees (NGN)	Total Fees Payable (NGN)	Cost per M^2 (NGN)
8/10 Bayo Kuku, Ikoyi	4,597.25	314,316,150	21,452,077		335,768,227	73,037
9 Bayo Kuku	4,597.25	314,376,580	21,456,202	23,100,000	358,932,782	78,076
16 Temple Road, Ikoyi	4,597.25	314,376,580	21,456,202	23,100,000	358,932,782	78,076
9 Osborne Road (assumed)	4,597.25	314,376,580	21,456,202	23,100,000	358,932,782	78,076
Total		1,257,445,890	85,820,682	69,300,000	1,412,566,572	

Values of other properties in Ikoyi for comparism

Property Name	Size (M^2)	Valuation by Diya & Co (2009)	Value per M^2 (NGN)	Jide Taiwo (2010)	Value per M^2 (NGN)
53 Bourdillon Street	6,324	1,366,500,000	216,082		
44 Bourdillon Street	4,516	979,892,000	216,982		
12 Inner Crescent	4,268	1,089,000,000	255,155	647,000,000	151,593
14 Inner Crescent	4,411	1,127,000,000	255,498	698,100,000	158,263
24 Gerrard Road (A only)	3,880	1,158,000,000	298,454	620,630,000	159,956

NB: The best comparison of value per M^2 would be with those of 44 and 53 Bourdillon Raod being on the same High Density, Mixed-Use Area; however we have risked the open market value for the Ikoyi 4 properties at N158k/m2 instead of N216k/m2.