

INVESTMENT PROPOSAL

SUMMARY INFORMATION

Business unit and company	Shell Nigeria Exploration and Production Company Limited (SNEPCo)																				
Group Interest	100% in SNEPCo. 55% in OML-118 which is a concession of NNPC under a PSC agreement with IOCs. SNEPCo is the Operator.																				
Other shareholders/partners	Esso Exploration & Production Nigeria Limited (an affiliate of ExxonMobil): 20%; TotalFinaElf 12.5%; and Nigeria Agip Oil Company (NAOC) 12.5%.																				
Business or Function	Social Performance																				
Amount	\$12,900,000 (NGN1,935,170,000) Shell Share \$23,460,000 (NGN3,518,490,000) 100%. Spend is spread over a 4-year period 2012-2015.																				
Project	Construction of 45 units of fit out Information and Communication Technology (ICT) Centres in 45 locations across the country geo-political regions and over a four year period 2012-2015. Entire project cost (\$12.9mln Money of the day (MOD), Shell Share) is treated as OPEX and fully recoverable. Project does not generate any revenue for Shell. Naira/Dollar exchange rate is N150/\$. The project expenditure will be in Naira.																				
Main commitments	No expenditure commitment is previously made on this proposal.																				
Source and form of financing	Project will be financed by Co-ventures. Annual spend will be fully recovered under PSC with NNPC.																				
Summary cash flow	<div><p style="text-align: center;">ICT Centres in 45 Locations in Nigeria</p><table><thead><tr><th>Year</th><th>Opex (\$mln, RT12, SS)</th><th>Cum RT CF 0%DR (\$mln, RT12, SS)</th><th>Cum RT CF 7%DR (\$mln, RT12, SS)</th></tr></thead><tbody><tr><td>2012</td><td>-2.5</td><td>-2.5</td><td>-2.5</td></tr><tr><td>2013</td><td>-6.0</td><td>-8.5</td><td>-8.5</td></tr><tr><td>2014</td><td>-4.0</td><td>-12.5</td><td>-12.5</td></tr><tr><td>2015</td><td>-0.5</td><td>-13.0</td><td>-13.0</td></tr></tbody></table></div>	Year	Opex (\$mln, RT12, SS)	Cum RT CF 0%DR (\$mln, RT12, SS)	Cum RT CF 7%DR (\$mln, RT12, SS)	2012	-2.5	-2.5	-2.5	2013	-6.0	-8.5	-8.5	2014	-4.0	-12.5	-12.5	2015	-0.5	-13.0	-13.0
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2015	-0.5	-13.0	-13.0																		
Summary economics	<p>Impact of this expenditure has been tested on the value of existing and approved/ongoing projects in the OML-118. Based on the 1993 PSC and existing fiscal terms, the incremental expenditure has a Net Present Value⁷ of -\$3.83mln Real Term 2012, Shell Share.</p> <p>Entire project cost (\$12.9mln MOD, Shell Share) is treated as Opex and fully recoverable. Project does not generate any revenue for Shell. Naira/Dollar exchange rate is N150/\$.</p>																				

DETAILED INFORMATION INCLUDING MANAGEMENT SUMMARY

SECTION 1: THE PROPOSAL

This proposal seeks support for the total investment of \$12.90 million (Shell share) for the construction of fit-out Information and Communications Technology (ICT) facilities in forty five (45) locations across the six geo-political regions of the country. The projects are in three categories:

1. ICT centre for tertiary institutions – this is tagged “e-learning” centre, and will contain 100 computer units. Centre will be sited in 18 universities across the country.
2. ICT centre for state governments – this is tagged “e-library”, and will contain 100 computer units. Project will be sited in nine (9) selected state capitals.
3. ICT centre for secondary schools – tagged “e-development” centre. Project has 20 computer units, and will be sited in 18 secondary schools across the country.

Advancement of computer literacy has been an integral part of national development strategies in many global societies because of its impact on productivity and economic development. Therefore knowledge of ICT has become a platform for broad-based development and poverty reduction. Due to the importance of computer literacy to the national development and its relevance to achieving the Millennium Development Goals (MDGs), the Federal Government of Nigeria, through the Ministry of Communication Technology, developed a blueprint for the penetration of e-knowledge across the country. On its part, SNEPCo, through its ICT empowerment program, has made some modest contributions towards enhancing e-literacy in the country, especially amongst students in secondary and tertiary institutions.

SNEPCo commenced its ICT program in 2007 and have delivered the project at 18 secondary schools, and 10 universities at a total cost of \$2.83mln (SS) as at December 2011. These projects were executed using minor contracts within SNEPCo approval threshold. On completion of the proposed 45 centres SNEPCo's footprints will be in 73 locations throughout the country, with total of \$15.73mln (SS) investment on ICT program.

	No	Total		Shell Share	
		Nmln	F\$mnl	Nmln	F\$mnl
Delivered	28	721.31	5.15	396.72	2.83
Proposed	45	3,518.49	23.46	1,935.17	12.90
Total	73	4,239.80	28.60	2,331.89	15.73

This proposal is to deliver 45 ICT projects over a 4-year period, using a high value competitive tendering process, in order to achieve a more effective contract and project management, optimal HSE performance, commerciality, and image enhancement for SNEPCo. We commenced the contracting process in Q4, 2010 and have involved both NAPIMS and NCDMB (Nigerian Content Development Monitoring Board) at every stage of the process. Evaluation of bids and selection of contractors has been concluded with NAPIMS, while contract award to selected vendors will be made as soon as all necessary approvals to progress contract implementation are obtained. Contract duration approved in the contract plan/strategy is four years, which includes one year extension option to allow for the completion of any outstanding works by the contractors at no incremental financial exposure to SNEPCo.

In order to address the future sustainability of the project, SNEPCo recently held a meeting with the Hon. Minister for Communications Technology, Mrs. Omobola Johnson. Thereafter SNEPCo initiated collaborative discussions with the agencies in the Ministry to develop models for sustainability of the ICT centres. Currently SNEPCo is a member of the committee set up by the Honourable Minister to develop a policy for deployment and management of ICT centres across the country, and discussions are ongoing with local computer assemblers and internet service providers, with a view to enhance the local content of the program.

This proposal is seeking the requisite approvals to spend \$23.46mln (\$12.90mln, Shell Share) for the construction of 45 fit out ICT centres across the country over a period of 4 years.

Scope of Project

A 100-computer ICT centre will consist of:

- A storey building (with provisions for physically challenged users), fully furnished for 100 computer units, offices, toilet facilities, and borehole.
- A generator house and 200KVA soundproof Perkins engine generator.
- Supply and Installation of 100 Personal Computers (PCs) with stabilisers and Uninterrupted Power Supply (UPS) systems.
- Supply and Installation of one Server, one colour multifunctional printer and one black & white printer
- Internet connectivity via VSAT
- Provision of 24hrs x 7 days 1M/512Kbps internet connectivity with 3 years subscription

A 20-computer ICT centre will consist of:

- A bungalow (with provisions for physically challenged users), fully furnished for 20 computer units.
- A generator house and 27KVA soundproof Perkins engine generator.
- Supply and Installation of 20 PCs with stabilisers and UPS systems.
- Supply and Installation of one Server, one colour multifunctional printer and one black & white printer
- Internet connectivity via VSAT
- Provision of 24hrs x 7 days 512k/256Kbps internet connectivity with 3 years subscription.

IT equipments to use are those branded by the respective manufacturers. NAPIMS approval is to use computers that are locally assembled in line with NCD Act/policy. SNEPCo will ensure that the equipments are bought in the names of the respective beneficiaries, while the maintenance/servicing of IT equipments for 12 months will form part of the contractual agreement with the vendors.

Appropriate educational interactive software will be provided for the units and basic IT training to be provided by the contractors will be given to 10 people selected by the institution/state government. Responsibility for management of the centre is fully transferred to each beneficiary entity after 12 months of commissioning, at which time the maintenance arrangement by SNEPCo would lapse. However as part of its post-completion project evaluation, SNEPCo will occasionally give guidance to the beneficiaries on sustainability of the project.

Sustainability steps for ICT projects

- Proposed beneficiary demonstrates ability to sustain project before project location is confirmed.
- Engagement/involvement of beneficiary during pre-construction and construction stages.
- Maintenance of IT system for one year & 3 year subscription for internet facility assures SNEPCo presence for the period.
- Appropriate guidance on project sustenance will be given to the beneficiaries.
- Installation of commercial software that could enhance contributions towards maintenance of the centres.
- Training of 10 members of staff as trainers for others.
- Regular contact with the beneficiaries as post construction evaluation.
- Evaluation of project at 2-3 years after commissioning to identify learning that can be useful for future deployment of program.

Project Location

Selection of location for university e-learning centre is based on review of the report from earlier assessment of computer availability and capability in the Nigerian tertiary institutions. The assessment was carried out, prior to scope expansion of SNEPCo's ICT empowerment program, in 2008 having

commissioned an IT consultant, New Horizons Limited. For secondary schools, SNEPCo considered the strength of the alumni and ability to maintain the facilities. Project location is limited to public institutions only. Security, accessibility to good road, and public power supply are imperative for project locations. The locations were approved by SNEPCo's Social Performance Board (SPB) and NAPIMS. Below is a list of proposed locations for the new 45 centres.

SHELL NIGERIA EXPLORATION AND PRODUCTION LIMITED PROPOSED LOCATIONS FOR COMMUNITY DEVELOPMENT ICT PROJECT S			
Project	2012	2013	2014
E-Learning Centre for Universities	1. Rivers State University of Science &Tech 2. University of Benin 3. Petroleum Training Institute Warri 4. Ebonyin State University 5. Kogi State University 6. Benue State University 7. Obafemi Awolowo University 8. Lagos state University 9. Abia State University	1. Ladoke Akintola University 2. Katsina State University 3. Nnamdi Azikiwe University 4. University of Ibadan 5. University of Ilorin 6. Gombe State University 7. Ado Bayero University 8. Usman Dan Fodio University 9. Abubakar Tafawa Balewa	
E-Library for State Government	1. Port Harcourt, Rivers State 2. Awka, Anambra State 3. Yenagoa, Bayelsa State 4. Umuahia, Abia State 5. Abeokuta, Ogun State	1. Calabar, Cross Rivers State 2. Benin, Edo State 3. Ondo, Ondo State 4. Abuja FCT	
ICT Centre for Secondary Schools	1. Port Harcourt River State 2. Enugu, Enugu State 3. Onitsha, Anambra State 4. Umuahia, Abia State 5. Akure, Ondo State	1. Calabar, Cross Rivers State 2. Uyo, Akwa Ibom 3. Osogbo, Osun State 4. Abeokuta, Ogun State 5. Abuja FCT 6. Minna, Niger State 7. Lafia, Nasarawa State	1. Kaduna, Kaduna State 2. Jalingo, Taraba State 3. Dutse, Jigawa State 4. Damaturu, Yobe State 5. Yola, Adamawa State 6. Katsina, Katsina State

SECTION 2: VALUE PROPOSITION AND STRATEGIC AND FINANCIAL CONTEXT

The completion of the ICT projects will add significant value to SNEPCO's Social Performance delivery, contribute to IT skills development of students, and subsequently result in job creations and poverty alleviation. The projects will be a major contribution to delivery of the government's MDG and ICT transformation agenda and will enhance the image of SNEPCo and those of its Co-Venturer in unquantifiable dimensions. Furthermore the wide spread of projects will endear the PECTEN to the hearts and minds of future leaders.

The projects are planned to increase the company's local content rating by their being 100% local content in terms of delivery. Under an arrangement with respective state governments, the e-libraries could be a platform to train manpower for Nigerian Content Development (NCD) delivery.

Summary of costs

The total value of \$23.46mln has been derived from Estimated Contract Value (ECV) for IT services of \$1.91mln and Actual Contract Value (ACV) for civil works of \$21.55mln. ACV for civil works is derived from award prices that we have agreed with the nineteen (19) successful bidders.

The amount required in 2012 is \$4.42mln (\$2.43mln, Shell Share), and provided for in Q1LE of \$5.93mln. In Q2 the Budget Control & Commitment (BCC) Committee reduced the LE to \$3mln with a commitment to review upward once CD projects are due to execute. Therefore approval for an upward review will be obtained before award of Yr1 projects for execution. All expenditure has been approved as OPEX by NAPIMS and the Co-venture partners in SNEPCo SCD 5-year program as shown below. Costs are recovered as spent on annual basis.

The table below shows the analysis of project costs:

	2012	2013	2014	2015	
100 Computers ICT Centre	YR1	YR2	YR3		TOTAL
No of projects to commence in year X	14	13	0		27
ACV of projects to commence in year X (NGN'M)	1,513.27	1,420.27	0.00		2,933.54
ACV of projects to commence in year X (F\$'M)	10.09	9.47	0.00		19.56
Likely achievable milestone spread for 14 Yr.1 projects	40%	60%			100%
Likely achievable milestone spread for 13 Yr.2 projects		40%	60%		100%
Annual ACV Required for project execution (NGN'M)	605.31	1,476.07	852.16		2,933.54
Annual ACV Required for project execution (F\$'M)	4.04	9.84	5.68		19.56
20 Computers ICT Centre	YR1	YR2	YR3		TOTAL
No of projects to commence in year X	5	7	6		18
ACV of projects to commence in year X (NGN'M)	82.27	117.69	99.99		299.95
ACV of projects to commence in year X (F\$'M)	0.55	0.78	0.67		2.00
Likely achievable milestone spread for Yr.1 projects	70%	30%			100%
Likely achievable milestone spread for Yr.2 projects		100%			100%
Likely achievable milestone spread for Yr.2 projects			100%		100%
Annual ACV Required for project execution (NGN'M)	57.59	142.37	99.99		299.95
Annual ACV Required for project execution (F\$'M)	0.38	0.95	0.67		2.00
Annual Budget Required to execute Civil Works(NGN'M)	662.90	1,618.44	952.15	-	3,233.49
Annual Budget Required to execute civil works (\$'M)	4.42	10.79	6.34	-	21.55
SHELL SHARE of 55% (NGN'M)	364.59	890.14	523.69	-	1,778.42
SHELL SHARE of 55% (F\$'M)	2.43	5.93	3.49	-	11.85
IT Services (NGN'M)		95.00	95.00	95.00	285.00
IT Services (F\$'M)		0.63	0.63	0.65	1.91
SHELL SHARE of 55% (NGN'M)	-	52.25	52.25	52.25	156.75
SHELL SHARE of 55% (F\$'M)	-	0.35	0.35	0.35	1.05
Annual Budget Required to execute all projects (NGN'M)	662.90	1,713.44	1,047.15	95.00	3,518.49
Annual Budget Required to execute all projects (\$'M)	4.42	11.42	6.97	0.65	23.46
SHELL SHARE of 55% (NGN'M)	364.59	942.39	575.94	52.25	1,935.17
SHELL SHARE of 55% (F\$'M)	2.43	6.28	3.84	0.35	12.90

SECTION 3: RISKS, OPPORTUNITIES AND ALTERNATIVES

HSE Risk: Medium & Mode 3; Contract Risk: Medium

The principal risks associated with this proposal and key mitigation measures are tabulated below:

S/ N	Risks Category	Risk Description	Mitigation/Remedial Effort
1	Commercial	<ul style="list-style-type: none"> Contractor failure and poor performance. Project delay due to inadequate budget. 	<ul style="list-style-type: none"> Technical evaluation of vendors was done to ensure vendor's capability. SNEPCo MD to have a pre mobilization engagement with all contractors to highlight/inform them on the effect of performance and/or default in the execution of the contract. We will ensure that contractor's key personnel are qualified and experienced for the project execution. Supervision of contractor's activities using available project management methods and tools. Project Management Services (PMS)

			<p>to be engaged by SNEPCo will be deployed for project supervision.</p> <ul style="list-style-type: none"> • Two different contracts (Civil works and IT services) will be used for each project execution to ensure the benefit of certified experts. • SNEPCo's standard contract terms as approved will be applicable. • Only one project will be awarded to a vendor at a time. Additional project will be awarded to any vendor who delivers the earlier awarded one to time and quality. • Project delivery is divided into milestones, and payments will be made on the basis of milestones completed and certified. • Relevant contract clauses will be instantly invoked where underperformance is observed, including termination if and when required. • Obtain approved budget from the Co-Venturer and NAPIMS over the phase of the projects.
2	Technical	<ul style="list-style-type: none"> • SNEPCo lacks adequate expertise to supervise the projects due to their number and spread. 	<ul style="list-style-type: none"> • Use of specialist PMS to supervise all aspects of projects. • Certify the PMS operating model and staff before their deployment. • Certified verification of materials and equipment before usage. • Periodic site visits by SNEPCo management staff.
3	HSE Risk	<ul style="list-style-type: none"> • HSE hazards and Interface problems with existing habitation. • Management of the environment. • Motor Accidents • Security risks at proposed locations of projects - Terrorism, Kidnapping, theft of materials or equipment. 	<ul style="list-style-type: none"> • Use of Hazard and Effect Management Programme (HEMP) and other tools to identify, assess risks and control hazards to As Low As Reasonably Practicable (ALARP). • Approved HSE plan for the management of construction worksite hazards • Work Instructions/toolbox meeting; Use of Qualified Personnel; Pre-mob Equipment; Use recommended specifications; Company Site Representative to inspect materials before use; Appropriate Personnel Protective Equipment (PPE); Ensure contractor has Workmen's Compensation insurance and General Third Party Liability insurance. • Roll out of Life-Saving Rules to contractor during kick-off meeting; Ensure contractor has third-party & passenger liability insurance; Contract Holder (CH) to obtain contractor's Journey Management plan and ensure compliance; Ensure no night-driving policy • SNEPCo journey management procedure will be strictly complied with for visits to project locations by any staff.

			<ul style="list-style-type: none"> • Projects will commence at locations approved for access by the company's security team. • Appropriate security clearance will be obtained before a visit is made to site by a Shell staff. • Site security plan to be owned by the contractor will be reviewed and approved by SNEPCo security lead. • There will be security briefs as part of kickoff procedure. Contractors consent to comply will be obtained, and CH will mandate contractor to evacuate site where insecurity is perceived. • Contractor will be responsible for security of materials and tools.
4	Stakeholder Relationship Management	Reputational risk due to delay in contract award	<ul style="list-style-type: none"> • Regular engagement and communication with internal and external stakeholders to facilitate prompt receipt of necessary approvals. • Ensure early commencement of due diligence check

SECTION 4: CORPORATE STRUCTURE, AND GOVERNANCE

This project fits within the existing SNEPCo corporate structure and governance.

SECTION 5: FUNCTIONAL SUPPORT AND CONSISTENCY WITH GROUP AND BUSINESS STANDARDS

This is a Social Investment project and has the full support of the Sustainable Development and HSE Departments. IT support was given during project conception and contract packaging. Also support is obtained from Technical, Finance, Treasury, Tax, Legal, Contracting & Procurement, and Security departments. The proposal complies with Group and Business policies and standards.

SECTION 6: PROJECT MANAGEMENT, MONITORING AND REVIEW

The project will be managed by SNEPCo Social Performance Lead. Supervision will be done through the vehicle PMS. Such services will be on callout basis, and the cost has not been included in project cost profile as presented. However associated costs for project supervision & monitoring will be recovered, as part of project cost, under PSC. The PMS vendors are expected to submit their plans for project supervision for review and approval before deployment.

SECTION 7: BUDGET PROVISION

NAPIMS has approved the implementation of the 45 projects for a 4-year period as well as the budget for the current year. Going by the persistent call to SNEPCo by partners and NAPIMS to do more on CD projects, we do not envisage budget refusal for project execution in subsequent years. Also the cost implications for next 3 years will be included in the revised 5 year program/budget for NAPIMS and partners.

SECTION 8: GROUP FINANCIAL REPORTING IMPACT

There is no incremental impact of project revision on SNEPCo's Financials for current and subsequent years. Cost is fully recovered under PSC agreement with NNPC.

SECTION 9: DISCLOSURE

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

SECTION 10: FINANCING

Project will be funded by the Co-Venturer and fully recovered annually as OPEX under PSC agreement with NNPC after execution

SECTION 11: TAXATION

Taxation is in line with general SNEPCo taxation of OPEX. No unusual Tax features.

SECTION 12: KEY PARAMETERS

The key parameters of the proposal for which considered sound support is sought are:

Construction of 45 fit out E-Learning Centres in 45 locations, requiring Shell share of \$12.90m over Four years (2012-2015), from which a provision of \$2.43(Shell Share) is made for current year.

This proposal is submitted for consent to undertake the project.

Initiated by: Dejo Oluwaniyi, UIG/S/RS

Approved by:

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Bernard Bos
Vice President Finance, Africa

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

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Ian Craig
Executive Vice President
Sub Saharan Africa

Date:/...../.....