

INVESTMENT PROPOSAL

SUMMARY INFORMATION

Business unit and company	Shell Nigeria Exploration and Production Company Limited (SNEPCo)
Group Interest	100% in SNEPCo. Bonga field is a concession of NNPC under a PSC agreement. SNEPCo Operates the field by a funding arrangement under a venture with 55% interest.
Other shareholders/partners	Esso Exploration & Production Nigeria Limited (an affiliate of ExxonMobil): 20%; TotalFinaElf (12.5%); and Nigeria Agip Oil Company (NAOC) 12.55%.
Business or Function	Social Performance
Amount	NGN 3,518,490,000.00 (FUSD \$23,460,000 - inclusive of 1% NCDMB FUND) spread over a 3-year period 2012-2014, + 1 year extension option.
Project	Construction of 45 fit out E-Learning Centres in 45 locations across the country geo-political regions and over a three year period.
Main commitments	None
Source and form of financing	Project will be financed at first by Co-venture partners. Annual spend will be fully recovered under PSC agreement with NNPC.
Summary cash flow	<ul style="list-style-type: none"> Shell Share for Project construction shall be F\$12.90m for the 45 projects. F\$2.43 in Yr1, \$6.28 in Yr2, F\$3.84 in Y3 and F\$0.35 in Y4 Exchange rate used is N150/1US\$ Shell Share will be borne using the vehicle of OML 118 (over 95%), OML 135 and OPL 322. Project is purely social investment. Income generated from facility will be applied for management and sustainability of project.
Summary economics	NA.

DETAILED INFORMATION INCLUDING MANAGEMENT SUMMARY

SECTION 1: THE PROPOSAL

This proposal seeks support for the total investment of F\$12.90 million (Shell share) for the construction of fit-out Information and Communication Technology (ICT) facilities in forty five (45) locations across the six geo-political regions of the country. The projects are in three categories – 100 computers ICT centers in 18 tertiary institutions; 20 computers ICT centers in 18 secondary schools and 100 computers e-libraries in nine selected state capitals. The project has two (2) components, which are the civil works and the IT services. The civil work has an ACV of F\$11.86m (Shell Share), while IT services has ECV of F\$1.05m. All cost is phased over a three year period from 2012 to 2014.

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, through the ministry of communication technology, developed a blueprint for the penetration of e-knowledge across the country. 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 with construction of 10-computer units ICT centers in seven secondary schools. The program has since expanded in scope and spread. Currently SNEPCo has built 20 computer-unit centers in 11 secondary schools and 50 computer- unit centers in 10 universities.

The plan is to expand the current scope and to have reached 45 secondary schools, 36 tertiary institutions and 20 state capitals by the year 2015.

In past years, SNEPCo had executed its ICT projects using several minor contracts within SNEPCo's approval threshold. However in order to ramp up SNEPCo's Social Investment program, current plan is to deliver 45 ICT projects over a 3-year period. The proposed high value contract is to ensure a more effective contract and project management, optimal HSE performance, commerciality, and image enhancement for SHELL. We commenced the contracting process in 2010 and have involved both NAPIMS and NCDMB at every stage of the process. Evaluation of bids and selection of contractors is currently concluded, while award will be made as soon as all necessary approvals are obtained. Contract duration approved in the contract plan/strategy is 3 years with one year extension option to allow for the completion of any outstanding projects by the contractors at no increased financial exposure to SNEPCo.

In order to address the future sustainability of the project, SNEPCo recently engaged the Hon. Minister for Communication Technology, Mrs. Omobola Johnson. Thereafter we initiated collaborative discussions with the ministry agencies to develop models for sustainability of ICT centers. Currently SNEPCo is a member of the committee set up by the honorable minister to develop a policy for the deployment and management of ICT centers across the country. Furthermore, 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 vice president's approval to spend F\$12.90m (Shell Share) for construction of 45 fit out ICT centers over a period of 3 years.

Scope of Project

The scope is summarized as:

1. Construction of fully furnished building infrastructure with borehole facility.
2. Provision and installation of ICT equipment and necessary software.
3. Provision of generator sets and uninterruptible power supply (UPS) systems.
4. Supply of internet connectivity via a C-band and VSAT, including 3-year annual internet subscription fee.
5. Provision of technical support and assistance for a period of 3 months and agree sustainability arrangement thereafter.
6. Provision of ICT training over a period of 3months.

Project Location

Prior to expansion of the ICT empowerment program, an assessment of computer availability and capability in the Nigerian universities was carried out. The report of this study has formed the basis of project locations at the universities. For the secondary schools, selection is based on the age of the school, the strength of the alumni and ability to maintain the facility. Project location is limited to public institutions only. Also security and access to road infrastructure and public power supply are imperative for project location.

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 Shell image in unquantifiable dimension. Furthermore the wide spread of projects means endearing the PECTEN in 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 NCD delivery.

Summary of costs

The total value of F\$23.46m has been derived from ECV for IT services of F\$1.90 and ACV for civil works of F\$21.56m. ACV for civil works is derived from award prices agreed with nineteen (19) successful bidders. The amount required in 2012 is \$2.43 (Shell Share) and is within the LE provision. All the expenditure will be OPEX. 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 (\$F'M)	4.42	10.79	6.35	-	21.56
SHELL SHARE of 55% (NGN'M)	364.59	890.14	523.68	-	1,778.42
SHELL SHARE of 55% (F\$'M)	2.43	5.93	3.49	-	11.86
IT Services (NGN'M)		95.00	95.00	95.00	285.00
IT Services (F\$'M)		0.63	0.63	0.63	1.90
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 (\$F'M)	4.42	11.42	6.98	0.63	23.46
SHELL SHARE of 55% (NGN'M)	364.59	942.39	575.93	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. 	<ul style="list-style-type: none"> SNEPCo MD to have a pre mobilization engagement with the entire contractor to

		<ul style="list-style-type: none"> • Project delay due to inadequate budget. 	<p>encourage their performing to standard.</p> <ul style="list-style-type: none"> • Provision of experienced personnel for the project and rigorous supervision of contractor using available project management methods and tools. • 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. • Lock in the project cost for the 3 years with contractors. Obtain approved budget from the CoVs and NAPIMS.
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 Project Management Services to supervise all aspects of projects. • Certify the PMS operating model and staff before their deployment. • Certified verification of materials and equipment before being used. • Periodic site visits by SNEPCo mgt 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 in the communities - Kidnapping of a worker; theft of materials or equipment 	<ul style="list-style-type: none"> • Rigorous use of HEMP and other tools to control hazards • Work Instructions/toolbox meeting; Use of Qualified Personnel; Pre-mob Equipment; Use recommended spec., CSR to inspect materials before use; Appropriate 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; CH to obtain contractor's Journey Management plan and ensure compliance; Ensure no night-driving policy • Security briefs as part of kickoff procedure and obtain contractors consent to comply; CH to mandate contractor to evacuate site where insecurity is perceived; Contractor to be responsible for security of materials and tools.
4	Community Relations	Reputational risk due to delay in contract award	<p>Regular engagement and communication with internal and external stakeholders to facilitate prompt approval</p> <ul style="list-style-type: none"> • 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

Support for this IP has been provided by SNEPCo MTB and DRB for SNEPCo CD projects, led by SNEPCo MD.

SECTION 6: PROJECT MANAGEMENT, MONITORING AND REVIEW

The project will be managed by SNEPCo SP Lead. Supervision will be done through the vehicle of Project Management Services (PMS). PMS plan for project supervision will be reviewed and approved before deployment.

SECTION 7: BUDGET PROVISION

NAPIMS has approved the implementation of the 45 projects for a 3-year period as well 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 CoV partners and fully recoverable under PSC agreement with NNPC after execution

SECTION 11: TAXATION

Taxation is in line with general SNEPCo taxation of Opex.

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 F\$12.90m over 3 years, out which a provision of F\$2.43 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:/...../.....