The Shell Petroleum Development Company of Nigeria Limited

Group Investment Proposal

Summary Information

<table>
<tr><td>Business Unit and Company</td><td>Shell Petroleum Development Company of Nigeria Limited (SPDC)</td></tr>
<tr><td>Group equity interest</td><td>100% in SPDC, whereas SPDC is the Joint Venture (JV) operator of an unincorporated JV with a 30% interest.</td></tr>
<tr><td>Other shareholders /partners</td><td>Nigeria National Petroleum Corporation (NNPC: 55%), Total Exploration & Production Nigeria Limited (TEPNL: 10%), Nigeria Agip Oil Company (NAOC: 5%) in SPDC-JV</td></tr>
<tr><td>Amount</td><td>USD 8.9mln Shell Share, 50/50, MOD (USD 29.6mln 100% JV)</td></tr>
<tr><td>Project</td><td>Swamp East Well integrity Workover</td></tr>
<tr><td>Main Commitments</td><td>
<table>
<tr><th>Cost Description</th><th>100% JV (USD Mln)</th><th>Shell Share (US$ Mln)</th></tr>
<tr><td>Location Preparation</td><td>2.7</td><td>0.8</td></tr>
<tr><td>Workover operations and Rig Move</td><td>11.4</td><td>3.4</td></tr>
<tr><td>Oil / Gas Recompletion</td><td>10.9</td><td>3.3</td></tr>
<tr><td>Flowline Construction/Hookup</td><td>4.0</td><td>1.2</td></tr>
<tr><td>Total Project Opex</td><td>29.0</td><td>8.7</td></tr>
<tr><td>SCD Opex</td><td>0.6</td><td>0.2</td></tr>
<tr><td>Total (Project Opex + SCD OPEX)</td><td>29.6</td><td>8.9</td></tr>
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</td></tr>
<tr><td>Reserves/ Resources</td><td>This project will safeguard 2P volume of 3.30 MMboe (100%, Ref 31.12.2011 ARPR) from CAWC-50 and BONN-23 integrity workover and ensure continuous fuel gas supply to Bonny Crude Oil Terminal and safeguard Cawthorne Channel 50 oil production.</td></tr>
<tr><td>Production</td><td>The integrity workover project's base case forecast has a startup date of November 2012 with an initial incremental oil production rate of 1.17 Mbopd (100%) and will peak in 2013 at a rate of 1.49 Mbopd (100%) annualised with associated gas production of 4.35 MMscf/d (100%) and NAG production of 1.92MMscf/d thus safeguarding Oil production and gas supply to Bonny Crude Oil Terminal.</td></tr>
<tr><td>Source and form of financing</td><td>This investment will be financed with JV funding, so formal JV approval will be required. The Shell share of the investment will be financed by SPDC's own resources.</td></tr>
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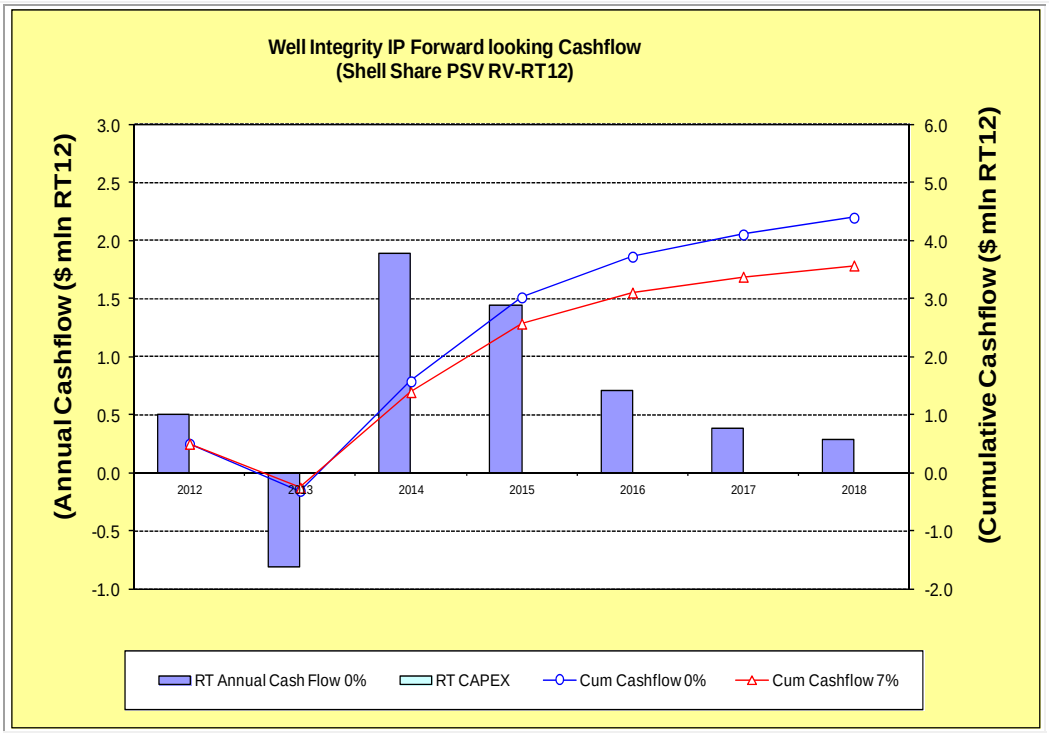
Summary cash flow



Summary economics

Summary economics (RV-RT12)	NPV7 (USD mln)	RTEP (%)	VIR
Base Case	3.6	NA	NA
High Opex	2.5	NA	NA

Section 1: The proposal (Management Summary)

This investment proposal seeks support/organizational approval for US$ 8.9 million Opex (Shell share, P50, MOD) to enable SPDC fund the execution of two Well Integrity workover activities (make well safe to secure NFA gas and oil production) planned for 2012 - 2013. The affected wells are in Bonny and Cawthorne Channel fields. The project supports SPDC's strategy of maintaining well integrity while ensuring fuel gas supply to Bonny Crude Oil Terminal as well as safe guarding oil production in Cawthorne Channel.

Background

During a second line well head maintenance activity in 2011, two wells CAWC-50 and BONN-23, were found to be flowing with high casing head pressures with potential well integrity problems and HSSE exposures. Accordingly, a detailed review was conducted with a view to determining the optimal means of managing the wells. The review recommended the two wells for workover at the nearest opportunity; consequently the two wells were put on the Short Term Drilling Well Sequence in line with the overall strategy to improve the well integrity in SPDC and thus maintain our license to operate. A brief summary of the integrity check is outline below;

Well Name	Integrity issue	Ultimate Recovery	Potential	Planned Cost (Shell Share) (US$ Mln)
CAWC-50	Cawc-50 supplies oil to the Cawthorne Channel flow station. A recent well integrity check carried out by the wellhead maintenance crew			

	reported a High Casing Head Pressure (HCHP) of 2610 psi on the A-Annulus. Bleed off of the gas resulted in no significant drop in pressure suggesting the presence of a large column of gas within the annulus. Whereas the wireline investigation was not successful, the well is being proposed for workover in order to repair the HCHP and ensure well integrity.	2.35MMstb	2700 bopd	4.7
BONN-23	Bonny-23T is a fuel gas supplier to Bonny Crude Oil Terminal. During a second line well head maintenance activity on this well in August 2011 to fix leaking and faulty Christmas tree valves, a casing head pressure (CHP) of about 1900 psi was recorded on the 'A' annulus. An attempt was made to bleed down this pressure but no significant decrease was observed after an hour. Whereas the wire line investigation was not successful, it was decided that a workover would not only identify the source of leak but also fix it through retrieval of the existing completions and running of new upper completion assembly.	5.52Bscf	6MMscf/d	4.0

Section 2: Value proposition and strategic and financial context

The project driver is to safeguard production and reserves by making the wells safe for routine operations.

The execution of well integrity repairs will minimize risk of loss of containment and associated environmental and health impact. This operation also ensures steady fuel gas supply to Bonny Crude Oil Terminal as well as safeguarding Cawthorne Channel-50 (CAWC-50) production. The project is of HSSE critical importance.

Summary Economics

The economics for this IP was carried out on a forward-looking basis using the project 50/50 level III cost estimate and the production forecast from the CAWC-50 and Bonny 23T wells. The costs associated with the two wells are treated as OPEX since the workover involves production restoration. The base case is the consolidation of the two wells.

The following sensitivities were carried out to reflect how the project stands in different possible scenarios:

Summary Economics

The economics for this IP was carried out on a forward-looking basis using the project 50/50 level III cost estimate and the production forecast from the Cawthorne-50 and Bonny 23T fields. The base case is the consolidation of the two wells.
The following sensitivities were carried to reflect how the project stands in different possible scenarios:

- High Reserves
- High & low OPEX
- 1-year schedule delay
- Project with Ring Fencing
- 1.5% Cost mark-up due to BVA issues (provision for costs dispute by NAPIMS).
- Low reserves sensitivity was not evaluated because Bonny NAG volumes were not advised in alignment with the cost profile.

From the results below, the project returns positive NPV7% showing its robustness. Economics details are shown in Table 1 below:

Table 1: Summary Economics Grid (Shell Share)

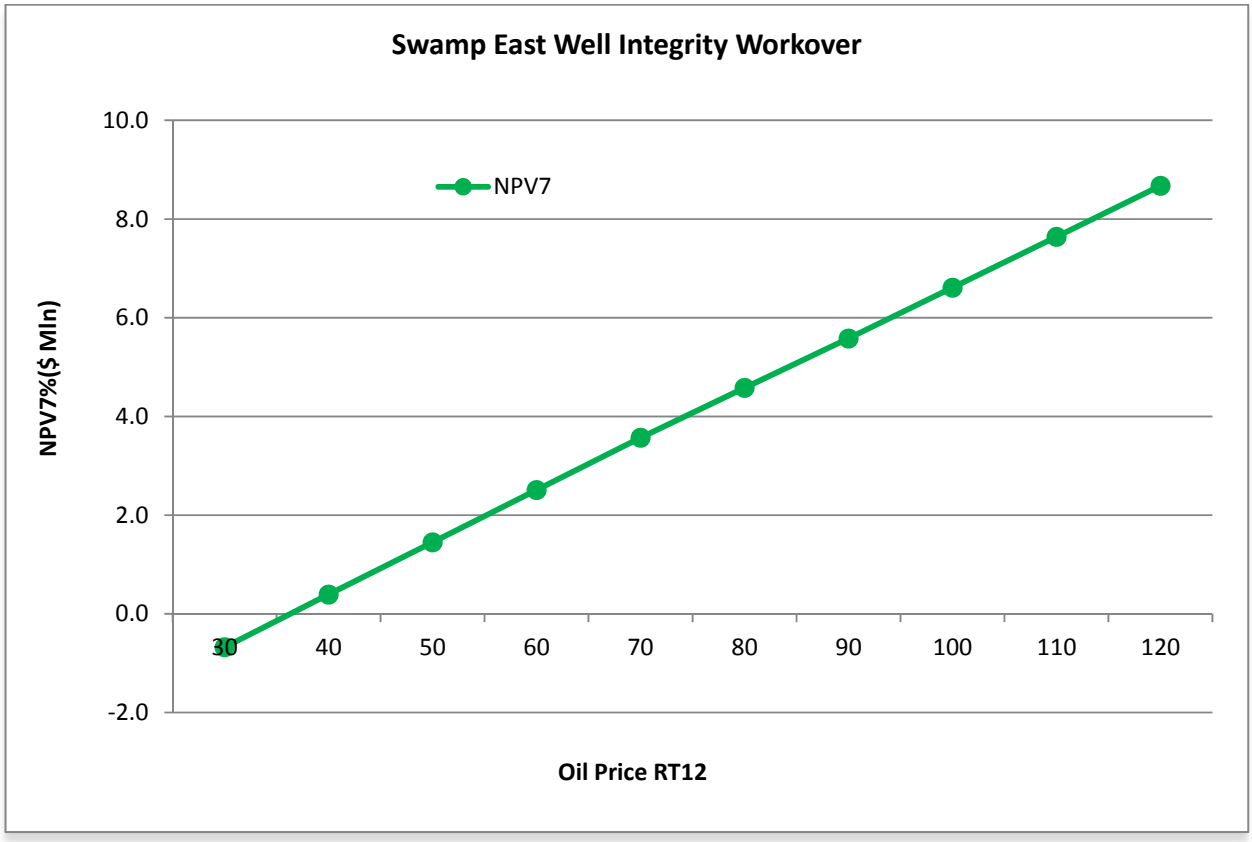
PV Reference Date: 1/7/2012	**NPV(S/S $ mln)**		**VIR**	**RTEP**	**UTC (RT $/boe)**		**Payout-Time (RT)**	**Maximum Exposure (RT-AT)**
Cash flow forward from: 1/1/2012	**0%**	**7%**	**7%**	**%**	**0%**	**7%**	**(yyyy)**	**$mln (yyyy)**
Base Case(Consolidated)								
SV-RT ($50/bbl RT12)	2.0	**1.5**	**NA**					
RV-RT ($70/bbl RT12)	4.4	**3.6**	**NA**	NA	9.3	10.3	NA	*0.3(2013)*
HV-RT ($90/bbl RT12)	6.0	**4.9**	**NA**					
BEP (RT $/boe)								
Sensitivities (using RV-RT)								
High Reserves		**5.8**	**NA**					*0.4(2013)*
High Opex		**2.5**	**NA**					*1.5(2013)*
Low Opex		**3.9**	**NA**					*NA*
With Ring Fence		**3.6**	**NA**					*0.3(2013)*
1 year Schedule Delay		**1.7**	**NA**					*1.9(2013)*
1.5% Cost mark up due to BVA issues		**3.3**	**NA**					

Note: NA: VIR does not apply to the base case due to zero CAPEX (Project cost treated as OPEX)

Table 2: Key Project Parameter Data (Shell Share)

Parameter	**Unit**	**BP11**	**Low**	**Mid**	**High**	**Comments**
OPEX (MOD)	US$ mln	n/a	7.9	8.9	9.7	SCD Inclusive
CAPEX (MOD)	US$ mln					OPEX only
Production Volume	mln boe	n/a	n/a	1.1	1.6	NA
Start Up Date	mmm-yy	n/a	n/a	Nov-12	n/a	Expected at installation completion date
Production in the first 12 months	mln boe	n/a	n/a	0.56	n/a	NA

Table 3: Profitability Chart (Shell Share)



Economics Assumptions:

- Oil PSVs of $50/bbl @SV-RT12, $70/bbl @RV-RT12 (Base Case) and $90/bbl @HV-RT12 with Bonny offset applied.
- 2012 NLNG T1-6 price was used for gas sales to NLNG.
- Domestic gas PSV based on NGMP as at 21/03/2012 was used
- Oil taxed under PPT (PPT tax rate of 85%).
- Gas taxed under CITA with Associated Gas Framework Agreement (AGFA) incentive
- Condensate was treated as oil and taxed under PPT.
- GHV of 1000Btu/scf for DOMGAS and 1150Btu/scf for export gas
- Flare Penalty of US $3.5/mscf non-tax deductible.
- ABCM OPEX was provided by the project team
- NDDC levy 3% of total expenditure.
- Education tax of 2% assessable profit
- SCD OPEX was provided by the project team

Section 3: Risks, opportunities and alternatives

Risks and Mitigation

The key risks and mitigation factors for the project are discussed in the table below.

Risk	Impact	Mitigation
Technical / rig execution capacity	Execution delay	Adequate forward planning by Well Engineering to ensure rig availability as planned with the project currently on a firm rig sequence.

Wells builds pressure after kill	Use of inaccurate reservoir pressure for the determination of kill brine weight could lead to well not dying after kill operation	Ensure most recent reservoir pressure data is used in the calculation of brine weight. Provision should be made for extra sacks of salt if the need arises.
HSSE management	HSSE Hazards associated with this project will be identified and documented as part of the HSSE plan for the project. The effects on people, Assets, environment and reputation will be assessed.	There will be an assessment of the risks of identified Hazards for Worst-Case Credible Scenarios using the RAM, and documented in the Hazards and Effects Register which will form part of the project specific HSSE Plan. Where Reasonably Practicable, hazards will be totally eliminated or adequately controlled where elimination is not possible.
Security	Hostage taking, existence of militant groups and threat of insurgence which could threaten project execution.	As per SPDC procedures the contractor handling the project will develop a security plan, agreed to by the Contract Holder, and then sent to the Area Security Adviser for review. Thereafter, the reviewed plan is sent to the Security Coordinator/Asset Manager for approval. It is only then that the contractor mobilizes to site to commence well operations. With improvements in the Niger Delta security following Amnesty programme, it is envisaged that there will be a reduction in Community related NPT. Specific threats will be managed through the Security & Surveillance Centre (SIS) and communicated in good time to those that need to "Know" and "act".
Social Performance/Community Interface	Delay in project execution	Global Memorandum of Understanding (GMoU) is the corporate platform for managing community interface as well as delivering benefits to communities. Currently, SPDC has a functional steady-state GMoU covering the Cawthorne Channel axis, even though there is no GMoU for Bonny community, the project execution will latch on the existing community interface structure to ensure uninterrupted operations. FTO for the project activities will be secured through the GMoU CDB, with provisions for community employment and subcontracts. The social/non technical risks associated with the project will be mitigated in line with the HSSE&SP Control Framework by delivering a robust impact mitigation and stakeholder engagement plan. Contractors being proposed for the project execution will be required to submit an approved Community Affairs Plan that will guide their interface with the impacted communities in project area. In addition, adequate resources, including the active support of the host-Asset Community Relations Team and pro-active management of community issues will be deployed throughout the project duration.

Opportunities

This campaign is hinged on ensuring continuous fuel gas supply to Bonny Crude Oil Terminal and safeguarding Cawthorne Channel 50 oil production.

Alternatives

Do-Nothing scenario is not an option considering the safety enhancement opportunity.

Section 4: Carbon Management

The produced gas from the well will be processed and used as fuel gas in the terminal. Carbon emission will be minimal as is currently the practice in the field.

Section 5: Corporate Structure and Governance

This proposal is within the SPDC corporate structure and governance framework.

Section 6: Functional Support and Consistency with Group and Business Standards

This proposal and the execution of the project are consistent with the Group Business standards. Functional supports for this proposal have been provided by Technical, Finance, Legal, Treasury, Social Performance and Tax functions etc.

Section 7: Project Management, Monitoring and Review

The execution of the project is managed through the Swamp East Field Development & Execution Team, Wells and Engineering Hub Teams in line with the SPDC organizational model. The Sustainable Development and Community Relations directorate is instrumental in creating the cordial community environment that that allow the team to operate. There will be regular progress report of the well delivery activities to Asset Development Manager, the Development General Manager and to the JV Partners. All significant reviews and follow up actions had been done in the Development and Engineering Teams. Following successful completion, the wells will be handed back to the Swamp East Production Operations Team.

Section 8: Budget provision

This project is included in BP11 budget as well as the 2011/12 JV Programme.

Section 9: Group financial reporting impact

The financial impact of this proposal on Shell Group financial is as outlined in the Table below:

US$ Mln	2012	2013	2014	2015	2016	Post 2016
Total Commitment	4.84	4.03	0.00	0.00	0.00	0.00
Cash Flow						
SCD Expenditure	0.10	0.08				
Project Opex	4.75	3.95				
Capital Expenditure						
Operating Expenditure	0.26	0.36	0.21	0.17	0.11	0.12
Cash flow From Operations	-1.41	-0.55	2.77	1.72	1.09	1.08
Cash Surplus/(Deficit)	-1.41	-0.55	2.77	1.72	1.09	1.08
Profit and Loss						
NIBIAT +/-	0.50	-0.83	1.96	1.54	0.76	0.75
Balance Sheet						
Avg Capital Employed	0.96	1.78	1.24	0.75	0.49	0.01

Section 10: Disclosure

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

Section 11: Financing

This investment will be financed with JV funding, so formal JV approval will be required. The Shell share of the investment will be financed by SPDC's own resources.

Section 12: Taxation

There are no unusual Taxation features.

Section 13: Key Parameters

The following are the main aspects of this proposal:

Approval for the total headline size of US$8.9 mln Shell Share MOD (50/50) to execute two Integrity work over Project from 2012 to 2013.

Section 14: Signatures

This Proposal is submitted to UIG REVP for approval.

Supported by:

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Bos, Bernardus

(SEPA FUI/F – VP Finance Africa)

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

For Business approval:

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Lismont Bart

(SEPA UIG/T VP Technical Africa)

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

Initiator: _____

Simon Roya

(UIG/T/DSSE)

Date: 09/08/2012