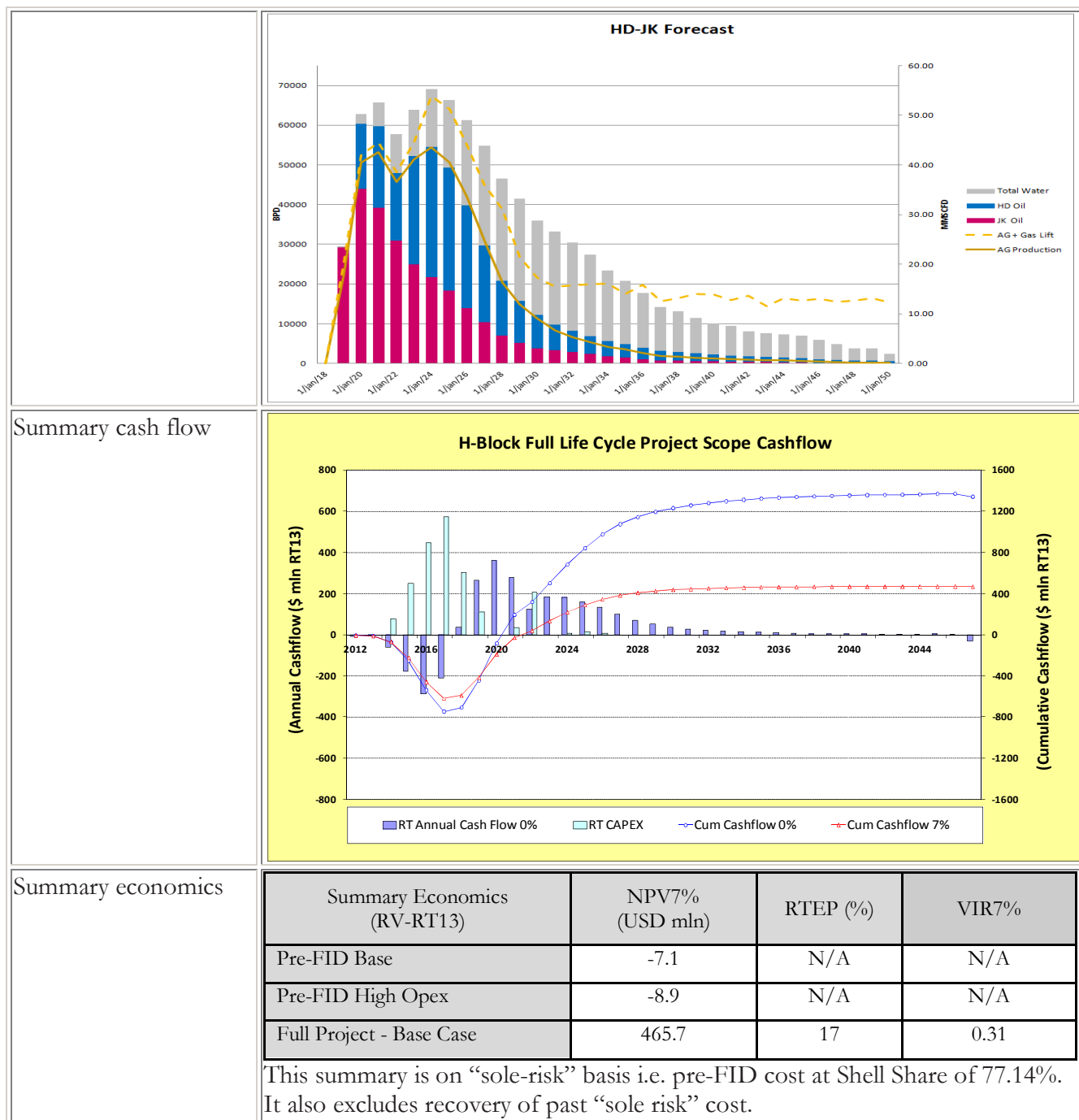


Group Investment Proposal (GIP)

Summary information

Business unit and company	Shell Petroleum Development Company of Nigeria Limited (SPDC)																																																																																			
Group equity interest	100% in SPDC, whereas SPDC is the Joint Venture (JV) operator of an unincorporated JV with a 30% interest.																																																																																			
Other shareholders/partners	H Block (comprising HD/JK Oil Development and HA/HB Gas development is currently operated under ‘sole risk ’ status, where the economic interests are NNPC (0%), Shell (77.14%), Total (10%) and NAOC (12.86%)																																																																																			
Business or Function	Upstream International (UI)																																																																																			
Amount	The headline size is US\$177.5mln Shell Share under sole risk conditions, MOD 50/50 of which approval of US\$47.9mln (including 2012 spend of \$7.4mln on HD/JK) is hereby sought to progress HD/JK to FID by November 2014 and HA/HB to DG2 by December 2014.																																																																																			
Project	HD and JK Oil Development HA and HB Gas Development																																																																																			
Main commitments	<table><tr><th>Description</th><th>Previously Approved Pre-FID IP(100%)</th><th>Previously Approved Pre-FID IP (Shell Share)</th><th>Expenditure prior to current Define phase (Shell Share)</th><th>This Proposal 2012-2014 100%</th><th>This Proposal 2012-2014 (Shell Share)</th></tr><tr><td>Project Management</td><td>26.5</td><td>20.4</td><td>48.0</td><td>15.4</td><td>11.9</td></tr><tr><td>Appraisal Well (HA-006)</td><td>36.6</td><td>28.2</td><td>41.0</td><td>0.0</td><td>0.0</td></tr><tr><td>Procure primary steel for wellhead jacket.</td><td>17.6</td><td>13.6</td><td>0.0</td><td>0.0</td><td>0.0</td></tr><tr><td>Concept Selection and Subsurface studies</td><td>10.1</td><td>7.8</td><td>16.5</td><td>5.5</td><td>4.2</td></tr><tr><td>Pre-FEED</td><td>0.0</td><td>0.0</td><td>0.0</td><td>3.3</td><td>2.6</td></tr><tr><td>FEED</td><td>12.3</td><td>9.5</td><td>13.6</td><td>14.2</td><td>11.0</td></tr><tr><td>Permits & Consents, Geotech surveys & ESHIA studies, Belema land acq and sandfilling.</td><td>0.7</td><td>0.5</td><td>10.2</td><td>10.6</td><td>8.2</td></tr><tr><td>DG 2 studies on HA/HB to DG2 (2013 -2014)</td><td>0.0</td><td>0.0</td><td>0.0</td><td>13.0</td><td>10.0</td></tr><tr><td>Bonny tie-in</td><td>0.4</td><td>0.3</td><td>0.0</td><td>0.0</td><td>0.0</td></tr><tr><td>Contingency (25%, except well at 10%)</td><td>20.5</td><td>15.8</td><td>0.0</td><td>0.0</td><td>0.0</td></tr><tr><td>Pre 2006 IP</td><td>43.4</td><td>33.5</td><td>0.0</td><td>0.0</td><td>0.0</td></tr><tr><td>Total</td><td>168.0</td><td>129.6</td><td>129.3</td><td>62.1</td><td>47.9</td></tr></table> <p>Attachment 1: Approved GIP dated 07/03/2007.</p>						Description	Previously Approved Pre-FID IP(100%)	Previously Approved Pre-FID IP (Shell Share)	Expenditure prior to current Define phase (Shell Share)	This Proposal 2012-2014 100%	This Proposal 2012-2014 (Shell Share)	Project Management	26.5	20.4	48.0	15.4	11.9	Appraisal Well (HA-006)	36.6	28.2	41.0	0.0	0.0	Procure primary steel for wellhead jacket.	17.6	13.6	0.0	0.0	0.0	Concept Selection and Subsurface studies	10.1	7.8	16.5	5.5	4.2	Pre-FEED	0.0	0.0	0.0	3.3	2.6	FEED	12.3	9.5	13.6	14.2	11.0	Permits & Consents, Geotech surveys & ESHIA studies, Belema land acq and sandfilling.	0.7	0.5	10.2	10.6	8.2	DG 2 studies on HA/HB to DG2 (2013 -2014)	0.0	0.0	0.0	13.0	10.0	Bonny tie-in	0.4	0.3	0.0	0.0	0.0	Contingency (25%, except well at 10%)	20.5	15.8	0.0	0.0	0.0	Pre 2006 IP	43.4	33.5	0.0	0.0	0.0	Total	168.0	129.6	129.3	62.1	47.9
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Reserves/Resources	<p>The project is aligned with Group/SPDC strategic goals and priorities. Recoverable volumes for HD/JK Oil development are presented in the table below:</p> <table><tr><th rowspan="2"></th><th colspan="3">Recovery</th></tr><tr><th>Base</th><th>Low</th><th>High</th></tr><tr><td>JK Reservoirs</td><td>97</td><td>66</td><td>139</td></tr><tr><td>HD</td><td>97</td><td>46</td><td>162</td></tr><tr><td>Total HD & JKDevelopment</td><td>194</td><td>112</td><td>301</td></tr></table> <p>Ref: HD/JK Joint Oil Field Development Plan – 09/2012</p>							Recovery			Base	Low	High	JK Reservoirs	97	66	139	HD	97	46	162	Total HD & JKDevelopment	194	112	301																																																											
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Total HD & JKDevelopment	194	112	301																																																																																	
Production	See the chart below for the base case production forecast.																																																																																			
Source and form of financing	This investment will continue to be financed with sole risk funding until the Shallow Water License is renewed and funding arrangement firmed up. Shell share expenditure will be met by SPDC’s own cash flow and existing shareholder facility.																																																																																			



Section 1: The proposal (management summary)

1.1 Management Summary

The H-Block acreage comprises the HD, HA and HB fields in OML 77 and the JK field in OML 74 in Shallow offshore south of the Niger Delta. The HA and HB (NAG) development is in the Identify/Assess (Pre-DG2) Phase, while the HD and JK (oil) development is currently in Define Phase. The HD and JK fields have approximately 194 MMbbls of recoverable reserves. OMLs 74 and 77 are owned by the SPDC JV (NNPC 55%, SPDC Ltd. 30%, TPENG 15% and NAOC 5%), however subject to the terms of a sole risk agreement between the venture partners, the present working interest in the blocks is as follows: SHELL 77.14%; TOTAL 10%; NAOC 12.86%, with Shell Petroleum Development Company of Nigeria Limited (SPDC) as operator. This proposal seeks approval for US\$47.9mln Shell Share under sole risk to progress HD/JK to Final Investment Decision (FID) by November 2014 and HA/HB to Decision Gate 2 (DG2) by December 2014. This amount includes US\$7.7mln (Shell Share) spent in 2012 on HD/JK.

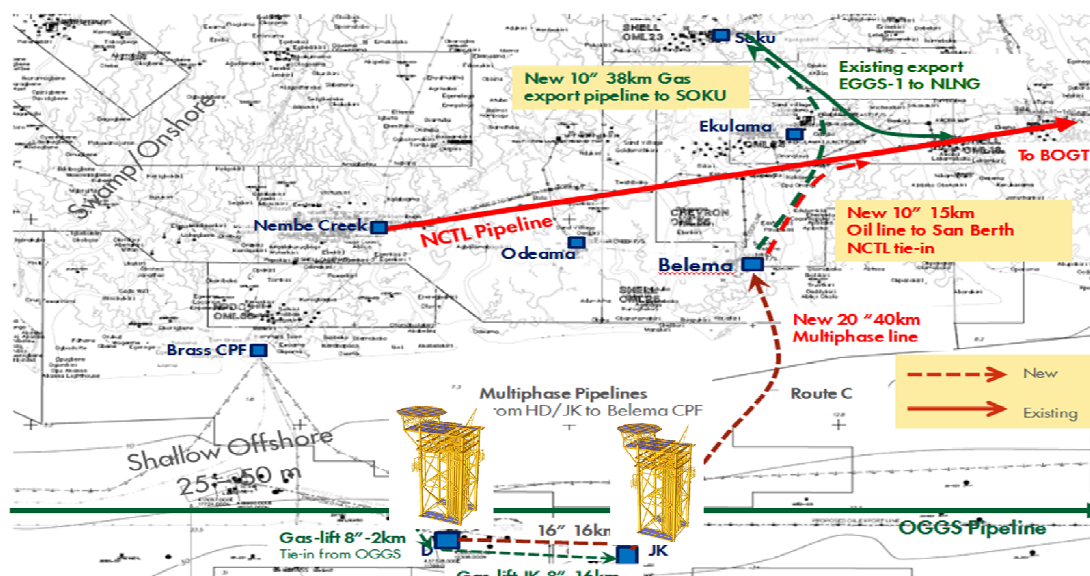
1.2 HD/JK Project Background

Front End Engineering Design (FEED) for HD/JK commenced in May 2006 but stalled in 2007 due to funding constraints and unfavorable project economics. An onshore processing concept received DG2 endorsement in May

2008 but was stopped in December 2008. In 2009, further studies on basis of refurbishment of used FPSO (Shell Anasuria) or leasing an existing FPSO did not yield favorable economics. In 2010, SPDC management kicked off a concept review aimed at reducing Facilities CAPEX and Wells DRILLEX. The review has resulted in the current concept of using two Normally Unmanned Wellhead Platforms (WHP) producing via a multiphase pipeline to an onshore Central Processing Facility at Belema.

1.3 HD/JK Project Scope

- Two (2) unmanned Wellhead Platforms (JK Platform & HD Platform) to support the drilling and production of 27 wells (10 at HD & 17 at JK).
- Approx **74 km** of offshore pipelines comprising:
 - 16"x16km multiphase pipeline between HD & JK Platforms
 - 20"x40km 20" multiphase pipeline
 - 6"x18km Gaslift pipeline from OGGs through HD Platform to JK Platform
- New Central Processing facility (CPF) comprising 80,000bbl/d flowstation and AG handling facilities.
- Approx 53 km of swamp pipelines comprising:
 - 10" x 15 km swamp pipeline tie-in to a 30" header at San Berth manifold on the existing NCTL.
 - 10" x 38 Km gas pipeline from Belema to Soku Gas plant for export gas to NLNG via Soku.
- A field Logistics Base (FLB) capable of housing 120 persons at Belema – the cost of which will be partially borne by this project



1.4 Current Project Status

HD & JK Oil development is currently in the define phase. FEED commenced in October 2012 and is planned for completion in July 2013. Contracting Strategy for the Execution Phase has been approved by SPDC Major Tender Board (MTB) the Shell Group Procurement and Contracting Board (GPCB). The Nigerian Content Plan has also been approved by The Nigerian Content Development Monitoring Board (NCDMB).

Except for License renewal and NNPC funding, all open switches at DG3 have been closed.

HA/HB is a non Associated Gas (NAG) Development currently in the Identify/Assess phase (Pre-DG2).

Key milestones for HD/JK Development Project up to FID are:

Activity	Schedule		
	Team Target milestones	BP12 (P50) milestones	P90 milestones
DG3 (Achieved)	29/03/12	29/09/12	29/03/13
Complete FEED	01/07/13	01/11/13	01/05/14
Complete Sand-filling of Belema	10/10/13	10/04/14	10/10/14
VAR 4	11/10/13	11/04/14	11/10/14
FID	19/05/14	19/11/14	19/05/15

The team target above is based on renewal of Shallow water license before end August 2013 and resolution of funding for the project execution by Quarter 1, 2014.

Section 2: Value Proposition and financial context

This project is the only SPDC major oil growth project in the short to medium term. The immediate development of this field is imperative to the renewal of the Shallow Water Licenses by government, and is also coveted to ensure maximum recovery during the effective lease renewal period; hence this GIP aims to progress work to FID (as fast as practicable) in anticipation of meeting these conditions.

This Pre-FID Investment Proposal is

- To harness/commercialise discovered oil resources in the JK and HD fields in an expedient manner, using existing SPDC assets as much as possible.
- Fill the gap in the SPDC medium and long term oil production.

Summary Economics

The entire cost of \$62.05mln (100% JV) is treated as Opex. Details of economics results (at Shell Share of 77.14%) are shown in Table 2 below. The following sensitivities were carried out on the **pre-FID base** case to show the impact of the various scenarios on the value of the project.

- High Opex.
- 1.5% cost markup due to Benchmark Verified and Approved (BVA) issues with NNPC.

Further analysis was carried out to ascertain the value of the project's full scope when the project takes FID using the LE cost estimate and the production forecast. The following sensitivities were also carried out on the **full project scope** to show their impact on the project value.

- High and low CAPEX.
- High and Low Production
- One year Production delay
- Project with ring fence (i.e. project without tax incentives).
- 1.5% cost markup provision due to dispute by NNPC on Benchmark Verified and Approved (BVA) issues.

Based on the economic evaluation, the project VIR (PSV-RT) as at the moment is 0.31 compared with the 0.40 hurdle required at FID but further work is being done to improve the project economics during this Define Phase. The Value Engineering Workshop recently concluded in March 2013 has identified potential capex savings that is being worked in the FEED and if realized, would improve the overall project economics.

Table 2: HD and JK Pre-FID Economic Grid (Shell Share)

PV Reference Date: 1/7/2013	NPV (S/\$ \$ mln)		VIR	RTEP	UTC (RT \$/boe)		Payout-Time (RT)	Maximum Exposure (RT- AT)
Cash flow forward from: 1/1/2013	0%	7%	7%	%	0%	7%	(yyyy)	\$mln (yyyy)
Base Case								
RV-RT (\$90/bbl RT13) *	-7.2	-7.1	NA	NA	NA	NA	NA	7.2(2014)
Sensitivities (using RV)								
High Opex (+25%)		-8.9	NA				NA	9.0(2014)
1.5% cost markup due to BVA issues		-9.6	NA					

* SV and HV same as RV

Table 3: H and J Block Pre-FID Key Project Parameters (Shell Share)

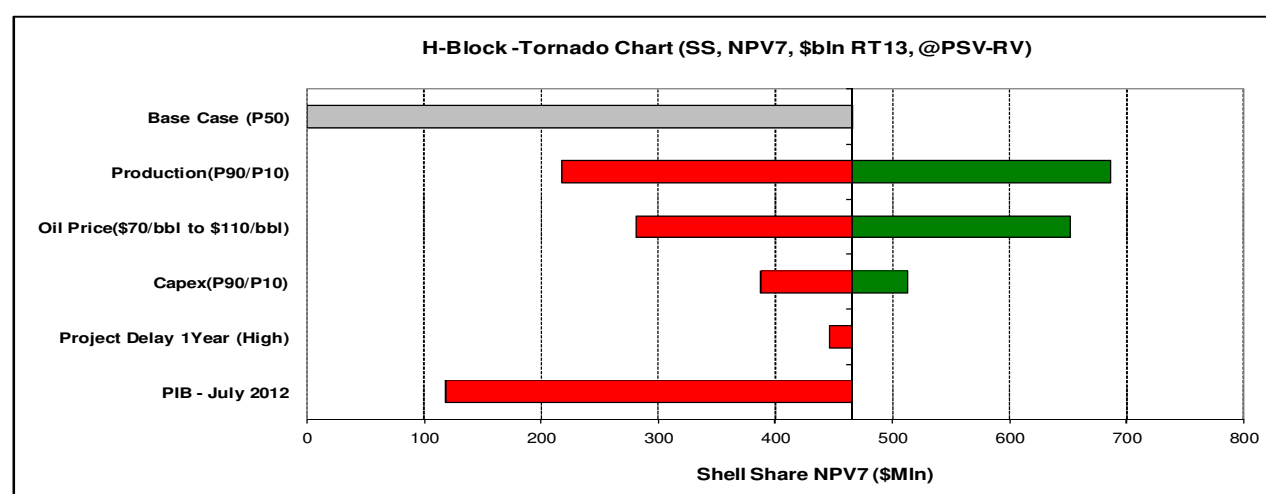
Parameter	Unit	BP12 Provision	Low	Mid	High	Comments
Capex (MOD)	US\$ mln					
Opex (MOD)_Project	US\$ mln	34.0	NA	47.9	59.9	PB12 provision was for 2 years (2013 - 2014) and 100% Shell equity, whereas, Pre FID is for 3 yrs (2012 -2014)
Production Volume	mln boe					
Start Up Date	mm/yy					
Production in first 12 months	mln boe					

Table 4: H and J Block Full Project Scope Economic Grid (Shell Share)

PV Reference Date: 1/7/2013	NPV (\$/S \$ mln)		VIR	RTEP	UTC (RT \$/boe)		Payout-Time (RT)	Maximum Exposure (RT- AT)
Cash flow forward from: 1/1/2013	0%	7%	7%	%	0%	7%	(yyyy)	\$mln (yyyy)
Base Case								
SV-RT (\$70/bbl RT13)	950.1	280.7	0.18					
RV-RT (\$90/bbl RT13)	1,342.2	465.7	0.31	17	18.7	24.4	2021	1015.8 (2017)
HV-RT (\$110/bbl RT13)	1734.9	651.5	0.43					
Sensitivities (using RV)								
High CAPEX (+25%)		387.6	0.20				2021	1266.3 (2017)
Low CAPEX (-15%)		512.6	0.40				2021	865.5 (2017)
High Reserves (P10)		686.9	0.45				2021	1015.8 (2017)
Low Reserves (P90)		217.6	0.14				2021	1015.8 (2017)
1-Yr Production Schedule Delay		446.1	0.29				2021	1015.8 (2017)
Project with Ring Fencing		264.1	0.17				2021	1745.0 (2018)
PIB July 2012 - Base		118.0	0.08					
1.5% cost markup due to BVA issues		376.2	0.18					

Table 5: H and J Block Full Scope Key Project Parameters (Shell Share)

Parameter	Unit	BP12 Provision	Low	Mid	High	Comments
Capex (MOD)	US\$ mln	2,218.3	1,885.6	2,218.3	2,772.9	BP12 Capex profile
Opex (MOD)_Project	US\$ mln	547.4	1,318.7	1,318.7	1,318.7	Generic Opex was used in BP12, whereas ABCM Opex was used for this evaluation including Pre-FID cost)
Production Volume	mln boe	160.5	114.8	169.4	300.6	
Start Up Date	mm/yy	Jun-19	Jun-19	Jun-19	Jun-19	
Production in first 12 months	mln boe	8.9	7.5	9.0	10.7	



Chat 1: Full Scope Tornado Plot

Economics Assumptions**Pre-FID Investment**

- Pre-FID evaluation is treated as a cost only.
- Pre-FID Cost treated as Opex.

- NDDC levy 3% of total expenditure.

Full Project Scope

- Oil PSVs of \$70/bbl @SV-RT13, \$90/bbl @RV-RT13 (Base) and \$110/bbl @HV-RT13 with appropriate Bonny offset applied.
- 2013 NLNG PSV was used. GHV of 1100 BTU/Scf used.
- Oil was taxed under PPT (PPT tax rate of 85%).
- Gas was taxed under CITA with AGFA incentives.
- ABCM Opex used. Abandonment cost is estimated at 10% of total project RT CAPEX.
- NDDC levy of 3% total expenditure. Education tax of 2% assessable profit.
- 2.5% of the MOD CAPEX assumed as SCD.
- Gas flare penalty of \$3.5 /Mscf was applied and is not tax deductible

PIB Assumptions

- Nigeria Hydrocarbon Tax for onshore of 50%
- Company Income Tax of 30%
- Capital allowance for NHT over 5 years of 4x20% plus 1x19% at On-stream date
- Petroleum Host Community Fund contribution of 10% of Investors profit

Section 3: Risks & opportunities (TECOP)

Risks

Subsurface Uncertainties (I):

- HD subsurface technical definition risks (and risks to the HD drilling due to the appraise while developing strategy whilst drilling is happening).
- Compartmentalization in HD field: Current subsurface data in HD indicates a number of potentially sealing faults which could increase the number of isolated compartments within the reservoirs.

Mitigation:

- Building of Base, Low and High dynamic realisations using Base, Low and High structural interpretations.
- Inclusion of HD appraisal and pilot holes in the project scope.
- Enhance the subsurface image with Full Pre-stack depth migration of the 3D seismic. The new data will be used to update the subsurface image and well plan.

Slugging in 40km multi-phase pipeline (I):

Flowing hydrocarbon through long distance pipeline will experience frictional loss and heat loss to ambient along pipeline and could lead to unavoidable non-stable operation such as slugging flow. Large slug could form as result of improper operation of ramp-up activities. Severe slugging could also occur during if pigging activities are not properly managed

Mitigation:

- Detailed flow assurance engineering during the FEED using site-specific data. Recommendations from study will be implemented in the design.

NCTL Oil theft (E,C,P)

Stabilised liquid from this project will be exported via NCTL. Continued bunkering of this line is a major concern.

Mitigation:

- Stealing of oil in NCTL is a challenge that needs to be solved corporately and efforts are ongoing to resolve. The alternative Concept of handling H-Block oil production with an FPSO Concept was fully evaluated at the Select phase but found to be very uneconomic (VIR < 0.2) and not supported by NNPC.

Security & Social Risks (P, E)

The project is located in the swamp of the Nigeria Delta; community interfaces, HSE and security issues are particularly significant in these areas, highlighted by cases of hostage taking, armed attacks and sabotage.

Mitigation:

- All work will be done according to the approved security plan under the oversight of the Head of Security Operations. Community interfaces will be managed through the Global Memorandum of Understanding (GMoU). An allowance has been made in the project budget for funding of social investment programmes

(including a community interdependency power supply project). The execution will maximise offsite fabrication and limit site activities to hook-up works.

Nigerian Content Development (NCD) Act Implementation (E, C, P)

The requirement to comply with the Nigerian Content Development (NCD) Act could result in project cost and schedule overrun due to limited in-country material manufacturing capacity and capability.

Mitigation:

- A detailed NCD compliance Plan has been approved by the Nigerian Content Development Monitoring Board (NCDMB). Any waiver required will be sought early so as not to jeopardise the project value.

Nigerian National Petroleum Corporation (NNPC) back-in and funding challenge (E,C):

NNPC have during past years expressed an interest in backing into this development for its 55% SPDC JV share in accordance with the terms of the SPDC JOA and Sole Risk Guiding Principles. The latter provides for a back-in penalty of 200% in addition past cost reimbursement and forms an impediment for NNPC's re-entry. In addition NNPC may have difficulties funding its share of the costs if sole risk is terminated.

Mitigation:

- Negotiate Sole-risk settlement terms for potential NNPC re-entry, possibly in combination with a funding solution for NNPC's equity share of development Capex. Engagement with NNPC has already commenced in this regard.

Delayed renewal of Shallow Water License (C, P):

The Shallow Water License (SWL) for H-Block is currently being renegotiated for renewal. Non-renewal of these licenses on time and or unfavorable terms will delay Department of Petroleum Resources (DPR) approval of the Field Development Plan (FDP) and Federal Ministry of Environment (FMEnv) approval of Environmental Impact Assessment (EIA) with resultant delays to Final Investment Decision (FID) and first oil date.

Mitigation:

- SPDC is currently engaging DPR and the Petroleum Ministry to negotiate the commercial lease renewal terms. A separate GIP is in place for this. Current project schedule assumes this will complete by end August 2013.

Key Opportunities

Provision electricity to communities (P)

The interdependency strategy of the project will minimise restiveness of the host community and minimise unscheduled deferment of production from the entire Belema node (i.e. H-Block & existing Belema production).

Section 4: Carbon management

The only source of HC emission is via leak of HC from normal operation e.g. leaks from flanges. However the right level of tightening will be applied to flanges to ensure that this does not occur. Also, flaring shall not be routine, as surge vessel gas will be collected. The design will minimize the volume of gas required for purging and for the pilot flare. All liquid emissions shall be routed to a closed drain header and pumped back into the export system, to avoid contact with the environment.

Section 5: Corporate structure, and governance

This project is being executed by P&T under 'sole risk' status, where the economic interests are NNPC (0%), Shell (77.14%), Total (10%) and NAO (12.86%). The assumption is that the SPDC JV working interest will apply post FID following the backing in of NNPC and the normalization of the sole risk on these leases.

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

This proposal complies with Group Business Principles, policies and standards. Full functional support covering Sustainable Community Development (SCD) is provided for in the full project scope. Additionally, there will be a focus on Nigerian Content Development (NCD) as already indicated above. Functional support for this proposal is provided by the Finance, Supply Chain Management, Legal, Treasury and Tax functions.

Section 7: Project management, monitoring and review

This is one of the PTP Operated Projects under the General Manager, Nigeria. The Project Assurance Plan is compliant with the Opportunity Realization Plan (ORP). FID is planned for November 2014.

Section 8: Budget provision

The HD & JK Oil Development is in SPDC's BP12 with a 2013 budget US\$27.5 mln (100%).

Section 9: Group financial reporting impact

There are no unusual accounting issues related to this GIP. Expenditure related to the project will be accounted for in line with Group Policy. The financial impact of this proposal on Shell Group Financials is as indicated below:

\$ Million	2012	2013	2014	2015	2016	Post 2016
Total Commitment	7.7	28.2	12.0			
Cash Flow						
SCD Expenditure						
Pre-FID Expenditure	7.7	28.2	12.0			
Capital Expenditure						
Operating Expenditure	0.2	0.8	0.4			
Cash flow From Operations	-1.6	-5.3	0.1	-0.5		
Cash Surplus/(Deficit)	-1.6	-5.3	0.1	-0.5		
Profit and Loss						
NIBIAT +/-	-1.2	-4.3	-1.8			
Balance Sheet						
Avg Capital Employed	5.2	15.9	25.5	34.8	45.0	275.0

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 by funds provided by JV Sole Risk partners until a new funding agreement is signed with NNPC.. Shell Share of required expenditure will be met by SPDC's own cash flow.

Section 12: Taxation

The incremental value and cost generated by this funding request will be taxed together with SPDC total income in accordance with applicable fiscal regime.

Section 13: Key Parameters

This proposal covers Pre-FID activities as follows (Shell Share, Sole Risk):

- US\$ 11.9 mln Project Management (HD/JK)
- US\$ 4.2mln Subsurface Support
- US\$ 2.6 mln Pre-FEED (HD/JK)
- US\$ 11.0 mln FEED (HD/JK)
- US\$ 8.2mln Permits & Consents, Data Acquisition Surveys, Land Acquisition, Belema FLB site Sandfilling (HD/JK)
- US\$ 10.0 mln DG2 studies on HA/HB to DG2

Section 14: Signatures

This Proposal is hereby submitted for approval.

Supported by:

.....
Chris Streng (SIEP-FUI)
Date .../... /...

For shareholder approval:

.....
Andrew Brown (RDS-ECAB)
Date .../.... /....

Initiator:

Toyin Olagunju (PTP/O/N)
Date .../.../.....