

Group Investment Proposal

Summary information

Business unit and company	UIG, Shell Nigeria Infrastructure Limited (SNID).																							
Group equity interest	100% (subsidiary of SPNV)																							
Other partners	None																							
Business or Function	Exploration & Production																							
Amount <i>All amounts are in Shell share, MOD and P50 unless otherwise stated</i>	US\$80.1mln (100% Shell, including US\$65mln by an earlier Group Investment Proposal approved in 2007) This supplementary proposal Total <i>(NOTE – Full project economics are based on forward Capex of ~\$250mln applying Group standards for Financial cost estimates at VAR3)</i>																							
Project	Pre-FID activities including preliminary site preparation works for the Lagos Infrastructure Development (LID) Project - an integrated, real estate development comprising 20,000m ² of Class A office space (~1000 workstations) and 100 residential units, including associated infrastructure and support amenities.																							
Main commitments	Additional expenditure not exceeding \$15.1mln for pre-construction activities leading to main contract award in Q4 2011. <table><tr><th rowspan="2">Activity</th><th colspan="3">Figures in USD \$mlns</th></tr><tr><th>Approved GIP</th><th>This GIP (Pre-FID)</th><th>GIP Revision</th></tr><tr><td>Land Acquisition & fencing</td><td>61.3</td><td>-9.3</td><td>52</td></tr><tr><td>Project Management, Detail design and Execution planning</td><td>3.7</td><td>7</td><td>10.7</td></tr><tr><td>Preliminary Site preparation</td><td>0</td><td>17.4</td><td>17.4</td></tr><tr><td></td><td>65</td><td>15.1</td><td>80.1</td></tr></table>	Activity	Figures in USD \$mlns			Approved GIP	This GIP (Pre-FID)	GIP Revision	Land Acquisition & fencing	61.3	-9.3	52	Project Management, Detail design and Execution planning	3.7	7	10.7	Preliminary Site preparation	0	17.4	17.4		65	15.1	80.1
Activity	Figures in USD \$mlns																							
	Approved GIP	This GIP (Pre-FID)	GIP Revision																					
Land Acquisition & fencing	61.3	-9.3	52																					
Project Management, Detail design and Execution planning	3.7	7	10.7																					
Preliminary Site preparation	0	17.4	17.4																					
	65	15.1	80.1																					
Source and form of financing	Commercially priced affiliate loan (from SNEPCo’s internally generated funds)																							
Summary economics (Shell share)	<div><p>Project Cashflow (USD mln ,RT2011) Shell Share</p><p>Annual Cashflow (\$mln RT)</p><p>Cumulative Cashflow (\$mln RT)</p><p>RT Capex RT Cash Flow Cum CF 0% DR Cum CF 7% DR</p></div> <p>The ungeared economic value of this SNID real estate development is NPV7 of \$545mln (SS, RT2011), VIR7 of 2.55 and RTEP of 20%. Evaluation accounts for rent revenue from 2015 to 2027 based on industry growth estimates. A terminal asset value is recognised in year 2027.</p>																							

Section 1: The Proposal (Management Summary)

Incremental funding of US\$15.1mln (100% Shell) is required to progress pre-construction activities leading to award of the main, lump sum construction contracts for the Lagos Infrastructure Development (LID). The LID project is a Greenfield campus development comprising ~20,000m² of Grade A office accommodation for 1000+ Lagos-based staff of Shell Exploration & Production Companies in Nigeria (SEPCIN), as well as 100 residential units. The campus provides for an integrated working, living and recreational facility on ~30 acres of land acquired by SNID in 2009 as two separate parcels in the Lekki area of Lagos, Nigeria.

In Lagos, major investments are expected along the Lekki axis primarily because of government investment in infrastructure and the execution of the Lagos State Government Master plan for the area which includes a Free Trade Zone, another International Airport and a Fourth link bridge access. As a result, a number of multinational companies such as Chevron, Exxon Mobil, global hotel chains etc., are implementing major RE investments plans or have purchased properties along this axis with firm development plans. Hence, the strategic decision to execute the LID project at this time will position Shell in a location that will be the next prime business district in Lagos in the near future.

The conceptual design for the LID project was completed in Q4 2010 with Group Real Estate (RE) providing functional support and participating in a successful peer review in December 2010. Further project maturation is now necessary prior to FID, including selection via open tender of a Project Management Contractor (PMC) or Developer who will be accountable for the technical management of detailed design, procurement and subsequent project execution, with a combined VAR 3/4 scheduled for end May 2011.

This proposal caters for detailed design using a PMC or Developer, initial site preparation activities including construction of the main access road, dredging of water front access and sand filling all of which require considerable input from, and subsequent approval by the Authorities, hence the need for early commencement.

The requested funds will cover the following while taking into account a savings of \$9.3mln to date from land acquisition and fencing activities:

1. \$7mln (additional to previously approved \$3.7mln) for Project Management, detailed design, and tendering for the execution scope leading to selection of a Principal Construction Contractor.
2. \$7.4mln for preliminary site preparation works, including sand filling and consolidation required prior to construction to maintain schedule.
3. \$3.1mln for construction of main access roads with associated drainage.
4. \$6.9mln for dredging of water fronts, temporary piers and other navigation aids which are on the critical path due to the requirement for approvals from both State and Federal Agencies.

This proposal has been reviewed with functional support from Global Real Estate, Tax, Finance, HR and Legal.

Section 2: Value proposition, strategic and financial context

This proposal is consistent with UIG's Real Estate Master Plan which reconfirms Lagos as the base location for SNEPCo's OML 118 deepwater operations.

Key drivers for the business on this project are as follows:

- Cost Reduction/ Efficiency: Substantial Opex is required for maintaining and operating the leased Central office buildings (FMH, & BOI ~ 40 yrs old).
- Compliance: Extensive upgrade works would be required starting 2015 to meet minimum HSE requirements and comply with State building codes (such as Car parks, etc). Preliminary work is ongoing to evaluate scope and scale the upgrade work which will be incorporated into subsequent Business Plans.
- Partner Issues: The lease for the second building (BOI), will expire in 2014. NNPC (JV Partners) have indicated that they will not co-fund the lease beyond 2012 unless Shell can demonstrate

sufficient proof of plans to own its office & residential accommodation in Lagos demonstrating both a commitment to invest in Lagos for the long term as well as securing a more sustainable financial cost base for on-going real estate requirements.

- Further project definition critical to firming up costs, schedule and demand forecasts due to pending legislation (PIB). The Contracting Strategy, which has been reviewed by Global CP team, is predicated on a Project Management Contractor (PMC) to further define the development in conjunction with SNID and ultimately assume responsibility for the key execution deliverables. With VAR3/4 planned for May 2011, and FID by Q4 2011, timely engagement of the PMC to undertake detailed design and execution planning is essential.
- Preliminary site preparation and sand filling is required to allow for adequate soil consolidation prior to start of construction and address items on the critical path. The scope therefore includes dredging to facilitate water front access, construction of the main access road and provision of adequate fill to increase the finished level of the site as required by the drainage design.

Summary Economics

The key assumptions are as follows:

- Project Capex of \$247.4mln MOD is required for the completion of the office blocks (~20,000m²) to accommodate 1000+ professionals and support staff including 100 residential housing units with recreational facilities.
- Asset terminal value assumes a continued 5% long-term growth rate in the Nigerian (housing) economy.
- Average lease rate for a house is \$100,000 per year (in 2011) with 80% to 90% occupancy rate while Lease rate per square meter of office space is \$750 per year (in 2011) with 70% to 90% occupancy rate. Lease growth rate is 12% per year.
- Applicable SNID fiscal regime is CITA with estate development depreciation schedules for offices (23.5%, 9x8.5%) and residential (62.5%, 3x12.5%) buildings.
- Inflation rate of 2% and Real Term discount factor of 7% have been applied for Present Value calculations.
- During project concept selection, some other alternatives for providing office and residential accommodation were considered – including maintaining currently rented accommodation and renting some others. Choice of the SNID build-and-own concept is based, among other considerations – including value chain economics evaluation results, on achieving desired HSSE standards, providing the required high quality office environment and avoiding the risk of sole risk costs for continued leases as ruled by NNPC.

Section 3: Risks, Opportunities and Alternatives

Principal risks and mitigation associated with the work covered by this proposal are as follows:

Risk description	Mitigation
Impact of Petroleum Industry Bill (PIB). A bill to structure and consolidate all the various legislations regulating the petroleum industry is before the National Assembly. A possible outcome includes more burdensome fiscal regime resulting in value erosion, changes in the ownership and/ or licensing structure for oil blocks along with changes in the structure and role of NNPC. Although implications on	<ul style="list-style-type: none"> - The Petroleum Industry Bill will not affect SNID's fiscal regime as a Real Estate services provider in Nigeria. An indirect impact may result if the projected demand from renting parties (upstream Shell companies in Nigeria), who are fully exposed to the PIB, is undermined. - However, industry efforts are currently coordinated through OPTS with dedicated Shell resources supporting it. Further, Contractor's rights under the

deepwater projects are unclear, initial evaluation indicates high potential impact on the LID project economics.	<p>1993 PSC are protected against any change in laws or regulations of Nigeria by a stability provision that allows modification of the contract to compensate Contractor for the results of the change. Another option is to invoke stabilization provisions to the fullest extent possible to mitigate any resultant value erosion. It is noted that the bite of this provision is yet to be tested.</p> <ul style="list-style-type: none"> - In addition, the project provides for an exit window in 5yrs time with potential for future equity participation. So far, a number of 3rd party equity investors e.g. Actis, Stanbic, have confirmed interest in the development.
Exit Risk. Uncertainties due to either continued delays in Government's passage of key PIB legislation or an unfavorable investment climate as a result. Any significant changes in the technical and business case assumptions may precipitate Shell's early exit from the project.	<ul style="list-style-type: none"> - The acquisition area (in Lekki, Lagos) has attracted significant Real Estate and public infrastructure developments over the period supported by proportionate population growth. Downside protection is therefore provided by re-selling, as market conditions remain favorable in terms of sale price and ability to sell. - SNID will register positive equity cash flows within 6years and positive cumulative cash flows within another 5years thus the impact of decision for early exit is minimal. - Also, assuming a zero housing economy long term growth rate and a 10% rent growth rate results in a project NPV7 of \$169mln (Share Share, RT2011), a VIR7 of 0.78 and a RTEP of 14%.
Delays in obtaining requisite Legal and Regulatory approvals. Timely approvals from State and Federal authorities are required to facilitate construction planning and provide for project delivery assurance.	A 'Permits and Consents plan' is in place and addresses all planning approval requirements following extensive engagement with responsible Government agencies - specifically, Lagos State Ministry of Physical Development, as well as the Land Registry and Fed. Ministry of Environment.

HSE Risks

HSE is an area that requires closer integration, but is still achieved through adopting a joint HSE Philosophy for the project as defined within the RE-ORP framework. This is a Shell Group process that has evolved from major projects particularly RE projects (e.g. Woodcreek, Bangalore.) and will be shared with the PMC/ Developer and aligned with the project.

Opportunities and alternatives:

- There is the opportunity to improve relations with NNPC by aligning our RE strategy, addressing related cost transparency concerns along with enhanced overall efficiency consistent with the UI cost ambition.
- The project will also demonstrate Shell's commitment to remain in Nigeria and clear speculations following strategic actions along with the attendant improvement in reputation.
- Outcome of the Market and industry analysis indicates that a private investor consortium will be willing to lead the development of 4 office blocks (up to 2000 workstations) with equity participation by Shell. A number of such investors (Actis & Standard Bank of South Africa) have indicated readiness to partner with Shell in the development. A wider pool of qualified investors may be formally invited, if further investigation of this option is considered necessary. Similarly,

there is the option of incorporating a 3rd party hotel development (e.g. Hilton Hotels and Marriott Hotels) into subsequent phases of the project with Shell committing annual room demand and/or equity (e.g by providing the land).

- Other alternatives to LID will include negotiating economic concessions based on existing rental arrangements, or seeking new leases. These options have been modeled as follows:

Scenario 1: Continue with the status quo as described i.e. retain Freeman House, BOI, NSC and residential apartments across Lagos. Currently, Shell spends over \$6 million per month (translates to \$72 million per annum) on rent and leases. In addition, an extensive upgrade of FMH (estimated at ~\$25mln) is deemed necessary by 2015 to meet minimum requirements and comply with State building codes.

Scenario 2: Seek a renegotiation of rental/lease terms either with current landlord(s) or new landlord(s), implying moving out of existing leased properties. While rental forecasts are difficult to predict, significant market discounts which are required to meet Shell's expectations appear unrealistic given the current 2011 real estate prices and non-availability of commercial Grade 'A' offices in Victoria Island and Ikoyi.

However, there is the downside under these alternative scenarios that cost recovery might become a challenge considering NNPC's position that they will no longer co-fund building leases as they are inefficient for the JV.

Section 4: Corporate Structure, and Governance

SNID is a 100% Group company with ownership vested in SPNV (NL). Governance is in line with the new UI SSA Operating model.

Section 5: Functional Support and consistency with Group and Business Standards

The scope of work covered by this proposal is consistent with Group HSE, ER and Sustainable Development policies. Functional Support from Finance, Tax, Treasury, HSE/SD, HR and Legal has been obtained.

Section 6: Project management, monitoring and review

Project assurance is executed in accordance with the requirements of ORP and by fully leveraging the expertise of the Global RE along with the competence of a well resourced Project Management Company (PMC) selected through a rigorous, transparent, tender process.

Section 7: Budget provision

The funds requested in this GIP are within the BP10 2011 capital budget of \$52 mln for LID.

Section 8: Group financial reporting impact

The Financial impact of the proposal is summarised below.

<i>US\$ mln, MOD,</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Cash flow					
Pre-FID	15.10				
Capital Expenditure	35.10	64.60	41.20	38.70	21.60
Operating Expenditure					
Cash Flow: Cash from Operations	0.00	-0.05	-1.59	-3.03	17.42
Cash Surplus / (Deficit)	-35.10	-64.55	-39.61	-35.67	-39.02

Profit & Loss: NIBIAT Gain / (Loss)	0.00	-0.12	-3.26	-5.73	-55.55
Balance Sheet (Average Capital Employed)	50.20	114.68	152.61	185.58	151.63

Section 9: Disclosure

Disclosures, if required, will be in line with existing Group and SEPCiN policies and guidelines.

Section 10: Financing

The project will be funded by an affiliate loan from SNEPCo's own generation of funds, at an additional cost not exceeding US\$ 15.1 mln (100%).

Section 11: Taxation

The prevalent Tax features within the Real Estate industry and PSC have been applied as necessary.

Section 12: Key Parameters

The following are the main aspects of this proposal:

- Additional Capex of \$15.1mln for Project Management, Execution planning, preliminary site preparation and provision of related support infrastructure prior to FID.

Section 13: Signatures

This Proposal is submitted to Executive Vice President, Upstream International Sub-Saharan Africa for approval.

Supported by::

For Business approval:

Bernard Bos,
Vice-President Finance, SSA
Date:

Ian Craig,
Executive Vice President, SSA
Date:

Originator: Maliye Okoye