

The Shell Petroleum Development Company of
Nigeria Limited
PTP/O/NN. Block IA 200. Shell Industrial Area.
P.O. Box 263, Port Harcourt. Rivers State

Our Ref.: DWN-GBU3A-LT-00100

Date : 21-May-2020

Attention: Mr. Otonye Daka / Project Leader, Gbaran Phase 3A Enwhe Project – Package 1

SUBJECT: RE: COVID-19 CURRENT OIL PRICE IMPACT AND SUPPLY CHAIN CHALLENGE

NG01007552: Gbaran Phase 3A Enwhe Project – Package 1 (Installation of Facilities at the Gbaran CPF and Remote Locations)

Ref.:

Resp. by date:

Dear Sir,

We refer to your letter GBU3A-NG01007552-A-LT-00048 dated 28th April 2020 and subsequent teleconference meeting on 15th May 2020.

CONTRACTOR recognized the current challenges posed by COVID-19 and consequent fall in oil price which we are all suffering the effect. As partners in this business, CONTRACTOR is willing to do her best in support of COMPANY to minimize the impact. We understand COMPANY and JV Partner request to reduce contract cost through operational efficiencies, waste take-out, scope/demand optimization, equipment specification and rate reductions on the ongoing contract.

CONTRACTOR, having carefully reviewed COMPANY's request for cost reduction, additional financial impact on the project is inevitable considering that the project finances is already running at a negative and for reimbursable/provisional scope. You will also recall that a 3% discount on the lumpsum was given on the negotiated cost as requested by SPDC JV. These rates are rates since 2012 when CONTRACTOR submitted her bid for the Gbaran Infill Project and since then, prices continue to go up by the day. With COVID-19 impact so far, it is even difficult to know what the impact of post COVID-19 will be, which is still a concern to CONTRACTOR.

Bearing in mind that our Engineering Design is almost completed and Procurement is on-going with all the POs issued, and huge financial involvement already made as an EPC contractor towards effective completion of the project within realistic project schedule and cost. Thus, it becomes difficult to reduce the contract rates which has been expended or ongoing as a way to reduce contract cost. CONTRACTOR will continue to work hard to deliver the project successfully in a win-win situation. Even though CONTRACTOR is concerned about the prevailing COVID-19 pandemic and its impact on the project as regards cost and schedule.

CONTRACTOR will continue to ensure that there is no operational inefficiencies in her activities and will

maintain and continue to strive to improve efficiency in our operations leaving no room for wastages.

On subcontracting, CONTRACTOR have issued POs to her Subcontractors and many have started or completed manufacturing. CONTRACTOR is also getting pressures from some of her Subcontractors requesting for reviews upwards as a result of escalating cost globally due to the prevailing situation. But CONTRACTOR need time to explore how possible to get her Subcontractors in line to achieve the request of COMPANY and JV Partners even though majority are still on lockdown or just resuming back.

However, considering that the detailed Engineering design of the Project is almost completed and Procurement on-going, CONTRACTOR will need to work with COMPANY to review any possible scope of work which can be eliminated. In this regard, we will appreciate COMPANY to initiate this as COMPANY is principal determinant of the scope in line with her objectives of the project and we can jointly analyze to ensure such does not create major operational impact.

Thank you for your usual cooperation.

For: DAEWOO NIGERIA LIMITED



Hyung-Gue Kim
Project Manager