

Group Investment Proposal

Summary information

Business unit and company	Shell Nigeria Ultra Deep Ltd. ("SNUD")							
Group equity interest	100% in SNUD (100% PSC holder, as Contractor, in OPL 245)							
Other shareholders/partners	Nigerian National Petroleum Corporation ("NNPC") – Licence Holder in OPL 245 The Federal Government of Nigeria ("FGN") Malabu Oil and Gas Limited ("Malabu")							
Business or Function	EP							
Amount	USD 300 mln							
Project	OPL 245 dispute settlement							
Main commitments	Acquisition of a 20% interest in the OPL 245 licence for a consideration of USD 300mln and settlement of all outstanding legal claims from SNUD, FGN and Malabu in relation to the OPL 245 licence rights and the SNUD PSC in respect of the OPL.							
Source and form of financing	Interest free Shareholder loan from SPNV							
Summary economics	Shell Economics (20% Licence interest)	Consideration	Base Case		Total		Expl Upside	
		NPV 0/7	NPV 0	NPV 7	NPV 0	NPV 7	NPV 0 NPV 7	
	SV (\$50/bbl)	300	257	73	-43	-227	408	89
	RV (\$60/bbl)	300	376	117	76	-183	534	122
	HV (\$80/bbl)	300	638	222	338	-78	765	177
	Upside (\$100RT)	300	897	324	597	24	990	227
	Unwinding*	300	381	269	81	-31	0	0
(* Assumes transaction is unwound by Malabu as per agreement)								

Section 1: The proposal

In May 2002, FGN approved the appointment of SNUD as Contractor in a Production Sharing Contract (PSC) for OPL 245. A PSC (2000 terms) was signed between NNPC and SNUD granting SNUD the right to exclusively operate OPL 245 as Contractor. This led to payment of a signature bonus of USD 210 mln by SNUD, of which USD 209 mln was paid into Escrow pending resolution of outstanding issues in relation to ownership of the concession, following the FGN decision to revoke Malabu's ownership of OPL245 in 1999.

Subsequently, various legal claims were initiated between FGN, Malabu and SNUD regarding the rights of the parties in relation to this licence.

ECMB originally approved a PCN to seek an amicable settlement to the various dispute in June 2007. This PCN was updated several times, most recently in August 2008, reflecting the ongoing negotiations and the potential settlement options. This proposal seeks approval to execute full and final settlement on OPL245 in line with the most recently approved mandate. Specifically,

ECMB Approved Mandate	This Proposal
Tripartite (FGN, Malabu, SNUD) agreement for full and final settlement of all claims and legal actions.	As per mandate
Shell 100% Contractor rights preserved	As per Mandate
Payment for purchase of 20% equity from Malabu as part of settlement of up to USD425 mln.	20% equity to be acquired for USD 300 mln.
Malabu to have repurchase right for maximum of 5 years from settlement date.	Malabu has unwinding rights of the assignment until OML conversion + 180 days or June 2012, whichever is earlier.
LIBOR flat interest rate to calculate accrued interest should Malabu unwind the assignment.	LIBOR +150 basis points if Malabu unwind prior to 1 January 2010 and LIBOR + 250 basis points thereafter.
Agreed List of bidders for any sale by Malabu to be included in settlement agreement	No list of bidders in settlement agreement (FGN objection)
Malabu to provide SNUD with pre-emption right on 20% equity at 10% discount to winning bid price	Pre-emption right with a 20% discount

This agreement would contribute to the achievement of current EIP business objectives as detailed in Section 2 below.

Base Case economics shown above value 20% equity at NPV7 (\$60/bbl) at USD 117 mln and USD 222 mln at \$80/bbl.

As such, the economics for this proposal (excluding contractor value) shows:

- Should Malabu not unwind the equity sale and Shell retains ownership;
 - Shell share NPV7 of USD (183) mln (Base case, \$60/bbl) and USD (78) mln (\$80/bbl). Exploration upside is estimated at USD 122 mln at \$60/bbl and USD 177 mln at \$80/bbl.
- If Malabu were to unwind the transaction, the estimated Shell share NPV7 on the transaction is USD (31) mln.

Given the level of maturity of the project (pre DG2), there is also significant uncertainty regarding the level of recoverable reserves, which has a significant bearing on the project economics. In addition, there is scope to accelerate the development significantly, which would further improve the economics.

After extensive negotiations over a long period, the only alternative to settlement as proposed is continuation of BIT arbitration, originally commenced by SNUD in April

2007, to completion. Whilst the legal case is considered strong it would result in a financial settlement rather than providing Shell with the opportunity to develop OPL 245. Furthermore, such a course would be a significant impediment to Shell's ability to improve relations with FGN across the breadth of business activities in Nigeria.

No provision was made in the current business plan for this transaction.

The full amount of the consideration will be financed via the provision of a non-interest bearing shareholder loan facility from SPNV to SNUD.

Section 2: Value proposition and strategic and financial context

Although the consideration for this settlement is not provided for in the current Business Plan, this agreement would contribute to the achievement of current EP business objectives as it would:

- Enable unencumbered development of an attractive asset in the Nigeria Deepwater Basin. This project has been identified as a must win for EP. It also provides scope to accelerate the timing of the development compared to the current Business Plan assumptions;
- Provide future strategic options in the form of the potential to access possible upsides in the block and/or pursue future portfolio action in the form of dilution of Shell's Contractor interest and potentially equity divestment post expiry of Malabu's unwinding option period;
- Avoid any further legal and arbitration proceedings and the associated reputation risks;
- Enhance relations between Shell and FGN at a time when many important issues impacting upon the future value of Shell's businesses in Nigeria are dependent on the position of FGN.

In addition to the economics of the transaction itself, this agreement would also enable SNUD to realise the expected economic benefits of its position as Contractor in OPL 245, which are currently not accessible due to the existing legal claims and disputes. The economics of the PSC to Shell are therefore presented below as well as those relating to the acquisition of the interest in the licence.

Key economic assumptions

a) Reserves

Four wells have been drilled and discovered volumes are currently estimated at 531 MMboe (Etan/Zabazaba only). A further 600 MMboe (GHS 369 MMboe) has been identified as Exploration upside.

Based on exploration activity undertaken to date, the base case economic evaluation assumes that reserves amounting to 419 MMbls of oil will be developed in the Zabazaba and Etan fields. The current development plan will also see 650 Bcf of natural gas produced and delivered to the Offshore Gas Gathering System (OGGS) for potential supply to Nigeria LNG (Shell equity share 25.6%). In this proposal however, no economic value for the value of gas in the upstream or midstream has been assumed because the PSC currently has no gas terms. Should gas terms be negotiated the associated volumes are estimated at around 2 TCF (in excess of 300 MMboe).

OPL245 includes a number of identified but yet to be penetrated exploration prospects. Three of these (Zabazaba Far SE, Zabazaba Deep and Etan West) have been assumed as included in the economic evaluation of the combined Zabazaba/Etan project. The remainder (Zabazaba NW, Etan North and Deep, Songu South and North, If, Elieli and Zina Pene) have been included on a risked, independent basis using the POS of achieving a minimum commercial cut-off volume.

NPV for these opportunities has been evaluated assuming a tieback of all undrilled opportunities to a Zabazaba/Etan development calibrated to BP08 evaluations of Songu and Zabazaba NW. These two projects have been phased to match ZZ/Etan production profiles but no further phasing effects have been taken in to account for the remaining prospects. A number of very high-risk exploration opportunities on the outer thrusts in the block for which no volumetric evaluation is available have been excluded from the valuation.

b) Contractual and fiscal terms

The evaluation has been undertaken based on the PSC terms currently in effect in relation to OPL 245 (PSC2000). These terms are less attractive than PSC1993 terms but are generally superior to those currently being offered (PSC2005). The key features of these terms are:

- Royalties: 0% due for water depth below 1000m;
- No ceiling on cost recovery;
- Investment Tax Allowance (ITA) of 50%;
- Petroleum Profits Tax (PPT) at 50%;
- Contractor Profit Oil declines with cumulative production from 70% to 35%;
- Projects within the same licence can be consolidated for cost recovery purposes.

c) Capital costs

The project development costs used in the current project valuation are the result of 2 key formal ESARs. The main elements of the estimated development costs for this project are shown below:

OPL245 ZZ:Etan cost (Market \$60/bbl)	RT 07.08	RT 08.08
Exploration: Drilling	85	85
Wells: Drilling	1,383	1,715
Wells: Completions	1,811	2,285
Project Management/Other Capex	888	793
Subsea	2,768	3,351
Pipelines, Flowlines, Risers	2,881	2,807
FPSO (purchased): Hull	177	205
Gas Evacuation Pipeline	858	838
Sismic (Development)	5	5
CALM Buoy	279	277
Capex Duty & VAT	1,858	1,275
Total	11,015	13,857

The OPL 245 PSC was awarded to Shell (100% interest) in 2002 by NNPC, and a PSC was signed between the two parties in December 2003, following a USD 210 mln signature bonus payment (USD1 mln cash and USD 209 mln in escrow). Additionally,

exploration expenditure to date exceeds USD300 mln. These costs have not been included in the economic evaluation for this proposal.

d) Oil Price premises

Economic evaluations have been done using the current Group Oil Price Screening value (\$50/bbl), ranking value (\$60/bbl) and high value (\$80/bbl). An additional sensitivity using an oil price premise of \$100/bbl has also been run.

e) Timing

The final development concept has not yet been selected (project at Pre DG2), and hence the on stream date has not been finalized with capital and reserves range estimates remaining wide. However the current base case assumption is that FID is taken in Q2 2014 and that first oil production occurs in Q2 2018. A sensitivity showing the impact of accelerating first oil production to 2015 has also been run (Note: July/August 2008 PCN economics based on first oil in 2015).

f) Unwinding option

As described in Section 1 above, Malabu have the option to unwind the transaction any time prior to the earlier of mid-2012 and 180 days following OML conversion. If they choose to exercise this option, they will repay the original consideration plus accrued interest based on the prevailing LIBOR rate. The value loss to Shell if they choose to unwind the transaction has been calculated based the assumption that they unwind as late as possible, and an assumed applicable LIBOR rate of 3.5%.

Summary of Economic Evaluation

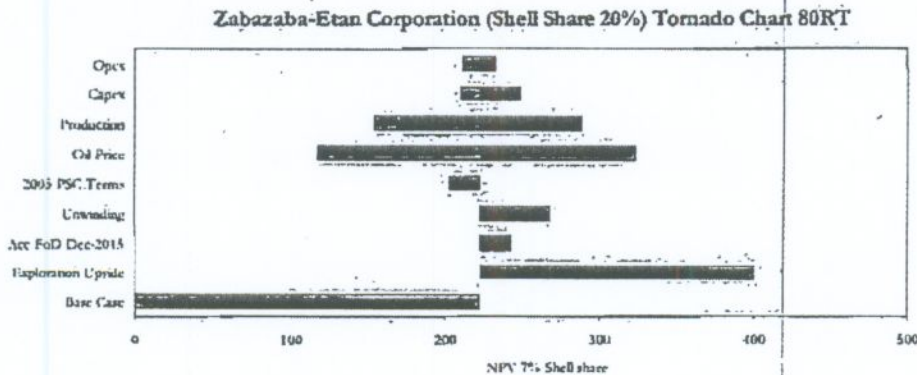
Corporation economics

The economics associated with the acquisition of the 20% licence interest are shown in Table 1 below with key sensitivities shown in Chart 1. Corporation (license holder) cash flow is derived from Profit Oil under the PSC.

Table 1: Corporation (equity) economics – Zabazaba and Etan

Corporation/Equity Economics (20%)	Base Case		Expt Upside		Total	
	NPV 0	NPV 7	NPV 0	NPV 7	NPV 0	NPV 7
SV (\$50/bbl)	257	73	408	89	665	162
RV (\$60/bbl)	376	117	534	122	911	238
HV (\$80/bbl)	638	222	765	177	1403	400
Upside (\$100RT)	897	324	920	227	1887	551
Sensitivities (using HV)						
High Capex (+10%)		210				
Low Capex (-25%)		249				
High Opex (+15%)		212				
Low Opex (-15%)		233				
Low Reserves (-15%)		154				
High Reserves (+15%)		289				
Base Case 2005 PSC		203				
Acc Case FoD 2015		243				
Unwinding		269				

Chart 1: Zabazaba-Etan Corporation (Shell Share 20%) Tornado Chart (\$80 oil price in real terms)



Contractor Economics

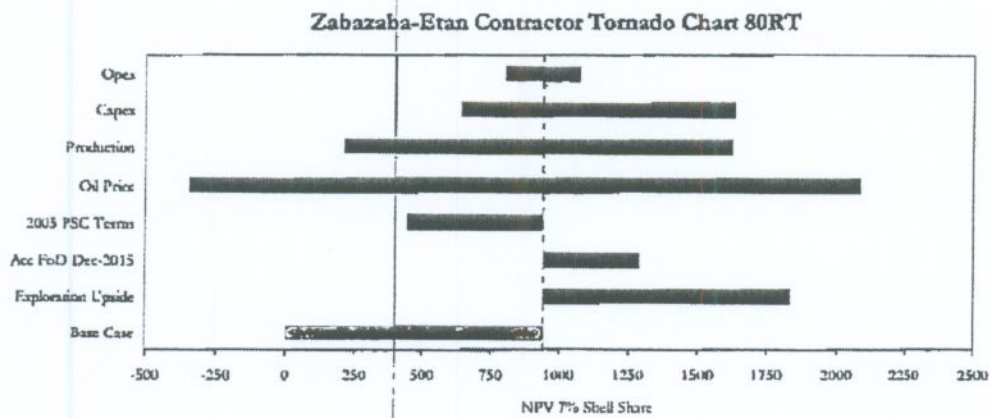
The Contractor share of overall value (Etan/Zabazaba 100% Contractor share economics as per BPO8 assumptions) based on the PSC contract reaffirmed as a result of this agreement are shown in Table 2 below with key sensitivities shown in Chart 2.

Table 2: Contractor economics - Zabazaba and Etan

PV Reference Date: 1/7/2008	NPV (100% S min)		VIR	RTBP	LTC (RT \$/bbl or \$/min bbl)	
	0%	7%	7%	%	0%	7%
Cash flow forward from: 1/1/2008						
Base Case: Contractor Economics (100%)						
SV (\$50/bbl)	1825	-1128	-0.16	2.99%	41.48	53.61
RV (\$60/bbl)	3544	-341	-0.05	5.77%	41.48	53.61
HV (\$80/bbl)	6534	939	0.13	10.24%	41.09	53.61
Oil Price Upside (\$100RT)	9436	2089	0.30	13.76%	-42.01	53.61
Sensitivities (using HV)						
High Capex (+10%)		641	0.08			
Low Capex (-25%)		1633	0.30			
Low Reserves (-15%)		216	0.03			
High Reserves (+15%)		1620	0.23			
Base Case 2005 PSC		446	0.06			
Acc Case FoD 2015		1287	0.16			Based on previous BPOB case
End of License		939	0.13			End of License 2033

Contractor Exploration Upside	NPV 0	NPV 7
SV (\$50/bbl)	2396	321
RV (\$60/bbl)	2759	445
HV (\$80/bbl)	4139	893
Upside (\$100RT)	5828	1377

Chart 2: Zabazaba-Etan Contractor Tornado Chart (\$80 oil price in real terms)



Section 3: Risks, opportunities and alternatives

Risks

1. PSC Terms

Since the 1993 PSC projects came on stream (Abo, Bonga, Erha), significant value is at risk due to disputes with NNPC on:

- PSC interpretation: The areas of discrepancy are mainly related to Contractor's PSC role, cost consolidation, cost recovery and lifting programming;
- Tax: Main areas of dispute are on the application of ITC (Investment Tax Credits) and tax deductibility of non-cost recoverable expenses.

While these disputes do not directly affect OPL245, implications from any arbitration/negotiated agreement could potentially impact the attractiveness of PSC2000 terms.

In addition, the 1999 PSC decree provides the opportunity for FG N to review terms of the PSC decree (tax rate, royalty etc) after 15 years. Notice of intention to carry out this review has been received. Despite engagements by PSC holders with FG N and a stabilisation clause in the PSCs, little progress on resolving this has been made.

Risk Response: There is a project team in place to address the PSC decree review and disputes. Shell and its partners are ready to proceed to arbitration on disputes should that be required. It is not considered possible to mitigate this risk as part of the proposed settlement agreement. To do so would undermine Shell's position that the PSC terms are unambiguous. Further, it would make timing of the settlement agreement dependent on the outcome of the PSC dispute resolution. The impact of moving to 2005 PSC terms on the economics of this proposal is shown as a sensitivity in the economic evaluation above.

2. Malabu as partner to settlement/counterparty for equity purchase

The Malabu file with the Corporate Affairs Commission in Abuja is sealed which indicates either a dispute amongst directors/shareholders or certain observed irregularities. It would appear that Malabu should be able to resolve this in a timely fashion. However, Etete is not listed as a shareholder, director or officer of Malabu, leading to the conclusion that he has no authority to sign on behalf of Malabu. Shell needs to mitigate the risk that a settlement deal is executed with Malabu with Etete subsequently trying to get a 'second bite of the cherry' after the signature bonus is released from Escrow.

Risk Response: In accordance with standard legal practice in Nigeria, all documents relating to the transaction will be signed by a Director and the Company Secretary of Malabu (or a person duly authorized by the board together with the Company Secretary), and affixed with the Company Seal.

3. Governance arrangements between the licence holders

This transaction will create a multi-party interest in the OPL 245 licence at the licence-holder level. There is a risk that lack of clarity as to the governance arrangements, or disputes between the parties, will hinder the development of the block.

Risk Response: It is recognised that NNPC will retain the majority equity interest in the block and will continue to play the role of decision-maker on the side of the licence holder. The Settlement Agreement provides for an amendment to the PSC to enable

NNPC to act as the representative of the equity holder's vis-a-vis the Contractor. It also provides for NNPC and Malabu to enter into a Joint Operating Agreement (JOA) on standard industry terms. Any future assignee or successor (which would include SNUD once the Deed of Assignment from Malabu is executed) will be required to accede to this JOA.

Opportunities

1. OPL245 Value

OPL 245 is a key building block in Shell's aspiration in Offshore Nigeria. Significant discoveries have been made in the block and exploration potential remains high. The prospectivity of surrounding blocks provides OPL 245 with significant strategic "hub" value. Moreover, the E2P project, of which 245 is a key component, is seen not only by Shell but also by the FGN as a key initiative that could positively shape the approach and development of new projects via joint participation between companies and the FGN.

2. Tradable Position

Post expiry of Malabu's purchase option (if not exercised), Shell would be well positioned to trade its 20% equity interest, possibly combined with a dilution of contractor rights, to a strategic partner.

However, any such transaction may well be closely scrutinised by current parties to the dispute. Any perception of profiteering by Shell from settlement would certainly create substantial ill will with FGN. Any transaction will require extremely careful execution and sensitive stakeholder management. The opportunity for substantial (monetary) gain versus purchase price will be limited particularly in the early years post settlement.

3. Progress on Other dispute areas

Settlement would remove a key impediment to improved relations between Shell and FGN, and potentially open up the opportunity for good faith negotiations to address the many other areas of dispute.

Alternatives considered

The only alternative to this agreement is continuation of the ongoing BIT arbitration proceedings originally commenced by SNUD in April 2007 to completion. Whilst the legal case is considered strong it is not without risks. On the assumption that Shell is successful the arbitration outcome would see Shell awarded a financial settlement in compensation for the loss of HSC contractor rights. Payment would be from FGN to Shell. It is likely that securing the payment will be problematic and impact the FGN/Shell relationship. Further, current legal actions between various parties involved in OPL 245 will continue, will require active management and could result in adverse outcomes for Shell. Moreover, continued arbitration will be a significant impediment to Shell's ability to improve relations with FGN across the breadth of business activities in Nigeria.

Section 4: Carbon management

No new exploration or development activities leading to greenhouse gas emissions are triggered as a result of this proposal.

Section 5: Corporate structure, and governance

Contractor interest: Shell's 100% interest in the PSC for OPL 245 is held by SNUD, a 100% Shell Group Company and this will remain unchanged following this agreement. There is an existing PSC in place with NNPC signed in 2003.

Equity Interest: Shell's 20% equity interest in the licence will be acquired by SNUD. The relationship between the different equity holders in the block (NNPC, SNUD and Malabu) will be governed by a JOA, which will be developed and signed after execution of the Settlement Agreement.

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

This proposal has been prepared with input from Controller's, Treasury, Tax and Legal functions.

Section 7: Project management, monitoring and review

The key steps to completion of this transaction are outlined in the table below:

Step	Description	Precedents
A	Signature of the Settlement Agreement	Corporate Approvals
B	Filing for consent judgement	Step A
C	Parties file terms of Settlement	Step A
D	Judgement of Court received and withdrawal of ICSID arbitration	Step C
E	SNUD releases signature bonus	Step D
F	FGN executes Deed of Assignment in favour of Malabu	Step D
G	Malabu/SNUD/Bank enter into Escrow Agreement	Step D
H	SNUD pays funds into Escrow Account	Step G
I	Malabu executes Deed of Assignment in favour of SNUD	Step G
J	Escrow Agent releases funds to Malabu	Step I

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This process will be managed by EPG-C with appropriate support from Legal, Commercial Finance, Tax and Treasury.

Section 8: Budget provision

There is no existing budget provision in the current Business Plan for this transaction.

Section 9: Group financial reporting impact

The consideration for the licence interest will be treated as Capital Expenditure as an acquisition of concession rights. This asset will not be depreciated until production commences, but will be subject to an annual impairment review.

Should the transaction be unwound at a later date, this will be treated as a disposal of an asset and a gain on disposal recognised.

USD mln	2008	2009	2010	2011	2012
Commitment phasing (un-gearred Shell share)	300				
Profit & Loss (NIBIAT)					
Balance sheet (capital employed, impact, debt assumed)	300				
Cash flow:					
Capital investment	(300)				

Section 10: Disclosure

No proactive disclosure is planned by Shell in relation to this transaction. A reactive media response plan will be prepared.

Section 11: Financing

The USD 300 mln to be paid by SNUD for the interest in the OPL 245 licence will be funded via a non-interest bearing Shareholder loan facility from SPNV.

Section 12: Taxation

If retained, the 20% equity interest is subject to tax and profit share as described in Section 2(b) above.

If the transfer is unwound - VAT (currently 5% but forecast in the National Tax Policy to increase to c15%) or other transaction tax payments imposed on SNUD as licence assignor would reduce the value of the unwind reimbursement. As these taxes are not currently applied, the risk is small. However given the "return of consideration" concept agreed, it has not proved possible - as would normally be the case - to move the risk of these costs to Malabu. Malabu do already bear the risk that additional transaction taxes are imposed on the assignee such as an increase in the rate of stamp duty.

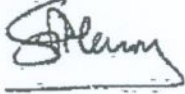
Should the equity interest be retained after the expiry of the unwind period then any subsequent disposal by SNUD at a profit would be subject to 10% tax on the capital gain (CGT). There is a potential route to mitigate CGT via a share sale, which would require a separate entity to hold the licence interest. Introducing a new entity can only be explained by reason of subsequent sale by SNUD at a profit and that would unnecessarily complicate the negotiation of the value with Malabu. Because of the unwind period the CGT planning is unlikely to become operative even if the interest increased in value and so it is not actively being pursued.

Section 13: Key Parameters

The following are the main aspects of this proposal:

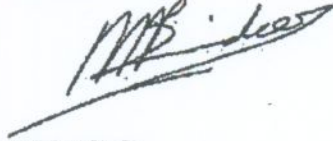
- Execution of tripartite Settlement Agreement between FGN, SNUD and Malabu as full and final settlement of all disputes and claims related to OPL 245;
- SNUD to pay USD 300 mln to Malabu in return for the assignment of a 20% equity interest (from Malabu) in the OPL245 licence;
- SPNV to fund SNUD via a non-interest bearing loan for an amount of USD 300 mln;
- SNUD to effect termination of BIT arbitration and all other outstanding litigation as part of the settlement agreements;
- SNUD to effect release of the USD 209 mln signature bonus plus accrued interest originally paid in respect of OPL 245 to the Federal Government of Nigeria.

Supported by:



(SIEP-EPP)
Date 10/09/2008.

Consented to:



(RDS-ECMB)
Date 07/09/2008

Initiated by Ann Pickard SEPA-EPG