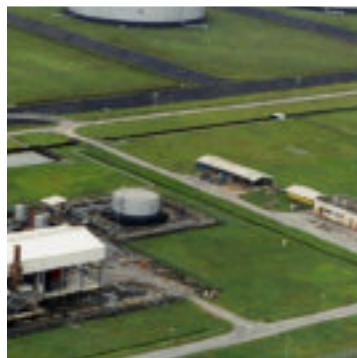


2004 PEOPLE AND THE ENVIRONMENT

# Annual Report



The Shell Petroleum Development Company of Nigeria Limited  
(Operator of the NNPC/Shell/EPNL/Agip Joint Venture)



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*“Going forward into 2005 will be challenging, but it will also be full of opportunities to grow our business and to realise the benefits of our new organisational structure”*

## MESSAGE FROM THE MANAGING DIRECTOR

It is my pleasure to present to you the 2004 People and Environment report of The Shell Petroleum Development Company of Nigeria (SPDC). I became the Managing Director of SPDC in September 2004, following a major restructuring of the company, and am delighted to be the first Nigerian to hold that position since Shell established itself in the country.

The new organisation, launched officially in January 2005, involves the relocation of SPDC's headquarters from Lagos to Port Harcourt in Rivers State and moving of Shell's regional headquarters for Exploration and Production from The Hague in the Netherlands to Lagos. My predecessor as SPDC MD, Chris Finlayson, now heads that organisation.

Being Nigerian and from the Niger Delta, I hope to bring to my new job a local perspective, rooted in an understanding of the culture and the people – which I hope will be of some value in developing our relationships with local stakeholders. In addition, I hope to bring in an understanding of the frustrations of the people of the Niger Delta. They live with the impacts of oil and gas production – but, despite the efforts of government and companies, see few of the benefits. In my view, poverty remains the overriding problem – in the Niger Delta and throughout Nigeria.

Given Nigeria's oil and gas wealth, that might seem a strange thing to say. But Nigeria has over 130 million people – and those revenues, even at high oil prices, amount to less than one dollar per person per day.

There are, of course, other problems in the Niger Delta – not least those caused by ethnic conflict, corruption, crime and unemployment (particularly amongst our young people). But poverty feeds those other problems. Solve poverty – and you are well on your way to dealing with those other issues.



The challenge in the Niger Delta is enormous – bringing law and order, jobs, basic services and education to millions of people in an area nearly the size of England. The Nigerian Government recognises that it must take the lead and work together with all of the stakeholders – including communities and companies. And, as you will read elsewhere in this report, it is actively promoting transparency – an initiative we support and are much involved in – and has significantly increased the revenues returned to the region. There is still much to do and we are deeply committed to help.

Some of the ways we try to help are described in this publication – including our commitments to conducting our business successfully and with integrity, to paying our taxes transparently, to reducing our impact on the environment, to assisting the communities of the Niger Delta meet their development needs and, with the latter in mind, to partnering with NGOs and local and international development agencies. And, as you would expect, we list some of our successes – all of which are due to the dedication and hard work of our staff and our stakeholders.

But we also describe areas where we have been less successful, and where challenges remain. Two of these particularly concern me. The first is our safety performance. In 2004 there were twelve company and contractor fatalities and nine third party fatalities. I deeply regret this tragic loss of life – and offer my deepest sympathy and condolences to the families of those who lost their lives. We can, and must, do better.

The second is the delay in fulfilling our commitment to end continuous gas flaring by 2008. Whilst past underfunding by partners is the main cause of this delay, some projects also suffered from poor contractor performance. We are currently reviewing the available options with the government and our partners – but whatever the result of these discussions, we can and must do better in meeting our targets.

Going forward into 2005 will be challenging, but it will also be full of opportunities to grow our business and to realise the benefits of our new organisational structure. With that in mind, I am encouraged by the support and encouragement from our staff and stakeholders. I sincerely appreciate their contributions to our successes in 2004 and look forward to their help in 2005.

I hope that you will find this report useful and informative. Please contact us if you would like to discuss any aspects of it in more detail or if you have any suggestions for its improvement. For more information, please visit our website at [www.shellnigeria.com](http://www.shellnigeria.com).

A handwritten signature in black ink, appearing to read 'B. Omiyi', written in a cursive style.

**Basil Omiyi**  
Managing Director,  
The Shell Petroleum Development Company of Nigeria  
May 27, 2005

# THE OPERATING ENVIRONMENT

The Federal Government's economic reform programme continued in 2004. Progress was made in the privatisation of selected government enterprises and the deregulation of specific sectors of the economy, including the downstream oil sector, to encourage greater private sector participation. The government also launched two important initiatives during the year, the first being the Nigerian Extractive Industries Transparency Initiative (NEITI), which forms part of the President's agenda on good governance. The second was the launch of the National Economic Empowerment and Development Strategy (NEEDS), which offers a blueprint for poverty reduction and establishes the groundwork for a private sector driven economy. In the financial sector, the Central Bank of Nigeria proposed to raise the capital base requirement for banks operating in the country in order to strengthen the banking sector.

The high oil prices, which continued for most of the year, enabled the government to build up its foreign external reserves to some \$16 billion and to increase the funding of joint venture investments in the oil and gas sector.

The government made available a budget of \$3.4 billion during the year to fund its 57 per cent share of the oil and gas operating joint ventures. Of this amount \$1.3 billion (38 per cent) was allocated to the SPDC operated joint venture as the Nigerian National Petroleum Corporation's (NNPC's) share of the \$2.4 billion budget approved by the Federal Government for the joint venture for 2004. Although this was a four per cent increase over the 2003 allocation it was 20 per cent below the \$3.0 billion supported by the joint venture partners to fund the 2004 oil and gas activity and growth programme.

Oil production during the year averaged 1 million barrels per day (bpd), compared to 910,000 bpd in 2003. This represents an increase of about ten per cent on the 2003 figure and the highest production level achieved since 1980. The increase in production is due to a higher contribution from the EA field, lower production deferrals and the reactivation of some previously closed in oil wells.

The increase in gas sales recorded in previous years continued in 2004 with an average of 1,242 million standard cubic feet per day (scf/d) of gas sold. This was six per cent higher than the 1,171 million scf/d of

gas sold in 2003. Of this total, about 849 million scf/d (or 68 per cent) was supplied to the Nigerian Liquefied Natural Gas Company (NLNG). The figure represents an increase of about 13 per cent over 2003 figures and is due to increased uptake by NLNG's Train 3. The balance of some 393 million scf/d (or 32 per cent of daily sales) went to the domestic market.

The challenging operating environment that we experienced in 2003 continued into 2004. The organised theft of crude oil by armed gangs remains a major concern. During the year, there were periods of high theft activity peaking at 60,000 bpd and low periods of 40,000 bpd, which compares to 100,000 bpd and 20,000 bpd respectively in 2003. In all, we recorded 71 crude oil theft incidents in 2004, a 20 per cent drop from the 88 incidents reported in the previous year.

The government has intensified its efforts to arrest the tide of this growing criminal activity. During the year, 32 barges, six ships, six tugboats and ten road tankers were seized together with 63 suspects arrested (two of whom were senior naval officers).

The security situation across the Niger Delta area was mixed. The eastern Niger Delta, which had previously been peaceful, saw an increase in the activities of ethnic warlords – especially along the waterways. Criminals also used the cover of ethnic conflicts to undertake crude oil theft activities. A combination of these activities raised tension in the region for most of the year.

In contrast, there was a marked improvement in the security situation in the western Niger Delta during the year. SPDC's production facilities in the northern swamp area, which were shut down in 2003 as a result of inter-ethnic war, were re-opened in the second quarter of 2004.

Altogether, a total of 314 criminal incidents were recorded, ranging from attempted



*Benisede Flowstation*

*“Development cannot take place in an atmosphere of perpetual restiveness because peace is a prerequisite for development.”*

**Sir (Chief) Benjamin Elue**  
Deputy Governor, Delta State

fraud to armed robbery. About 46 of these involved the use of firearms and accounted for ten of the work-related fatalities recorded during the year. The total number of fatalities was 21. Of these, 12 were contractors and staff and nine were third parties. However, the high number of criminal incidents is not only due to an increase in the level of criminal activities, but also as a result of a more detailed method of reporting security incidents that we introduced during the year. Under this approach, we began reporting security

attacks against our staff, even when they do not occur on an SPDC facility, thereby providing a more complete picture of the security risks that affect our ability to maintain operations.

Community-related disruptions (which include the closure of production facilities, seizure of assets, blockade of access and disruption of drilling activities) increased by ten per cent to 176 when compared to 2003. However, fewer project days were lost (223 in 2004, compared to 382 in 2003)

and the resulting deferment of production was significantly lower (5.2 million barrels in 2004, compared to 45 million barrels in 2003).

In most cases, such community protests were peaceful and were resolved through dialogue. However, where there are serious threats that put the lives of our staff, communities or our assets in danger, we are obliged to report such matters to the authorities.

**The Niger Delta** The Niger Delta is a wetland containing a number of ecological zones: sandy coastal ridge barriers, brackish or saline mangroves, freshwater permanent and seasonal swamp forests, and lowland rain forests. Over the years, the rainforest has been cultivated, leaving only the seasonal and permanent swamps as original vegetation. Subsistence farming and fishing are the mainstay of the people. The ecosystem is particularly sensitive to changes in water quality, such as salinity or pollution, or to changes in hydrology of the region. The area is inhabited by more than 3,000 long-settled communities. However, in recent times, economic activities, mostly the oil industry, have caused significant migration of people to the area. Estimates of the area and population of the Niger Delta vary, depending on how it is defined (i.e. by hydrology, ecology or political boundaries). For example, the 1995 World Bank environmental study puts the area at 20,000 square kilometres (but says that this relates only to the riverine and coastal areas), whilst the Niger Delta Environmental Survey estimates that the Niger Delta covers an area of some 40,000 to 70,000 square kilometres. But more recently, an extensive study by the Niger Delta Development Commission (NDDC) for the Niger Delta Regional Development Master Plan put the figure at 112,000 square kilometres. This is in line with the political boundaries of the region, which includes nine states of the Federation. Similarly, NDDC’s study estimates the population figure for the Niger Delta to be 27 million.



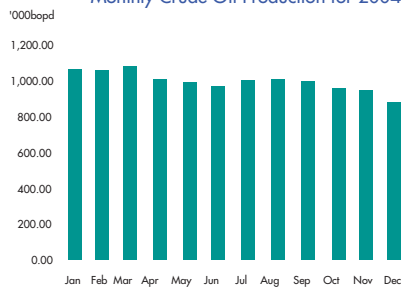
During the year, we continued our efforts to engage and work closely with local communities and relevant government authorities to resolve actual and potential conflicts through peaceful means. Through our network of community liaison officers, we held a series of formal and informal meetings with communities, including community parliaments, open forums and oil and gas seminars. The annual integrated environment and community development stakeholders' workshop, which was postponed in 2003 due to a nationwide strike, was successfully held in the first quarter of the year (see report on page five). Such activities helped to provide stakeholders with information about SPDC's operations and to improve our dialogue with them.

Last year, we reported on an effort we had pioneered to help develop a Peace and Security Strategy (PaSS) for the Niger Delta, in collaboration with other relevant stakeholders. PaSS is composed of two key parts – an internal component focusing on issues within our control and an external component that relates to the wider conflict situation across the region.

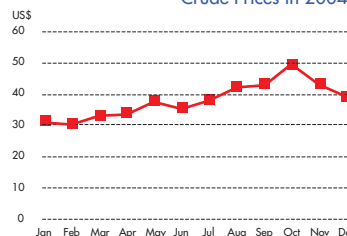
During the year, we began addressing a number of the key internal recommendations. We upgraded our access control systems, re-trained field staff on conflict management procedures and introduced a more rigorous approach for identifying and reporting security incidents. In 2005, we plan to commence a pilot study, in consultation with the communities, on an early warning system to help reduce the overall risk of conflict. We will also include modules on human rights and corporate social responsibility in our field staff training programmes.

On the external recommendations, we consulted widely with the Government and other stakeholders, and shared with them the outcome of the PaSS study and the proposed implementation framework. During the year, a major drive to disarm, retrain and rehabilitate former combatants commenced in Okrika. Also, pilot peace

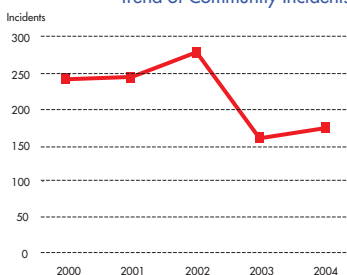
Monthly Crude Oil Production for 2004



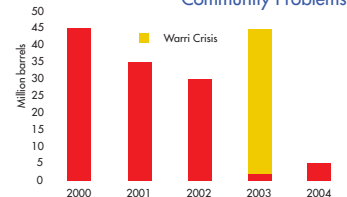
Crude Prices in 2004



Trend of Community Incidents



Trend of Crude Oil Deferment due to Community Problems



initiatives were started in Ogoni. These efforts by Government helped to reduce tension in the region and to restore normalcy to areas that had suffered from conflict.

During 2004, we made significant progress in our work with the Niger Delta Development Commission (NDDC). NDDC was established in 2000 by an Act of Parliament to coordinate all development

activities in the Niger Delta region. The role of the NDDC spans the formulation of development policy and guidelines, and the planning and implementation of development projects/programmes, to monitoring and provision of oversight responsibility for other development actors in the region. The Commission derives its funding from statutory contributions by the Federal Government and the oil producing companies, which are required to contribute three per cent of their budget to the NDDC fund.

In 2004, the SPDC joint venture's statutory contribution to the funding of the NDDC was a total of \$68.9 million (\$54.5 million in 2003). Of this amount, Shell's contribution was some \$21 million. Despite the funding obligation on the oil producing companies, the NDDC Act does not give them any authority over how that money is spent. Rather, the expenditure on development is controlled by NDDC and responsibility for the expenditure lies with them. During the year, the joint oil industry group, Oil Producers Trade Section (OPTS), reached an agreement with the NDDC that aims to ensure that a significant proportion of the funding contributions made by the industry will provide benefit to communities in the rural areas where it operates.

In addition to our statutory contribution, we continued to support the Commission's effort to deliver a Niger Delta Regional Development Master plan, which is critical to the development of the region, and seconded one of our staff to the Commission for six months to assist with that work. We also facilitated workshops to help the Commission develop scenarios for the Niger Delta, against which to test the Master plan for robustness and flexibility. As at the end of the year, the draft Master plan was being finalised for formal release in 2005.

We also supported the capacity-building effort of the Commission by sponsoring some of their staff on relevant third party training programmes.

## Rig 75 Incident

On 20th November 2004, about 200 people from the Ojobo community, mostly youths and apparently unarmed, invaded Rig 75, a Parker Drilling rig contracted to SPDC and working at Benisede Well 22. The group interrupted rig operations, and demanded immediate commencement of delayed community development projects, as well as direct dealing with service contractors to review work contracts.

Some 18 policemen on hand at the rig felt it was necessary to request reinforcements due to the large numbers of intruders. The nearest available additional response resource was the Joint Task Force (JTF) based nearby. According to the JTF, when they arrived at the scene one of the youths attempted to challenge and disarm the commander of the team. In the struggle, there was a firearm discharge. A total of 17 people sustained injuries, all to the legs. After initial treatment at the site, 12 of the injured were evacuated and treated at the SPDC clinic in Warri.

Any injury at any SPDC operation is a cause

of deep regret to SPDC and the Royal Dutch/Shell Group as a whole. In line with SPDC procedures regarding serious security incidents, SPDC launched an immediate internal investigation. This included interviewing a number of the injured, approaching respected local leaders, and examining internal procedures for treating incidents of this nature.

The incident was also discussed at the Delta State Government Security Council in the presence of Ojobo community leaders and their Delta State Assembly representative.

Some journalists visited the area and were told by members of the community that there had been seven fatalities in the incident. As there had been no mention of fatalities during the initial investigation, this allegation caused concern at the highest level within SPDC and Shell Exploration & Production in Africa. Management ordered an immediate re-investigation, including bringing in security experts from outside Nigeria.

This new investigation took several months and involved interviewing a large number of witnesses and other stakeholders.

The investigation did not find evidence of fatalities.

However, it did find that an allegation that a man was detained by the JTF at an SPDC facility was probably true. If correct, this would be in contravention of SPDC and Royal Dutch/Shell Group policy. Separately, journalists were also taken by the JTF to SPDC facilities, to establish their identities. Although it is the Federal Government's responsibility to provide security in the area and protect legal operations – and the company has no control over such provision – SPDC finds these incidents unacceptable. Representations have been made to the JTF that the use of SPDC facilities in such a manner is unacceptable. We reiterated to them that we adhere to the Voluntary Principles on Security and Human Rights. SPDC is continuing the dialogue with Government and communities on security issues in order to reduce the possibility of similar incidents occurring. In addition, the company is also reviewing and improving internal investigation procedures with respect to security incidents.

## The 2004 Stakeholders' Workshop

About 580 people representing a variety of stakeholder groups, including the National and State Assemblies, Government, regulatory authorities, communities, community-based organisations, non-governmental organisations, development institutions, industry specialists, unions and academics, took part in the 2004 SPDC Integrated Environment and Community Development Stakeholders' workshop. The workshop, the seventh to be held by SPDC, ran from 24th to 26th February 2004 and had the theme "Partnerships for Sustainable Development". The workshop for 2003 had been postponed due to a nationwide strike. As in previous years, the workshop was intended to continue open consultation on SPDC's sustainable development programme and consolidate partnerships. It also aimed to improve the understanding

amongst stakeholders of common challenges to sustainable development across the region and to explore solutions collectively.

Two guest presentations, given by Professor Grace Alele-Williams, former vice-chancellor of the University of Benin, "The Big Picture: Building Partnerships for Sustainable Development" and by Dr. Akpezi Ogbuigwe of the United Nations Environmental Programme "Perspectives from the Niger Delta on Partnering for Sustainable Development", set the tone for the discussions.

The workshop included plenary sessions and syndicate group discussions. In all, 16 syndicate topics were debated, ranging from biodiversity and sustainable livelihoods to HIV/AIDS, Local Content Development and Youth Restiveness.

All of the discussions were open, frank and robust. Participants called for more vigorous measures to tackle crude oil theft activities

and the growing menace of warlords in the region.

SPDC's new Sustainable Community Development strategy was unveiled during the workshop and the Cassava Enterprise Development Programme partnership was signed by the chief executive officers of SPDC, USAID Nigeria and the International Institute for Tropical Agriculture.

The workshop ended with an agreement by stakeholders to continue consultation with each other and with other relevant parties, such as NDDC. The participants also called on the state and local governments to take more responsibility for the development of the Niger Delta region.

The full workshop communiqué can be found at: [www.shellnigeria.com](http://www.shellnigeria.com)

**STRENGTHENING THE ECONOMY: REVENUES AND JOBS**

*SPDC paid \$2.2 billion in Petroleum Profit Tax to the Federal Government in 2004 – representing an 83 per cent increase compared to the \$1.2 billion paid in 2003.*

*“The acknowledgement by Shell, that, despite the abundance of natural resources, there is corruption, poverty and conflict in the natural resource-rich countries including Nigeria, is a clear indication of Shell’s grasp of the issue at stake. Its commitment to the Extractive Industries Transparency Initiative (EITI) and their disclosure of what they pay to our government is indicative of a new dawn in the oil industry in Nigeria which we hope could turn the oil curse phenomenon into a blessing.”*

**Rev. David Ugolor**  
**National Coordinator, Publish What You Pay (PWYP), Nigeria Coalition**

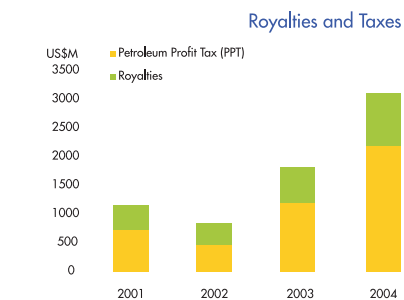
# STRENGTHENING THE ECONOMY: REVENUES AND JOBS

The Nigerian economy is heavily dependent on the petroleum sector, which accounts for more than 80 per cent of government revenues, 90 per cent of foreign exchange earnings, 95 per cent of export receipts and 40 per cent of Gross Domestic Product. SPDC is the largest oil and gas company in Nigeria, producing 43 per cent of Nigeria's total crude and contributing to economic growth and sustainable development.

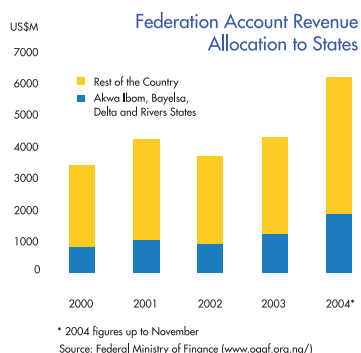
## Revenue Generation

As in previous years, the SPDC joint venture made significant financial contribution to Nigeria's economy through the payment of taxes and royalties by the private partners in the joint venture; and through the Government's equity stake in the joint venture. The split of the barrel amongst the joint venture partners is based on a revenue-sharing formula agreed between the partners and reflected in a Memorandum of Understanding (MOU) agreed in 2000 (see below).

We continue to support the Nigerian Government's Extractive Industries Transparency Initiative (NEITI), and were pleased to be represented at the inaugural revenue management workshop in Abuja on 19th and 20th February 2004. We were also



delighted to be asked to join the National Stakeholder Working Group on NEITI as one of the two industry representatives. NEITI has yet to formulate detailed reporting requirements – and so we continue the disclosures, begun in 2002, of the taxes, royalties and other payments

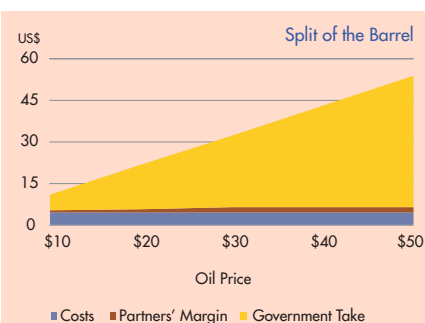


made to the Nigerian Government (see following section); if necessary, we will add to these when NEITI reporting requirements are issued.

As required under the Nigerian constitution, the Federal Government returns a significant proportion of the revenues it receives to the State Governments (31.1 per cent) and Local Government Areas (15.21 per cent) and it returns 13 per cent of its revenues from extractive industries (such as oil and gas) to the States where such production took place.

According to Government statistics (see [www.oagf.gov.ng](http://www.oagf.gov.ng)), the total amount allocated in 2004 by the Federal Government to the 36 States in Nigeria was \$6.2 billion. A significant proportion of this amount went to the four States in which SPDC's operations are principally based (see graph).

The challenge still remains to apply these resources in a transparent and efficient way to the sustainable development of the Niger Delta region. In that respect the Federal Government, with its NEITI initiative, has made an admirable pioneering move by



## Split of the Barrel

The terms of the Memorandum of Understanding (MOU) signed by the Government and the major oil companies in 2000 formed the basis for sharing oil revenues between the joint venture partners in 2004. Under the terms of the MOU, the companies (including SPDC) receive a fixed margin within an oil price range of \$15 to \$19 a barrel. The split of the barrel, against a range of oil prices, is shown below. For example, at an oil price of \$19 per barrel, the Government's take in taxes, royalties and equity share is \$13.78 per barrel. Of the remaining \$5.22, operating cost and future investment take the lion's share with about \$1.22 left to be shared as a margin among the private shareholders (Shell, Total and Agip). At \$10 per barrel, the Government's take falls to just over \$5.12 per barrel, while the margin to be shared amongst the private shareholders reduces to 88 cents. At \$30 per barrel, the Government's take increases to \$24.13 per barrel, while the margin shared by the private partners increases to \$1.87, but remains at this level beyond \$30 per barrel oil price. However, the Government's take continues to increase with increasing oil prices and at \$50 per barrel comes to \$44.13.

making public the revenues allocated to all levels of government. We hope that this initiative will be followed by complementary moves at the State and Local Government level.

### Royalties, Taxes and other Levies

Reflecting higher crude oil prices and increased production, royalties and taxes paid to the Federal Government rose substantially in 2004. Under the provisions

of the 2000 MOU, SPDC paid \$2.2 billion of Petroleum Profit Tax to the Federal Government in 2004 – representing an 83 per cent increase compared to the \$1.2 billion paid in 2003. Similarly, royalty payments rose by nearly 50 per cent from \$608 million in 2003 to \$904 million in 2004. The SPDC joint venture also made a statutory contribution of \$68.9 million to the NDDC (of which the Shell share was \$21 million). In addition, Pay As You Earn (PAYE) tax was paid to

governments of States where staff are resident as well as education tax paid to the Federal Government.

### Jobs and Local Skill Development

As a direct employer of labour and as a purchaser of business services, SPDC generates jobs and income. In 2004, we employed some 5,000 staff directly but this is expected to reduce by some ten per cent in 2005 following the reorganisation of the

### Dorman Long Eng. Ltd fabricates the biggest vessels in SPDC's operations

Dorman Long was established in 1949 by the British Steel Corporation but is now wholly owned and managed by Nigerians. The manufacturing operations of the company are based in three large facilities: Idi-Oro Works, the Agege Factory and the Nigerian Naval Dockyard at Wilmot Point in Lagos.

In 1998, Dorman Long was sub-contracted by ALCON Nigeria Ltd. to manufacture process equipment under an SPDC contract. Dorman Long met its contracted obligations on time and within budget and won the confidence of SPDC with the high quality of its products. Other contracts followed and, over the next four years, the company fabricated over 140 pieces of assorted process

equipment for SPDC, such as flare liquid knock vessels, surge vessels, separators and remote field manifold skids.

Within the same period, Dorman Long was recommended to TSKJ, the contractor for the construction of the Nigerian LNG plant, as a local (in-country) process equipment manufacturer. In addition, SPDC supported the use of Dorman Long by contractors on the SNEPCO Bonga Floating Production Storage and Off-loading (FPSO) projects and the Forcados Yokri Projects. On the latter project, the company fabricated 14 vessels in 2004. Two of these were for the new South Bank flow station in Delta State. Each measures 28.0 metres by 6.5 metres by 6.5 metres and weighs 120 tonnes; they are the biggest in SPDC's operations. Dorman Long products are of the highest international standards and have been certified by leading international agencies.



company. Ninety-five per cent of our staff are Nigerians, two-thirds of whom come from the Niger Delta region. We also employed some 7,000 contract staff. In addition, more than 20,000 people are employed indirectly through the network of companies that provide supplies and services.

Over the years, we have also continued to increase our use of local contractors. This not only creates jobs and provides revenue for the local economy, but also helps to stimulate competition and reduce costs. In 2004, approximately \$727 million in contracts was awarded to Nigerian companies (20 per cent from the Niger Delta).

We are committed to the development of the Nigerian content of our business as part of our contribution to the sustainable development of the Niger Delta region in particular and the country in general. In this context, Nigerian content is defined in a draft Act as "...the composite value added to, or created in, the Nigerian economy through the utilisation of Nigerian human and material resources and services...without compromising quality, health, safety and environmental standards." In 2004, the following activities were undertaken as part of our Nigerian content development programme:

- An alliance between Parker Drilling and a Nigerian company, Specialty Drilling Fluids (SDF), created the opportunity for a Nigerian company to venture into the provision of swamp drilling rigs. SDF is also a major player in the drilling waste management area and recently established a wholly Nigerian owned Thermal Desorption Unit (TDU).
- Dorman Long, a Nigerian company, fabricated 14 vessels for the Forcados Yokri Integrated Project (FYIP) under a

sub-contract. Two of these vessels, for the new South Bank flow station and weighing 120 tonnes each, are the biggest of their type in SPDC's operations.

- Globestar Engineering Company Nigerian Ltd, fabricated a complete offshore facility platform and jacket for the FYIP offshore project.
- Tenaris, a provider of tubular goods, undertook to add a finishing plant to its Nigerian threading plant. Apart from the cost benefits to SPDC and other operators, this will provide employment and training opportunities to Nigerians.

### Technology and Innovation

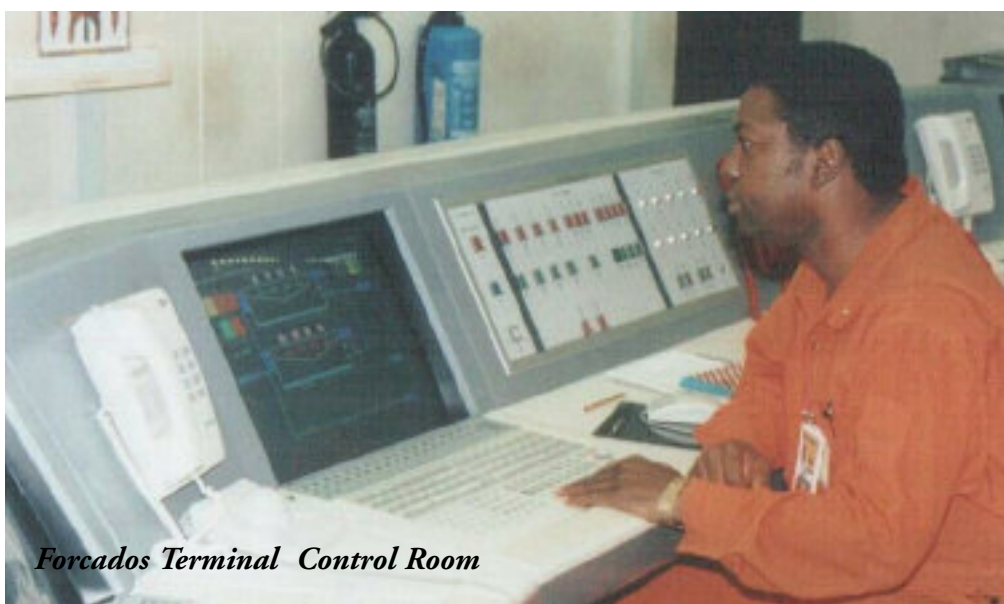
SPDC is committed to the use of proven leading-edge technology in order to:

- maximise long-term production
- access new hydrocarbon reserves
- drive down unit costs
- reduce impact on society and environment.

Key innovations in 2004 include:

**Miniaturised Integrated Wellhead Micro-Wireless Sensor:** This technology, involving wireless transmission of wellhead and acquired downhole data from the wellhead to the flowstation, was successfully deployed in the Tunu field in 2004. Some of the key advantages of this technology, compared to the conventional technology, include a reduction in field life cycle costs, production optimisation and improved well surveillance.

**Long-Range Ultrasonic Tool (LRUT):** The LRUT offers a first-stage pipeline inspection screening process, which can be used to identify areas where there is significant wall loss. A field trial, carried out in Bonny Terminal during the year, concluded that the LRUT is a potentially useful and cost-effective screening tool for identifying badly corroded areas on non-buried flowlines and short delivery oil and gas lines, which cannot be inspected by intelligent pigging. Expert analysts will further study the results of the field trial prior to the tool being fully deployed throughout SPDC's operations.



*Forcados Terminal Control Room*

### **Protecting the Environment**

*In line with our desire to maintain the highest level of occupational health and safety in our operations, we commenced the certification of our facilities in accordance with the Occupational Health & Safety Assessment Series (OHSAS) 18001 standard*

*“The new approach adopted by SPDC to revisit crude oil spill impacted sites in their operational areas is commendable. This remediation exercise, which involves the use of local fertilizers to restore the impacted sites, will score above 70 per cent both in indigenous technology and participation in this area. They should call for more research into it.”*

**Dr. (Mrs) Roseline S. Konya, JP**  
**Honourable Commissioner of Environment, Rivers State**

# PROTECTING THE ENVIRONMENT

Minimising the impact of our operations on the environment forms part of our commitment to sustainable development. In 2004, we recorded improvements in statutory compliance, auditing and re-certification of our facilities to ISO 14001 standards.

## Statutory Compliance

We worked hard to implement the compliance plan agreed in 2003 with the Department of Petroleum Resources (DPR). As a result, our compliance with the Government's 2002 Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN) rose from 72 per cent in 2003 to 87 per cent in 2004. The improvement resulted from better management controls and sustained monitoring.

We are not complying fully in some areas of the regulations. These areas of non-compliance are part of ongoing discussions between the DPR and the Oil Producers' Trade Section (OPTS) aimed at setting achievable regulatory standards and limits. The key outstanding areas and the limiting factors are:

- Offshore disposal of produced water stipulated by DPR to be 12 nautical miles (22 kilometres) from shore and within water depths of not less than 200 feet. This will require a major project to extend the existing offshore discharge line for the Forcados Terminal by some 17 km and installing a similar facility at the Bonny Terminal. A study by the OPTS and DPR is currently being undertaken to determine the optimum distance and water depth for offshore water disposal. When completed, the results of this study may form part of the basis for a revised regulation.
- The non-availability of a functional Environmental Sensitivity Index (ESI) mapping protocol. The OPTS ESI protocol that will be the basis for ESI mapping in the country is undergoing

approval by the DPR. Until this regulatory approval is given, we are unable to progress work and fully comply on ESI mapping regulatory requirements.

- Gaseous emission standards. The regulations require companies to install low NOx burners at all emission point sources and, hence, be in a position to calculate the levels of NOx emissions

from such sources. For new facilities this will not be an issue since the requirement will be designed into the facilities. However, this will mean major re-engineering at existing facilities.

## ISO 14001 and OHSAS 18001 Certification

By the end of 2003, all our major oil and gas facilities were certified to ISO 14001



*Obigbo North Flowstation*

standards. This programme of external certification of facilities to international standards began six years ago and has helped to significantly improve our environmental performance. ISO14001 requires surveillance audits and re-certification of assets to be undertaken on a periodic basis and, as planned for 2004, six surveillance audits were successfully undertaken and four assets were successfully re-certified.

In line with our desire to maintain the highest level of occupational health and safety in our operations, we commenced the certification of our facilities in accordance with the Occupational Health & Safety Assessment Series (OHSAS) 18001 standard in 2003 – using the Forcados Terminal as pilot. The OHSAS standard provides the specifications for occupational health and safety management systems in operations.

In 2004, we were particularly pleased to achieve a successful surveillance audit of the Forcados Terminal and the certification of the Bonny Terminal to OSHAS 18001 standard. We plan to deploy the OHSAS standard at all our facilities and assets in the coming years.

### Asset Integrity Management

2004 saw the conclusion of a major review programme, which was initiated in 2003 to conduct a comprehensive assessment of our asset integrity management systems (covering wells, pipelines, flowlines and other production facilities). The review was intended to ensure compliance with required standards for the specific equipment whilst also supporting the drive for performance improvement. The review established the current physical condition of the assets and identified the scope and scale of work required to bridge the existing gaps. A team was set up during the year to update asset reference plans for all the production assets, taking into account the results of this asset review programme. By the end of the year, reference plans for all major SPDC assets were completed.

The maintenance activities carried out on these facilities during the year compared to plan are summarised in the table below.

The shortfall in performance against plan in eight of the 12 groups of assets resulted mainly from access restrictions due to community unrest in parts of our operations, and budgetary limitations in other cases.

### Pipeline Maintenance

We use pipes of various sizes to transport produced crude oil mixed with gas and water from the wells to flowstations, and from there to the terminals. The small-sized pipes that deliver production from wells to flowstations (where gas is separated from the crude oil) are called flowlines. From there, the crude (which is a mixture of oil and water) is transported to the terminals by pipelines.

Effort was focused during the year on implementing a long-term maintenance system for managing the integrity of SPDC's 3000 km of pipelines. The resulting SPDC Pipeline Integrity Management System (PIMS) involves a suite of activities required to properly manage the asset, assure asset integrity, fulfil health, safety and environmental (HSE) requirements, and deliver optimum life cycle performance.

The SPDC PIMS is in line with the relevant American Standard for Mechanical Engineers (ASME) B31.8s, adapted to the local environment and supplemented with pipeline management experience from the Royal Dutch/Shell Group.

As part of PIMS, a maintenance reference plan has been developed that is tied to the condition of the line. Thus, depending on the monitored condition of the lines, the frequency of maintenance actions is either increased or decreased – rather than being carried out at preset intervals.

Under PIMS, the concentration of debris (0.5 kg/km being the acceptable limit) determines the amount of cleaning runs per month (i.e. the more debris in the line, the more cleaning runs per month and, conversely, if the line is clean then the frequency of cleaning runs is decreased). Similarly, the inspection (intelligent pig run) frequency is either increased or decreased, depending on the condition of the line, instead of using the five-year fixed interval inspection rule.

Monitoring the condition of pipelines and regular maintenance will allow the design life target of the pipeline to be met. In future, the age of a pipeline will not

Activity	2004 Plan	2004 Actual
Flare Stack	8	7
Bund wall construction and repairs	13	9
Flow Station Upgrade	5	4
Flowline Replacement (km)	122	110
Pipeline Inspection (km)	130	92
Cathodic Protection anode renewal	7	6
Manifold Upgrade	6	7
Pipeline Cleaning (km)	600	773
Tank Rehabilitation	2	1
Marine Hoses Change-out	2	2
Single Point Moorings overhaul	4	4
Crude Loading Platforms overhaul	1	0

automatically imply the status of the line's integrity, but the effective completion of requisite maintenance actions and monitoring its condition.

The learning gained from PIMS will be employed in developing flowline integrity programmes, leading to an integrity management system for our network of some 5,000 km of flowlines in the next two to three years.

### CFC and Halon Phase-Out

We progressed our programme of phasing out all ozone-depleting substances (ODS)

and gases in our operations in line with the Montreal Protocol and the Royal Dutch/Shell Group Minimum Environmental Standard. The bulk of these gases are halons, used as a fire fighting agent, and chlorofluorocarbons (CFCs), used as refrigerants. We have removed these gases from all our major equipment and installations and now hold them in stock for disposal. The plan is to achieve total phase-out of these gases in 2005. We will dispose of all Halon 1301 in stock into the Nigerian National Halon Bank – which has the capability for handling only Halon 1301. The remaining Halon 1211, and all the

CFCs which cannot be handled locally, will be shipped to Europe for incineration. We have contracted the services of a Nigerian company, working in partnership with a UK-based company, to achieve this in an environmentally friendly way.

In addition, we have commenced a progressive replacement of non-compliant fridges and air conditioners in offices and residential areas in our operations. These carry very small amounts of CFCs and the plan is to achieve total replacement of all non-compliant appliances in the company by 2010.



*Ogbotobo flowstation*



*Niger Delta Swamp*

## Eliminating Flaring and Harnessing Gas for Development

Gas that is produced as a by-product of the process of oil production is referred to as associated gas. Such gas is naturally dissolved in crude oil reservoirs under reservoir conditions of high temperatures and pressures. But when the oil is produced and brought to the surface, the dissolved gas separates from the oil.

In Nigeria, until relatively recently, such gas has been burnt off (in a process called gas flaring) at flow stations because:

- internal and regional markets for gas utilisation were limited, due to the lack of industrial customers and infrastructure.
- the number of reservoirs suitable for gas re-injection were very few, due to the high pressure support that is a feature of Nigerian reservoirs.

As a result, export had long been identified

as the most effective and efficient way of utilising the country's large (associated and non-associated) gas reserves.

In 1996, SPDC made a commitment to end continuous flaring of associated gas by 2008 and, subsequently, the Nigerian Government also adopted this date as a flares-down target. This necessitated embarking on a major integrated plan to collect and put to economic use the gas otherwise flared from our network of 73 flow stations. It also entailed a commitment from SPDC not to develop any new oil fields without a clear plan for the utilisation of the associated gas from such fields.

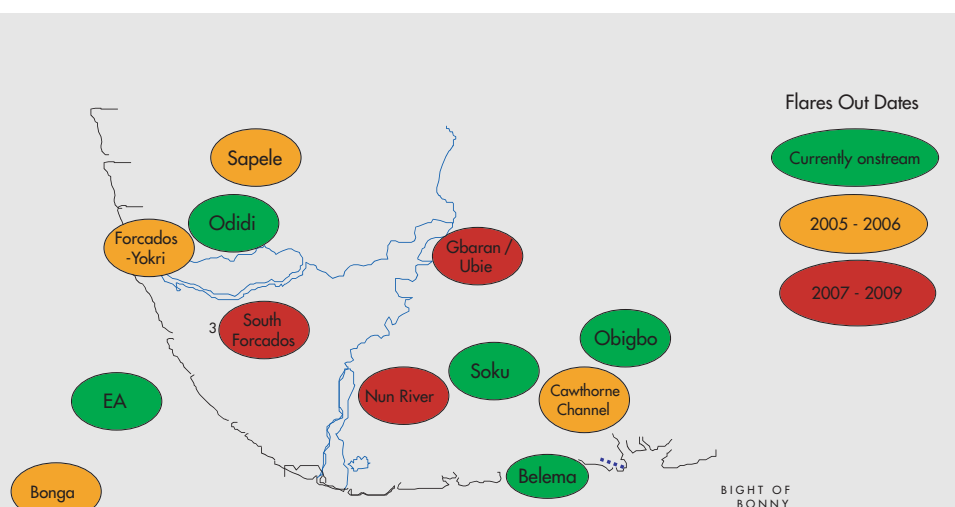
One of the principal enablers for our flares-down programme was the Nigerian Liquefied Natural Gas (NLNG) project, first conceived in the mid-1970s. The commissioning of Trains one and two of the NLNG plants in Bonny in 1999 provided a major boost for a solution to gas flaring in the region. The subsequent expansion of the

NLNG plant, with the addition of further processing trains, offers significant opportunity for exporting further gas from Nigerian fields to Europe and other international markets.

Over the last five years, a significant investment (of over \$2 billion) has been made by the joint venture to develop major associated gas gathering (AGG) projects to collect gas from our fields scattered across the Niger Delta and supply this gas to NLNG and to the National Electric Power Authority for power generation.

Five of these AGG projects have now been completed and commissioned at Soku, Odidi, Obigbo, Belema and EA nodes. With a combined supply of 430 million scf/d of associated gas, these projects have contributed to a 33 per cent reduction in the volume of gas flared from our operations and eliminated routine flaring at 22 of our 73 flow-stations. Also during 2004, SPDC closed some oil producing wells with high gas-to-oil ratios (GOR). This resulted in a significant reduction of flaring towards the end of 2004.

Work is continuing on a further five integrated AGG projects at Cawthorne Channel, Forcados-Yokri, Gbaran-Ubie, Southern Swamp and Afam nodes, covering another 34 fields. Installation of gas gathering facilities is currently ongoing at 25 flow-stations, while project proposal and design work is underway for a further nine stations. It is estimated that an additional investment of \$1.85 billion will be required to complete these projects. However, the construction of these facilities will only be completed by the end of 2009, which means that gas flaring from the relevant flowstations will not be eliminated until that time. On the commissioning of these facilities we will cover 95 per cent of all associated gas produced.

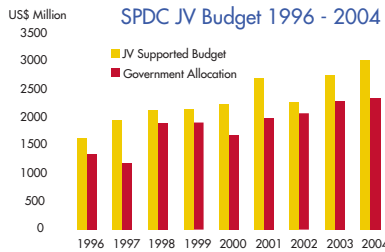


**SPDC's Flares Out Programme**

This will leave 17 low production flow stations for which no firm and economically viable gas gathering solution has so far been determined. Further investigations are still required; if no viable solutions are found, we intend to shut in production from those fields during 2008.

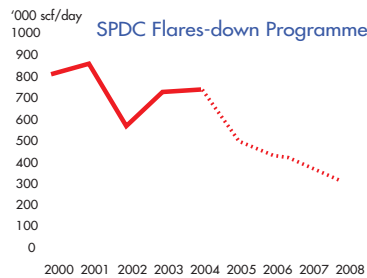
We very much regret that we will not be able to meet the flares-down target of 2008 and we are discussing with the relevant Nigerian authorities the available options.

The original flares-down target of 2008 was predicated on the joint venture's programme being fully funded to deliver the required AGG projects. This was not achieved. For example, between 1996 and 2004 the budget approved by the Federal



Government was in total some \$4 billion less than that agreed by the partners as necessary to support the joint venture programme, including funding of the AGG projects (see graph).

As a result, adjustments had to be made to the programme to reflect available funding levels, which had a consequent effect on our AGG projects (such as those planned for the Nun River and Land West fields).



Some projects have also suffered from poor contractor performance, leading to schedule delays (e.g. Cawthorne Channel and the Offshore Gas Gathering System), as well as higher than estimated costs (e.g. South Forcados, OGGs and Gbaran-Ubie).



*Odidi Gas Plant*



*Utorogu Gas Plant*



*Cowthorne Channel Gas Plant*

## Emissions

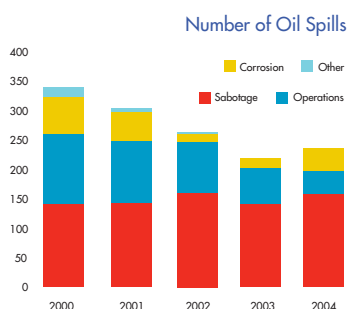
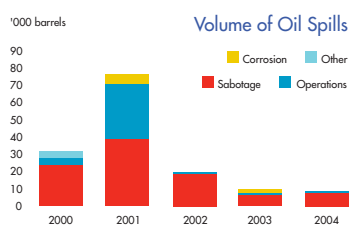
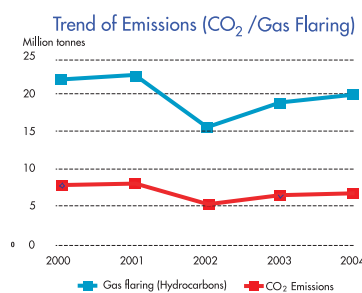
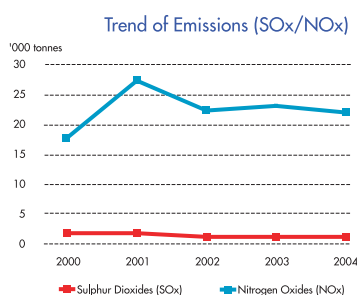
Consistent with our plan to improve the quality of reported gas emissions data, we continued our programme of installing ultrasonic meters (USM) at flare points in flowstations. Regrettably, we were unable to complete this programme in 2004 due to delays in equipment procurement. But by year-end we had achieved 87 per cent of USM installation (at 62 out of the 73 flowstations) and the plan is to complete installation in the remaining 11 flowstations in 2005.

## Oil Spills

The number of oil spill incidents in 2004 was 236 (221 in 2003), comprising 157 sabotage and 79 controllable incidents (i.e. those resulting from equipment failure, corrosion or human error). Spills from corrosion increased from 18 in 2003 to 38 in 2004 due in part to denial of access by communities – for an extended period of six to 18 months – which affected our ability to undertake corrosion mitigating inspections and cathodic protection programmes.

A reduction of 19 per cent was recorded in the total volume of oil spilled in 2004 (from 9,900 barrels in 2003 to 8,317 barrels in 2004). Significantly, only three per cent of the volume of oil spilled in 2004 resulted from controllable incidents. The remaining 97 per cent was caused by wilful damage to facilities (sabotage).

Oil spills resulting from sabotage continued to be a significant challenge in 2004 and a cause for concern. A total of 101 of the 157 sabotage leaks occurred along our major pipelines. Pipeline sabotage attained a new intensity in December 2004 with 35 hacksaw cuts inflicted on the 18-inch Assa-Rumuekpe trunk line. However, there were three leaks resulting from integrity-related issues on our pipelines.



The three integrity-related leaks, which were all caused by corrosion and which together accounted for just over 100 barrels

of oil spilled, were as follows:

- 1) 8-inch Opuama flowstation to Opuama manifold line – re-entry pigging has been successfully completed allowing the line to be routinely cleaned and thereby reducing the possibility of internal corrosion.
- 2) 24-inch Nkpoku to Bomu line – regrettably, maintenance actions have yet to commence as the communities have yet to grant access.
- 3) 12-inch Imo River I line – new cathodic protection facilities, which provide external corrosion protection, are planned to be installed in 2005.

Sabotage is usually motivated by the desire for economic gain on the part of some, though by no means all, in our host communities. The prospect of compensation payments (if the incident can be passed off as a controllable one), employment opportunities during the spill clean-up and the attempted charging of “access fees” before people and equipment are allowed on site are all temptations for communities that feel that they have not benefited from nearby oil production. In particular, the denial of access to spill sites by some communities restricts our ability to respond and clean up spills in good time.

As we reported in 2003, we continued to explore measures against sabotage by integrating our oil spill response and remediation units in one department under one accountability group for more effectiveness. Also, we increased consultation and engagement of host communities to create greater awareness on the consequences of oil spills and the need for timely reporting of incidents. In addition, communities are being encouraged to take responsibility for safeguarding assets located in their areas, as part of pipeline and facilities surveillance contracts.

## Remediation of Past Impacted Areas

Evaluation of impacted sites continued in 2004, during which a further 294 sites were assessed as requiring remediation. These included past impacted sites as well as sites resulting from spills that occurred in 2004. The total number of sites so far assessed since 1999 as requiring remediation is 915. By the end of 2004, remediation had been completed on 542 sites – comprising 315 sites tackled in 2003 or earlier, 28 sites begun in 2003 but completed in 2004, and 199 started and completed in 2004. Remediation actions are planned for the outstanding 373 sites. We plan to rehabilitate 220 of these sites in 2005, provided that the communities allow us access.

A joint certification team comprising the Federal and State Ministries of Environment inspected and certified 231 sites in 2004. However, we have yet to receive formal certificates for all the inspected sites.

We organised training workshops on remediation techniques for regulators and communities whom we involve in the remediation projects to explain and demonstrate the technique of remediation by enhanced natural attenuation (RENA). Additionally, we gave seminars on remediation techniques to the National Assembly Committees on Environment and Ecology, and to a number of other consultative forums.

## Improving Environmental Impact Assessment and Awareness

In order to enhance the quality of Environmental Impact Assessment (EIA) reports, we focused during the year on:

- improving the competence of practitioners through training sessions and workshops.
- increasing the involvement of host communities, NGOs, regulators and other stakeholders in the integrated EIA process.
- ensuring that Health and Social Impacts are integrated into EIAs.

To improve awareness of our EIA process amongst stakeholders (including our host communities), we developed and issued a simplified pictorial EIA process manual and five other EIA guidelines (Scoping Guideline, EIA Review Guide, Data Collection Guide, Stakeholder Consultation, and Environmental Management Plan).

### Remediation Statistics

Assessed Sites (1999 – 2004)	Sites Requiring Remediation	Sites Remediated to Date	Sites Outstanding for Remediation
2012	915	542	373



*Elelenwo site before remediation*



*Elelenwo site after remediation*

During the year, 27 SPDC staff members involved in EIA worked towards gaining certification by the UK Institute of Environmental Management and Assessment (IEMA). We expect them to receive their certification in 2005.

We also conducted a study on the duration, cost and quality of EIAs as a basis for strengthening the framework for overall process improvement. The main conclusions of this study were that quality of the EIAs had improved considerably but time management (EIA duration) needs further work.

During the year, we received regulatory approvals for 12 EIAs for various projects, in addition to 16 Environmental Evaluation Reviews for existing fields including 12 marginal fields transferred to indigenous oil and gas companies during the year (see table below).

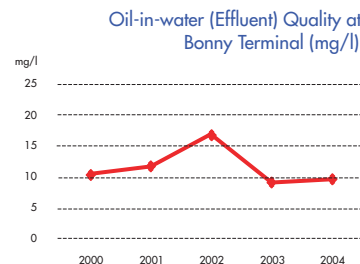
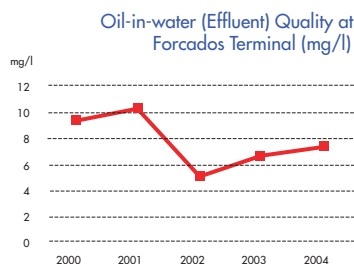
## Produced Water

Water produced in association with oil is a major waste product in our operations. In 2004, we disposed of a total of 39.69 million cubic metres of water to sea through our two terminals at Bonny and Forcados, after treatment to strip the effluent of oil.

The average concentration of oil in water recorded in the year was 8.05 milligrammes per litre (mg/l), with the Forcados Terminal maintaining a yearly average of 7.34 mg/l (against the regulatory limit of 48 mg/l for

offshore disposal) while the Bonny Terminal recorded a yearly average of 9.43 mg/l (compared with the regulatory limit of 20 mg/l for near-shore disposal).

Progress was made during the year with the Bonny Terminal Improvement Project, which is expected to commission the offshore water discharge pipeline in 2007 that will eliminate the near-shore discharge of produced water at the terminal.



## Environmental Impact Assessment (EIA) Completed

Utorogu Non-Associated Gas Well Project  
 Industrial Area Medical Waste Incinerator  
 Ajaokuta-Abuja Gas Pipeline, Thermal Plant and Transmission Line  
 Eastern Gas Gathering System (EGGS)  
 Gbaran-Ubie Integrated Oil and Gas Project (IOGP)  
 Egbeleku Landfill  
 Odidi II By-Pass and Mothball Project  
 Benisede Catchment Area FDP Phase I  
 Forcados West II Exploration Well Drilling  
 Opugbene West Exploration Drilling Project  
 Odidi-Forcados Interim Gas Supply Project  
 Igodo Exploratory Drilling

## Environmental Evaluation Reports (EER) Completed

Oza Marginal field  
 Ibigwe Marginal field  
 Asaramatoru Marginal field  
 Stubb Creek Marginal field  
 Tomshot Bank Marginal field  
 Uquo Marginal field  
 Qua Iboe Marginal field  
 Ughelli East Flowstation  
 Ofa Marginal field  
 Umutu Marginal field  
 Atala Marginal field  
 Eremor Marginal field  
 Tsekelewu Marginal field  
 Ogini Flowstation  
 Utorogu Flowstation  
 Utorogu NAG

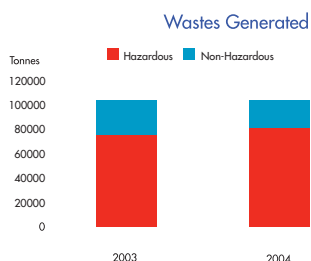
## Waste Management Performance

Our 2004 waste generation profile compared with 2003 is shown in the graph below.

Hazardous waste generated in 2004 increased by 6.7 per cent from 2003. The increase came from sewage at our Edjeba Sewage Treatment Plant that was not included in previous reports.

The percentage of non-hazardous waste dropped by 79 per cent compared to 2003. The drop is attributed to low drilling activity, hence limited waste generation from this activity during the year. The recyclable portion (in tonnes) of non-hazardous waste has remained essentially at the same level (350-450 tonnes) over the last two years.

A modern incinerator for medical waste treatment was commissioned in Port Harcourt. Regrettably, the contractual



difficulties we reported last year still persisted in 2004 and have further delayed the completion of the Integrated Waste Management Facility at Umuakwuru and the Engineered Landfill at Egbeleku. In the short-term, we plan to upgrade the Ughelli Engineered and Eneka dumpsites as fallbacks.

## Biodiversity

We continued the efforts of 2003 in integrating biodiversity consideration into our business and working in partnership with other organisations, on the subject including NGOs and Government.

In 2004, we held a series of engagements with the World Wide Fund for Nature (WWF) and the Nigerian Conservation Foundation (NCF) to foster a partnership on biodiversity conservation effort in the Niger Delta. With NCF's help, we updated the map showing the overlap of our operations on the protected areas.

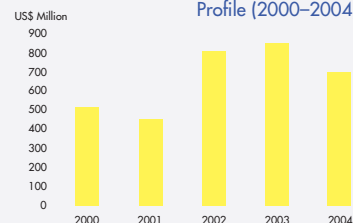
This map provides a guide for planning new developments in a manner that ensures that we do not impact on such areas. This is consistent with the Royal Dutch/Shell Group policy that precludes upstream and downstream oil and gas operations in designated International Union for Conservation and Nature (IUCN) Category I-IV sites.

## Land Use and Compensation

Our policy of minimum land take continues to guide our operations and, wherever possible, we aim to optimise the use of existing sites. In 2004 we acquired 273 hectares of land, mainly for gas utilisation projects, for which a total of 364 million Naira (\$2.7m) was paid. Another 24 million Naira (\$0.2m) was paid to 548 landlords as rental fees and 7.6 million Naira (\$0.06m) as ground rent to eight States. We also paid 143 million Naira (\$1.05m) as tenement rates to 35 Local Government Councils and 211 million Naira (\$1.55m) as compensation for oil spills.

During the year, we made further progress on the renewal of expired pipeline Right-of-Way leases. A total of eight leases covering 345 hectares were acquired in 2004. We plan to renew a further 494 hectares in 2005.

## Environment-related Spending Profile (2000-2004)



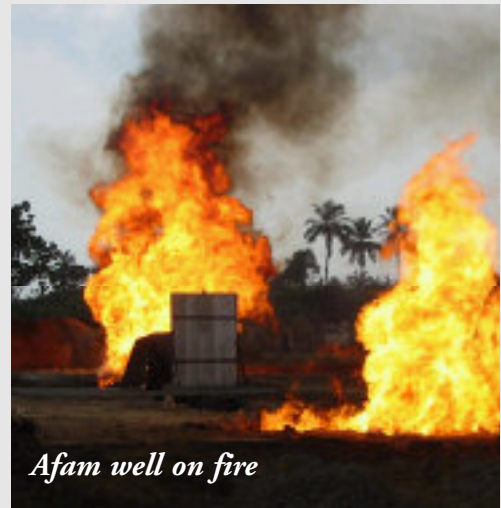
*Medical Incinerator, Port Harcourt*

Environment-related Spending 2004 (US\$ Million)	
Environmental affairs	9.6
Spill response equip, waste management & pollution cleanup	17.5
Associated gas gathering	317.8
Flowline replacement & maintenance	15.6
Environmental flowstation upgrade, bund wall remediation & smokeless flares	8.3
Jetty, shoreline protection	1.9
Pipeline replacement & maintenance	51.0
Terminal upgrades	272.9
<b>Total</b>	<b>694.6</b>

## Afam Well -16 fire

SPDC was alerted early on Monday morning, 17th May 2004, to a fire incident at Afam Well -16 by a community leader in Afam. Our emergency response was immediately activated and all relevant authorities notified. Our fire team was then mobilised to the site. On arriving at Afam, the team found a burning road tanker and charred remains of a human being near the well site. Despite the combined effort of fire teams from SPDC, Port Harcourt Refinery, Total-Elf and Afam-NEPA, the fire could not be put out. SPDC then called for additional help from the wellhead fire experts, Boots and Coots of USA. A team from Boots and Coots arrived in Nigeria on 20th May and deployed to site. The fire was successfully put out on 5th June.

A joint investigation later carried out by a team comprising the Department for Petroleum Resources, the Federal and Rivers State Ministries of Environment, Local Government officials, the Nigeria Police and SPDC revealed that the fire was caused by oil theft activities at the wellhead. The Afam incident is one of 71 oil theft incidents that we suffered in 2004, and constitutes a growing concern for our operations.



## UNEP recognises another ECC initiative - "Let's Change, Mummy"

Since 1999, we have supported the establishment of over 100 Environmental Conservation Clubs (ECC) in secondary schools across the Niger Delta. The clubs promote environmental awareness among youths through debates, essay and painting competitions including school environmental cleanliness campaigns.

Working in partnership with the clubs in 2004, SPDC sponsored a campaign with the theme "Let's Change, Mummy" to discourage the use of polythene bags (a non-biodegradable material with negative impact on the environment) in product packaging. ECC members in Jephthah Comprehensive Secondary School, Port Harcourt, encouraged their mothers to use cane baskets in place of polythene bags for shopping. Mothers were in turn required to convince at least three of their friends to join the campaign, thereby creating a chain of awareness on the need to replace

polythene bags with baskets. As part of the programme, the students also learnt basket weaving.

The project earned the recognition of the United Nations Environment Programme

(UNEP) in March 2004, leading to the invitation of five Jephthah ECC members to the International Children's Conference on the Environment in Connecticut, USA, from 19th to 23rd July 2004.



*“The environmental pollution position taken at your last stakeholder workshop in Warri, though still short of general expectations, was a step forward for your environmental compensation regime. Regrettably, this has not been matched with action.”*

**Azibaola Robert**

**President, Niger Delta Human & Environmental Rescue Organisation (ND-HERO) Port Harcourt**

### Elelenwa New Manifold Oil Spill Site Remediation

Two spill incidents occurred at Elelenwa New Manifold, the first on 30th September 2001 and the second on 4th July 2002. Both spills resulted from the removal of pipe flange bolts and nuts by persons unknown. Initial efforts by SPDC to clean up the site were frustrated by the community as access was not allowed. The community demanded payment of access fees and also insisted that their nominated contractor be used to clean up the site.

The intervention of the Rivers State Government helped to facilitate access to the site and, after initial clean up, remediation commenced in April 2003. Host communities supplied labour for the exercise through local contractors, while SPDC site representatives provided hands-on technical instructions and project supervision. About 50 youths from the surrounding communities were employed for the work. Remediation was completed in November 2003.

Chemical analysis of soil samples from the site indicated average Total Petroleum Hydrocarbon (TPH) concentrations reduced from 20,000 ppm at commencement of remediation, to an average of 400 ppm on completion eight months later – through enhanced natural attenuation. The fertility of the soil was restored and vegetation began to flourish. The Federal Ministry of Environment certified the site in April 2004.



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**Investing in People and Living our Values**

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*For SPDC, our position is clear: the giving or receiving of bribes is prohibited in the conduct of our business. Our Statement of General Business Principles clearly defines the behaviour expected of all staff, contractors, agents and suppliers involved in an SPDC activity.*

*“ City and Guilds works on special projects, such as the one with Shell, in well over 20 countries and they are always with large reputable organisations, many in the oil and gas industry, but in other industries as well. We also work with governments, where we develop very specialized qualifications for given needs. I can tell you that SITP is good for the youths.”*

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**Yolanda Samuel,**  
**International Special Projects Manager, City and Guilds of London**

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# INVESTING IN PEOPLE AND LIVING OUR VALUES

## Occupational Health and Safety

Following last year's poor performance, considerable effort was devoted in 2004 to education and raising awareness in occupational health and, more importantly, safety. Particular attention was devoted to the rapid communication of lateral learning from incidents, the application of consequence management on established violations and a "Hearts & Minds" safety campaign. Regrettably, improved safety awareness has yet to be translated into an overall improved safety record.

In 2004, a total of 21 (23 in 2003) work related fatalities was recorded – involving company employees, contractors and third parties. Ten of the fatalities resulted from criminal activities and security-related incidents, such as armed attacks and robberies.

We deeply regret these incidents. These deaths are unacceptable and the challenge of eliminating fatalities in our operations remains. We will continue to focus on the underlying causes of fatalities, especially discipline and supervision.

More encouragingly, the lost time injury (LTI) frequency per million hours worked by staff and contractors reduced from 0.39 in 2003 to 0.31. The best LTI-free milestone (SPDC & contractors combined) in 2004 was 11.7 million working hours (12.3 million in 2003).

Compliance with the Royal Dutch/Shell Group's Minimum Health Management Standards remained a key focus in 2004. A number of visits were made to field locations to monitor standards, particularly focusing on the health of workers. To promote personal fitness, we performed fitness-to-work health checks, including

pre-employment, periodic, catering and ancillary staff medicals. Throughout the year, we treated 21 work-related illnesses and 345 emergency cases, including those from road accidents. Our outstations treated 25,167 cases of illness and injury.

We monitored and inspected some 75 third-party clinics that treat our personnel. We also carried out regular inspections of catering facilities and laboratory testing of food and water samples to ensure acceptable hygiene standards in our work places.

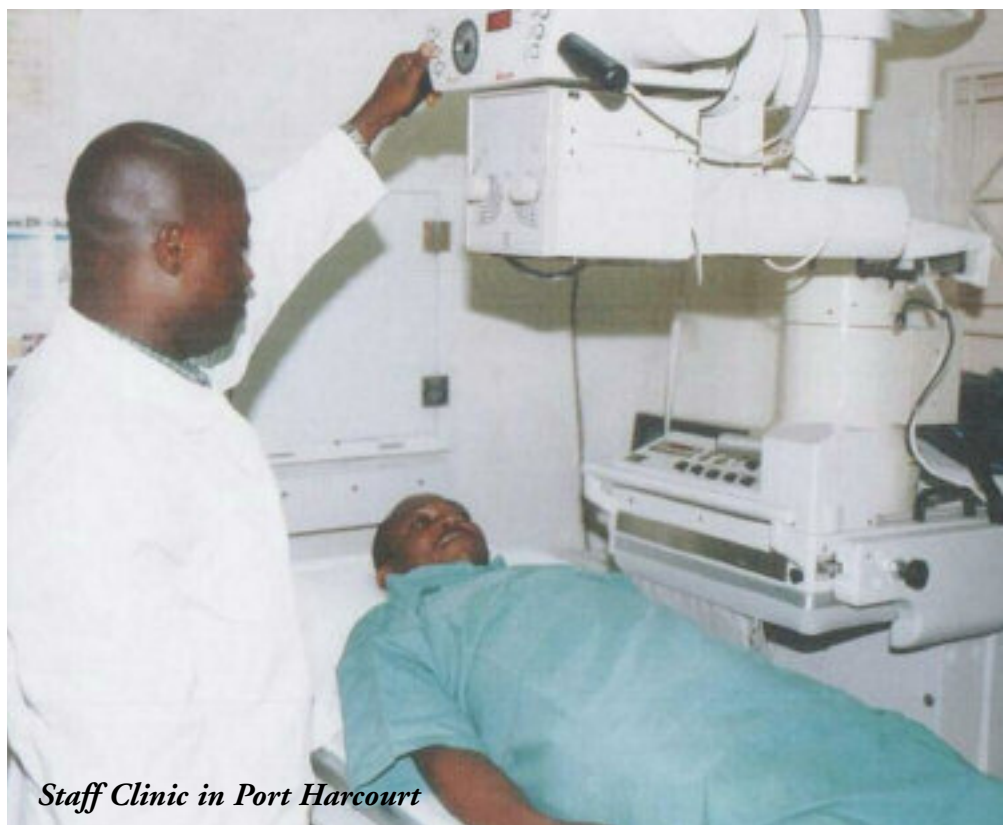
## HIV/AIDS

We sustained our HIV/AIDS awareness campaigns in 2004 and delivered 271 lectures to some 9,400 people, including women and young people in schools and

communities. In parts of our operations, educational campaigns are aired on radio and television. These are particularly targeted at students during vacation periods. We will continue the behavioural change campaign, supplementing in-house resources with the expertise of NGOs.

Among staff and their dependents, good results have been obtained in the treatment programme with viral load reduced to below detection limits in some cases. However, a challenge still remains in preventing transmission from mothers to babies.

We recognise the potential risk of HIV/AIDS associated with new project development and the need to manage the risk of transmission within the project environment. In addition to other ongoing



*Staff Clinic in Port Harcourt*

initiatives, a pilot programme was started in Gbaran-Ubie to achieve a behavioural change among staff, contractors and other stakeholders by raising their level of awareness and knowledge of HIV/AIDS. The result of this pilot will help us develop a framework to manage HIV/AIDS risks in new projects and operations.

We continue to work with the National Advisory Council on AIDS (NACA) through the Nigerian Business Coalition against AIDS (NUBICAA). We have adopted NACA's five-year strategy targets for HIV/AIDS in our in-house programmes.

### Staff Development

Overall in 2004, we delivered a total of 37,612 learning man-days for SPDC staff

and hosted 15 regional hub events. We also hosted a learning and development stakeholders' forum and fair in mid July which attracted over 120 participants from all over the country. The forum enabled staff to better understand the range of development opportunities and initiatives available to them both within and outside SPDC.

The Shell Intensive Training Programme (SITP), which was introduced in 1998 with the objective of preparing young graduates for employment in the oil industry, continued to serve as the feeder pool for the recruitment of young talent to the technical areas of our business. Following a review of the programme in 2003, SITP commenced training for its batch-10 trainees, the first set of trainees to come into the programme as

staff, in 2004. The curriculum was reviewed with the introduction of new courses emphasising creativity, deeper and broader thinking and communication skills. There were also courses on health, safety and environment, community relations and new challenges in the oil and gas industry in Nigeria. SITP also continued to provide training to young recruits of NLNG.

### Securing our Future Programme (SoFU)

A major organisational review, called Securing our Future (SoFU), began in 2003 and was completed at the end of 2004. The initiative aimed to transform SPDC into the most efficient upstream operator in Nigeria. The emerging new company, launched on 1st January 2005, will:

- re-balance costs and people towards core business activities
- implement the recommendations of the 2003 Strategic Cost Review
- increase focus on performance measurement and consequence management
- overhaul contracting and procurement processes.

The result will be a re-engineered company that produces oil and gas with reduced operating and capital cost. As part of the exercise, some 15 per cent of staff were released from the company through a process of performance based selection. A panel, which included staff from Nigeria's Labour Ministry, was established to manage any resulting grievances and complaints.

SoFU introduced a particular challenge in managing relationships with the two unions, NUPENG and PENGASSAN. To help prevent and resolve any misunderstandings, regular consultations were held between company management, the unions and the Federal Ministry of Labour. These engagements helped, in part,



*SITP students in class*

to define a strategy for the implementation of SoFU. Significantly, no industrial actions resulted from the deployment of the new organisation and most people left the company on good terms.

### Diversity and Inclusiveness

In line with the Shell Group's effort to promote diversity and inclusiveness in the workplace, SPDC focused on helping directors to integrate such activities into their business plans. Fourteen workshops were organised for SPDC leaders, aimed at increasing their awareness of inclusive behaviours. Four networks, particularly the Women's and New Joiners' Networks, worked very actively throughout the year in promoting this effort.

A policy and procedure guide on harassment and discrimination was adopted during the year. In addition, changes were made to the Maternity Leave Policy and a Paternity Leave Policy was introduced.

### Tackling Corruption

Corruption is a major challenge in Nigeria. It poses a serious constraint to the country's development, promotes inefficiency, damages inward investment and hurts the poor. The Nigerian Government under President Obasanjo has been engaged in a vigorous anti-corruption campaign since it assumed office. We support the efforts by Government, and believe that, as part of society, business also has its part to play. For SPDC, our position is clear: the giving or receiving of bribes is prohibited in the conduct of our business. Our Statement of General Business Principles clearly defines the behaviour expected of all staff, contractors, agents and suppliers involved in an SPDC activity. We work hard to ensure that everyone connected with SPDC is aware of and subscribes to this policy. We have also put in place appropriate measures

to monitor, detect, investigate and take action where any breaches are established. One of the measures we use is a whistle blowing policy, which allows staff to report suspected fraud and breach of business ethics without necessarily disclosing their identity. In the last few years, we have witnessed an increase in the number of reported cases, which may reflect growing confidence amongst staff in the policy. By 2004, reported cases under the policy had risen to 682.

SPDC undertakes to investigate all reported cases. Where a breach of business principle is proven, such cases are referred to the company's Business Integrity and Profitability Committee for further consideration. This Committee assigns appropriate sanctions for cases of breach of business integrity.

In 2004, 26 career and contractor staff (29 in 2003) were dismissed as a result of breaches of SPDC's business principles.

Another 18 employees received warning letters for various offences, whilst two contractors (16 in 2003) were de-registered from the Company's list of vendors.

To maintain awareness of business ethics and integrity, we again ran a number of workshops on "The Statement of General Business Principles" and "Fraud Risk Management" – providing training to some 560 SPDC staff and 300 contractors. We also ran a poster campaign focused on creating awareness of the company's Gift Policy.

Similar to 2003, all SPDC employees participated in the annual Register of Interest exercise (formerly called the "Conflict of Interest" declaration). Each member of staff completed a questionnaire declaring any personal interests that could lead to a potential conflict between their private and business lives.

(For further information, e-mail [P.Integrity@spdc.shell.com](mailto:P.Integrity@spdc.shell.com))



*Business Principles Awareness campaign*

### **Sustainable Community Development**

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*Partnership development remains a key focus of our SCD approach and, in addition to progressing the implementation of the strategic partnerships we signed in 2003, we also signed new partnerships in 2004*

*“Recently, Shell and other oil companies are making public acknowledgement of their "inadvertent" contributions to the socio economic disintegration and dislocation of governance systems and livelihood of communities that "bear" oil and gas resources. They are therefore taking steps to correct this through new community engagement policies, along the lines of best practice. While these initiatives are still to reach communities, they promise to be contributory to an overall effort from all stakeholders to rebuild the social systems of these communities.”*

**Miabiye Kuromiema**  
**Youth Leader, Ijaw Youth Congress**

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# SUSTAINABLE COMMUNITY DEVELOPMENT

The transition from Community Development (CD) to a strategy of Sustainable Community Development (SCD), which began in 2003, continued into 2004. As reported last year, SCD is the next phase in our journey from community assistance to sustainable social development, and follows a comprehensive review of our community interface activities carried out in 2002. The review concluded that, whilst our CD approach demonstrated a number of best practices, there were also critical shortcomings in some areas of our interaction with communities.

Based on the review recommendations, we began developing the new SCD strategy to improve the way we manage all community interfaces within Shell. The new strategy involves managing community interfaces as a core line responsibility through the asset teams, complemented by strong central guidance and monitoring from the SCD organisation. This allows prompt attention to community issues and concerns whilst maintaining stronger internal controls and accountabilities. It also involves shifting to a thematic approach with primary focus on economic empowerment, human capital development, healthy living and basic services. The SCD strategy places greater emphasis on building and working through strategic partnerships with the Government, local and international development organisations, the communities and other stakeholders.

The overall goal is to leverage the resources that we can offer and empower local communities to take the lead on issues for their own development. By doing so, we hope to accelerate developmental and employment-generating opportunities in the communities where we operate, and thereby help to reduce poverty in the region. Although SCD will be fully operational from January 2005, some elements were

deployed in 2004 - in particular the merging of community relations and development activities into one organisation with single point management accountability. This enabled us to begin laying the foundation for a smooth take-off of the SCD strategy and "test running" the new SCD policies and procedures prior to full implementation.

Critical to the success of SCD implementation will be the quality and commitment of our network of community staff, especially our community relations officers (CROs) who know the communities well and provide the essential link between SPDC and operating communities. In line with recommendations of the 2002 review, we commenced a manpower review of our community staff and a retraining programme to educate them on the new SCD approach.

However, 2004 was a challenging year and the work of laying the foundation for SCD was undertaken against the background of major organisational changes in the company. Anxieties raised by the major corporate re-engineering, SoFU (which lasted for most of the year) impacted on our ability to fully implement some of the changes called for by the new SCD strategy.

The new SCD organisation could not be fully staffed until December, and this impacted on anticipated activity levels during the year. The introduction of a new financial management system, SAP, also raised transitional challenges that took time to resolve, which in turn slowed the pace of our activities. Nevertheless, a number of achievements were recorded during the year.

*Victoria Owhoferi, Micro-credit scheme participant*



## SCD Policy and Big Rules Compliance

The SCD big rules (see appendix) are a set of 13 principles that underpin our new SCD strategy with the aim of ensuring transparency, accountability and consistency in the way we interact with communities. Three of these rules were rolled out in August 2003, and 2004 provided the first full year of 'testing' the application of, and compliance with, these rules across our operations. The three rules were:

- *There shall be no payments to communities other than those specified for legitimate business reasons.*
- *No payment for ghost workers or stand-by employment.*
- *Contractors/sub-contractors working under contract with SPDC must strictly adhere to the SCD policy and procedures for community interaction.*

We began by undertaking a major communication programme to build awareness amongst our field staff and frontline managers on the change to SCD, and ensure they understood how the big rules affect the way we will now work in the communities. This followed a perception survey conducted earlier in the year to gauge staff awareness and understanding of the new policy.

Subsequently, we requested written evidence of compliance with the three rules from our departmental managers, asset owners and project managers on a quarterly basis. The results, which were reviewed by senior management, showed a significant level of compliance which improved quarter by quarter.

One of the major challenges we face in communities is the pressure for cash payments for non-legitimate reasons. Cash payments (e.g. to community youths for access fees, standby labour, etc) have been blamed for inter-community disputes and for distorting genuine community needs. This is partly what two of the big rules mentioned above aim to address. However, the big rules do allow for payments to be made for the purchase of drinks and small amounts called "wedging fees" during homage visits or courtesy calls, when meeting with communities and their traditional leaders, in line with local customs and tradition. To ensure transparency and control, maximum rates have been established for such payments, based on a sliding scale ranging from around \$500 to just over \$1000 and depending on the seniority of the traditional ruler or the size of the community. A total of \$100,000 was spent on such visits during the year. This was an encouraging development,

given the fact that the new rules were still being resisted in some communities.

In addition to meetings held at the communities by company representatives, there are occasions when SPDC invites recognised Project Advisory Committees (PAC) members or other community representatives to discuss business/project plans or operational matters in our Warri or Port Harcourt offices. The rules permit payments to members of such committees to cover the legitimate costs of transportation and accommodation. The rates used for such payments depend on the distance of the community from the office, the mode of transportation and the standard hotel rate in Port Harcourt or Warri. The total cost of such payments during the year was approximately \$1 million.

Memorandums of Understanding (MOUs) have been important tools for working with communities, but have in the past been exploited by some. During the year, we developed a model MOU to enhance consistency, and established a Community MOU Panel to ensure that commitments made to communities are realistic and authorised. The MOUs signed in 2004 conformed largely to SCD principles and guidelines despite pressures from some communities.

A significant proportion of SPDC's operations is undertaken through contractors, and contractors are therefore important to the success of the SCD strategy. During the year, we engaged key SPDC contractors on the new SCD strategy. A letter introducing the new SCD policy, and the "rules of engagement" in communities was sent to contractors working for SPDC in December. The letter was signed by the SPDC Managing Director and required the contractors to confirm their acceptance and commitment to the new policy.

As a follow-up to the internal communication on SCD, we plan to



*“The new SPDC holistic approach to sustainable community development is laudable, but it must be integrated into the NDDC Masterplan in order to diffuse the conflict-ridden production/politics dichotomy.”*

**Fr. Kevin O'Hara**

**Centre for Social Corporate Responsibility, Nigeria**

commence a full-scale external communication with community-level from early 2005, after the deployment of SCD.

### Partnerships

Partnership development remains a key focus of our SCD approach and, in addition to progressing the implementation of the strategic partnerships we signed in 2003, we also signed new partnerships in 2004.

With respect to 2003 partnerships, we began implementation of the Cassava Enterprise Development Programme (CEDP) under our \$20 million partnership with USAID. The CEDP is being implemented by the Ibadan-based International Institute for Tropical Agriculture, and is expected to complement the Federal Government's Presidential Initiative on Cassava.

The major thrusts of the programme include making entrepreneurs of local cassava farmers, improving local incomes and helping to reduce poverty by:

- increasing cassava productivity up to four-fold by the end of the project period, and making cassava a competitive cash crop
- tackling the menace of cassava mosaic disease, which currently impedes productivity and storage of cassava in the region, and beyond
- encouraging the establishment of large-scale cassava farms, and local processing industries
- developing national and regional markets for cassava to provide established outlets.

During the year, a pilot medium-scale cassava processing factory was commissioned in Abia State as part of the CEDP. Efforts have also begun to establish an administrative, logistical and staffing base for a regional market. When fully operational, the CEDP will impact about 300,000 households over five years.

During the year, we also commenced preliminary activities on our partnership

agreement with Africare. The three-year (2004 - 2007), \$4.5 million partnership is intended to develop a Health Integrated Project (HIP) that will assist in reducing deaths from malaria amongst communities in the Niger Delta. The HIP, which is closely aligned with the Government's Roll Back Malaria programme, aims to increase the capacity of communities to combat malaria by providing opportunity for local manufacture and marketing of impregnated mosquito nets at affordable rates.

Africare's efforts were concentrated on planning, establishing operational logistics, staffing and field research to frame the work to be done. However, plans to begin stocking the initial medication required for the curative aspects of the programme suffered a temporary setback when the Federal Government banned the use of certain types of malaria medication for the treatment of malaria.

In terms of new partnerships in 2004, we signed an \$18 million, 5-year Memorandum of Understanding with the

United Nations Development Programme (UNDP) in July. SPDC's contribution of \$14 million leveraged another \$4 million from UNDP for joint development work in the Niger Delta. The partnership will focus on strengthening local level governance, biodiversity and health, particularly HIV/AIDS control and prevention, among other things. Under this partnership, preparatory work has begun for the production of a Human Development Report (HDR) on the Niger Delta that will provide a base line against which to measure the impact of future programmes.

On a much smaller scale, but with the potential for a significant employment impact, we also signed a two-year Telecoms Self-Employment Programme (TELSEP) partnership with Globacom, a national telecommunications company. The partnership aims to assist young men and women establish and run 'mobile call centres' – small commercial phone booths and kiosks that have become popular in Nigeria. By the end of the year, 41 centres had been established in various



*Mrs Mary Igbo, Glo TELSEP participant*

communities, with plans to increase that number in 2005 and help successful participants to upgrade their centres to 'Internet kiosks'. TELSEP is low in funding requirement but has a wide coverage and high income-generating impact on beneficiaries, and we hope to leverage the lessons learned and spread the initiative to help increase self-employment amongst youths in the communities.

As mentioned elsewhere in this report, we continued discussions with the Niger Delta Development Commission (NDDC) to finalise details of a partnership agreement to jointly implement the 28 km Ogbia-Nembe road project. This follows a preliminary understanding between both organisations to co-fund the project on a 70/30 (SPDC/NDDC) cost-sharing basis. Signing of the partnership agreement and commencement of construction are envisaged in 2005.

The Ogbia-Nembe road is Phase 2 of the Imiringi-Nembe road and one of the most important community roads in Bayelsa State linking core oil producing communities

to the state capital at Yenagoa. On completion, it will be SPDC's single largest community development project. The partnership with NDDC is consistent with SPDC's new SCD strategy, which favours the gradual transfer of responsibility for infrastructure projects to the government. We hope that the Nembe road partnership will eventually become the model for implementing similar infrastructural community projects in the Niger Delta.

### Empowering Communities

The primary goal of our SCD programme is to help empower communities in the Niger Delta. This can be best measured by the quantity and quality of the projects and programmes we deliver. So, in addition to the efforts during the year to prepare the ground for full transition to SCD, we continued to complete and undertake new projects through our existing CD programme.

During the year, we completed a total of 141 projects and programmes in economic empowerment, human capital development, community health and basic infrastructure

and services, spending a total of \$25 million. Our expenditure in 2004 was some 18 per cent lower than the \$30 million that we spent in 2003.

The primary reasons for the reduced expenditure on community development (and a lower number of completed projects) include the SCD transition and corporate reorganisation during the year, which necessitated a major review and realignment of our community projects to fit within the new SCD strategy; and the de-emphasis on infrastructure projects that previously accounted for more than three-quarters of our community development expenditure. During the year we undertook an inventory of all existing project commitments from legacy projects and have developed a programme to begin closing out all such projects from 2005.

### Economic Empowerment

Interventions under this theme are aimed at promoting and sustaining wealth-creation activities at the micro, small and medium enterprise level, as part of our contributions towards the objectives stated in the Millennium Development Goals (MDGs) for poverty reduction and human development in the Niger Delta. During the year, we constituted the "Economic Empowerment Through Employment Creation" expert advisory group. The group, which comprises ten local and six international experts in agriculture, small and medium enterprises and women's development, is to assist us to articulate a strategy for job creation and income-generating programmes in the Niger Delta. The group held a first formal work-session in October during which they undertook several field visits to communities and existing development projects across the region. They are scheduled to return in early 2005 for the second and concluding phase of their work, following which they



*Fish farm in Jeddo*

*“There is no way government or oil companies alone can employ all youths directly. But if the economy is diversified, there would be a lot of small and medium scale industries that would absorb these youths”*

**Dr. Goodluck Jonathan**  
Deputy Governor, Bayelsa State

will produce a report recommending appropriate changes to our economic empowerment programme.

Meanwhile, as described below, we supported economic empowerment projects in Agriculture, Micro-credit, Business Development and Women In Development.

### Agriculture

Twelve projects were completed and 14 new ones begun in the areas of fishing, food processing, crop farming and livestock. We also continued to provide fishing equipment to fishermen to facilitate access to distant ‘fertile’ fishing areas. Thirty-four training sessions were conducted for 704 farmers at the Agricultural Extension Centres and the Agricultural Resource and Training Centres (ARTCs), while 14 farmers were sponsored to participate in an Investment Opportunities Workshop. We developed new working relationships with five new NGOs and provided training in organisational and business management capability for 132 new cooperative societies bringing to 800 the number of cooperatives supported by SPDC.

### Micro-credit

Three Micro-credit schemes were facilitated for about 300 entrepreneurs in 2004. Eight out of 31 groups that received commercial bank loans under our Micro-credit Scheme for Agricultural Development (MISCAD) achieved a 100 per cent repayment and are now direct customers of the bank. Twenty-one Community-Based Organisations were graduated to self-management, following a 100 per cent repayment performance in the revolving loan schemes designed primarily for women. The Omueke Igwuruta Community village bank began the process of upgrading to a licensed community bank in 2003. With SPDC’s support, the feasibility study for the establishment of the bank was undertaken, and the bank’s

building was constructed by the community in 2004. Equipping and licensing of the bank and commencement of operations are expected to be completed in 2005.

### Business Development

SPDC assisted a number of communities to establish their own land and marine transport businesses, as a catalyst to building viable local economies. Twenty-two transport enterprises were launched, with SPDC providing equipment, technical and business training, while communities contributed part of the initial working capital, project accessories and business registration payment.

### Women in Development Programme

Three Women’s Development Centres (WDC) along with two other income generating projects were completed. These brought to 11 the number of WDCs completed since 1999. These centres also offer facilities for community meetings and provide an avenue for women to generate additional income. The Otor-Udu and Kiagbodo women vocational skills acquisition programmes provided training and starter packs to 120 women from 24 communities.

### Human Capital Development

Our human capital development programme combines our former education and youth development programmes. Our focus during the year remained on growing essential human resources in the region by improving educational standards, offering university and secondary school scholarships and supporting the development of appropriate school curricula. It also includes promoting essential enterprise values among community stakeholders, especially the youth.

Scholarship awards remain the backbone of our human capital development programme. During 2004, we again awarded a total of 2,600 secondary and 850 university scholarships to deserving students. At any one time, some 13,000 secondary school students and 2,350 university students are supported through SPDC scholarships.

We also trained 335 youths under our youth development schemes to equip them with vocational (enterprise-based) skills. An additional 245 were still undergoing training during the year. Eighty-four school prefects drawn from 17 community schools in five states were involved in the school



*Mrs Ijomah Igbo at the Women’s Craft Centre, Omueke-Igwuruta*

leadership training programme. We encouraged curriculum enhancement in schools with the placement of 82 National Youth Service Corp members as teachers (short-term) and 320 professional teachers. A total of 2,531 adults benefited from adult literacy training conducted in 14 centres across various communities.

### Community Health

Our health support programmes facilitate access to preventive and curative healthcare services in communities where we operate by aligning with the Government's national health programmes, such as the national programme on immunisation and malaria roll-back. As reported last year, we continued to explore the possibility of increased participation of government and other stakeholders in the management of

company-supported health facilities and discontinued payment of top-up salaries at the end of the year in order to encourage a more sustainable approach.

In 2004, mobile clinics were used to broaden outreach, with support provided to eight temporary health posts. Some 200,000 people were treated and benefited from drugs, laboratory and medical consumables distributed in SPDC supported health facilities. To promote effective healthcare delivery in remote areas, 968 health workers were provided with incentives in the form of top-up salaries. We supported the completion of two health centres.

To ensure effective local contribution to health service delivery, 42 medical staff from various communities were trained in basic

life support procedures in addition to 40 voluntary Village Health Workers and Traditional Birth Attendants. Immunisation support services continued throughout the year and Information, Education and Communications materials on hygiene and nutrition were distributed in 13 communities. We also supported HIV/AIDS electronic media awareness campaigns targeted at youths in three states. Fifteen primary school teachers received training as hygiene educators. Hygiene education campaigns were held in five community schools.

As we fully deploy SCD in 2005, the challenge will be to increase collaboration with other stakeholders in healthcare delivery and encourage Government's full involvement and investment in the sector.



*Oben Cottage Hospital*

This would require the absorption of 269 community health staff, currently in 27 SPDC supported facilities, by the Government. To support this process, we will establish a health expert group in 2005.

### Basic Services and Infrastructure

In 2004, a total of 86 infrastructural projects were completed. These include classroom blocks, teachers' quarters and libraries, community link roads (including bridges and drainages), 16 new and 20 rehabilitated water schemes, electricity upgrades, and market stalls. Others were jetties, shore protection projects, civic centres and town halls.

We have previously reported problems with the maintenance of water projects. During the year, we continued our mitigation programme by providing 50 community members with operational and maintenance training, bringing the total number of trained water artisans since 2002 to 304. One solar powered water scheme at Egbeleku was completed in 2004. From 2005, we will encourage increased use of solar powered schemes to reduce maintenance cost to communities.

Opportunities were also sought for joint implementation of infrastructure projects with the NDDC and other key development agencies in the Niger Delta. In addition to the Ogbia-Nembe road project reported earlier, some 12 infrastructure projects submitted by SPDC to NDDC were accepted in the 2004 NDDC plan for execution in 2005.

## OGONI

SPDC was forced to withdraw from Ogoni land in January 1993 following threats made against its staff. Since then, the company has not produced oil from the Ogoni region. Indeed, it would be difficult to do so since SPDC's oil production facilities in the area have been badly vandalised. The company has repeatedly said that it will not return to Ogoni land to produce oil until the majority of Ogonis welcome its presence. It has also called for reconciliation.

After the tragic executions of Ken Saro Wiwa and his fellow Ogonis, several attempts have been made by independent organisations (such as the Christian Association of Nigeria and the Oputa Panel) to bring about reconciliation between the Ogoni people themselves and between the Ogoni and other stakeholders (including the government and SPDC). Some progress has been made – but there is still much to do.

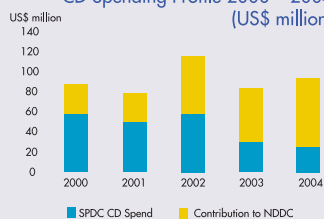
President Obasanjo has called for renewed efforts in this area and has asked Coventry Cathedral's International Centre for Reconciliation, in partnership with Academic Peaceworks (a local NGO), to facilitate dialogue amongst all stakeholders to that end. We welcome the President's intervention and will do what we can to ensure that it reaches a successful conclusion.

### Making a Difference: Mentoring Future Business Leaders

Mentors Support Network is part of the SPDC-supported YouthsLink Programme started in 2002. YouthsLink provides business training, access to credit and mentor support for graduates of the vocational skills training programme. The network has a membership of 76 volunteers, who are experienced professionals. An NGO, ANPEZ Centre for Environmental Development, manages the network that provides counselling and guidance opportunities for youth entrepreneurs, especially in the first year of business set up. 47 youths have so far benefited while another set of 39 is awaiting linkage early in 2005.

At a mentors' retreat held in November, three outstanding "mentees", including a female fashion designer and two male welders, were recognised for their outstanding progress in their respective vocations. According to one of their mentors, Mrs Caroline Anyankwe, a businesswoman who was also declared Mentor of the Year, "it takes interest, commitment and openness to mentor successfully."

CD Spending Profile 2000 – 2004 (US\$ million)



Community Development Programme Spending 2004 (US\$ million)

Basic Services	11
Health	3
Economic Empowerment	3
Human Capital Development	7
Strategy & Planning	1
<b>Total spending on 2004 CD programme</b>	<b>25</b>

## **Measuring Performance**

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*SPDC replaced its legacy accounting system and implemented a new system on 1 April 2004. Special cost elements were created during the year to classify community relations and development expenditure.*

# MEASURING PERFORMANCE

## HSE Performance

In 2004 we continued to review both the effectiveness of the Corporate HSE plan and the implementation of our Data Quality Improvement Plan. As in previous years, data quality assurance was provided by KPMG after a data verification exercise. We recorded improvements in data quality and our goal is to maintain and improve upon these achievements in the coming years.

## SCD Performance

During the year, policies and procedures for managing community relations and SCD projects and programmes were reviewed and revised. In addition, significant progress was made in structurally improving the

quality of the SCD management systems and controls.

In 2002 and 2003 the Community Development Management Information System (CD MIS) data was found to be both incomplete and inaccurate and the auditors considered the system controls inadequate. This led to several recommendations for improvement, which were accepted and are currently being implemented, including improved functionality, recording and reporting capabilities, audit trails and access controls.

The system was made operational in the last quarter of 2004. It is expected that, together

with the new SCD organisation and procedures, the controls will significantly increase transparency, effectiveness and efficiency in community project management.

Parallel to the system improvements, an inventory of corporate community projects was undertaken to identify projects that were not captured in the CD MIS project database because some business initiatives in previous years had been executed outside the standard community development processes.

SPDC replaced its legacy accounting system and implemented a new system on 1st April

## 2004 SPDC Final HSE Summary Performance

	Units	2000	2001	2002	2003	2004 SPDC (inc EA)	2004 SPDC (without EA)
Oil & Gas production	million tonnes	53.75	57.72	48.00	61.56	66.67	60.19
Total emissions of carbon dioxide (CO <sub>2</sub> )	'000 tonnes	21,838	22,489	15,467	18,821	19,798	18,787
Total emissions of methane (CH <sub>4</sub> )	'000 tonnes	98.4	111.6	72.8	87.0	90.7	87.1
Total hydrocarbon emissions (methane + VOC)	'000 tonnes	160.2	183.3	100.4	117.2	122.2	117.9
Gas flaring (hydrocarbons)	'000 tonnes	7,693	7,909	5,222	6,385	6,611	6,317
Total emissions of sulphur oxides (SO <sub>x</sub> )	'000 tonnes	1.7	1.8	1.1	1.1	1.1	1.0
Total emissions of nitrogen oxides (NO <sub>x</sub> )	'000 tonnes	17.8	27.3	22.3	23.1	21.9	21.3
HCFE/CFC/Halons (lost to atmosphere)	kg	3,459	1,901	2,960	1,198	2,403	2,403
Oil in effluent to surface environment	tonnes	171	291	226	243	321	316
Total volume of produced water discharged	'000 m <sup>3</sup>	25,892	39,195	26,424	33,147	39,922	39,689
Average oil in produced water (to surface environment)	mg/l	7.14	7.43	8.55	7.33	8.05	7.96
Oil-spills >100 kg excluding sabotage (net oil only)	'000 tonnes	1.8	5.2	0.2	0.4	0.03	0.03
Oil-spills >100 kg including sabotage (net oil only)	'000 tonnes	4.2	10.4	2.7	1.3	1.12	1.12
Fatalities (company/contractor)	No.	7	3	7	11	12	12
Total reportable occupational illness frequency (TROIF)	per mln exp. hours	6.20	10.84	4.35	5.70	1.80	1.84
Total reportable case frequency (TRCF)	per mln exp. hours	1.05	0.56	0.53	0.61	0.87	0.88
Lost time injury frequency (LTIF)	per mln exp. hours	0.43	0.31	0.30	0.39	0.31	0.31

2004. Special cost elements were created during the year to classify community relations and development expenditure. When fully implemented and applied, the system enables improved specification of community expenditure. However, the change over from the old to the new system during the year and the inherent implementation issues, limited the system's application and benefits during this reporting year in terms of achieving efficient

SCD cost allocation. Detailed verification was required to ensure that the direct expenditures for communities were adequately specified in the accounts.

### External Stakeholder Review

The External Stakeholder Review (ESR) of completed SPDC-supported community projects was carried out by a team of nine independent experts drawn from donor agencies, national and international

NGOs, Niger-Delta based NGOs, State Government and Joint Venture Partners. For the first time, the ESR Terms of Reference were expanded to include the degree of beneficiary ownership and the sustainability of completed projects. The result of the assessment is presented on the next page.

### Members of the ESR 2004 Team

NAMES	DESIGNATION	ORGANISATION
<b>Mr Nemi Ogbanga</b>	Team Leader	Director, European Union/MPP3 Programme, Rivers State
<b>Mrs Iyabode Ayobami-Ojo</b>	Secretary	Supervisor Community Relations, NNPC-NAPIMS, Lagos State
<b>Mrs Nogi Imoukhuede</b>	Member	Chairperson, Roots & Fruits Women Farmers Society of Nigeria (RUFARRM) Benin City, Edo State
<b>M. A. U. Enunwa</b>	Member	Director, Min. of Economic Planning, Delta State
<b>Mr E.T. Owubokiri</b>	Member	Deputy Director, Office of the SSG, Rivers State
<b>Sq. Ldr. (Rtd.) Olam Allwell-Brown</b>	Member	Executive Director, Centre for Progressive Initiatives (CEPI), Port Harcourt, Rivers State
<b>Mr Francis Ayinzat</b>	Member	Programme Officer, Trade & Environment, Oxfam GB, Abuja, FCT
<b>Mrs Yaprika Nwankwo</b>	Member	UNDP Focal Adviser, Office of the Commissioner, Special Duties, Rivers State
<b>Mr Kuna Porokie</b>	Member	Finance & Admin, Adviser, Centre for Development Support Initiatives (CEDSI), Port Harcourt

#### **Definitions:**

##### **Community Development Project:**

A set of inter-related and coordinated activities that together achieve a development result or fulfil an identified need for the community, or a specific group of people in the community, of which the delivery can be measured.

##### **Completed Project:**

All project components are delivered and installed in accordance with specifications.

##### **Beneficiary Ownership:**

The degree to which a beneficiary or targeted community participates in the activities of a project/programme, enhancing the capacity or possibility for them to take over future control and management.

##### **Sustainability:**

The potential for the positive effects of a project/programme to continue for an extended period after the end of SPDC's support.

##### **Functionality:**

Indicates that the project is delivered as designed and operating.

##### **Success:**

Refers to the interface between the project's functional status and its rate of utilisation by the community.

## SUMMARY REPORT OF THE ESR TEAM FINDINGS OF SPDC-SCD PERFORMANCE IN 2004

SPDC has transformed its developmental interventions from community assistance to community development (CD) and sustainable community development (SCD). These processes are geared toward strengthening its development thrust to create a mutually beneficial relationship between it and host communities.

The work of the ESR is to assess SPDC CD delivery through first-hand experience and to comment on its overall performance in 2004.

The objective was to verify the status (functionality, success, beneficiary ownership and sustainability) of completed projects supported by SPDC in the period spanning 1st January to 31st December, 2004.

The nine-member team selected 85 projects out of 141 projects submitted, representing roughly 60% and verified and assessed 73 of those selected, representing 86 %. The team discovered that 69 projects were completed within the Terms of Reference; 74% (54) projects were functional; 80% (58) projects were adjudged to be beneficiary owned. Therefore, the team rated SPDC's performance in 2004 as commendable.

However, a key challenge is for SPDC to think along the lines of doing an ESR that has a longer duration and covers more years, such as two or three years, if possible. This will enable SPDC to rectify problems observed by ESR teams. There is currently no evidence that such recommendations are taken seriously. The issue of beneficiary ownership should be seriously addressed since even beneficiary-owned projects are dependent on SPDC for sustainability, as is also the case of commissioning.

Business development/income-generating projects are found to be highly beneficial. As such, best practice areas can be adapted in other projects since the weak economic base of these communities hampers their ability to maintain projects.

There is also the need to match investments against the quality of work of implementers. SPDC should endeavour to use credible NGOs (partners) with experience in the areas to facilitate and implement projects.

Generally, SPDC's performance is therefore commendable in year 2004 CD delivery and, if SCD as mentioned in our briefing is implemented to the letter, a new dawn will be in place by the end of 2005/2006.

**Nemi Ogbanga,**

Director, EU MPP3 Programme and 2004 ESR Team Leader.

## ESR Results: 2000 - 2004

Project Rating	2000	2001	2002	2003	2004
Functional	49%	83%	93%	70%	74%
Success	36%	62%	77%	65%	74%
Beneficiary Ownership	-	-	-	-	80%
Sustainability	-	-	-	-	70%
Number of Projects Verified	81	87	121	69	73

## Sector Breakdown of 2004 ESR Verified Projects

Sector	% Functional	% Successful	% Beneficiary Owned	% Sustainable	Total Number of Projects Verified
Agriculture	58	50	75	42	12
Community Health	75	50	50	75	4
Education	100	100	100	100	9
Micro-credit/Business Dev.	64	64	71	57	14
Water & Sanitation	89	89	89	83	18
Women's Programme	50	50	100	100	2
Infrastructure	64	86	79	64	14
<b>TOTAL</b>					<b>73</b>

# REPORTING AND ASSURANCE

## Basis of Reporting

Health, Safety and Environment (HSE) and Community Development (CD) performance data are aggregated for all operations and exploration activities that are under the operational control of SPDC, the operator of the joint venture between NNPC, Shell, Total and Agip. They include Shell's interest in the EA offshore operations, operated by SNEPCO, but exclude other Shell interests which are under the operational control of NLNG and other Shell Companies in Nigeria described on page 45. Operational control refers to those operations and exploration activities in which SPDC has full authority to introduce and implement the Royal Dutch/Shell Group's Business Principles and SPDC's approach to HSE and CD.

## SPDC Reporting Policies

SPDC has reported voluntarily on environmental and social performance since we published our first People and Environment report in 1997. We believe our staff, shareholders, partners and the communities in which we operate deserve an honest account of the impact that our operations and products have on society and the environment, of our efforts to improve performance in this area, and of the opportunities for our business in providing the energy the world needs to develop.

HSE data is collected using the SPDC specific procedures derived from the Royal Dutch/Shell Group's HSE Performance Monitoring and Reporting guideline, which defines the scope and methodology for reporting the parameters. A copy of this guideline may be found in the "Environment and Society" section of the Shell website ([www.shell.com](http://www.shell.com)).

SPDC does not have accurate data on the volumes of crude oil that are stolen. Therefore, we report our fiscal production, not our well head production, as required by the Royal Dutch/Shell Group's HSE Performance Monitoring and Reporting Guideline. Estimates are used for volumes of oil lost through theft on page 2.

CD data is collected according to the definitions and guidance in SPDC's Policies

and Procedures Manual for Sustainable Community Development (SCD) which was introduced during the year. A summary of the definitions is on page 36. Further information on the definitions and guidance may be found at the "Our Community" section of the Shell Nigeria website ([www.shellnigeria.com](http://www.shellnigeria.com)).

SPDC's definition of CD does not include any of SPDC's other community relations and interface activities, such as homage payments, pipeline surveillance contracts and oil spill clean-up activities. In addition, SPDC is aware that in some cases costs are incurred for communities by contractors as part of their operations. However, no reliable information is available to adequately quantify the value of such expenditure or the number of projects involved and whether they are delivered in accordance with SPDC's definitions of CD, therefore this is excluded from the reported CD data.

## Considerations and Limitations

Although we are confident in the overall reliability of the data reported, we recognise that HSE and CD data have certain inherent limitations, for example, differing interpretations of reporting guidelines and variations in measurement, calculations or estimates. Comparability of the HSE and CD data is affected by changes to the portfolio of activities under operational control, changes in the methodology from determining certain data and improvements in data collection systems, such as enhanced interpretation of guidelines and use of better estimates. Due to differences in reporting requirements mandated by regulatory authorities and the Shell Group, data included in this report may differ from data reported to regulatory authorities.

## Assurance

The implementation of our new SCD policies and procedures has been challenging, but we believe it is essential in improving the sustainability of SPDC's CD activities. Our external verifiers, KPMG, who carry out independent assurance on this report, provided challenge to the development of our SCD policies and procedures to work towards

a consistent and practical approach to monitoring and reporting SCD activity. This should help us ensure that all CD activity relating to SPDC operations is carried out in accordance with SCD policies and procedures.

We made significant efforts to address the complications that arose from the implementation of the new finance system, and performed thorough reconciliations by applying KPMG's detailed recommendations. As a result of this work we were able to overcome many of the initial complications caused by the implementation process and report the figure for CD expenditure on page 33. The new system will enable us to manage and report SCD expenditure more effectively and efficiently. SPDC has made significant efforts to improve the system's capabilities and the integrity of the CD projects database, CD MIS, implementing recommendations made by our external assurance providers in prior years. We increased our internal and stakeholder verification efforts on completed projects in 2004. The number of completed projects reported on page 30 represents projects that were recorded on CD MIS at the year end and that have been reviewed for completeness by our internal monitoring and evaluation team. The scope of our external assurance is focused this year on our completed projects disclosed in this report. Also, there is currently no ability to map projects recorded on CD MIS to expenditure on the finance system.

As part of the continuous improvement of our HSE systems, the accuracy of HSE data on air emissions and flaring has been improved through the application of more advanced measuring equipment. For example, almost 70 per cent of the flared gas is now metered through ultrasonic meters compared to 49 per cent in 2003. The implementation of SCD, combined with a new finance system and improvements to CD MIS, is part of the evolution of our interaction with communities and improvements in the reliability of our CD performance data.





## Independent Assurance Report to the Shell Petroleum Development Company of Nigeria Limited

The Shell Petroleum Development Company of Nigeria Limited (SPDC) engaged us to review selected data for its health, safety and environmental (HSE) performance and its community development (CD) performance, both as reported in its 2004 People and the Environment Annual Report (the Report).

This report is made solely to SPDC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to SPDC those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than SPDC for our review work, this report, or for the conclusions we have reached.

### Respective responsibilities of directors and reviewer

SPDC's directors are responsible for the preparation of the Report and the information and assessments contained within it, for determining the company's objectives in respect of HSE and CD performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Our responsibility is to express our conclusions to SPDC on the findings of our review, based on the work referred to below. We also report if, in our opinion, any of the relevant disclosures are misrepresented or inconsistent with our findings, if we have not received all information and explanations we required to conduct our work, or if we became aware of additional information, the omission of which may result in the selected HSE or CD performance data in the report being materially misstated or misleading.

### Basis of our work

There are no generally accepted standards for reporting HSE or CD performance. SPDC applies its own internal reporting criteria and derives its HSE reporting criteria from the Royal Dutch/Shell Group's Performance Measuring and Reporting guidelines.

We conducted our work in accordance with the International Standard on Assurance Engagements 3000: 'Assurance Engagements other than Audits or Reviews of Historical Information', issued by the International Auditing and Assurance Standards Board. Our work was carried out by a multi-disciplinary team of HSE, CD and assurance specialists. Our approach is risk based, drawing on an understanding of the risks associated with reporting HSE and CD performance and the systems and processes in place to mitigate these risks.

### Scope of review

SPDC engaged us to review the HSE performance data for the year ended 31 December 2004, excluding EA offshore operations, for the following data selected by management based on discussions with us, taking into consideration SPDC's significant HSE impacts: *oil and gas production; gas flaring (including CO<sub>2</sub>, NO<sub>x</sub> and CH<sub>4</sub> emissions); produced water; average oil in produced water (to surface environment); HCFC/CFC/halons (lost to atmosphere); fatalities (company/contractor); TROIF, TRCF and oil spills greater than 100 kg (inclusive and exclusive of sabotage)*. SPDC also engaged us to review its total spending on their CD programme and the number of CD projects completed by SPDC during the year ended 31 December 2004.

### Work performed

We planned and performed our work to obtain all the information and explanations to provide sufficient evidence for us to provide reasonable assurance over the HSE performance data in *italics* above, and limited assurance that the total expenditure on the CD programme, and the number of CD projects completed in the year, are fairly stated.

Our work consisted of:

- reconfirming our understanding of the systems used to generate, aggregate, and report on the selected HSE and CD performance data by conducting site visits to SPDC offices in Lagos, Warri and Port Harcourt, and HSE field trips to six facilities and CD field trips to five CD projects;
- assessing the significant assumptions and judgements made by the directors in the preparation of SPDC's HSE and CD performance data;
- assessing the completeness and accuracy of the selected HSE and CD performance data by:
  - interviewing SPDC line management and personnel responsible for the collection and collation of the selected HSE and CD performance data;
  - reconfirming our understanding of the systems used to generate, aggregate and report the selected HSE performance data, CD expenditure and completed CD project data;
  - assessing the significant assumptions and judgements made by the directors in the preparation of SPDC's HSE performance data, CD expenditure and completed CD project data;
  - testing the documentation which supports the measurement, calculation and estimation of the selected HSE performance data at the following production facilities: the Agbada, Kolo Creek, Opokushi and Jones Creek flow-stations, the Egbeleku landfill and the Jeddo composting facility;
  - testing a number of individual CD expenditure transactions by agreeing to supporting payment authorisation and completed CD projects to underlying project documentation, including five completed project site visits; and
- reviewing the disclosures in the report relating to the selected HSE and CD performance data in the light of our findings.

## CONCLUSIONS

Based on the work described above, in our opinion:

- SPDC's HSE performance data set out above for the year ended 31 December 2004, as reported on page 35, are fairly stated; and
- nothing has come to our attention that causes us to believe that SPDC's total expenditure on its CD programme, and the total number of CD projects completed in the year ended 31 December 2004, reported on page 33 and 30 are not fairly stated.

KPMG Professional Services, Nigeria  
Lagos  
27 May 2005

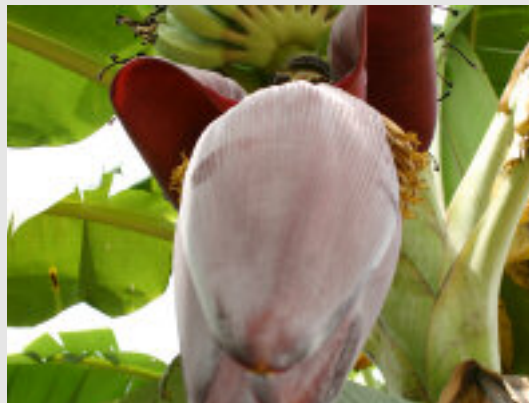
KPMG, Norway  
Oslo  
27 May 2005

KPMG LLP (UK)  
London  
27 May 2005

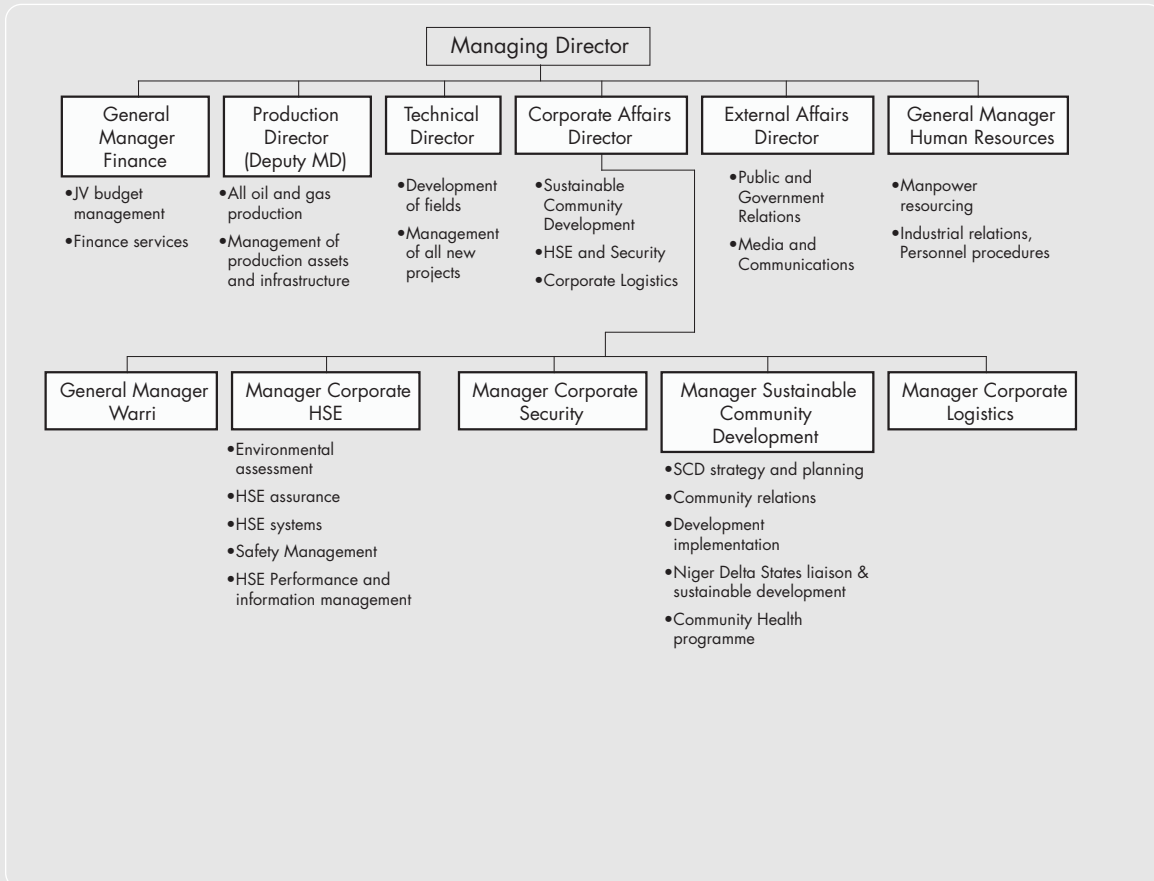
# APPENDICES

## Sustainable Community Development “Big Rules”

- 1) SCD sets the corporate direction and strategy of community interactions and manages corporate community interface and development activities in SPDC.
- 2) All community development projects/programmes must be in accordance with the agreed/approved 5-yr rolling SPDC community development plan, which is aligned to the Niger Delta Master plan where appropriate.
- 3) All community budget and expenditure must be approved and accounted for in accordance with SCD procedures.
- 4) SCD programmes/projects must have a sustainability plan and exit strategies and must be subjected to independent verification.
- 5) All new projects must have a baseline community survey and all existing projects must have a social evaluation review.
- 6) All community MOUs must conform to SCD guidelines and be approved by the Asset and SCD Managers.
- 7) Area teams are accountable for the implementation of SCD projects in line with agreed plans and SCD guidelines.
- 8) There shall be NO payments to communities other than those specified for legitimate business reasons.
- 9) No payment for ghost workers or stand-by employment.
- 10) Contractors/sub-contractors working under contract with SPDC must strictly adhere to the SCD policy and procedures for community interaction.
- 11) SPDC must deliver on SCD commitments.
- 12) SPDC will strictly adhere to SCD guidelines/policies at all times, even when operational continuity is threatened.
- 13) The MD of SPDC must approve any deviation from the above rules.



## SPDC Management Structure



# Organisations and partners SPDC worked with in 2004

Organisations	Projects
ACCORD for Community Development	Micro-credit
Africare	Integrated Health Project (Malaria Control)
ANPEZ Centre for Environment and Development	Science and youth education
Centre for Policy & Strategic Research	Enterprise Development
Citizenship and Leadership Training Center	Leadership training for community leaders and school prefects
Community Development Foundation	Youth entrepreneurship Development
Community Development Partners	Micro-credit/vocational skills
Delta Environment Network	Fishery project
Development Associates	Social Impact Assessment
Development Initiatives	Micro-credit
Enterprise for Development International	Enterprise Development
Globacom	TELSEP Partnership
Human Systems	Social Impact Assessment
International Institute of Tropical Agriculture	Cassava Enterprise Development Programme
Joint Admissions & Matriculations Board	University scholarships aptitude tests
Living Earth Nigeria Foundation	Integrated rural development and resources management; capacity building
National Directorate for Employment	Vocational skills acquisition for women and youths
Nigeria Conservation Foundation	Biodiversity
Nigerian Business Coalition against AIDS	HIV/AIDS
Nigerian Opportunities Industrialisation Centre	Vocational skills acquisition for women and youths
Pro Natura	Niger Delta Coastal Development Initiative
Sustainable Environment & Socio-Economic Development Group	Social Impact Assessment
UNDP	Human Development Report for the Niger Delta
USAID	Agricultural Development
West African Examinations Board	Post-primary school scholarships aptitude tests
World Wildlife Fund	Biodiversity

# Shell Companies in Nigeria

## The Shell Petroleum Development Company of Nigeria (SPDC)

The Shell Petroleum Development Company of Nigeria Limited (SPDC) is the largest private-sector oil and gas company in Nigeria. SPDC is the operator of a joint venture involving the Nigerian National Petroleum Corporation (NNPC), which holds 55 per cent, Shell (30 per cent), EPNL (ten per cent) and Agip (5 per cent). The partners fund the operations in proportion to their shareholdings. The company's operations are concentrated in the Niger Delta and the adjoining shallow offshore area, where it operates in an oil mining lease area of about 31,000 square kilometres.

## Shell Nigeria Exploration and Production Company Ltd (SNEPCO)

SNEPCO was established in 1993, and later that year it signed Production Sharing Contracts with the Nigerian National Petroleum Corporation (NNPC) to operate two deep-water and three onshore licences. SNEPCO made the first major deep-water discovery (Bonga) in Nigeria in 1995.

The development of the Bonga field started in 1999 and has allowed Shell to bring its expertise in deep-water technology into play – and transfer the relevant technologies and skills to Nigeria. Arrangements are well under way to produce the field in 2005. The Bonga FPSO is on site and being completed. It will be capable of producing 225,000 bopd and will have an export capacity of 150 million scf/d. The field, which is 120 km offshore, covers a surface area of 60 square kilometres, and lies in a water depth of between 1,000 and 1,100 metres.

## Shell Nigeria Gas Ltd (SNG)

This company was incorporated in March 1998 to promote gas utilisation as a cheaper, more reliable and cleaner fuel alternative and feedstock for industry. SNG is driven by the vision that natural gas will overtake liquid fuel as the fuel of first choice for

Nigerian industries by 2010. As at the end of 2003, over \$34 million had been committed to building gas distribution infrastructure. SNG has signed 45 Gas Sales and Purchase Agreements with potential industrial consumers in Aba, Eastern Nigeria, and in Agbara/Ota in Western Nigeria. On 16th August 2002, the company commenced the supply of natural gas to its customers in Otta and Agbara, marking the completion of the 75 km Agbara/Ota gas transmission and distribution project. Similarly, on 4th April 2003, the company started gas supply to its major customer in Ogbor-Hill, Aba, Abia State, after completing the gas distribution infrastructure there. SNG supplied an average of six mmscf/day to its customers during 2003.

## Shell Nigeria Oil Products Ltd (SNOP)

SNOP was incorporated in Nigeria during the last quarter of 2000. The company, which aspires to become a serious competitor in the downstream sector, will develop and maintain the market for Shell branded products and services to customers in Nigeria. The company's vision is to

become the largest supplier of refined petroleum products in the country. SNOP's contribution is in line with Government's efforts to stabilise the supply of petroleum products in the country, a key requirement for economic growth. In addition to petrol and diesel, the company now markets industrial chemicals and aviation fuel.

## Nigeria Liquefied Natural Gas Company Ltd (NLNG)

Shell has a 25.6 per cent shareholding in NLNG and is also the technical adviser. Its partners in this company are NNPC (49 per cent), Total (15 per cent) and Agip (10.4 per cent). Trains 1 and 2 of the \$3.8 billion plant began operating in late 1999, supplying liquefied natural gas to markets in Europe and the US. The plant has been expanded with a third train, which came on stream in December 2002 and increased its capacity by 50 per cent, raising Nigeria's share of the world LNG market to eight per cent. The partners are considering further expansion of the plant's capacity and a final investment decision on two further trains (trains 4 and 5), was made by the NLNG board in March 2002.

