

2003 PEOPLE AND THE ENVIRONMENT

Annual Report



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



CONTENTS

| | |
|---|-----------|
| MESSAGE FROM THE CHAIRMAN | 1 |
| <ul style="list-style-type: none">• Nigeria continues to present opportunities and challenges• Past years' investments begin to yield fruit | |
| THE OPERATING ENVIRONMENT | 2 |
| <ul style="list-style-type: none">• Budget situation was tight• Crime continues to be a concern• Welcome reduction in community disturbances• Intensified engagement with NDDC | |
| STRENGTHENING THE ECONOMY: INVESTMENTS, REVENUES AND JOBS | 4 |
| <ul style="list-style-type: none">• Produced an average of 910,000 barrels of oil per day• Realised average crude price of \$28.72 per barrel• Sold 1,171 million standard cubic feet of gas per day• Made payment of \$1.2 billion Petroleum Profit Tax and \$0.6 billion royalties• Commissioned Offshore Gas Gathering System | |
| PROTECTING THE ENVIRONMENT | 7 |
| <ul style="list-style-type: none">• Sold 210 million standard cubic feet per day of associated gas• Reduced number and volume of spills• Sustained inspection programme of pipelines• Adopted biodiversity policy | |
| INVESTING IN PEOPLE AND LIVING OUR VALUES | 12 |
| <ul style="list-style-type: none">• Delivered 45,000 learning days• Continued new graduate and technician training programmes• Released 29 career and contract staff because of corrupt practices• Recorded lost-time injury frequency of 0.39 per million hours worked• Recorded 23 fatalities (11 contractors and 12 third parties) | |
| PARTNERING FOR COMMUNITY DEVELOPMENT | 15 |
| <ul style="list-style-type: none">• Signed partnership agreements with USAID and Africare• Paid \$54 million to Niger Delta Development Commission• Spent at least \$30 million on community development programmes• Adopted a new Sustainable Community Development policy | |
| MEASURING PERFORMANCE | 23 |
| <ul style="list-style-type: none">• External stakeholders rated 70 per cent of the community projects as functional and 65 per cent as successful• Started impact assessment of community development programme | |
| REPORTING POLICIES | 26 |
| KPMG INDEPENDENT ASSURANCE REPORT | 28 |
| APPENDICES | 30 |

MESSAGE FROM THE CHAIRMAN



We remain committed to Corporate Social Responsibility, one aspect of which is our contribution towards the development of the Niger Delta and the reduction of poverty.

I am pleased to share The Shell Petroleum Development Company of Nigeria's (SPDC's) 2003 People and Environment report with you. I became Chairman of Shell Companies in Nigeria (SCiN) in October 2003 and I am delighted to be back in Nigeria, having worked here some 10 years ago. Nigeria continues to present many opportunities and challenges.

The investments we have been making over the years have begun to yield fruit and enabled us to increase production capacity. Higher production, coupled with a higher average crude price, enabled us to contribute to the wealth of the nation by paying higher taxes than last year.

In 2003, the Government of Nigeria gave its support to the Extractive Industries Transparency Initiative (EITI). We applaud this stance and, as in our 2002 report, this report contains the payments we made to the Nigerian Government in 2003.

Regrettably, our safety performance worsened during this year, as indicated by 23 fatalities. This is unacceptable, and in 2004 we will continue to be vigilant, draw on the lessons from these incidents and work hard to prevent re-occurrences. Our deepest sympathy and condolences go to the families of those who lost their lives.

Another area of major concern is the level of violence in the Niger Delta region. The availability of arms, the theft of crude oil, inter-communal conflicts, social disintegration and other factors have contributed to the level of insecurity and tension in the area. As this state of affairs does not present a safe environment for our staff, our contractors and the communities in and amongst whom we work, we are committed to seeking ways by which, with other stakeholders, we can contribute towards promoting peace and reducing conflict in the area.

Our drive for environmental certification continues, and in 2003 we achieved the certification to international standards of all our major oil and gas facilities, including the Bonny and Forcados terminals and our pipeline network.

We remain committed to corporate social responsibility, one aspect of which is our contribution towards the development of

the Niger Delta and the reduction of poverty, but recognise that our development activities in the past may have been less than perfect. Our community development spend has gone down this year for various reasons. But we are committed to improving our processes for delivering future projects, examining our impact on communities and the environment in which we operate and taking corrective action. We believe that one way of improving the delivery of community development projects is through partnership, which will allow the sharing of resources and knowledge, the harnessing of expertise and should lead to the achievement of better results. Our programme received a significant boost during the year with the signing of agreements with USAID and Africare.

In December a local chapter of the World Business Council for Sustainable Development was launched in Nigeria. We are pleased to be one of the founding members and look forward to its growth in the country.

The progress we have made during 2003 is due to our staff, our contractors and other stakeholders and I am very grateful for all the hard work that has made it possible. My special appreciation also goes to my predecessor, Ron van den Berg, who departed during the year after more than six years in Nigeria. I congratulate Ron on being awarded the honour of Officer of the Order of the Niger by President Olusegun Obasanjo and an honorary OBE by Her Majesty, Queen Elizabeth II for his work in Nigeria.

I hope that you will enjoy this report, which has been modified based on the comments we have received in previous years. 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, we invite you to visit our website at www.shellnigeria.com

Chris Finlayson
Chairman, Shell Companies in Nigeria
31st May, 2004

THE OPERATING ENVIRONMENT

2003 was an important year for Nigeria. April saw successful civilian elections. These were a crucial test of the country's ability to stay the course of democratic change and economic reform. However, despite the optimism that followed the elections, the economic outlook remained challenging.

The Government's effort to implement its deregulation policy through the liberalisation of the power and energy sectors ran into obstacles. In the energy sector, the attempt by Government to increase domestic fuel prices was strongly resisted by the Nigerian Labour Congress (NLC), and in June led to a 12-day nationwide strike that nearly paralysed the economy.

As was the case in 2002, SPDC operated under very tight budgetary conditions. The company proposed a full oil and gas growth programme budget for the Joint Venture of \$2.7 billion. However, the allocation that became available from the Federal Government resulted in an approved SPDC JV budget of \$2.3 billion. As a result, some major oil and gas development projects were deferred. This also contributed to a reduction in our community development (CD) budget.

Inter-tribal conflicts, which started during the first quarter around Warri in our Western area of operations, necessitated the withdrawal of staff in the Northern Swamp area on safety grounds. This dislocated production and, during the period of civil unrest, there was increased vandalism of equipment, crude theft and project delays. The breakdown has led to an increased presence of security forces in the area to protect life and property. SPDC has provided logistics and other non-military support to some of these forces. There is a risk that such presence could lead



Ogbotobo flowstation

to conflicts between these forces and criminal elements in the area.

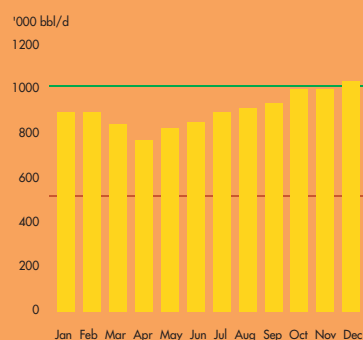
Despite the above challenges, oil production increased during the year to an average of 910,000 barrels of oil per day (bopd). This represents an increase of 27 per cent over last year, and reflects the increase in production capacity that has resulted from investments made over the last few years in the development of new fields, such as EA. Production reached a 20-year high from October, averaging about one million bopd.

For a second successive year, we fared well in the gas sector. With the coming on stream of Train 3 in November 2002, total gas supply to Nigeria Liquefied Natural Gas (NLNG) increased. This helped SPDC to achieve total sales averaging 1,171 million standard cubic feet per day (scf/d) of gas, surpassing the target of 1,100 million scf/d for the year (and the 812 million scf/d achieved in 2002). We also made progress with other gas utilisation

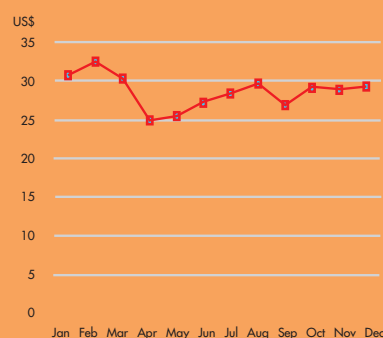
projects. In May, the West African Pipeline Company (WAPCO) was incorporated and it signed an International Project Agreement (with Nigeria, Benin, Togo and Ghana) which has established the general fiscal and legal regime for the pipeline. Similarly, the Memorandum of Understanding on the Afam power project was signed with the Nigerian Government, after protracted negotiations. With the last major hurdle now crossed, we hope to make rapid progress with the Afam project in 2004.

The good performance in oil and gas production recorded during the year was achieved in a constantly challenging operating environment in the Niger Delta. The high levels of criminality in parts of the region, inter-tribal conflicts and community disturbance of operations remain a concern. The organised theft of crude oil continues to top the list of criminal activities and possibly provides the funds and arms for some of the inter-communal strife. During the year, we suffered some 88 crude oil theft incidents,

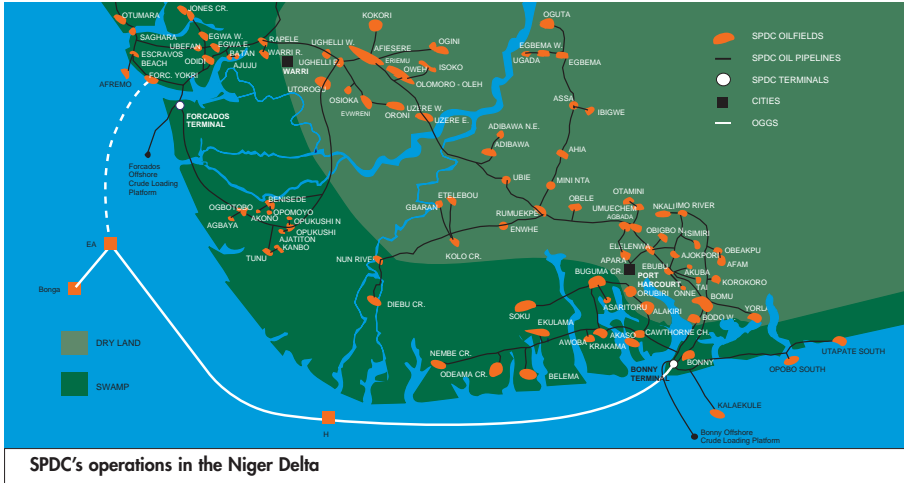
Monthly Crude Oil Production for 2003



Crude Oil Prices in 2003



In my opinion, pipeline vandalism and oil bunkering can be stopped through proper youth/graduate engagement and empowerment. Also through proper and adequate monitoring of pipeline and oil installations/facilities.
 – Chief Sheriff F. O. Oborewoori, Businessman/Politician



resulting in the loss of an estimated nine million barrels of oil (compared with approximately six million barrels in 2002), and deferment of another 13.8 million barrels. We regularly reported these incidents and their impact to the Federal Government, which responded by improving and expanding the level of security patrols on the waterways. This led to a number of arrests and seizure of ships and barges, but the generally high crime level in the Niger Delta remains a concern.

There were some 78 security incidents (most of which were robbery cases) against SPDC staff, of which eight involved the use of arms. This represents an increase on the corresponding 2002 figures of 74 and five respectively. However, 20 cases of hostage taking were recorded (a reduction on the 2002 figure of 24).

There was some reduction in community disturbance (shutdown of flowstations, blockade of rigs, stoppage of construction work, etc), from a high of 282 in 2002 to 160 in 2003. Similarly, the total number of project

days lost due to community disturbances was also lower at 382 in 2003, compared with 1,702 in 2002. Unfortunately, these lower numbers were not reflected in lower oil deferment. Some 45 million barrels were deferred, most of which (about 43 million barrels or 95 per cent) as a result of the shutdown of the oilfields in the Northern Swamp area of Warri for most of the year following the inter-communal crisis mentioned earlier.

During the year, the company continued various engagement programmes with our host communities. This was done through formal and informal contacts by its network of community liaison officers. A series of one-day community issues and trends seminars and community parliaments were also held to provide information on SPDC's operations and build understanding with stakeholders.

However, as a result of the nationwide strike in June, the annual SPDC integrated environmental and community development

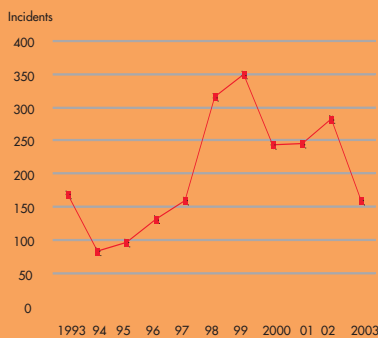
workshop, which was scheduled for July, could not be held and was postponed to February 2004.

We also intensified engagement with the Niger Delta Development Commission (NDDC), in its effort to construct a robust and credible master plan for, and coordinate development in, the region. Work on the master plan for the development of the Niger Delta has been slow and is now behind schedule.

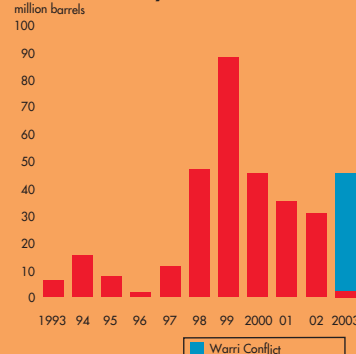
NDDC remains important for the development of the Niger Delta and requires support in order to fulfil its mandate. The Commission is currently completing a number of community infrastructure projects inherited from the previous development agency in the region, the Oil Mineral Producing Areas Development Commission, pending the completion of the master plan. NDDC has also started some human capital development programmes. We are in discussion with the Commission on possible areas of collaboration to accelerate the sustainable development of the region.

In 2003, the SPDC JV statutory contribution to the funding of the Commission totaled \$54.5 million (\$48 million in 2002). Of this amount, Shell's contribution was \$16.4 million. We also provided further capacity-building support to the Commission. However, NDDC believes that SPDC (as well as some other oil companies) has not paid the full amounts due in prior years. We are in discussion with NDDC, and are confident that this issue will be fully and satisfactorily resolved in 2004.

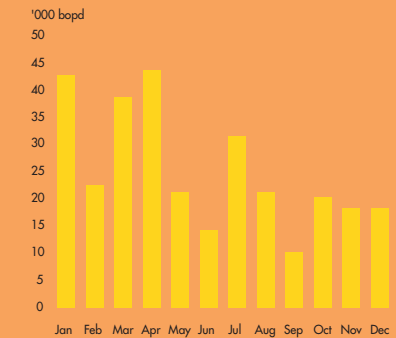
Trend of Community Incidents



Trend of Crude Oil Deferment due to Community Problems



Estimated Crude Oil Theft in 2003



STRENGTHENING THE ECONOMY: INVESTMENTS, REVENUES AND JOBS

“Oil will continue to be the major source of Government revenues in the near term”

President Olusegun Obasanjo,
Budget Address, December 2003

There are many ways in which businesses can contribute to sustainable development. For SPDC, and other Shell companies in Nigeria, our most significant contribution comes from carrying out our direct business activities efficiently, profitably and to high standards. It also comes from the sizeable investments we make. These create wealth for the nation, through the substantial amounts of taxes and royalties generated, and the direct and indirect employment created.

Major Investments

The EA field came on stream in December 2002. Since then it has steadily built up production to over 100,000 bopd. This contributed to SPDC's record oil production in 2003, which averaged over one million bopd over the last quarter of the year.

The 267 km offshore gas-gathering pipeline from the Bonga field to the NLNG plant in Bonny was commissioned in December 2003. The pipeline system, which was commissioned a year later than planned, is currently taking associated gas (AG) from the EA field to the Bonny NLNG plant, and will take associated gas from SPDC's fields (Forcados Yokri, Odidi and Southern Swamp) in the Western Niger Delta in due course.

The portfolio of gas projects that will enable SPDC to meet supply requirements was also at various stages of field development

planning or conceptual engineering study. With integrated projects for the NLNG Trains 4 and 5 under way, feasibility studies have begun on Train 6, along with attendant additional projects. The completion of these projects in 2005 will make NLNG the largest liquefied natural gas plant in the Atlantic Basin, with the largest fleet of LNG ships in the world.

Onshore associated gas gathering (AGG) projects have suffered slippage. The Cawthorne Channel project, scheduled to come on stream during the year, was delayed until the second quarter of 2004, while those at Forcados Yokri and the Southern Swamp area are now scheduled for commissioning in 2005 and 2008 respectively, due to re-phasing driven by joint venture funding constraints. The Odidi-Forcados-Yokri pipeline will now be commissioned in the second quarter of 2005 to facilitate gas supply to the LNG plant in Bonny.

Revenue Generation

SPDC makes a significant contribution to Nigeria's economy, through payments to the Nigerian Government in the form of taxes and royalties, and through the Government's equity stake in the Joint Venture. The split of the barrel (see box below) is based on a revenue-sharing formula agreed between the Government and its joint venture partners and reflected in a Memorandum of Understanding (MOU).

We strongly support the principles of the Extractive Industries Transparency Initiative (EITI), and applaud the Nigerian Government's pioneering move to implement them in Nigeria. In relation to this initiative, we continue the disclosures made in the 2002 “People and the Environment” report and set out below the taxes, royalties and other

payments made to Government agencies in 2003.

According to Government statistics (see www.oagf.org), the four key oil-producing States received, in 2003, nearly 30 per cent of the revenue allocated to the 36 States in Nigeria, up from 25 per cent in 2000 (see chart below). The challenge still remains to apply these resources in a transparent and efficient way to the sustainable development of the region.

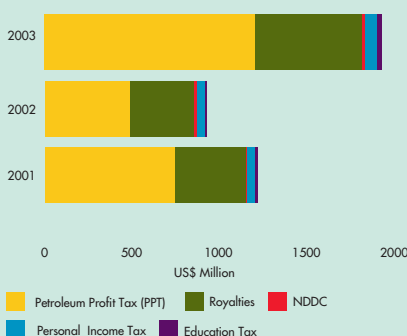
Royalties, Taxes and other Levies

Royalties and taxes paid to the Federal Government rose significantly in 2003. Under the provisions of the 2000 MOU and the Petroleum Profit Tax requirement, SPDC paid \$1.2 billion to the Federal Government for the year – representing a three-fold increase over 2002. \$608 million were paid as royalties, also an increase on 2002. These increases reflected higher crude prices and higher volumes produced during the year. In addition, payments of education tax tripled, and there were also increases in Pay As You Earn (PAYE) tax, paid to governments of states where staff are resident. As stated earlier, SPDC joint venture also made a contribution of \$54.5 million to the NDDC. Another Shell company in Nigeria, Shell Nigeria Ultra-Deep Company (a subsidiary of SNEPCO), paid a signature bonus amounting to \$210 million.

Jobs and Local Skill Development

SPDC generates jobs and income, both as a direct employer and as a purchaser of business services. We employ some 5,000 staff directly, of whom 95 per cent are Nigerian. Two-thirds of our Nigerian staff are from the Niger Delta region itself. SPDC also employs more than 20,000 people indirectly,

Royalties, Taxes and other Levies



Split of the Barrel

The terms of the Memorandum of Understanding (MOU) signed by the Government and the major oil companies in 2000 continued to form the basis for sharing oil revenues between the joint venture partners in 2003. 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 on the right. 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.

through the network of companies that provide supplies and services.

Increasing the company's use of local contractors helps to stimulate competition, reduces costs and plays a vital role in developing the local economy by providing revenue and jobs. In recent years, major steps (including working through the Oil Producers Trade Section of the Lagos Chamber of Commerce) have been taken to increase "local content" by tackling local contractor capacity and finance availability issues. Regrettably, the \$30 million Niger Delta Contractors Revolving Credit Facility, involving the International Finance Corporation (IFC), Diamond Bank and Shell, which was established to provide easier access to capital, did not make any disbursements during the year. However, about 400 contractors attended two workshops held to inform potential beneficiaries about the details of the scheme.

SPDC has also amended its tendering criteria and now requires foreign bidders to work with indigenous contractors. In 2003 the company provided training to 2,400 local contractor staff. At present over 95 per cent of contractors are Nigerian companies, although the value of contracts they receive remains disproportionately small. However, in 2003 large contracts, worth over \$400 million, were awarded to consortia led by Nigerian contractors for the Forcados Yokri offshore development.

During the year, SPDC launched a strategic transformation programme (called "Securing our future") which is expected to reduce the cost of doing business, and increase investment in the company's growth through the creation of a single corporate centre, a

more efficient organisational structure and streamlined business processes, while eliminating resource fragmentation and duplication of roles. The programme will involve relocation of offices and a reduction in staff numbers. At the time this report went to press, work and consultations were yet to be concluded and so we are unable to give further details of the impact of this programme at this stage. There will be consultation with staff and other stakeholders as we proceed.

Technology and Innovation

SPDC's commitment to improved productivity through technological innovation was maintained in 2003. The key breakthroughs achieved during the year include:

Deployment of Remote Cableless Technology: Cableless technology transmits well data through existing hardware, such as the steel of the well and pipeline (as against installing fixed cables) to the flowstation/office. This enables timely diagnosis of well problems at relatively low cost and also reduces operator intervention at field locations. The technology was installed in SPDC's Imo River well-60 and was the world's first deployment.

Use of Expandable Sand Screen (ESS) in Wells: The use of ESS enabled us to drill smaller-diameter wells and still obtain levels of oil and gas recovery that would normally be expected from bigger wells. We made a cost saving of some \$3 million in 2003 from the use of this technology.

Application of the Hydrocarbon Field Planning Tool (HFPT): The HFPT tool is a software program that allows modelling of an integrated (oil-gas-water) production system from the subsurface, via the wells, through the surface facility network to the sales delivery point. This technology was applied

in the Forcados Yokri field in 2003. The results showed that the planned upgrade of some of the surface facilities was unnecessary, leading to potential savings of over \$30 million.

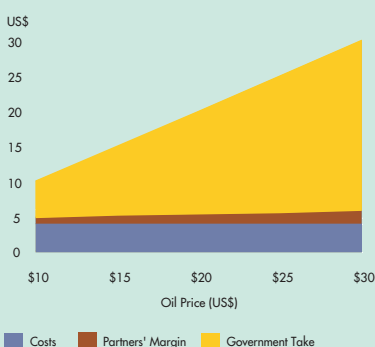
Application of 4D Seismic: The 4D (four dimensional) seismic technology tracks the subsurface movement of hydrocarbons as they become depleted through production. The data help to optimise new well locations and minimise surface footprints. In 2003, significant progress was made in the interpretation of the Nembe 4D seismic data, processing of Cawthorne Channel 4D seismic and acquisition of Imo River 4D seismic.

Deployment of Geochemical Fingerprinting: This proprietary technology was successfully deployed in 2003. It offers an economic and effective solution to production allocation and will be instrumental in enabling future large-scale co-mingling of production from different reservoirs in SPDC (capable of releasing some 50,000 bopd locked-in potential).

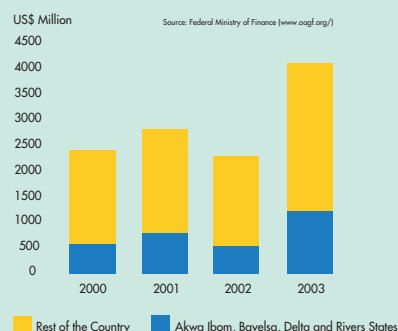
Made-in-Nigeria Flowstation

The first "Made-in-Nigeria" flowstation for SPDC was constructed in Warri, Delta State, during the year (see photograph below) by an indigenous company, Globestar Engineering and Construction Limited, the local affiliate of Stolt Offshore Services SA of France. Engineering design and procurement of materials were carried out overseas, but fabrication and construction of the 2,100-tonne facility took place locally. A total of 500,000 working hours went into the work. The \$40 million new Estuary flowstation is designed to handle some 120,000 bopd with state-of-the-art technology and will replace the existing 80,000-bopd facility. The construction of a flowstation by an indigenous company is a high point in SPDC's efforts to foster local content. "It is a plus for indigenous participation in the oil industry," said the Project Leader, Kunle Kareem.

Split of the Barrel



Federation Account Revenue Allocation to States



Estuary flowstation during construction in Warri



ECC members win 2003 UNEP painting competition awards

SPDC supports the establishment of Environmental Conservation Clubs (ECC) in secondary schools within the Niger Delta. These clubs, which now exist in almost 100 schools in the region, promote environmental awareness amongst young people, through such activities as debates, essay-writing contests, litter-free and tree-planting campaigns, and painting competitions.

During the year, SPDC sponsored submissions from over 200 young student contestants from ECC member schools to the annual 2003 United Nations Environmental Programme (UNEP) Painting Contest. Each year UNEP organises environmental painting contests for children between the ages of 6 and 15 years. The theme for this year's contest was SAVE THE EARTH: Preserve the beautiful

oceans, skies and forests for the future.

Out of the 12,000 submissions received by UNEP from over 80 countries worldwide, three of the submissions from our ECC students were jointly placed 5th. The winning entries were from Folaremi Oluwafunmilayo (13), Ani Nkemjika (13), and Chamberlain Akpojohare (14), who were among 303 prizewinners across the world – and the only awardees from Nigeria.

We are proud of the achievement of these youngsters and, through such events, hope to sustain the gains of the ECC programme, by encouraging young Nigerians from the Niger Delta towards greater aspirations, not only in environmental matters but also towards future leadership roles. *(See the paintings above)*

PROTECTING THE ENVIRONMENT

“Ensuring environmental sustainability – the seventh Millennium Development Goal – requires achieving sustainable development patterns and safekeeping the productive capacity of natural ecosystems for future generations.”

Chris Finlayson, Chairman,
Shell Companies in Nigeria

In line with our commitment to sustainable development, we continued to work to mitigate the impact of our operations on the environment. Five years ago, the company began voluntary certification to international standards through the ISO 14001 process. All our major facilities are now independently certified.

On statutory compliance, we also reviewed the revised Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN) issued by the Department of Petroleum Resources (DPR) in 2002. The new guidelines cover the regulatory requirements against which we had previously reported, but also introduce new elements for compliance. We have now presented a consolidated plan to the DPR that will form the basis for monitoring and reporting on the EGASPIN requirements. During the year, DPR determined that waste water should be disposed of in 200 feet depth of water at least 12 nautical miles from the shoreline – a requirement that rendered both

the Bonny and Forcados Terminals, and the FPSO “Sea Eagle”, non-compliant. As there are no realistic short-term technical options to achieve compliance, we reached an understanding with the DPR to continue the current method of waste water disposal in the interim. At year’s end, we had achieved 72 per cent compliance status with EGASPIN and expect to improve on this in 2004.

In line with the international commitment to deal with substances that deplete the ozone layer, and consistent with the drive to implement the Shell Group Minimum Environmental Standard, we continued with the programme to eliminate halons (used for fire fighting) and CFCs – chlorofluorocarbons (refrigerant gases) within SPDC installations. The current phase-out plan envisages the total elimination of halons and CFCs in stock and equipment during 2005, well ahead of the Montreal Protocol deadline of 2010.

Eliminating Flaring: Harnessing Gas for Development

Eliminating all routine flaring by 2008 is a major corporate commitment. This target is becoming tight and during 2004 we will be reviewing what resources will be necessary to achieve it.

However, in 2003, the volume of associated gas (AG) flared was 700 million scf/d. This was more than the amount flared in 2002 (570 million scf/d), due partly to increased production and delay in commissioning the Offshore Gas Gathering System (OGGS). The OGGS was commissioned in December. Together with the current contribution from the Soku and Obigbo nodes, it will increase

our ability to gather gas from outlying oil fields for supply to NLNG. At year’s end, an average AG sale of 210 million scf/d (out of total associated and non-associated gas sale of 1,171 million scf/d) was achieved, a 50 per cent increase in AG sales compared with the 140 million scf/d level of 2002.

In 2003 we continued the installation of bulk and ultrasonic gas meters in flowstations to enhance the quality of measurement of gas volumes. This significantly improved the quality of data over manual measurement techniques. We were unable to complete the meter installation programme in 2003, but ultrasonic equipment will be installed at all flare points in 2004.

Emissions

Oil production increased by some 27 per cent in 2003 compared with 2002. This resulted in an overall increase in flared gas volumes as well as the total hydrocarbons and related emissions during the year. (See page 25.)

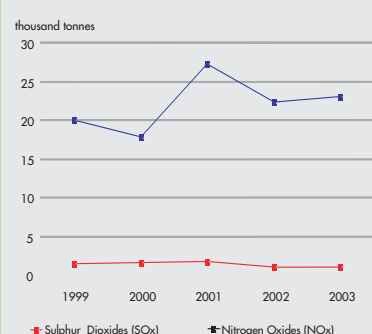
The thrust in 2004 will be to reduce emissions through increased focus on implementing the AGG projects, applying stringent gas/oil ratio controls, improving performance on well testing, and mitigating “fugitive” emissions from our terminals.

Oil Spill: Prevention and Clean-Up

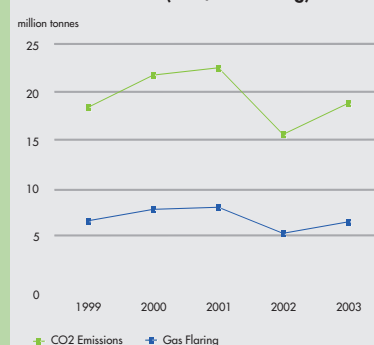
Oil spills remain a persistent cause for concern, damaging the environment, posing health hazards, and disrupting production. In 2003, there were 221 such incidents in which a total of some 9,900 barrels of oil were spilled.

Some 80 of these incidents were controllable

Trend of Emissions (SO_x/NO_x)



Trend of Emissions (CO₂ / Gas Flaring)



Environmental Activities

| Activity | 2003 Plan | 2003 Actual |
|--|-----------|-------------|
| Flowstation upgrade | 17 | 7 |
| Flare stack improvement | 15 | 23 |
| Flowline replacement and burial (km) | 313 | 246 |
| Pipeline network cathodically protected | 96% | 96% |
| Pipeline cleaning by pigging (km) | 1200 | 1464 |
| 5-yearly pipeline inspection by pigging (km) | 180 | 79 |
| Tank rehabilitation (No.) | 8 | 5 |
| Flowstation bund wall rehabilitation | 20 | 14 |

SPDC should continue with the implementation of its improved EIA process – and should address remediation more aggressively.

Mr. O. E. Harry, Rivers State Environmental Protection Agency

(due to equipment failure, corrosion, human error and engineering faults) and accounted for 32 per cent of the total volume of oil spilled. SPDC continues to pay attention to these spills by focusing on the training of staff and equipment maintenance.

Sadly, the remaining 141 (about two-thirds) were caused by wilful damage to facilities (sabotage) that accounted for 68 per cent of the total volume of oil spilled.

The company regrets these incidents, and we are particularly concerned about the high proportion of incidents that are caused by theft, or motivated by the prospect of compensation payments and/or employment opportunities in the resulting clean-up. We continue to work with the authorities to educate the local communities about the dangers this practice poses to the health and safety of all.

Our plan to tackle this problem has four elements:

- Upgrading the oil spill response system
- Accelerating remediation activities, and better linking these to initial clean-up
- Education and prevention measures
- Review and replacement of vulnerable infrastructure

In 2003 a major priority was to improve the response capability and the effective use of the available capacity of the Oil Spill Response team. By the end of the year, rapid-response capabilities were being established at four strategic field locations – Tunu, Soku, Kolo Creek and Odidi. We intensified field training of our staff, together with members of strategic communities, to facilitate quick response to spill incidents.

During the year we remediated a total of 70 sites against 52 planned. This brings to 315 the cumulative number of sites rehabilitated by the end of the year out of a total 621 sites requiring remediation. The Federal Ministry of Environment subsequently carried out follow-up and close-out inspection visits of active and rehabilitated sites, 26 of which were certified by them for close-out, including two legacy sites at Otamiri and Agbada. These sites were additionally verified by a team of external environmental consultants from the Royal Haskoning of The Netherlands. In 2004, we plan to rehabilitate a further 100 sites.

Our asset management strategy is based on a “life-cycle approach” and we use this to monitor continuously the condition of our assets over their working life. Through this approach we are able to enhance their safety and integrity, and ensure that they retain sufficient capacity to evacuate production safely to export terminals, with minimum impact on the environment.

A component of our asset integrity programme is the replacement and burial of flowlines and, during the year, 246 km out of a planned 313 km were replaced and buried. Also during the year, a total of 1,464 km of pipelines were routinely “pigged” to remove debris and minimise internal corrosion against a plan of 1,200 km. The internal condition of most pipelines is proven by internal inspection (“intelligent pigging”) and 80 percent of the pipelines have been covered by this technique over the last five years. Community access difficulties and internal obstructions in the pipelines have prevented some lines from being subjected to

these internal inspection or cleaning operations. External corrosion is controlled through the application of cathodic protection systems, which are regularly monitored and upgraded where necessary. Currently, 96 per cent of the pipeline system is cathodically protected.

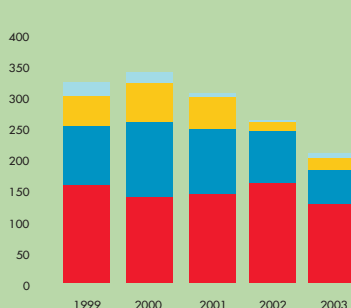
The programme of flare stack improvement activity and carry-over bund wall rehabilitation has been sustained, however, flowstation upgrades were behind plan due to budget pressure and some access problems to sites affected by community disturbances.

Improving Environmental Impact Assessment and Awareness

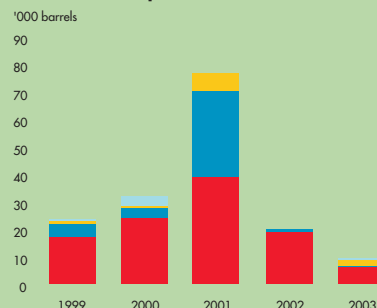
We carried out, and received regulatory approvals for, 14 Environmental Impact Assessments (EIAs) in 2003. We also completed nine Environmental Evaluation Reports (EERs) for existing assets. We intensified our effort to deliver integrated EIAs that fully incorporate social and health impact assessments. As part of this drive, scoping workshops were organised with the full participation of the affected communities.

In line with our plans, the UK Institute of Environmental Management and Assessment certified 10 of our EIA practitioners (five SPDC staff and five external consultants) in 2003. We will continue with this programme in 2004 as part of our EIA improvement project. As part of our Health, Safety and Environment awareness programme, 600 training sessions were conducted for 7,000 participants.

Number of Oil Spills



Volume of Oil Spills



EIA Approvals Received

- Otuegila–Nembe Road Project
- Okoroba Field Development Plan (FDP)
- Kolo Creek/Rumuekpe Trunkline Replacement
- Ovhor East Exploration Well
- Ogunu Medical Waste Incinerator
- Escravos Upthrown Exploration Well
- Koroama Appraisal Drilling
- Escravos Communities Electrification Project
- Nembe Creek Communities Electrification Project
- Diebu Creek Communities Electrification Project
- Nun River Communities Electrification Project
- Soku Oil Rim
- Etelebou FDP
- Utorogu–UQCC Pipeline Project

In the past, SPDC was blamed as being nonchalant in its approach to environmental issues, but there has been a change due to innovations introduced especially in the EIA process. Further improvements are however still expected.
Environmental Officer, Federal Ministry of Environment

Waste Management

In 2003, 77,004 tonnes of hazardous waste were generated, of which 93 per cent (71,717 tonnes), mainly sewage, was disposed of, while 7 per cent (5,288 tonnes) was recycled or reused. Recycled waste included mercury waste, batteries, spent lube and waste synthetic-based mud. Also, 28,379 tonnes of non-hazardous waste were generated, of which 98 per cent (27,977 tonnes) was disposed of while the rest, comprising filters and water-based mud, was recycled.

The thermal desorption units at the Bonny and Forcados terminals treated some 29,000 tonnes of contaminated soils during the year, which were stockpiled or used in civil constructions at the terminal. Some 8,250 tonnes of the residues within Forcados were used for backfilling at the site and to rehabilitate and improve access roads.

Delays arising from contractual problems prevented the delivery of an integrated waste management facility at Umuakuru in our Eastern operational area and the Egbeleku Landfill as promised last year. By year-end most of these problems were being resolved and work is expected to progress at both facilities in 2004.

The Jeddo composting facility produced 122 tonnes of compost manure from organic waste.

Produced Water

One of SPDC's major waste products is water, which is produced along with oil. In 2003, we

Stakeholder Comment

Emphasis and attention now being paid to stakeholder engagement and consultation in the new SPDC integrated EIA process is a positive development and a good opportunity to improve that process and enhance the quality of the product delivery.

In the past, SPDC EIAs alienated a good number of stakeholders. Presently, all relevant stakeholders are being invited and given the opportunity to contribute to the process. As an NGO, our position has changed from being passive to active participants. NGO involvement in the new EIA process ranges from input at scoping workshops to field works, through panel and technical review sessions and various other consultations. Other key stakeholders, including regulators, EIA consultants and host communities, are all involved satisfactorily. The benefit therein is that there is now more transparency and visible commitment to corporate social responsibility on the part of SPDC in the EIA delivery process.

Nevertheless, SPDC needs to sustain consultation with stakeholders after EIA approvals – ensuring that all recommendations and resolutions are

implemented. SPDC must also improve the quality of consultants that it engages to deliver EIAs. Most importantly, effort should be made to ensure that all stakeholders have access to EIA reports. This is not done sufficiently at the moment.

Zik Gbemre
National Coordinator
Niger-Delta Peace Coalition
Warri



disposed of 33 million cubic metres of produced water through our two terminals at Bonny and Forcados, after treatment to strip the effluent of oil.

The company's average concentration of oil in water for the year remained at 7.33 milligrams per litre (mg/l). Forcados terminal maintained a yearly average oil-in-water concentration of 6.58 mg/l against the regulatory limit of 48 mg/l for deep offshore

disposal. At Bonny terminal, we are still discharging produced water near shore and maintained a yearly average oil-in-water concentration of 8.77 mg/l during the year. Construction of an offshore water disposal line is an integral part of the on-going Bonny terminal improvement project and the line, when commissioned in 2007 will bring the Bonny terminal operation in line with that of the Forcados terminal.

EERs Completed

- Ahia Flowstation
- Imo River Flowstation
- Oroni Flowstation
- Ogonu Medical Waste Incinerator
- Utorogu Non-Associated Gas
- Afremo Flowstation
- Oweh Flowstation
- Forcados Yokri Flowstation
- Ughelli West Flowstation

Case Study – Rukpokwu Spill

An oil spill at Rukpokwu, Rivers State, along the Trans Niger Pipeline has been in the news.

SPDC received reports of the spill on 3 December 2003 and dispatched its emergency response team to the site the following day. The valves feeding the 28-inch pipeline were immediately closed to stop any further flow of oil.

A Joint Investigation Team comprising Ministry of Environment, Department of Petroleum Resources and SPDC staff visited the site on 5 December 2003 but were refused access by community members.

Following an intervention by the State Government, a team was able to visit the site on 12 December. They confirmed the cause of the spill to be a tear at the bottom of pipe, most likely due to internal corrosion. Shortly after that, the community drove the team away from the site and refused further access. Two days later, the leak was set on fire by unknown persons. SPDC's firemen were

mobilized to the site and the fire was extinguished. Subsequently, three other fire incidents occurred at the site but, each time, the SPDC team was only allowed to put out the fires.

Between mid December 2003 and the time of this report, the Rivers State Government held several discussions with SPDC and the affected communities to allow access to the site. Agreements reached with the communities at two such meetings allowed SPDC to complete the distribution of relief materials and carry out repairs at the leak point – which was completed in February 2004.

The Rivers State Government has also helped us to negotiate access to undertake valuations necessary for compensation. However, we regret that clean-up is yet to commence, not least because of internal disagreements within the communities on which contractors should be awarded clean-up contracts.

Compensation rates are too low and not in line with current market realities. Also, the payment process is too slow and bureaucratic.
Chairman, Community-Based Committee



Treatment of produced water at Bonny terminal

Biodiversity

In 2003 SPDC, and the other Shell Companies in Nigeria (SCiN), adopted a biodiversity policy to ensure that biodiversity considerations are adequately integrated into our business operations. We have started to use pre-project EIAs as a management tool for reducing and, where possible, eliminating adverse impacts of our activities on the environment and preserving biodiversity. In 2003, we produced a map showing protected areas in the Niger Delta. This is installed in our Geographical Information System (GIS) database and serves as an early warning tool for field development planning and operations.

The wider objective is to work in partnership with other organisations, such as the Nigerian Conservation Foundation (the Nigerian branch of the World Wide Fund for Nature – WWF) and IUCN, to conserve and manage designated protected areas and forests within

the Niger Delta. Similarly, we have approached the Regional Centre for Bioresources and Biotechnology Research in Port Harcourt and the International Institute for Tropical Agriculture (IITA) in Ibadan to support the SPDC programme for sustainable development.

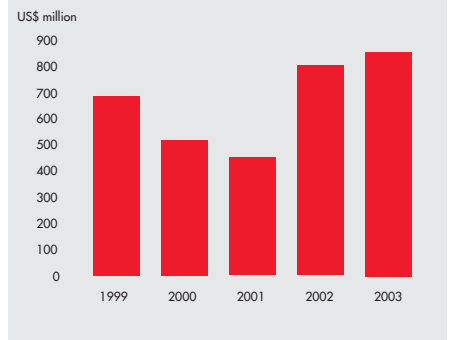
Land Use and Compensation

Throughout the year we continued our policy of using the minimum amount of land for our facilities and operations. We acquired some 156 hectares of land, of which more than 70 per cent was for AGG projects necessary for the reduction of gas flaring. A field assessment of another 96 hectares of land, meant for AGG pipelines, was also completed.

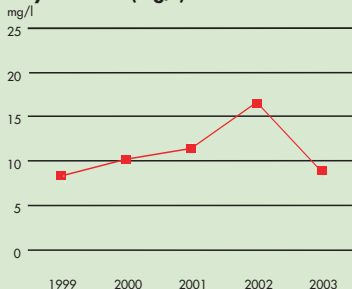
During the year, about N400 million (US\$ 3.2 million) was paid as compensation to third parties. This included fees for land acquisition, tenement rates to local

government authorities, ground rentals and compensation for damage caused by oil spills. A major challenge has been the large number of pipeline Right-of-Way leases that have expired. 625 hectares out of over 2,000 have been acquired. Negotiations are continuing for the outright acquisition of the remainder.

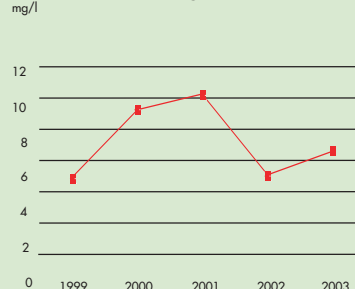
Environment-related Spending Profile



Oil-in-water (Effluent) Quality at Bonny Terminal (mg/l)

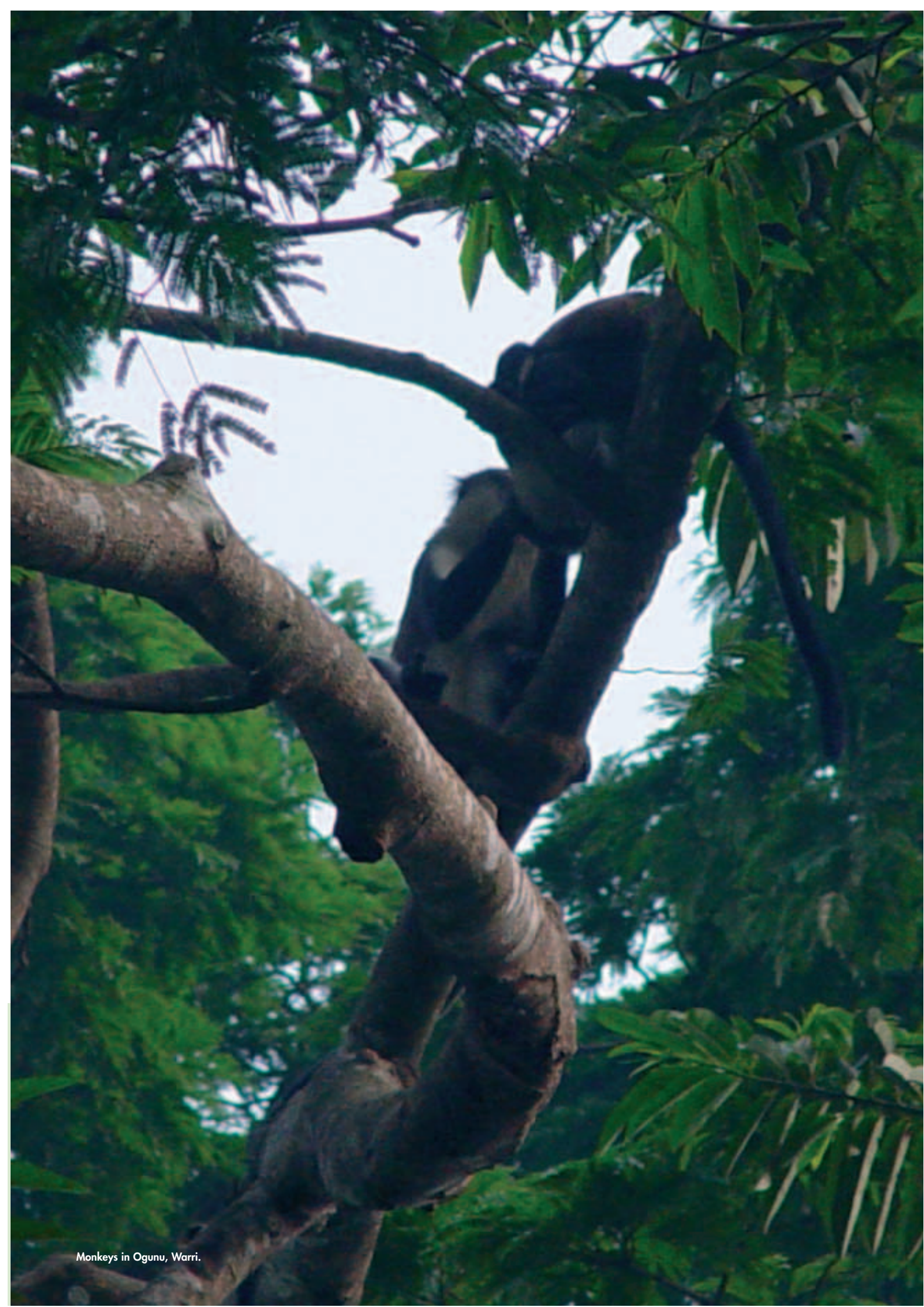


Oil-in-water (Effluent) Quality at Forcados Terminal (mg/l)



Environment-related Spending Profile (US\$ million)

| | |
|---|--------------|
| Environmental Affairs | 41.0 |
| Spill Response Equipment, Waste Management, Pollution | 10.9 |
| Associated Gas Gathering | 515.6 |
| Drilling, Environmental Protection | 0.3 |
| Flowline Replacement | 31.8 |
| Flowstation Upgrade/Bund wall Remediation | 11.2 |
| Jetty, Shoreline/Drainage | 5.6 |
| Pipelines | 66.6 |
| Terminal Upgrades | 166.5 |
| Total 2003 environment-related spending | 849.5 |



Monkeys in Ogonu, Warri.

INVESTING IN PEOPLE AND LIVING OUR VALUES

Occupational Health and Safety

Regrettably, we did not achieve this year the improvement in safety performance we hoped for after the poor 2002 experience. Although 2003 saw the longest ever period worked without a lost-time injury (12.26 million working hours), it also witnessed 11 contractor staff and 12 third-party fatalities. The lost-time injury frequency per million hours worked by staff and contractors also increased, from 0.3 (2002) to 0.39.

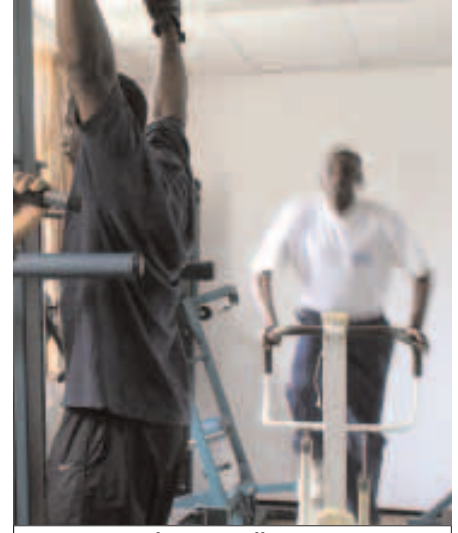
The deaths resulted from road traffic accidents (7), marine accidents (4) and industrial accidents (5) and from security-related incidents (7) during the widely reported communal hostilities in the Warri operational area. This is unacceptable and we are restructuring our safety and security systems to significantly improve performance in 2004. We will do this by focusing on a number of the underlying causes, e.g. insufficient work preparation and hazard recognition, by-passing procedures, lack of discipline and supervision.

Our Industrial Health Department conducted workshops, reviews and inspections to ascertain risks present in projects, and to locate health hazards to surrounding communities as well as workers. We conducted HIV/AIDS awareness campaigns during divisional activities. In 2003, SPDC raised the profile of the threat of HIV to its people, neighbours and to the business. A formal commitment was made to develop and work with the National Advisory Council on AIDS. Health staff delivered HIV awareness sessions to an excess of 20,000 people in our host communities. We also provided lectures to staff on such issues as snakebites, stress management, alcohol and drug abuse, heart disease, hypertension, food hygiene and malaria. Regular inspection and laboratory tests of catering facilities, food and water samplings ensured food safety, food intake and catering hygiene. The health status of our workplaces and residences was safeguarded by constant pest-control sprayings and rodent and larvicidal controls.

“In 2003 the Shell Special Intensive Training Programme (SITP), aimed at preparing young professionals for the oil industry, produced 83 new graduates and 194 technicians.”

Industrial Relations

During the year, SPDC maintained regular dialogue with the two unions operating



A gymnasium for SPDC staff in Warri

within the company, NUPENG and PENGASSAN. However, the company suffered a 10-day work stoppage by the senior staff union, PENGASSAN, on issues related to the globalisation plans of Shell's Exploration and Production business. A dialogue has been opened involving the union, NNPC and the Minister of Labour and Productivity, and SPDC has set up an Industrial Relations Response Team to guide the company's response in such disputes.

Staff Development

In 2003, over 45,000 learning days were delivered, an increase of over 2,500 days on 2002, exceeding the target set for the year. The Edjeba Learning Village continued as a Shell learning hub for Africa. Its curriculum covers training in leadership development, human resources management, information technology, production operations,

SPDC and Contractors
LTIF Trend: 1999 – 2003





A class in session at Ejeba learning village

petroleum engineering and well engineering. A self-development programme entitled “Managing Activities, Resources and Targets” for new EP staff has also been launched.

In 2003 the Shell Special Intensive Training Programme (SITP), aimed at preparing young professionals for the oil industry, produced 83 new graduates and 194 technicians. From 2004, graduate trainees will be recruited into the programme as staff. Since the inception of the programme in 1998, 842 trainees have graduated from the Graduate stream (SITP1) of the programme and 803 from the Technicians stream (SITP2). Of these, 60 per cent have been employed by SPDC.

Tackling Corruption

Corruption has been identified as a major constraint on Nigeria’s development, promoting inefficiency, damaging inward

investment, and hurting the poor.

In SCiN we prohibit giving or receiving bribes, including facilitation payments – not only for our own staff, but also our agents, contractors and suppliers. We work hard to make this stance absolutely clear and take firm action on any breaches – although we know how difficult it is to overcome a culture of corruption. We work hard to embed these principles in the way the company operates.

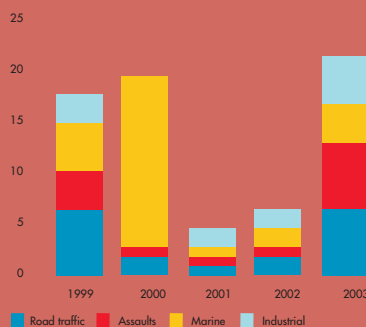
In 2003 the anti-corruption campaign was advanced through workshops and seminars attended by nearly 2,000 staff, contractors and other stakeholders on risk management, business principles and awareness. We distributed our Code of Conduct Manual to all employees of Shell Companies in Nigeria and 700 of our staff in high-risk business areas were involved in special workshops. Every employee completed a mandatory Conflict of Interest declaration.

Whistle-Blowing

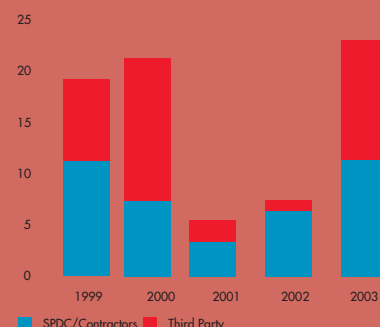
During the year, Tell Shell made ground in fostering the habit of promptly reporting wrongdoings in order to maintain the ethical fibre of our operations. In 2003, 174 reported cases led to the release of 29 career and contract staff (apart from monetary penalties) and the de-registration of 16 contractors. At present, one in eight reported cases results in action being taken against individuals – justifying the whistle-blowing process as a significant, confidential means of correcting inappropriate behaviour.

(For further information, write to: P.Integrity-Hotmail@spdc.shell.com)

Causes of Fatalities



Fatality Trend





PARTNERING FOR COMMUNITY DEVELOPMENT

Poverty remains a serious and endemic problem throughout Nigeria, and is acute in parts of the Niger Delta, the core area of operation for SPDC. National progress in meeting the Millennium Development Goals, which aim to halve by 2015 the number of people living on less than \$1 per day, and extend better health, education and environmental protection, has fallen behind schedule.

New Directions

Meeting basic developmental needs is a huge challenge. SPDC's approach initially reflected a traditional philanthropic or grant-making approach and concentrated on education (scholarships), agriculture, infrastructure-type projects, and health care. But by mid-1997, an internal review reported that though the majority of these projects were functional, some were poorly executed, poorly maintained and lacked sustainability.

In 1998, we began a strategic transition from community assistance (CA) to community development (CD). This conscious shift marked the first significant effort within SPDC towards bringing structure and planning to the delivery of community development. The goal was to empower the communities by helping to build their capacity and confidence to take the lead role in decisions for their own development. Accordingly, community participation, partnering and local capacity building were given priority, as were social investment programmes for micro-credit and business development, women in development, and water and sanitation. The transition from assistance to development was also underpinned by a broad community development policy, which further committed

the company to principles of social responsibility.

However, achieving the full objectives of the new CD strategy was difficult as the CA model (which focuses on traditional corporate philanthropy) continued to be operated side by side with the CD model in some parts of the company.

The lack of an effective internal control system for CD and a weak management information system added to the challenges we faced in adequately managing and monitoring our CD activities. As a result, despite a general increase in expenditure on our CD programmes up to 2002, the impact remained lower than expected, and community ownership and sustainability of the projects minimal.

Sustainable Community Development

During 2003, we began to lay the groundwork for a further major shift in our CD strategy. This followed another comprehensive review of our community interface activities (that is, CD and community relations) conducted in 2002. The review concluded that, whilst our current CD approach demonstrates a number of best practices, there were also critical shortcomings in some areas of our interaction with communities. In particular, it identified the need for a coordinated approach to enhance community ownership and sustainability of CD programmes, and recommended the development of strategies to address current and emerging issues in a manner that will:



- Promote sustainable social and economic development of the communities
- Partner and work with government, NGOs and development agencies in capacity-building efforts
- Improve our internal processes related to CD
- Secure SPDC's licence to operate and grow, and ultimately, maximise Nigeria's oil and gas development revenues.

Based on these recommendations and subsequent preliminary work, we established in April a new Sustainable Community Development (SCD) strategy, aimed at improving the management of all community interfaces within Shell. A team was also established to undertake the detailed study, design and development of the new strategy. The team completed its work in December, following which SCD is now the next phase in our journey from CA to sustainable social development.

UN MILLENNIUM DEVELOPMENT GOALS

By 2015 all United Nations Member States have pledged to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

(See www.un.org/millenniumgoals/)

SPDC has tried to improve the lot of the communities. To empower the community development process, SPDC is shifting from Community Development (CD) to Sustainable Community Development (SCD). This puts the ownership with the communities. The only snag in the SCD process is the supervision. I am praying that the supervision be strengthened.

Samuel Sokoroma, Community Leader, Bayelsa State

The new strategy involves managing community interfaces as a core line responsibility through the Area Teams, who interact daily with the communities. This will be complemented by strong central guidance and monitoring from the SCD organisation – thereby allowing prompt attention to community issues and concerns whilst maintaining stronger internal controls and accountabilities. In addition, a thematic approach will be adopted, focusing primarily on the key areas of economic empowerment, human capital development, healthy living and basic services.

The SCD strategy places greater emphasis on partnerships, not just with the communities themselves, but also with Government and strategic local and international development organisations and non-governmental organisations (NGOs). Such partnerships complement our own efforts, and enable solutions to be developed that we may not be able to achieve on our own, thereby accelerating developmental and employment-generating opportunities across the region. Two such partnerships were entered into during the year: with USAID – a five-year \$20 million agreement that will develop Nigerian capacity in agriculture, health and business enterprise; and with Africare – a three-year \$4.5 million partnership that will focus on reducing deaths from malaria.

Apart from leveraging expertise and additional development funding into the Niger Delta, these partnerships will also offer excellent opportunities for improved cultivation for farmers, increased access to domestic and overseas markets, development of local industry and agro-allied enterprise. They will also increase opportunities for local employment and capacity building, and help

to improve the local economy. Implementation of the programmes under these partnerships will begin in 2004, whilst discussions are ongoing to develop further partnerships with other local and international organisations. We also aim to partner with government agencies, such as NDDC, in order to build a closer and more supportive relationship with government in its primary role of providing basic infrastructure and services for its citizens.

The new strategy also aims to abolish corrosive practices that currently impede sustainable development in communities, chiefly the pressure for cash payments for non-legitimate reasons, such as the payment for “ghost workers” (or standby labour). The

demand for, and payment of, cash to community youths for access fees, standby labour and homage, amongst others, has been blamed for some inter-community disputes and for distorting genuine community needs.

In August, SPDC started to roll out the SCD “big rules” (see Appendix), which will henceforth govern our interaction with communities. The rules outlaw the payment of cash in communities, except for “legitimate business reasons”, and require that contractors working for SPDC must also comply. We made some progress during the year in enforcing these rules. For example, in Soku the community agreed to exchange a negotiated cash payment for a community

SCD Policy

In order to improve the quality of life and maintain a mutually beneficial relationship with communities in the Niger Delta, SCiN shall:

- operate an efficient and cost-effective sustainable community development programme which applies world standard of practice to serve communities in its area of operations.
- enhance partnerships with all segments of the community and where appropriate with governments, donors, non-governmental organisations, and other relevant stakeholders.
- encourage full participation and ownership of projects by communities through participation in planning, implementation, monitoring and evaluation.
- develop and maintain communication with all segments of the communities in order to integrate their concerns and contributions and bring these to the attention of the appropriate authorities.
- identify and promptly manage issues arising from company operations in communities in accordance with approved procedures and statutory provisions.
- focus intervention on sustainable community development programmes that have high impact and broad benefits for the wider population.



LiveWIRE Nigeria Programme

The LiveWIRE Nigeria Programme was launched on 27 March 2003. LiveWIRE, a Shell-developed global community investment programme, began in the UK in 1982. In Nigeria, the programme is being initially funded by the Shell Foundation, Shell International and SPDC. The LiveWIRE Nigeria programme seeks to assist young, enterprising persons to improve their products, services and markets in order to advance their business goals. Mrs Belema Ogbuigwe was the winner of the 2003 LiveWIRE Young Business Leaders Award. Another nine awards were presented to runners-up. All 10 recipients were selected from among 150 applicants from states where SPDC has operations.

SPDC has demonstrated a strong commitment to improving its records and performance with respect to community development. This is borne out by the fact that it is continuously striving to refine its community development philosophy and practice. The increasing involvement of communities and engagement with civil society organisations in SPDC CD delivery is commendable. I believe there is scope for building more strategies and partnerships that confer greater benefits, especially to communities. Emeka Ile, Living Earth Foundation, Nigeria



Youth skills development class in electrical engineering at Port Harcourt

development project.

The primary purpose of the big rules – and SCD – is to ensure that SPDC's community interventions deliver real and measurable benefits to intended beneficiaries right across communities, which reduces the risk that a limited number of influential individuals gain most of our effort and community spend. We hope to make further and enduring progress in the implementation of these rules in the coming year, when the full SCD organisation that will manage the new strategy is launched.

To ensure sustainability, benefiting communities need to take the lead in the decisions and planning for their own development, and ownership of the resultant projects and programmes. To provide them with the skills and confidence to do so, we recognise the important part capacity

building has to play. Consequently, another major focus of SCD strategy is the increased emphasis on helping communities – and, indeed, other development partners in the Niger Delta – to build their capacity. SCD aims to achieve this through formal learning events and collaboration in joint programmes.

In view of the interconnection between peace and development, an integral part of the new SCD strategy is the development of a Peace and Security Strategy (PaSS) for the Niger Delta. Work is already progressing in this area with the help of internationally recognised experts on conflict reduction and peace building. So far, an initial review of the conflict situation in the region has been carried out following wide consultation across the region. In 2004, a peace and security working group, comprising public and private stakeholders in the Niger Delta, will be set up to collectively

develop the PaSS. On completion, it is expected that the PaSS will become an essential component of the strategy for fostering sustained peace and development in the Niger Delta.

What We Supported

Although our focus in 2003 was on developing a robust and effective SCD strategy, we continued our support to communities through our existing CD programme. During the year, we invested some \$30m to fund CD projects and programmes in agriculture, health, education, water, micro-credit and business development, and infrastructure (see details on page 21). Our expenditure in 2003 was more than 50 per cent lower than the \$67 million that we spent in 2002. This was primarily as a result of budget constraints and the community crisis in the Warri and

LiveWIRE – My Perspective

When I started Optimal Computers and Information Systems in 1999, my aim was to get myself employed and fill a gap which I noticed in the IT market at the time. But the business grew quickly and so did competition. We had to find ways to improve our competitive edge. Among other challenges was the usual need for funds required for expansion and upgrade. Today we have been able to deal with some of these challenges. In September 2003, we opened a second office in Port Harcourt, complete with Internet facilities, a training centre and an IT centre for kids with computer and video games. This office ranks among the best in the city. Having one's own business gives you a lot of time, control and prestige, but could also be very challenging. Often it is hard to appreciate the progress you are making in the midst of daily business hassles. The SPDC LiveWIRE award was very timely. It gave me an added impetus, to respond to changing market trends and launch out at a higher level, and this has paid off.

Mrs Belema Ogbuigwe

SPDC's effort in building partnerships is commendable. Involvement of key stakeholders – host communities, government, NGOs and development agencies – in all stages of a project life cycle is critical. It is sad that government at all levels in Nigeria is not proactive. We need partnerships to achieve sustainable community-driven development.

Ben Ovio, Executive Director, Entrepreneurial Development Initiative,
Port Harcourt, Nigeria

Northern Swamp area, which impeded our ability to carry out planned projects. In addition, with the gradual completion of some of our major projects, including some AGG projects, fewer new community projects associated with such major projects were undertaken in 2003.

In addition to our direct CD interventions, the joint venture also contributed some \$54.5 million to NDDC. We recognise the increasing role the Commission has for development of infrastructure in the region and are continuing dialogue with NDDC to channel more of the development funding that we contribute to needed infrastructure projects in relevant host communities.

We also continued to implement our community projects in partnerships with development experts and NGOs, by focusing on building local capacity and empowering communities to take the lead in the decisions relating to their own development.

Brief Highlights

In giving the highlights of our CD activities below, we recognise that weaknesses in the CD programme control framework impact on our ability to report accurately and completely on our CD activity. (See sections on “KPMG Assurance” on page 25 for further details.) One of the challenges of the new SCD organization is to quickly address this weakness.

Education and Youth Development

Our educational programme is focused on developing and improving the skills and capacity of youths in the Niger Delta. As in

previous years, the emphasis was on scholarships, curriculum enhancement, citizenship and leadership training and infrastructure development.

During the 2003 academic year, some 2,500 secondary and 840 university scholarships were awarded to deserving students. At any one time, some 13,000 secondary school students and 2,350 university students are supported through SPDC scholarships. This year, a scholars' day celebration, which brought together some 500 Shell scholars, was held. Five schools and 25 scholars received awards for their academic distinction.

In addition, we supported and facilitated some four youth development schemes, including two oil and gas training programmes for youths from Rivers and Bayelsa states. We also provided leadership skills training for approximately 70 school prefects from some 15 schools.

Our education programme also supported the building and renovation of classroom blocks at around 20 schools, and the supply of sets of furniture and science equipment to other schools. In partnership with USAID, we helped to distribute textbooks on a wide range of subjects to over 100 schools in the Niger Delta. We also constructed perimeter fences and completed teachers' quarters at a number of community secondary schools.

As part of the “Friends of the University” programme, the computer and telecommunications centre at the University of Port Harcourt, sponsored by SPDC, was completed. We also provided research grants to institutions in the region.

Economic Empowerment

During the year, we supported a variety of income-generating projects in the following sectors:

Agricultural Extension Services

Agricultural development remains one of the three key areas through which our social investment programme encourages enterprise in the Niger Delta. This is achieved through extension services, the establishment of income-generating projects, training of farmers and other agricultural entrepreneurs in new technologies, and partnering with research and other institutions to disseminate best farm practices across the region.

In 2003, we supported the completion of approximately nine agro-processing micro projects comprising the construction of cassava, rice and oil mills, installation of machines and training of local farmers on their use in various communities. We also completed a pilot grass-cutter multiplication project, which we began in 2002 at Iriebe, and supported artisanal fishing by providing boats and equipment to local fishermen. We collaborated with our partners to open at least three new model youth farms, as well as livestock and poultry projects in the communities.

Under the new SCD programme, support for agriculture as a major engine for economic empowerment will be further boosted with the commencement of the cassava enterprise development programme and



Presentation of educational materials to Permanent-Secretaries of River State (John Nwankwo) and Bayelsa State (Josephine Lloyd) by SPDC's External Relations Director, Mr. Omuku, and USAID Nigerian Mission Director, Dawn Liberi

For Shell in Nigeria, the dark era of dumping “development” on communities is over. Shell today is an informed facilitator and promoter of dialogue and interactive participation, through myriad conferences. The new Shell is a significant mover for a common vision and mission and a balanced sense of rights and responsibilities, as foundations for sustainable community development.

Nalaguo Chris Alagoa, Executive Director, Pro-Natura International (Nigeria)



Model fish farm at Wiyiakara, Ogoni

shrimp farming enterprise programme being implemented under our partnership with USAID and IITA. We also hope to receive advice on these and other similar programmes through an agricultural expert group to be established in 2004.

Women-in-Development Programme

This programme has worked to strengthen the capacity of women’s groups in leadership, peace building, finance and project management. With this strengthened capacity, women leverage support to execute and maintain diverse projects. In some cases profit from an initial project is invested to expand or establish community welfare projects.

During the year, a women’s development centre was completed at Egbemo-Angalabiri, bringing to eight the total number of such centres. We also supported the development of

a number of community-based enterprises owned by women’s groups, for example cargo boat projects at Freetown and Kantu. Whilst these efforts have fostered respect for women in the community, they have raised challenges. One of these is the growing influence of women in traditionally male-dominated societies. Also, internal disagreements between women’s factions, for example in Imeh, often slow project completion. These are being tackled by allowing men to participate in programmes intended for women, and by providing dispute management training, facilitation and networking to help women’s groups to resolve such issues.

Micro-Credit and Business Development Programme

During the year we supported the incorporation of approximately 29 community-based enterprises, established

about 14 micro-credit schemes and facilitated a number of capacity-building workshops. New initiatives during the year included commencement of the upgrade of Omueke Igwuruta village bank to a licensed Community Bank (to commence business in 2004) and the LiveWIRE Nigeria programme (see box story on page 16) launched in March 2003.

Health

We continued our healthcare programme, which is aimed at improving healthy living standards in the communities where we operate. As mentioned in last year’s report, we have also begun to refocus our programme on primary healthcare delivery, and made good progress in 2003.



Oben cottage hospital (incubator on the right)



The Africare-SPDC partnership is confirmation of both organisations' commitment to the improvement of health in Nigeria. The new malaria project, which is being implemented in six states of the Niger Delta, will focus on reducing childhood and maternal mortality. This new partnership will build upon the Federal Government's existing Roll Back Malaria programme.

Francesca Minikon-Reece, Nigerian Representative, Africare



Solar-powered water project near Warri

During the year, we supported the construction and renovation of two new health centres, bringing to 29 the number of health centres that we currently support. We also financed the construction of staff quarters at health centres we had previously built in Egbemo-Angalabiri and Elem-Sangama, and renovated the Egbema General Hospital.

Through the health centres that we support, some 135,000 patients, who would otherwise have little or no access to medical help, were treated. We also provided clinical and preventive health services to communities through our two mobile clinics and continued to provide top-up salaries to staff in the health centres we support.

In line with the plan for state governments to reassume their primary role in

secondary health care delivery, including the running of the general hospitals in major towns, the five state-owned general hospitals, which had been taken over and run by SPDC, were returned to the Government following a series of discussions with the state ministries of health.

We also worked with state and local government health officers to carry out health awareness campaigns in communities on a broad range of topics, including HIV/AIDS. This included radio and television dramas, education posters targeting youths and peer counselling. In cooperation with an implementing local NGO, we made further progress with the peer counsellor training programme begun in 2002 for university undergraduates.

The high cost of running the health centres and their future sustainability remain

a key issue. Under SCD, we hope to explore opportunities and options with our partners to ensure that the programme would not only continue to improve, but be sustainable over the long term.

Water

The goal of our water and sanitation programme is to complement Government's efforts in providing access to safe drinking water and sanitary facilities, which will ensure safe disposal of human waste. By so doing, we aim to help reduce the rate of infant mortality and morbidity resulting from poor access to potable water and lack of good sanitation practices.

In 2003, we supported the completion of some seven hand-pump equipped boreholes and deep-water reticulated systems in at least



Shell Cup winners in 2003

SPDC is honestly doing its best in the area of social provision of essential amenities to our community, Owaza, but the only handicap is what I call the human factor in the community. Divisions within the community have created a lack of appreciation of SPDC's assistance and hoodlums have stolen almost everything that was installed. But SPDC should still do more.

Samuel C. Azuh, Owaza Water Committee Chairman

13 communities. We also supported the rehabilitation of a number of existing water schemes to improve their delivery. However, provision of potable water in the Niger Delta remains a key problem principally because of high salinity and iron content of the aquifers. In the past, we attempted to overcome these problems by installing water treatment plants where possible and drilling deeper water boreholes. However, the results of these options are not always satisfactory. We are continuing to investigate with our partners options that will ensure the provision of good drinking water to communities at a reasonable cost.

Infrastructure

During the year, little progress was made on the Imiringi-Nembe road due to budget constraints. However the Otuabagi concrete bridge, one of the most important on the road, was nevertheless completed. We supported the building of a number of new community roads and rural electrification projects in host communities, including the supply of fuel for community generators. In addition, we supported the construction of community town halls and civic centres. Other infrastructure projects undertaken during the year include sand-filling and shore protection projects, lock-up market stalls projects and the construction of jetties.

As in previous years, support for infrastructural development accounted for a significant proportion of the total expenditure on community development. However, the actual amount spent was much lower than in previous years following the general reduction in community spend in 2003.

Based on recommendations from various reviews which have identified lack of community ownership and maintenance capacity of infrastructure projects delivered by SPDC, we have begun to reduce our emphasis on building infrastructure. Over the coming years, and as we move towards full implementation of SCD, we will redirect our efforts and resources to the more critical area of human capital development, as other more appropriate entities, such as NDDC and the local and state governments, increasingly fulfil their responsibility for developing and maintaining infrastructure.

However, in the near term, we plan to partner more with Government, NDDC and other development organisations to facilitate an integrated approach in tackling the infrastructure challenges of the Niger Delta region. SPDC is already in discussion with NDDC about a possible collaboration for the implementation of phase 2 of the Imiringi-Nembe road.

Sports and Competitions

The year's Shell Cup soccer competition for All Nigeria Secondary Schools was concluded in February 2003. The Shell Cup competition has become a source for identifying potential for Nigeria's participation in FIFA-organised group championships. Five of the Shell Cup participants were part of Nigeria's under-23 squad to Finland during the year. The company also sponsored athletics and other sporting activities across the country.

Christian Aid

In a recent report calling for new legislation to make corporate social and environmental reporting and disclosure mandatory, Christian Aid claimed that Corporate Social Responsibility had become a public relations exercise and that voluntary initiatives had proven inadequate. To support this conclusion, the report cited a number of failed community projects from SPDC's operations in Nigeria.

We agree with Christian Aid that multinational companies have an important role in upholding and advancing social and environmental standards. We also note that many of the report's proposals mirror Shell's existing codes, guidelines and practices.

However, we cannot agree that SPDC alone is responsible for the totality of the problems faced by Nigeria. The underlying issue in that country is one of poverty and lack of development. The company cannot solve these problems alone – which is why, as Christian Aid's report acknowledges, we have since 1997 developed partnerships with development agencies and local and international NGOs.

Undertaking community development projects in the Niger Delta, where SPDC interfaces with more than 1,500 communities, presents particular difficulties and challenges. And, in this and previous reports, we have been open about the fact that not all of our community development projects are fully successful.

Community Development Programme Spending Profile (US\$ million)

| | |
|--|-------------|
| Roads and bridges | 4.1 |
| Education and schools | 8.0 |
| Electrification | 4.8 |
| Other infrastructure | 2.9 |
| Agriculture | 2.3 |
| Business development and micro-credit | 1.9 |
| Health care | 2.6 |
| Capacity building and new ventures | 2.5 |
| Water and sanitation | 1.7 |
| Total spending on 2003 CD programme | 30.8 |

The community development spending profile for 2003 captured in the table above represents amounts spent on community development and community assistance projects only. It does not include other payments to communities, such as compensation payments and public relations expenditure. We are working to improve the categorisation of community development expenditure.



Fruit Bats (Chiroptera: Pteropodidae) in Warri

MEASURING PERFORMANCE

Performance monitoring and measurement are important components of our HSE and CD programmes. We undertake a series of internal and external reviews to ensure our programmes continue to meet their objectives.

HSE Performance Reviews

As part of internal review, two parallel performance monitoring programmes are carried out quarterly to determine the effectiveness of our HSE plan implementation. One of the review teams looks at the entire Corporate HSE plan, while another verifies the implementation of our HSE Data Quality

Improvement Plan (DQIP). These monitoring programmes are complemented by the HSE data assurance programme carried out by KPMG.

In 2001, we started a campaign to address the limitations in our HSE data-gathering process by setting up a DQIP team. As a result, significant improvements in our HSE data-gathering processes have been realised through individual line initiatives and the DQIP team's focus on hardware, systems and people. Also key areas of uncertainties were addressed, resulting in measurable improvements in hardware and the use thereof, enabling us to provide a strong data

trail to support the total flared gas data (including CO₂, NO_x, and CH₄ emissions). This is evident from KPMG's unqualified assurance report on the volume of gas flared (including CO₂, NO_x, and CH₄ emissions) for the year ended 31 December 2003.

Our modifications in metering concentrated on trusted bulk gas measurement and installation of ultrasonic flare gas meters, which also underlines our ambition to move towards full flare gas measurement. The effect of installing gas meters on the data quality only started materialising from Q3 onwards. However, we were able to demonstrate increased confidence in our

HSE Performance Summary

| | Units | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|----------------------|--------|--------|--------|--------|--------|
| Oil & gas production | mln tonnes | 45.16 | 53.75 | 57.72 | 48.00 | 61.56 |
| Hydrocarbon emission | mln tonnes | 0.135 | 0.160 | 0.183 | 0.100 | 0.117 |
| Total emissions of carbon dioxide (CO ₂) | '000 tonnes | 18,353 | 21,838 | 22,489 | 15,467 | 18,821 |
| Total emissions of methane (CH ₄) | '000 tonnes | 86.5 | 98.4 | 111.6 | 72.8 | 87.0 |
| Total hydrocarbon emissions (methane + VOC) | '000 tonnes | 135.3 | 160.2 | 183.3 | 100.4 | 117.2 |
| Gas flaring (hydrocarbons) | '000 tonnes | 6,458 | 7,693 | 7,909 | 5,222 | 6,385 |
| Total emissions of sulphur dioxides (SO _x) | '000 tonnes | 1.5 | 1.7 | 1.8 | 1.1 | 1.1 |
| Total emissions of nitrogen oxides (NO _x) | '000 tonnes | 20.1 | 17.8 | 27.3 | 22.3 | 23.1 |
| HCFC/CFC/halons (lost to atmosphere) | kg | 2,650 | 3,459 | 1,901 | 2,960 | 1,198 |
| Oil in effluent to surface environment | tonnes | 188 | 171 | 291 | 226 | 243 |
| Total volume of produced water discharged | '000' m ³ | 25,328 | 25,892 | 39,195 | 26,424 | 33,147 |
| Average oil in produced water (to surface environment) | mg/l | 7.35 | 7.14 | 7.43 | 8.55 | 7.33 |
| Oil spills >100 kg excluding sabotage (net oil only) | '000 tonnes | 0.9 | 1.8 | 5.2 | 0.2 | 0.4 |
| Oil spills >100 kg including sabotage (net oil only) | '000 tonnes | 3.4 | 4.2 | 10.4 | 2.7 | 1.3 |
| Fatalities (SPDC/Contractor)* | no. | 11 | 7 | 3 | 6 | 11 |
| Total reportable occupational illness frequency (TROIF) SPDC only | mln exp. hours | 7.60 | 6.20 | 10.84 | 4.35 | 5.70 |
| Total reportable case frequency (TRCF) SPDC + Contractor | mln exp. hours | 1.26 | 1.05 | 0.56 | 0.53 | 0.61 |
| Lost-time injury frequency (LTIF) SPDC + Contractor | mln exp. hours | 0.53 | 0.43 | 0.31 | 0.30 | 0.39 |

* Excludes third-party fatalities

reported volume of total flared gas (and associated parameters) for the entire year by using an engineering calculation on flared gas amounts. Further gas-metering facilities will be installed during 2004 to complete the project.

CD Performance Reviews

During the year, we carried out several performance monitoring activities, including a quarterly internal review of our CD projects. We also carried out external reviews, including:

External Stakeholder Review of CD projects

As in previous years, we invited a panel of independent experts, drawn from public, private and civil society organisations, to undertake an external stakeholder review (ESR) of CD projects completed during the year. Of the 14 organisations invited to take part, seven responded positively and we are grateful to them for their participation. Thus, the team was made up of representatives from the following organisations:

- Centre for Social and Corporate Responsibility
- Delta State Ministry of Economic Planning
- Enterprise for Development International
- National Petroleum Investment and Management Services – 2 members
- Niger Delta Development Commission
- Office of the Secretary to the State Government, Bayelsa State
- Office of the Secretary to the State Government, Rivers State (later withdrew)

As before, the objective was to determine the level of functionality and success of the

Poor Performance of Health Projects in ESR 2003

The four health projects, amongst 69 projects reviewed by the ESR team, were all rated as both non-functional and unsuccessful. The projects included the construction of a health centre at B-Dere, renovation of vacated nurses' quarters (which had previously served the Owaza cottage hospital), completion of the Anieze health centre and construction of neonatal wards at the Warri central hospital.

The ESR team found that:

- At B-Dere, the health centre was still under construction,
- At Owaza, the rented nurses' quarters were yet to be renovated even though SPDC had paid the landlord for the job to be done,
- At Anieze, although the health centre was commissioned in January 2003, the ESR team found no "evidence of project implementation in the hospital",
- At Warri central hospital, the neonatal ward was yet to be connected to power supply or handed over to the hospital management.

Our investigations have revealed that the projects at B-Dere and Warri were "ongoing" but inaccurately entered on CD Management Information System (CDMIS) as "completed" and, as a result, the ESR team assessed these projects as non-functional.

At Owaza, the owner of the rented building opted to undertake the repairs directly, but had failed to do so at the time of the ESR visit. At Anieze, the health centre has been in use since it was commissioned in 2003, but was underutilized due to difficult access by road from neighbouring communities. In addition, some of the facilities had fallen into disrepair.

Despite the above challenges, our health support programme remains one of the most sought-after by the communities where we operate. We are very determined to overcome the problems identified in implementing the above projects – and the health programme in general. We hope to establish in 2004 a "health expert group", comprising local and international health experts (including Government experts), to help us review the entire health programme and chart a more sustainable way forward. Meanwhile, we will revisit these particular projects and, where we are able to do so, put them right.

projects. However, in line with our drive towards SCD, there was increased emphasis on ownership of projects by beneficiaries and sustainability. As was the case in 2002, the review was conducted in two phases.

The team selected a sample size of 79 projects through stratified random sampling, representing about a third of completed projects, taking into consideration factors such as sectoral distribution, geographical terrain and company production areas. However, in the course of the review, ten

projects could not be visited for security reasons.

Of the 69 projects visited, 48 (or 70 per cent) were considered to be functional, while 45 (65 per cent) were successful. This result represents a deterioration on the corresponding ESR result for 2002 (see charts below). An analysis of the results by sector showed that new medical facilities (see case study above) and infrastructure projects performed poorly in terms of utilisation, community ownership and sustainability, while education and economic

ESR Result – 2000 to 2003

| Project Status | 2000 | 2001 | 2002 | 2003 |
|--------------------------|-----------|-----------|------------|-----------|
| Functional | 49% | 82.8% | 93% | 70% |
| Successful | 36% | 62.1% | 77% | 65% |
| Projects Verified | 81 | 87 | 121 | 69 |

| Projects | Fully Functional | Not Fully Functional | Fully Successful | Not Fully Successful | Total |
|----------------------|------------------|----------------------|------------------|----------------------|-----------|
| Agriculture | 6 | 3 | 6 | 3 | 9 |
| Community Health | 0 | 4 | 0 | 4 | 4 |
| Education | 10 | 2 | 11 | 1 | 12 |
| Business Development | 10 | 0 | 7 | 3 | 10 |
| Water & Sanitation | 12 | 4 | 11 | 5 | 16 |
| Women in Development | 2 | 1 | 2 | 1 | 3 |
| Infrastructure | 8 | 7 | 8 | 7 | 15 |
| Overall | 48 (70%) | 21 (30%) | 45 (65%) | 24 (35%) | 69 |

empowerment programmes proved to be more successful. The ESR team therefore recommended the intensification of a community-driven participatory approach to ensure community buy-in and assure maintenance and sustainability. It made the case for greater focus on income-generating programmes as a means of ensuring community empowerment, all of which justifies the shift from CD to sustainable community development.

The SCD approach is focused on improving the level of utilisation and sustainability of all our community projects and programmes through an improved implementation of the participatory approach, and we will take on board the ESR recommendations. We also recognise the need to review projects completed over the last four to five years.

Impact Assessment of Economic Empowerment Programme

Beyond evaluating the utility and sustainability of our projects, we also began a pilot study to measure the impact of our community development interventions. A team of six external consultants (drawn from academic and development organisations) was commissioned in October to assess what impact our agricultural services, micro-credit and women-in-development programmes have had on economic empowerment in the Niger Delta. The purpose was to help us to gain a better understanding of the extent to which these components of our CD programme have contributed to well-being in the communities and what changes are necessary. It was also intended to help us to learn how best to organise a wider impact survey of our community support programme in 2004.

The team sampled 426 economic empowerment projects and identified 42 projects located in 29 communities for detailed survey and analysis. It found that many projects were costly, that women's participation in the management of community-based projects was low and that many youth enterprise schemes were largely seen as a form of largesse or "transfer payment".

However, the programme was credited for the employment opportunities it created. About 79 per cent of beneficiaries indicated that the projects were meeting their intended purpose, while 65 per cent believed the projects to be sustainable. The study recommended closer collaboration with other development partners, greater attention to project costing, increasing the membership of women in project management, and formulating clear criteria of community selection for development intervention.

KPMG assurance

This year, KPMG's review of our CD programme focused on two key areas:

- CDMIS including the number of community projects completed in 2003; and
- Total spending on the CD Programme for the year ended 31 December 2003.

In 2002, their assurance process reviewed the design of our CD programme's management system, upon which our CD activities were based. This year this element was excluded from their review, as the design of the CD management system was being modified to align to the SCD approach and many of the recommendations made by KPMG in previous years have not been fully implemented.

In 2003, KPMG found and reconfirmed a number of weaknesses in the implementation of our CD programme's control framework, resulting in project information not always being captured completely or accurately into our CDMIS. This impacts on our ability to report accurately and completely on our CD activity, therefore affecting the reliability of the information on our CD activity contained in this report.

Also, as CDMIS does not capture all our CD project activity, it means that not all our CD projects are part of our internal and external project monitoring and evaluation programmes, including the ESR process. We also experienced difficulties in reporting expenditure on a project basis.

These issues, together with KPMG's recommendations, are being addressed as part of the design of the new SCD business control procedures. A comprehensive action list, based on its recommendations, will guide the SCD team, together with the tighter procedures for CD project initiation and delivery, to implement and embed the required control improvements in the management processes and data integrity throughout the organisation. We have taken steps and invested resources to ensure that we can fundamentally enhance the controls to enable SCD to start from a stronger foundation. These measures will, without doubt, take some time to be fully implemented, but we are determined to make a successful transition to SCD and implement KPMG's recommendations.

KPMG's independent assurance report can be found on page 28.

Functionality:

Indicates that the project is delivered as designed and is operating.

Success:

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

REPORTING POLICIES

Basis of reporting

The 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 Shell Petroleum Company of Nigeria Limited (SPDC) as operator of the NNPC/Shell/Total/Agip Joint Venture. They exclude activities which are under the operational control of Nigeria Liquefied Natural Gas Company (NLNG) and other Shell Companies in Nigeria (SCiN), namely, Shell Nigeria Exploration and Production Company (SNEPCO), Shell Nigeria Gas Ltd (SNG), Shell Nigeria Oil Products (SNOP).

Operational control means those operations and exploration activities in which SPDC has full authority to introduce and implement the Royal Dutch/Shell Group of Companies Business Principles and SPDC's approach to Community Development.

Presentation

Except where stated, data are captured and reported on a 100 per cent basis throughout the report. Most data are reported on an absolute basis, except for health and safety data, which are reported on a frequency basis per million working hours. HSE data are collected using the SPDC specific procedures derived from the Royal Dutch/Shell Group's HSE Performance Monitoring and Reporting guideline (dated December 2002), which defines the scope and methodology for reporting the parameters. A copy of this guideline can be found at www.shell.com/hse

Comparability

The comparability of HSE data is affected by changes to the portfolio of activities under operational control, changes in the methodology for determining certain data and improvements in data collection systems, such as enhanced interpretation of guidelines and use of better estimates. Where significant, these impacts are discussed within the main body of the report under the respective HSE performance indicators and CD performance information.

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.

Limitations

This is the sixth year that we have reported publicly on our HSE and CD performance. Over this time our HSE and CD management and information systems have been evolving as we strive to improve the reliability of our performance data. However, there are still a number of limitations that we are working to improve.

There are certain specific limitations that our data are subject to which impact the reliability, completeness and accuracy of the information presented. These limitations include the following:

- The CDMIS is not sufficiently developed to enable us to report accurately on the projects and programmes that were completed during the year or are ongoing. The impact of this limitation is as discussed earlier on page 25.
- HSE data are subject to a degree of uncertainty that relates to the limitations associated with interpreting guidelines, measurement, calculation or estimation of the data.



Travelers Palm at Ogonu, Warri



Independent assurance report to The Shell Petroleum Development Company of Nigeria Limited on its 2003 People and the Environment Annual Report

Introduction

The Shell Petroleum Development Company of Nigeria Limited (SPDC) engaged us to review selected data for its health, safety and environmental (HSE) performance and the Community Development (CD) performance for the year ended 31 December 2003 as reported in its 2003 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 responsibility to anyone other than SPDC, for our work, for this report, or for the conclusions we have reached.

Respective responsibilities of directors and reviewers

SPDC's directors are responsible for the preparation of the report and the information and assessments contained within it, 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 on the selected data for SPDC's HSE and CD performance for the year ended 31 December 2003 included in the report. We also report if, in our opinion, any disclosures in the report relating to the selected performance data 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 data for SPDC's HSE and CD performance for the year ended 31 December 2003 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 HSE and CD performance reporting criteria. The HSE reporting criteria are derived from the Royal Dutch/Shell Group's Performance Measuring and Reporting guidelines.

We conducted our examination having regard to emerging best practice and principles within international assurance engagements and in particular our approach draws from 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 risks associated with reporting HSE and CD performance and systems and processes in place to mitigate these risks.

The "Reporting Policies" on page 26 of the report highlight limitations in the nature and methods for determining, calculating and estimating HSE data. They also raise key issues in relation to limitations in the nature, timing and extent of the procedures listed below for the selected performance data for the CD programme related to the stage of development of the underlying systems and processes.

SELECTED 2003 HSE PERFORMANCE INDICATORS

Scope of review

The HSE performance data subject to review were selected by management based on discussions with us and taking into consideration SPDC's significant HSE impacts. The HSE performance data for the year ended 31 December 2003 subject to review were: Oil & Gas Production, Gas Flaring (including CO₂, NO_x, and CH₄ emissions), Produced Water, Average Oil in Produced Water (to surface environment), HCFC/CFC/Halons (lost to atmosphere), Fatalities (company/contractor), Total Reportable Occupational Illness Frequency (TROIF), Total Reportable Case Frequency (TRCF), and Oil Spills > 100kg (including and excluding sabotage). These are referred to as the selected HSE performance data reported in the HSE Performance Summary table on page 23.

Work performed

We planned and performed our work to obtain all the information and explanations that we considered necessary to provide sufficient evidence for us to provide reasonable assurance that the selected HSE performance data for the year ended 31 December 2003 are fairly stated.

Our work performed consisted of:

- Reconfirming our understanding of the systems used to generate, aggregate and report on the selected HSE performance data by conducting site visits to SPDC offices in Lagos, Warri and Port Harcourt and field trips to five facilities;
- Assessing the significant assumptions and judgements made by the directors in the preparation of SPDC's HSE performance data;
- Assessing the completeness and accuracy of the selected HSE performance data by:
 - Interviewing SPDC line management and personnel responsible for the collection and collation of the selected HSE performance data;
 - Reviewing the appropriateness of the methods and systems used to collect and generate the selected HSE performance data, including, on a sample basis, testing the application of the methods and systems used;
 - Testing the internal controls over the accuracy and completeness of the selected HSE performance data;
 - Testing the documentation which supports the measurement, calculation and estimation of the selected HSE performance data at the following production facilities: Bonny Terminal, Forcados Terminal, Forcados flowstation, Cawthorne Channel 1 and 2 flowstation; and
- Reviewing the disclosures in the report relating to the selected HSE performance data in light of our findings.

We have not carried out any work on HSE data reported in respect of future projections and targets. We do not provide assurance over all content of the report, nor have we undertaken work to confirm that all relevant issues are included.

Comparatives for the selected HSE performance data for the year ended 31 December 2003 included in the report were prepared on the same basis as for the year ended 31 December 2002, except for gas flaring (including the related performance data for CO₂, NO_x, and CH₄ emissions) due to improvements in the quality of gas metering at flowstations.

Conclusion

Based on the work described above, in our opinion, SPDC's Performance data for Oil & Gas Production, Gas Flaring (including CO₂, NO_x, and CH₄ 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 > 100kg (including and excluding sabotage), based on SPDC's internal procedures for HSE data reporting, for the year ended 31 December 2003 (as reported on page 23), are fairly stated.

2003 TOTAL SPENDING ON THE CD PROGRAMME & PROJECT ACTIVITY

Scope of review

SPDC engaged us to review its total spending on their CD programme and CD project activity data for the year ended 31 December 2003 as detailed on page 21 and pages 18 to 21 of the report respectively.

Work performed

As the underlying data management systems and processes are not yet fully developed, there are limitations in the nature, timing and extent of evidence-gathering procedures performed. As a result, we planned and performed our work to obtain all the information and explanations to provide sufficient evidence for us to give limited assurance that the total spending on the CD programme and CD project activity data for the year ended 31 December 2003 is fairly stated.

Our work performed with respect to the total spending on the CD programme and CD project activity for the year ended 31 December 2003 is summarised in the table below:

2003 spending on the CD programme

- Reconfirming our understanding of the systems used to generate, aggregate and report the spending on the CD programme;
- Testing a number of individual transactions by agreeing to supporting payment authorisation and underlying project documentation;
- Testing the accuracy of the aggregation of the expenditure and its classification into the various CD programme product areas to form the 2003 CD programme spending profile;
- Correlating findings with management interviews and our cumulative knowledge of SPDC's operations;
- Reviewing the disclosures in the report relating to the 2003 spending on the CD programme in light of our findings.

2003 CD project activity

- Understanding and testing the systems used to generate, aggregate and report the CD project status in 2003, including a review of underlying project documentation;
- Correlating findings with management interviews, the 2003 External Stakeholder Review of project success and functionality and our cumulative knowledge of SPDC's operations;
- Testing the controls over CD project status in 2003;
- Reviewing the disclosures in the report relating to CD project status in light of our findings.

The review of the 2003 spending on the CD programme was limited to the CD programme and did not cover other community relations and interface activity, such as compensation payments, pipeline surveillance contracts, and oil spill clean-up activities, outside the scope of SPDC's formal CD programme.

Conclusions

CD programme total spend

Based on the work described above, nothing has come to our attention that causes us to believe that SPDC's total spending on its CD programme, based on SPDC's internal CD reporting guidance, for the year ended 31 December 2003 reported on page 21, is not fairly stated.

CD project activity

As more fully explained on page 25, the CDMIS used as the basis for compiling project activity included in this report has significant control weaknesses that impact on data integrity. Consequently, we are unable to form a conclusion on SPDC's CD project activity reported on pages 18 to 21.

KPMG Professional Services
Nigeria
31st May, 2004

KPMG
Norway
31st May, 2004

KPMG LLP (UK)
London
31st May, 2004

APPENDICES

Community Development Partners

Non-Governmental Organisations and Development Agencies Partnering with SPDC – 2003

| Organisations | Projects |
|---|--|
| Africa Leadership Forum (ALF) | Women's initiative for peace and development |
| Africare/Nigeria | Reproductive health and HIV/AIDS prevention and control |
| ANPEZ Centre for Environment and Development | Science and youth education |
| Child Development Trust (CDT) | Peer counsellors training and monitoring in Akwa Ibom State |
| Citizens International | Planning and management of agricultural projects |
| 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 |
| Development Information Network (DevNet) | NGO networking and capacity building |
| Development Initiatives | Micro-credit |
| Entrepreneurial Development Initiative | Youth skills and entrepreneurial training |
| Farmers' Development Union | Micro-credit |
| GTZ (Gesellschaft für Technische Zusammenarbeit) | Youth skills development |
| Heartland Child Care Foundation (HCCF) | Peer counsellors training and monitoring in Imo State |
| Hetta International | Youth agricultural training |
| Human Management & Agricultural Resource Development Organisation (Humardo) | Micro-credit |
| Integrated Development Centre (IDC) | Micro projects |
| International Finance Corporation (IFC) | Contractors Revolving Credit Facility |
| International Institute for Tropical Agriculture (IITA) | Cassava/plantain/banana multiplication trial project |
| Kentucky University, USA | Planning and management of agricultural projects |
| Lift Above Poverty | Micro-credit |
| Living Earth Nigeria Foundation | Integrated rural development and resources management; capacity building |
| Mother & Child Trust | Peer counsellors training and monitoring in Abia State |
| Multilynx Enterprises Nigeria | Planning and management of agricultural projects |
| New Nigeria Foundation | Cassava competitiveness project |
| Nigerian Opportunities Industrialisation Centre (NOIC) | Vocational skills acquisition for women and youths |
| Pro-Natura | Community-based planning and resource management |
| Strategic Empowerment and Mediation Agency (SEMA) | Peace-building training |
| Sustainable Development in the Niger Delta (SUSDEL) | Community sensitisation and development planning |
| The Adolescent Project (TAP) | Peer counsellors training and monitoring in Rivers State |
| USAID | Agricultural development |
| West Africa Peace Building Institute (WAPI) | Non-violence and preventive peace building |
| Women Action Committees in various communities | Implementation of income-generating, welfare and skills acquisition projects |
| Women Advancement Forum | Capacity building |
| Women Initiatives Network | Community mobilisation and sustainable awareness |
| Women's Health & Economic Development Association | Micro-credit |

Sustainable Community Development “Big Rules”

Big Rules are defined and agreed as clear principles for managing community interfaces in SCiN. These rules form the key to, and basis of, leadership commitment and role modelling for SCD’s operating and compliance framework. The Big Rules are the basis for the prescription and documentation of processes to effect the SCD strategy. Deviation from the Big Rules will have undesired consequences on both external and internal stakeholders and jeopardise the legitimacy of the SCD operating model. They must be adhered to, to ensure commitment, integrity and accountability of all parties.

The BIG RULES are:

- 1 SCD sets the corporate direction and strategy of community interactions and manages corporate CD activities in the SCiN.
- 2 All community development projects/programmes must be in accordance with the agreed/approved five-year rolling SCiN 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 SCiN must strictly adhere to the SCD policy and procedures for community interaction.
- 11 SCiN must deliver on SCD commitments.
- 12 SCiN will strictly adhere to SCD guidelines/policies at all times, even when operational continuity is threatened.
- 13 The Sustainable Community Development Controls Committee (SCDCC) must approve any deviation from the above rules.

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), Total (10 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, where it operates in an oil mining lease area of about 31,000 square kilometres. It has over 6,000 km of pipelines and flowlines, 87 flowstations, eight gas plants and more than 1,000 producing wells.

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 2004. 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. The world's largest buoy is being built in Nigeria for the Bonga project.

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 16 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 4 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 8 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.



FPSO (Sea Eagle) at EA



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