

People and the Environment



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- Sales of gas and oil products rise
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- Crude oil theft down
- Militant attacks affect oil production, slow development and construction projects

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- 1,652 million standard cubic feet of gas per day sold
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- Continued focus on Nigerian content of our business

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REPORTING AND ASSURANCE

INDEPENDENT ASSURANCE REPORT

KPMG have reviewed selected HSE and SCD data indicated by symbols: ▲ marks unqualified data and ● marks data where KPMG have been unable to form a conclusion. Their Independent Assurance Report is presented on pages 34 and 35.

Message from the Country Chair

"...Building on the progress we made in 2005, we continue to find better ways of managing our relationships with stakeholders, especially the communities."

It is my pleasure to present to you the 2006 Annual People and the Environment Report of Shell Nigeria, which I hope you will find useful and informative.

During the year, the rising tide of violence in the Niger Delta region had significant consequences on our operations, particularly in the areas of production, project delivery, cost, safety and the environment. One of our staff members and a number of contractors lost their lives as a result of armed attacks by militant groups, who also took hostages and destroyed facilities, particularly in the Western Niger Delta. Any death at all is very sad and painful and my heartfelt thoughts and condolences go to all the affected families.

Faced with this situation, we shut down production in the Western Niger Delta, including our offshore EA field. We withdrew our staff and contractors from the worst-hit areas, shutting in an average of 477,000 barrels of oil per

day between February and the end of the year.

Sadly, we also had fatalities among our staff from accidents at work. This is unacceptable. We have taken a number of measures in recent years to improve our performance and we must continue to work hard to harness best practices and work on changing our behaviour. Our goal must be to completely eliminate fatalities in our operations.

In spite of the difficulties, we maintained operations in a significant number of oil and gas fields, as well as other business areas during the year. Our Bonga offshore field increased its production while Shell Nigeria Gas (SNG) increased its gas supply to customers by some 20 per cent compared to 2005. Shell Nigeria Oil Products (SNOP) delivered more petroleum products to customers. All of these enabled us to continue to meet our obligation to the state in terms of taxes and royalties and fulfill other social responsibilities.

Building on the progress we made in 2005, we continued to find better ways of managing our relationships with stakeholders, especially our communities. We signed a number of Global Memoranda of Understanding (GMoU), which allow us to build long-term development partnerships with communities. We also increased our spending on community projects, enabling us to complete a number of stalled projects from past years. We have, in addition, sustained a sizeable statutory contribution to the Niger Delta Development Commission (NDDC).

In what is regarded as the first large-scale conservation effort in the Niger Delta, we signed an agreement with the National Petroleum Investment Management Services (NAPIMS), Edo State Government, the Nigeria Conservation Foundation and the Oba of Benin for the sustainable management of the Gilli-Gilli and Urhonigbe forest reserves.

We were able to rehabilitate more sites previously impacted by oil spills than planned during the year. However, our gas gathering projects, many of them in areas worst affected by the activities of militants, were severely delayed. We will continue to work on our gas flares-down programme and I hope that the security situation improves to allow staff and contractors to return to the fields to work.

Shell Nigeria continues to support the country's economic development through sustained investments in oil and gas, power generation and contributions to the socio-economic development of the Niger Delta. We are committed to supporting the government in tackling corruption by ensuring that our staff and contractors follow sound business ethics. Shell Nigeria remains actively supportive of the Nigerian Extractive Industries Transparency Initiative (NEITI), which promotes public disclosure of, and provides assurance for, payments made to government by the extractive industry. I am proud to be a member of its National Stakeholder Working Group.

As in previous reports, we list some of our successes, as well as areas where we have been less successful –

including progress on business projects, environmental improvements and community development performance. I commend our staff, contractors, and stakeholders for their continued support, dedication and hard work during this very difficult and trying period.

Given the current situation in the Delta, our operations will continue to be challenged in 2007. We have started a series of intense consultations with various communities and Niger Delta governments, with a view to ensuring a peaceful and safe working environment. In the last quarter of the year, we embarked on a series of joint visits with communities and regulatory authorities to our facilities in the Western areas. These are helping us assess the state of our equipment and the environment, in order to determine the scope of restoration and repair programmes. During this period, new social investment programmes have been introduced. I represent Shell Nigeria on the Niger Delta Coastal States Council set up by the Federal Government to explore peaceful options among all stakeholders for resolving the current crisis. Progress is being made and it must continue until we have achieved the desired results.

I would like to end this message by once more expressing my deep appreciation for the strong support and encouragement received from both our stakeholders and our staff throughout 2006. I look forward, with optimism, to their help in 2007.

I encourage you to contact us if you would like to discuss any aspect of this report in more detail, or, if you have any suggestions for its improvement. For more information on the issues, please visit our website at www.shellnigeria.com



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

Basil Omiyi
Country Chair,
Shell in Nigeria
Managing Director, SPDC

8th May, 2007

Shell Companies in Nigeria



• SPDC: Obigbo North flowstation

Shell started business in Nigeria in 1937 as Shell D'Arcy. The company led the way in oil exploration in the country and was granted an exploration licence in 1938. It discovered the first commercial oil field at Oloibiri in the Niger Delta in 1956 leading to the first export of oil in 1958.

Over the years, Shell has, in line with its long-standing commitment to Nigeria and belief in the country's future, increased its investment by expanding into other areas of the petroleum sector.

Today, four Shell companies operate in Nigeria and this report covers their activities:

- The Shell Petroleum Development Company of Nigeria Limited (SPDC)
- Shell Nigeria Exploration and Production Company (SNEPCo)
- Shell Nigeria Oil Products Limited (SNOP) and
- Shell Nigeria Gas Limited (SNG)

The above companies are referred to collectively as Shell Nigeria in this report. In addition, Shell has a 25.6 per cent shareholding in Nigeria Liquefied Natural Gas (NLNG) and is also its technical adviser. Its partners in this company are Nigerian National Petroleum Corporation (NNPC) (49



• SNOP: Fuelling a plane

per cent), Total (15 per cent) and Agip (10.4 per cent).

Shell Nigeria operates within the guidelines of the Shell General Business Principles (see www.shell.com/static/envandsoc-en/downloads/making_it_happen/sGBP.pdf).

The Shell Petroleum Development Company of Nigeria

SPDC is the largest private-sector oil and gas company in Nigeria. It is the operator of a joint venture involving:

- Nigerian National Petroleum Corporation (NNPC), 55 per cent
- Shell, 30 per cent
- Elf Petroleum Nigeria Limited (EPNL, a subsidiary of Total), 10 per cent
- Agip, 5 per cent

The joint venture operates under a Joint Operating Agreement (JOA) and within the legal and fiscal framework of a Memorandum of Understanding (MoU) agreed with the Federal Government of Nigeria (see box and sections under Split of the Barrel). The partners fund the operations in proportion to their shareholdings. The JOA and MoU were last revised in 2000.



• SNEPCo: Bonga

SPDC's operations in the Niger Delta cover some 30,000 square kilometres and include a network of over 6,000 kilometres of flowlines and pipelines, 90 oil fields, 73 flowstations and two major oil export terminals at Bonny and Forcados.

Although the company's operations are spread throughout the region, they cover only about 400 square kilometres or 0.6 per cent of the Niger Delta.

The company has more than 4,500 staff, 95 per cent of whom are Nigerians. More than 20,000 people are employed by contractors working for SPDC.

Shell Nigeria Exploration and Production Company

SNEPCo was established in 1993, and later that year it signed production sharing contracts (PSC) with NNPC to operate two deepwater and three onshore licences.

In addition, SNEPCo has participating interests in blocks operated by Agip, Esso and Chevron. The company currently operates and manages the EA field on behalf of SPDC, bringing all Shell offshore activities in Nigeria under one roof.



SNEPCo made the first major deepwater discovery (Bonga) in Nigeria in 1995. The development of the Bonga field started in 1999 and has allowed Shell to apply its expertise in deepwater technology – and to transfer technologies and skills to Nigeria.

SNEPCo started production from the Bonga field in November 2005. The field, which is 120 kilometres offshore, covers a surface area of 60 square kilometres, and lies in a water depth of between 1,000 and 1,100 metres.

The Bonga production and offshore loading facility is capable of producing 225,000 bopd and has an export capacity of 150 million standard cubic feet of gas per day.

SNEPCo employs some 746 people.

Shell Nigeria Oil Products Limited

SNOP is an operating company of Shell Oil Products Africa, wholly owned by Shell, and markets fuels, chemicals and lubricants. It was incorporated in 2000 and aspires to be a major downstream company through product sales and provision of downstream technical services in Nigeria. A total of 35 people are currently employed by SNOP.

As part of Shell's commitment to add value

to the Nigerian economy, SNOP in 2006 partnered with African Petroleum, which blends a number of industrial lubricants for SNOP. Arrangements for blending consumer lubricants in four and one litre packs also started in 2006. These arrangements have created jobs, increased blending plant capacity use in Nigeria, and are supporting the government's local content initiative.

By the end of 2006, 10 distributors had been appointed nationwide, who in turn have a network of over 40 resellers. SNOP has signed an agreement with the Petroleum Products Price Regulatory Agency to participate in bulk importation of essential fuels.

Shell Nigeria Gas

SNG, wholly owned by Shell, was incorporated in March 1998 to promote gas as a more reliable and cleaner alternative fuel and feedstock for industries. The company aspires to contribute to the economic growth of Nigeria through the industrial use of gas. SNG's goal is that natural gas will overtake liquid fuel as the fuel of first choice for Nigerian industries by 2010.

Its operations consist of a transmission and distribution network of approximately

80 kilometres of gas pipeline comprising two transmission and distribution systems, which are:

- The Agbara-Ota Gas Transmission and Distribution System with a supply capacity of 121 million scf/d
- The Aba Cluster Gas Distribution System, which supplies natural gas to industrial customers around the Aba metropolis of Abia State

Over the years, SNG's investments and customer base have steadily increased and by the end of 2006 the company was supplying gas to some 37 industrial customers in industrial parks at Agbara and Ota (Ogun State) and Aba (Abia State).

In 2006, SNG agreed a commercial framework with Geometric Power Limited (GPL) for a proposed gas transmission pipeline to GPL's power plant in Osisioma and Aba, Abia State.

SNG employs some 34 people.

How the Joint Ventures Work

- NNPC represents the Federal Government of Nigeria and is the major partner.
- One partner is appointed as the operator.
- A Joint Operating Agreement (JOA) governs the administrative relations between the partners including:
 - Budget approval and supervision
 - Crude lifting and sale by the partners in proportion to equity
 - Funding by partners.
- A Memorandum of Understanding (MoU) governs how the oil income is allocated among the partners including payment of taxes, royalties and industry margin.
- The joint ventures are funded by the partners according to their equity share.

Production Sharing Contract

- A PSC is a risk contract where the private partners take all the risks.
- The private partners fund all operations including exploration, development and production.
- In view of the high cost of offshore operations, this is the preferred option by government as it does not have to put forward any funds (i.e. no cash calls).
- The concession is retained by government.
- The private partners recover costs, both capital and operating, through a share of the oil output.
- Remaining oil is shared with government at a pre-agreed ratio.

The Operating Environment



• Alakiri flowstation

In 2006, the Federal Government of Nigeria continued to focus on its economic reform programmes and the repayment of external and internal debts. Overall economic growth was about 5.6 per cent by the end of the year. The economy was boosted by high oil prices, enabling the government to increase its external reserves from \$28.28 billion in 2005 to \$41.96 billion in 2006. The increased earnings helped the government repay debts owed by the country to the Paris Club of Creditors. This repayment, which started in 2005, was concluded in 2006 with the payment of \$12 billion of the \$30 billion owed. The Paris Club has subsequently written off the balance of \$18 billion. Also during the year, the federal government started making arrangements for the repayment of debts worth \$2 billion owed to the London Club of Creditors. On internal debts, some N4.5 billion (\$34.6 million) was paid by the federal government to contractors.

The Central Bank of Nigeria concluded the bank consolidation programme, strengthening the financial sector and improving its capacity to provide credit to the private sector.

The government continued its anti-corruption efforts, with the Economic and Financial Crimes Commission and Independent Corrupt Practices Commission prosecuting more offenders.

In its effort to address the development challenge in the Niger Delta, the federal government in

2006 established the Coastal States Development Council where state governments are required to openly state how they have used the funds allocated to them.

The improvements in the economy were recognised internationally with a strong sovereign rating by two credit rating institutions. In January 2006, the country received its first credit rating (BB-) from Fitch, and Standard and Poor's.

Law and order in parts of the Niger Delta was a major challenge to economic development. Tragically, one staff member and seven contractors died as a result of militant groups, which continued to destroy oil and gas facilities and kidnap oil workers.

According to Central Bank of Nigeria estimates, Nigeria lost some 600,000 barrels of oil per day (bopd) to attacks during the year, resulting in a decline for the oil sector of 4.67 per cent in 2006. The Finance Ministry estimated that Nigeria lost some \$4.4 billion (N570 billion) in revenue.

Alongside the attacks on our facilities were incidents of crude oil theft and community disruptions to operations. There were 89 incidents of crude oil theft resulting in an estimated average crude oil loss of between 16,000 and 24,000 bopd, compared to between 20,000 and 40,000 bopd in 2005. A total of 207 persons were arrested, while

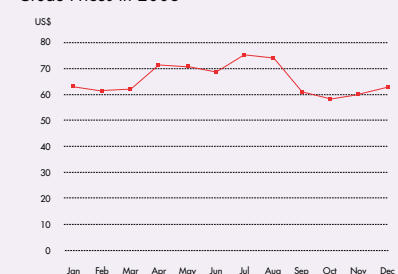
48 tankers, 21 vehicles and 18 barges were seized by the authorities.

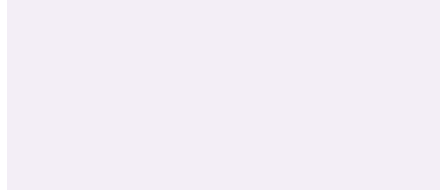
Community related disruptions were down from 154 in 2005 to 117 in 2006 but increased in severity with 12.1 million barrels of oil deferred in the year compared to 3.6 million barrels in 2005. This increase was due in part to the attacks by militant groups.

The decline in criminal incidents since 2004 was reversed in 2006, with 390 incidents, up 75 per cent on 2005. Forty-seven incidents involved the use of arms, up from 15 in 2005.

During the year, SPDC held a forum with some 25 Civil Society organisations in Nigeria, including human rights, development and environmental NGOs, as well as the National Human Rights Commission and representatives from the Nigerian Extractive Industry Transparency

Crude Prices in 2006





Initiative. Olisa Agbakoba, a well-known human rights advocate and current President of the Nigerian Bar Association, facilitated the forum.

Key issues discussed included SPDC's environmental performance, revenue transparency, development and security challenges in the Niger Delta, the GMoU in managing community relations, SPDC's human rights training, and the Voluntary Principles on Security and Human Rights.

The forum agreed that business and civil society organisations should have regular dialogue. It further recommended that work should start on a framework to increase ties between civil society organisations and SPDC. In addition, the forum encouraged SPDC to offer opportunities to human rights experts to work with the company.

In November 2005, SPDC's joint venture partners recommended a work programme of \$4.7 billion (government share \$2.6 billion) for 2006, which included \$0.7 billion (government share \$0.4 billion) for power projects and gas supply infrastructure. However, the government allocated only \$1.87 billion, allowing for a total SPDC joint venture work programme of \$3.4 billion. This is \$1.3 billion lower than the amount recommended by SPDC's joint venture partners. The power projects and related gas supply infrastructure remains unfunded by government at the time of printing this report.

Security in the Niger Delta

The security situation in the Niger Delta continued to deteriorate after the December 2005 attacks on our pipeline system in the Opobo Channel by militant groups. The attacks continued in 2006, mostly in the Western Niger Delta where a number of our facilities were severely damaged. Major pipelines, manifolds, field bases, wells, and the Forcados terminal crude loading platform were destroyed, forcing us in February to shut down oil production from fields in the Western Niger Delta and suspend crude loading from the Forcados terminal. Our EA offshore field was shut down in January due to the insecurity in the area. This meant SPDC was unable to produce some 477,000 bopd in our western area of operations.

Attacks on facilities such as flowstations and pipelines led to oil spills in some of the affected areas and it was difficult for us to access these sites during the crisis to repair the damage or carry out routine maintenance. We remain concerned about the possible environmental damage from these oil spills and we share the frustration of our stakeholders that we cannot get access to clean them up.

A number of major ongoing oil and gas projects, including gas-gathering, have been severely delayed by the violence in the region.

There were occasional and isolated attacks on a few fields and locations in the Eastern Niger Delta, which led to the shutting down of operations in the affected areas for limited periods.

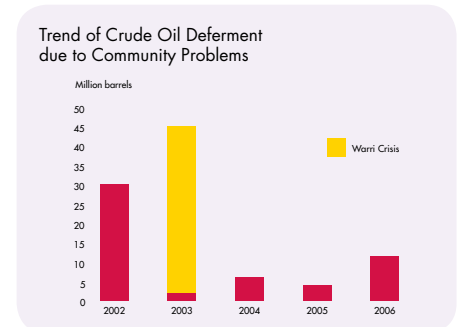
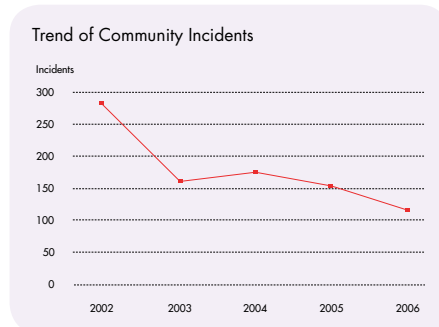
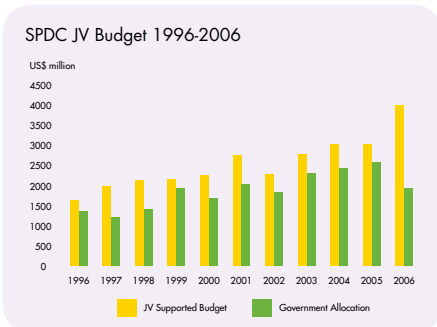
During the year, 54 staff and contractor staff were taken hostage in 11 incidents. The hostages were released unharmed through the intervention of state governments, except for one tragic incident in which a staff member lost his life.

On December 18 a bomb exploded in the car park of the Shell Club in the company's residential compound in Port Harcourt. Though there were no casualties, we took the precaution of repatriating families of expatriate staff working in Port Harcourt, Warri and Bonny Island. The rise in violence has created an environment of insecurity, which has limited the pace of development in the region. We remain concerned about the safety of our staff, contractors and the people in the communities where we work.

The security situation remains a concern and the militia groups continue to demand, among other things, the release of the former governor of Bayelsa State, the release of a militant leader held by the authorities on treason charges and a greater share of oil revenues for the Niger Delta.

In our view, there are three major factors at the root of the instability in the Niger Delta – unfulfilled aspirations for political recognition and influence, poverty and historical neglect, and criminality. Put graphically, these are overlapping circles – the bigger the overlap, the bigger the crisis.

We believe that the situation needs to be addressed through dialogue, alongside immediate



infrastructure development and providing employment. We continue to work with the communities, the federal, state and local governments, and other agencies in an effort to help restore peace in the Niger Delta.

We have undertaken a number of measures to address poverty in the Niger Delta. We are part of life in the Delta and our success is closely tied to the peace and prosperity of the region. We are deeply committed to helping bring about peace and addressing poverty through development, not only by generating oil and gas revenues for government, but also by helping to strengthen institutions and build capacity, leveraging our relationships with international development experts and improving our relationships with communities.

The Niger Delta covers a large area and neither Shell nor any one company can develop it without government participation. We believe that this can best be done through a partnership approach in which the state governments take the lead and own the development framework for their states. The states in the Niger Delta receive 13 per cent of revenues from oil production in their states from the federal government. It is our firm belief that a significant proportion of these revenues should be transparently applied to development and we are working closely with the states and other stakeholders to develop strategies that will ensure greater transparency in the use of these funds.

We also continue to improve the way we manage our relationships with communities to contribute to social development in the region using new Global Memoranda of Understanding (GMoU). Seven of these agreements were signed in 2006. They commit to investments over five years and so encourage long-term relationships with communities and help to build trust. They bring different parts of the community together and pool the funds to allow investment in more effective, higher-value projects (see section under Sustainable Community Development).

In addition, we have improved the way we manage security issues. The starting point is the Shell General Business Principles – which govern the operations of all Shell businesses around the world. Shell also has a Security Standard that provides the principles by which Shell managers must abide. The standard ensures that security is managed consistently across the world and forms part of our internal controls process. Shell Nigeria's Security Policy and Security Management System enables us to identify, evaluate and manage security risks in our operations, while respecting human rights. We have endorsed the Voluntary Principles on Security and Human Rights and, in 2006, undertook a number of initiatives in this area (see section under Human Rights).

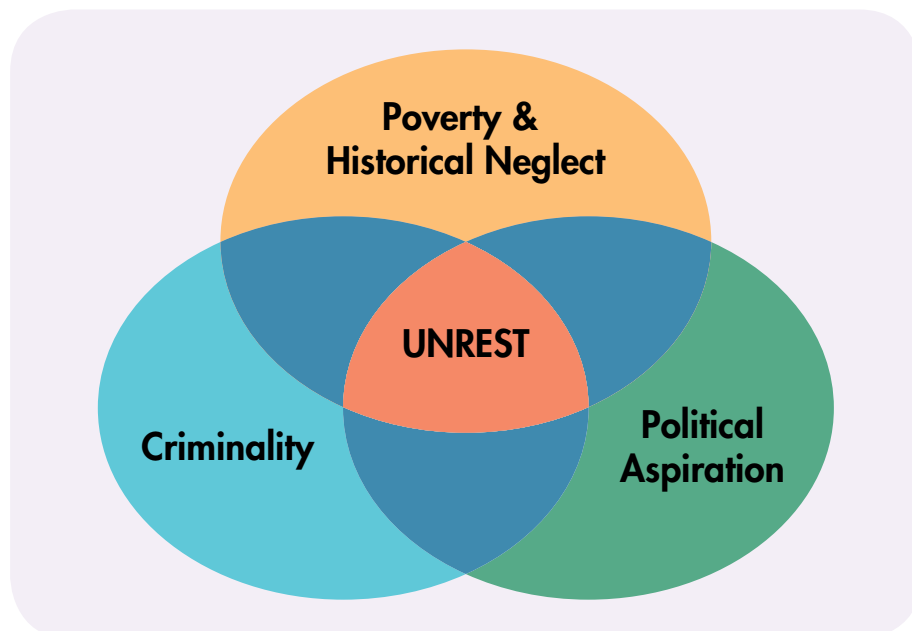
Two categories of security personnel are involved in security operations in Shell Nigeria's area of operations.

The Nigeria Police Force deploys a corps of its Supernumerary constabulary to guard Shell Nigeria's assets, facilities and staff. The Supernumerary Police generally do not carry arms. They are trained using Shell Nigeria's

Security Management System and Guidelines on the use of External Security Forces, developed in line with United Nations (UN) norms and codes, as well as the UN's Code of Conduct for Law Enforcement Officials.

The other category is the Joint Task Force – comprising the Army, Navy and Police. These are deployed by the government to provide security in the Niger Delta and waterways. In our discussions with the security authorities we have highlighted the UN Code of Conduct for Law Enforcement Officials and the Guidelines on Use of Firearms. But there is a challenge in engaging this group as they operate solely under the command and control of the Nigerian government or security headquarters.

Shell Nigeria has discussed with Nigeria's security authorities how it could contribute to training members of the security forces in accordance with the Voluntary Principles on Security and Human Rights, a set of guidelines developed in 2000 by governments, extractive industry companies and human rights NGOs. We hope to continue these discussions in 2007.



The Niger Delta

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



Re-entry to Western Operations

Early in 2006, we shut down our operations and withdrew staff in the western part of the Niger Delta after a series of attacks by militant groups that severely damaged key facilities in the Northern and Southern Swamp areas. Following these attacks, we worked with the governments of Delta and Bayelsa States, the NDDC, and communities to explore options for peace. In June, the stakeholders recommended that SPDC visit the areas affected in the attacks to assess the impact on oil and gas facilities, the environment and the communities. But these visits were suspended when the security in the area deteriorated further.

In November, the Delta State Government and the communities formally agreed for SPDC to assess the damage to facilities and the environmental impact, and determine necessary action.

During the consultations, we responded to requests from affected communities and provided food, drugs and household equipment. We also agreed to provide electricity generators to 21 communities. By the end of 2006 generators had been installed in seven communities, with the remaining 14 to be supplied in 2007.

Economic Performance



• Bonny Terminal

The petroleum sector is the mainstay of the Nigerian economy. It accounted for approximately 92 per cent of foreign exchange earnings and some 74 per cent of government revenue in 2006.

Shell Nigeria has the largest production capacity of any energy company in Nigeria and contributes significantly to the country's total oil and gas production. During 2006, Shell-operated ventures in Nigeria produced an average of 658,000 bopd. In addition, Shell has interests in the Abo field (Shell share 49.81 per cent) and Erha field (Shell share 44 per cent) operated by Agip and ExxonMobil respectively.

Gas sales in 2006 averaged 1,652 million standard cubic feet per day (scf/d), an

increase of 32 per cent on 2005. The rise resulted from an increase in capacity at Nigeria Liquefied Natural Gas (NLNG), where two new trains were commissioned in 2005 and 2006. In addition, we produced an average of 560 million scf/d of gas produced with oil (associated gas). Of this amount, SPDC sold an average of 260 million scf/d, 95 per cent of which went to NLNG.

Total gas sales from Shell Nigeria Gas (SNG) during 2006 amounted to some 11 million scf/d, an increase of about 20 per cent over 2005. Six additional customers were connected during the year. SNG signed an agreement with Geometric Power Limited (GPL) to construct a proposed gas transmission pipeline to GPL's power plant in Osisioma and Aba, Abia State.

In 2006, Shell Nigeria Oil Products (SNOP) sold a total of about 786,000 barrels (125 million litres) of petroleum products, including aviation fuel, lubricants and chemicals.

Revenue Generation

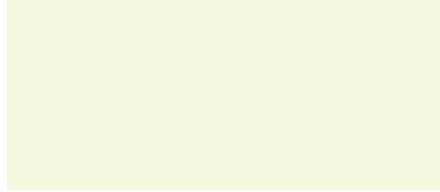
The SPDC joint venture contributes to Nigeria's economy through the payment of taxes and royalties by the private partners in the joint venture; and through the government's equity stake in the joint venture. The split of the barrel among the joint venture partners is based on a revenue-sharing formula agreed between the partners and reflected in an MoU agreed in 2000 (see box on Split of the Barrel).

There is a different funding arrangement for new offshore operations such as Bonga, called production sharing contracts (PSCs). This is an agreement between the company and the Nigerian government under which the company bears all exploration risks, as well as development and production costs, in return for a stipulated share of the production. The cost of deepwater operations is much higher than the costs of onshore development. SNEPCo's Bonga, Agip's Abo (Shell interest 49.81 per cent), and Exxon Mobil's Erha (Shell share 43.75 per cent) field developments are governed by PSCs that stipulate the sharing formula for oil produced. In 2006, the PSCs enjoyed the benefits of investment tax credits and therefore were not liable to tax.

Case Study: De-United Foods Industries Limited

De-United Foods Industries Limited, the producer of the "Indomie" brand of instant noodles, was one of SNG's pioneer customers, converting its facilities to use natural gas as fuel for power generation. As a result of a more efficient power supply, the company has reduced unit costs, increased production and now runs three shifts every 24 hours. It has also turned its liquid fuel storage space into new production lines. Rapid expansion has followed, which means more people are employed, contributing to social developments in the area.

The company has made significant savings, which are now ploughed back into the economy. The company has also requested SNG supply natural gas to its Port Harcourt plant to replicate the growth and expansion at Ota.



We continue to support the Nigerian Extractive Industries Transparency Initiative (NEITI) and are actively involved in the National Stakeholder Working Group.

The working group appointed a UK firm of accountants, the Hart Group, to conduct a financial audit of the oil industry. Shell and other oil companies operating in Nigeria reported details of taxes, royalties, and other payments made to the government between 1999 and 2004. The audit has been completed and a report is available at NEITI's website, www.neiti.org

Following the audit, the oil companies are working with the Federal Inland Revenue Service and the Department of Petroleum Resources to review the basis for computations of royalties and taxes.

By the end of 2006, the NEITI bill had received the support of the House of Representatives. The Senate had conducted a public hearing on the bill – in which we participated – and at the end of the year was close to being passed into law.

Payments to Government

SPDC and SNEPCo paid royalties, Petroleum Profit Tax (PPT) and other levies to the Nigerian government during the year.

SPDC paid \$2.1 billion in PPT, a 32 per cent decrease from 2005 due to lower oil production. Similarly, it paid \$771.7 million in royalties compared to \$1.2 billion in 2005. The SPDC joint venture also made a statutory contribution of \$75.2 million (of which the Shell share was \$22.6 million) to the Niger Delta Development Commission (NDDC). The company also paid \$54 million into the Education Tax Fund. Over the past six years, SPDC has paid a total of \$154.5 million into this fund.

In 2006, SNEPCo paid \$594.8 million in royalties and profit oil from Shell-funded interests in Bonga, Abo and Erha deep water fields. The company also paid education tax

of \$4.7 million and contributed \$38.9 million to the NDDC.

As required under the Nigerian Constitution, the federal government returns a significant proportion of the revenues it receives to state governments (31.1 per cent) and local government areas (15.21 per cent). In addition, 13 per cent of its revenues from extractive industries (such as oil and gas) is returned to the states where production took place. According to government statistics (see www.fmf.gov.ng) the total amount allocated in 2006 by the federal government

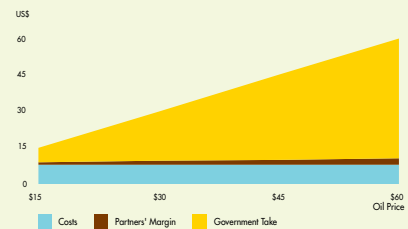
to the 36 states in Nigeria was \$10 billion. Nearly 36 per cent of this went to the four states in which SPDC/SNEPCo's operations are principally based (see graph).

The challenge still remains to apply these resources in a transparent and efficient way for the sustainable development of the region. The federal government through its NEITI initiative has disclosed the revenues allocated to all levels of government. Extending this initiative to state governments and local government areas will improve the quality of governance.

Split of the Barrel

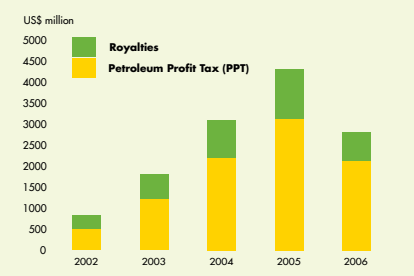
The MoU, signed in 2000 by the government and the joint venture oil companies, continues to form the basis for calculating the tax payable by the private joint venture partners (including SPDC) and the sharing of oil revenues between them.

Split of the JV Barrel

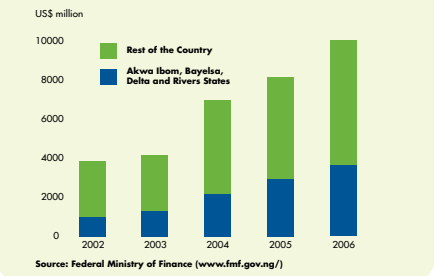


Under the agreement, the companies (including SPDC) receive a fixed margin within an oil price range of \$15 to \$19 a barrel. The split of the barrel, against a range of oil prices, is shown below. For example, at an oil price of \$19 per barrel, the Government's take in taxes, royalties and equity share is \$13.78 per barrel. Of the remaining \$5.22, operating cost and future investment take the lion's share with about \$1.22 left to be shared 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 amount shared amongst the private shareholders declines to 88 cents. At \$30 per barrel, the Government's take increases to \$24.13 per barrel, while the amount shared by the private partners increases to \$1.87 – a level maintained even if oil prices rise above \$30 per barrel. At the level of oil prices in 2006 the Government's take increases to 95 per cent of the profits.

Royalties and Taxes



Federation Account Revenue Allocation to States



Source: Federal Ministry of Finance (www.fmf.gov.ng/)

Environmental Performance

Shell Nigeria remains committed to minimising the impacts of its operations and activities on the environment. As in previous years, we continued efforts aimed at improving our environmental performance as part of our contribution to sustainable development. We improved our environmental stewardship and programmes in spite of the challenging operating environment. However, due to the lack of access to fields in our western area of operation, we were unable to assess and clean up the spills in this area caused by militant group activities.

Statutory Compliance

In 2003, we agreed to a compliance plan with the Department of Petroleum Resources (DPR) for Environmental Guidelines and Standards for the Petroleum Industry in Nigeria (EGASPIN). Over the years we have worked to conform with these standards and by 2005 we had achieved 92 per cent compliance.

There is agreement between the industry and the regulators that the remaining 8 per cent covers standards that need revising to reflect the operating conditions in the Niger Delta.

In 2006, we joined with other oil industry operators and the DPR in scoping studies to set achievable standards and limits for the oil industry.

The areas of non-compliance are:

- **Offshore Disposal of Produced Water:** In 2006, we carried out independent studies for the EA Sea Eagle, a production and storage facility at the EA field, and our terminals at Bonny and Forcados to demonstrate that the point where wastewater is disposed of at sea does not pose a threat to marine life. Based on this study, the DPR granted a one-year renewal of a waiver permitting the disposal of water from the Sea Eagle as well as Forcados and Bonny Terminals in 2007. The joint industry and DPR



• **Odidi Gas Plant**

study to determine an acceptable quality, depth of water and distance from shore for the offshore disposal of water will start in 2007.

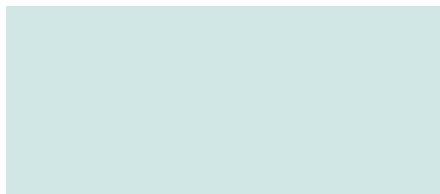
- **Environmental Sensitivity Index (ESI) Protocol:** An ESI mapping protocol has been submitted to the DPR for approval. It will provide a framework to improve crisis management and preparedness for oil spills.
- **Gaseous Emission Standards:** The oil industry plans to carry out an air quality analysis. The scope of study has been presented to DPR for approval.

ISO 14001 and Occupational Health & Safety Assessment (OHSAS) 18001 Certification

In 2004, we completed a pilot Occupational Health & Safety Assessment (OHSAS 18001) certification programme for Bonny and Forcados Terminals giving us an internationally recognised standard for occupational health and safety management systems in our operations. In 2005 we re-certified Bonny and Forcados with a plan to extend the certification programme to six more facilities in 2006.

The insecurity in the Niger Delta during 2006 affected the certification audit programme,

Activity	2005 Actual	2006 Plan	2006 Actual
Flare Stack	5	8	17
Bundwall Construction and Repairs	12	9	4
Flowstation Upgrade	2	10	9
Flowline Replacement [km]	157	60	139
Pipeline Inspection [km]	176	500	188
Cathodic Protection Anode Renewal	4	8	6
Manifold Upgrade	10	14	6
Risk-based Pipeline Cleaning [km]	1078	1200	1000
Tank Rehabilitation	1	7	3
Marine Hoses Change-out	1	2	0
Single Point Moorings Overhaul	0	2	0



limiting work to desktop surveillance and interviews. From the document reviews, all ISO 14001 and OHSAS 18001 certificates were retained for major production facilities, including terminals, pipeline systems and the Osubi airport.

Field based re-certification audits were carried out for SNEPCo and SNG, which were less affected by the security problems. The companies retained their ISO 14001 certificates. SNG is the only gas distribution company in Nigeria to achieve ISO 14001 certification since 2004.

Asset Integrity Management

In 2006, we continued to implement the recommendations from a comprehensive asset integrity review two years earlier. This involved the replacement, refurbishment and upgrade of key facilities such as pipelines, manifolds and flowstations.

With all the high-risk integrity action items completed in 2005, we worked on medium-priority items in 2006, completing 83 per cent, in spite of the security situation in the Niger Delta. We were unable to complete the well integrity and equipment refurbishment reviews, which will happen in 2007.

Eliminating Routine Flaring and Harnessing Associated Gas

Production from oil wells has three major components – gas, oil and water. The gas produced is separated at flowstations and in the past has been flared because local and regional markets for gas were limited

and few reservoirs were suitable for gas re-injection.

Gas export has been long identified as the most effective way of harnessing the country's large associated and non-associated gas reserves. This is why a key component of Shell Nigeria's flares-down programme is the Nigeria Liquefied Natural gas (NLNG) project, which exports gas to overseas markets. The expansion in the number of NLNG trains to six has brought the total capacity to 18 million tonnes per annum.

Other key projects that will help use Nigeria's gas include a new LNG venture at Olokola and new independent power projects in various parts of Nigeria.

Shell Nigeria is committed to eliminating routine gas flaring in its operations. This is a huge undertaking that requires the company to gather and bring to market the gas produced from more than 1,000 wells. In 2005, we reported that reduced funding of the joint venture programme in past years, which included the funding for the associated gas gathering (AGG) projects, and poor contractor performance on some projects meant that some gas gathering projects would not be completed until 2009.

By the end of 2005, six of these projects had been completed and another five were at various stages of completion. SPDC's progress during 2006 on these remaining projects was affected by the security situation in the Niger Delta. Two projects scheduled for completion in 2006 – Sapele and Forcados Yokri – were

not completed. At Sapele, SPDC's facilities are completed but the gas uptake could not start due to sabotage on the customer's gas infrastructure. The Forcados Yokri project was delayed, when we withdrew our staff and contractors from the area in February.

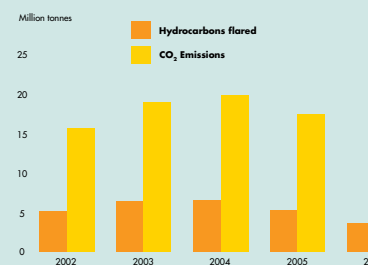
SPDC remains committed to its flares-down programme and plans to accelerate all gas gathering projects as soon as the security situation improves, while exploring innovative solutions for areas not currently covered by associated gas projects. These will include the installation of micro-turbines for power projects for nearby communities.

In 2006, we spent \$650 million on projects to eliminate gas flaring, bringing to \$3 billion the total we have spent on gas gathering projects in the last six years. Since 2001, we have completed gas gathering projects at Obigbo, Odidi, Soku, Cawthorne Channel, EA and Sapele. These have the capacity to gather 50 per cent of the total associated gas produced from SPDC's fields. In addition, an offshore gas gathering pipeline system has been completed.

When completed, all our AGG projects will gather some 85 per cent of the total associated gas produced in our operations. There are a number of small producing fields far from the gas gathering system for which solutions are currently being sought, including using gas for power generation – and we are partnering with the government on this. SPDC intends to shut in production from any fields where there is no prospect of a solution for gathering the associated gas by 2009.

SPDC remains committed to its flares-down programme and plans to accelerate all gas gathering projects as soon as the security situation improves, while exploring innovative solutions for areas not currently covered by associated gas projects.

Trend of Emissions (CO₂/Hydrocarbons flared)



Gas flaring court cases

Two suits were instituted against SPDC, Total, Agip, Chevron and the Attorney General of the Federal Republic of Nigeria. The Plaintiffs claim that, among other things, the gas flaring activities of the joint ventures is in violation of their Fundamental Human Right (to life) under the Nigerian Constitution and African Charter on Human Rights. They also claim that Associated Gas Re-Injection Act, which permits oil companies to flare gas subject to conditions, is an invalid Law. They have therefore asked the courts to perpetually restrain SPDC and the other major oil companies from further flaring gas.

In September, a Federal High Court in Port Harcourt struck out one of the cases.

In the other suit, judgment (made in Benin City in November 2005) was given despite our preliminary appeals on jurisdiction (which application was still pending). Of more concern was the judicial procedure followed by the judge - which did not allow witness testimonies, expert evidence or cross-examination. Accordingly, SPDC appealed the judgment and also filed for a stay of execution of the judgment. The High Court granted SPDC's motion for a stay of execution.

flaring are the major sources of nitrogen oxide (NO_x) emissions. In 2006, we recorded reduced emissions in NO_x (26 per cent), compared to 2005. This was the result of reduced activity levels.

We continued to improve the accuracy of flares measurements (and resultant emissions) by installing ultrasonic meters (USMs) in five facilities. Due to the lack of reliability of the USMs during surges in local power supply and the security situation, 43 per cent of the flare gas is still estimated.

To address these uncertainties (reported in 2005), we adopted a procedure in 2006 across all asset teams for flare estimation and calculation, when the USM data is not available. We also installed measuring devices on fuel gas supply lines for turbines.

We plan to complete the installation of more USMs, pressure and temperature probes and fuel gas meters on engines in SPDC facilities as soon as we are able to access the sites.

Oil Spills

In 2006, we recorded 241 oil spill incidents in Shell Nigeria, compared to 224 incidents in 2005. Of this number, sabotage accounted for 165 (69 per cent), while 50 (20 per cent) were controllable incidents (resulting from equipment failure, corrosion or human error). The remaining 26 incidents are yet to be classified or quantified due to access restrictions either by communities or the current insecurity in the Niger Delta.

Oil spills resulting from sabotage continued

The average volume of associated gas flared by SPDC in 2006 was 373 million scf/d compared to 604 million scf/d in 2005. The difference in volumes resulted mainly from the shutdown of operations for most of 2006 in the Western Delta and EA for security reasons.

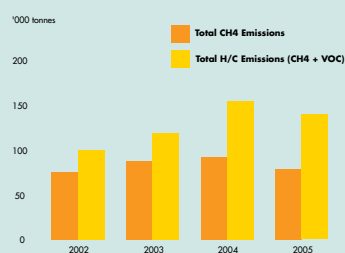
Emissions

Carbon dioxide (CO₂) from gas flaring forms the bulk of the emissions from our operations. Lower flared gas volumes in 2006, resulting from lower oil and gas production, meant

reduced emissions from our operations during the year. Total hydrocarbon and CO₂ emissions reduced by 29 per cent and 32 per cent respectively compared with 2005. Also, Greenhouse Gas emissions dropped by 33 per cent in 2006 compared with 2005.

Sulphur Oxides (SO_x) do not contribute significantly to emissions from Shell Nigeria's operations, as the produced hydrocarbons contain low levels of sulphur. Combustion of diesel, gas use for power generation and

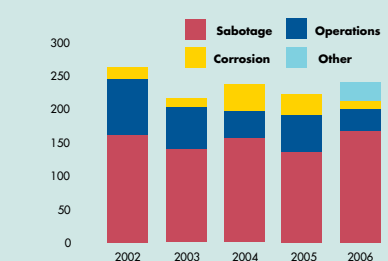
Total Emissions



Trend of Nitrogen Oxides (NO_x Emissions)



Total Number of Oil Spills





to be a challenge, with most incidents along our major pipelines and manifolds. Attacks by armed militant groups on some of our major pipelines and facilities in our western operations also led to spills.

As in previous years, some communities denied access to spill sites, restricting our ability to respond and clean up spills in good time.

We estimate that there was a significant increase in the total volume of oil spilled in 2006. Two incidents – leaks at the Nembe Creek Trunk Line (NCTL) at Krakrama (estimated to be 7,000 barrels) and the Nembe-IV (estimated to be 2,500 barrels) – contributed significantly to the volume of controllable spills. The Krakrama spill resulted from accidental damage to the line by a contractor laying a new pipeline along the existing right-of-way. The other spill was due to corrosion. Due to lack of comprehensive documentary evidence and the security situation that greatly limited access to affected areas, we have not published our total spills volume estimate.

Improving Environmental Impact Assessment and Awareness

In 2006 we secured regulatory Environmental Impact Assessment (EIA) approvals for 27 SPDC projects, completed nine Environmental Evaluation Reviews (EERs) for existing facilities, and made progress on EERs for five facilities earmarked for decommissioning and abandonment. One Post Impact Assessment (PIA) was completed, while work on three others progressed during the year. Towards the end of 2006, we started applying the World Bank and International Finance Corporation performance standards for EIA delivery, using the Gbaran Integrated Oil and Gas Project (IOGP) as a starting point.

Remediation of Impacted Sites

In 2006, we planned to complete the remediation of 253 out of 317 previously

Environmental Impact Assessments (EIA) Completed

1	Nembe Creek trunkline replacement project (provisional approval)
2	Seibou appraisal well drilling project (provisional approval)
3	Drilling of one appraisal and four development wells in Forcados field
4	Replacement of the river crossing section (650M) of the 10" x 18.6 km Diebu Creek pipeline at the River Nun crossing (provisional approval)
5	Relocation of the appraisal well (AKNE-2) and drilling of one development well (ARNA-3)
6	Site refurbishment of the existing Assa-North location for the proposed appraisal well (NUGS)
7	Agbada OESW-3 well drilling
8	Replacement of river crossing section (44 m) of the 14" Okordia-Rumuekpe trunkline at the Sombreiro river crossing project
9	Okoloma gas plant – part of Afam field development project
10	Santa Barbara early oil development project
11	Proposed Tunu-Kanbo field development project
12	3D seismic data acquisition over OML 31 Okobutin
13	Ahia-Oguali 3D seismic acquisition project OML 16/21
14	Afam power plant accommodation site
15	Assa North appraisal well
16	Eastern gas gathering phase 2 gas development project
17	Relocation of five approved developmental wells for Nembe Creek further oil development phase 1 project
18	Ultra-modern facilities in Oloibiri
19	Proposed OPL 238 appraisal well drilling project
20	Etelebou – Rumuekpe 3D seismic project
21	Agbada North - IX exploratory well
22	Drill one sidetrack well (Olomoro Well-33)
23	Awoba/Awoba North fields appraisal wells
24	Ughelli tank rehabilitation project
25	Gbaran field logistics base and jetty
26	Afam field development (gas supply) project
27	IA Ogunu clinic upgrade

Environmental Evaluation Reports (EER) Completed

1	Ogbotobo Flowstation
2	Tunu Flowstation
3	Opukushi Flowstation
4	Edjeba Sewage Treatment Plant
5	Jeddo Composting Facility
6	Ogunu Waste Recycling Depot
7	Engineered Dumpsite at Uwiamuge
8	Shell Industrial Area Tank Farm
9	Waste Recycling Depot

existing oil spill sites. However, only 179 sites were accessible to us. These were restored.

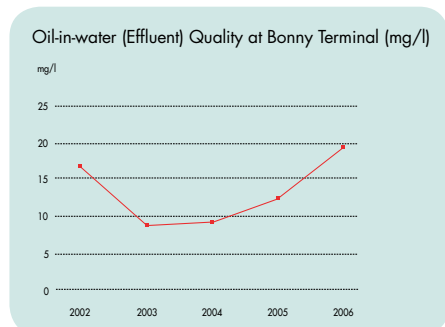
The total number of old oil spill sites so far identified since 1999 is 1,516. By the end of 2006, we had cleaned up 1,338 of these sites.

A joint certification team comprising the federal and state ministries of environment inspects and certifies cleaned up sites. In 2006, 715 sites were certified compared to 154 sites in 2005. The increase in the number of sites certified came from a process improvement by the certifying bodies that cleared the backlog of earlier submissions.

Produced Water

In 2006, we disposed of a total of 16.8 million cubic metres of water to sea from our two terminals (Bonny and Forcados) after treatment to strip the effluent of oil. The average concentration of oil in water disposed of during the year was 17.63 milligrammes per litre (mg/l). The Forcados Terminal yearly average was 9.78 mg/l, far below the regulatory limit of 40 mg/l for offshore disposal. Bonny Terminal recorded a yearly average of 19.49 mg/l (compared to the regulatory limit of 20 mg/l for near-shore disposal).

We continued to make progress during the year with improving disposal from Bonny Terminal, which is expected to commission a new offshore water discharge pipeline in 2007. This will eliminate the near-shore discharge of produced water.



The Sea Eagle disposed of 69,000 cubic metres of water to sea during the first few weeks of the year when it was operating at an average concentration of oil in water of 67.25 mg/l. This was above the regulatory limit of 40 mg/l for offshore disposal due to a breakdown of the water treatment system. The system was repaired before the field was shut. The Bonga field does not produce water with oil.

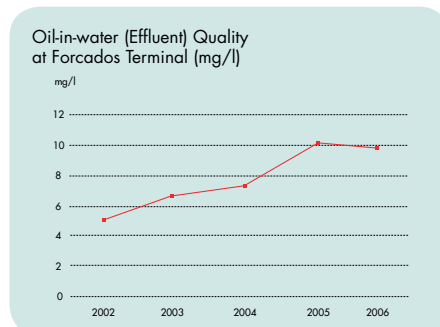
Waste Management

We started to develop a 10-year Waste Management Master Plan in 2006, and continued to upgrade waste management facilities.

The volume of hazardous and non-hazardous wastes generated in 2006 decreased by 9 per cent and 54 per cent respectively compared with 2005. This was due to reduced drilling activity and increased recycling of synthetic-based mud in drilling operations.

Some milestones achieved in 2006 include:

- Ongoing relocation of our Port Harcourt industrial area sewage treatment plant to a more suitable location within the premises. When completed in 2007, this facility will treat sewage from our eastern area of operations. Sewage still forms the bulk of hazardous waste generated in our operations.
- A pilot test for the use of bio-enzymes to treat sewage in septic tanks as a means of volume reduction. This innovation is

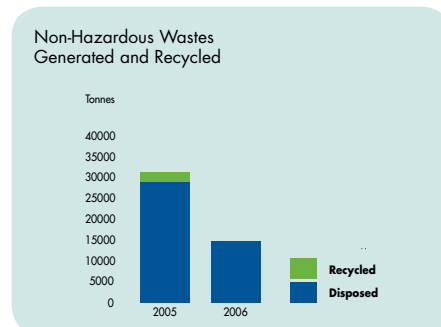
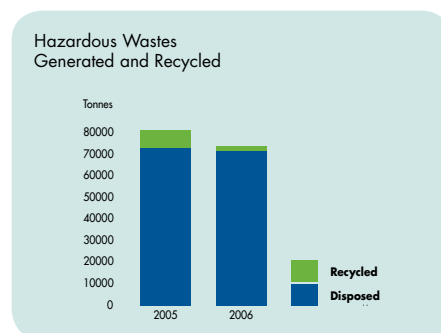


expected to improve efficiency in the sewage management and treatment process.

- Upgrading the Edjeba sewage treatment plant, Jeddo composting plant, Ughelli West engineering dumpsite, Eneka dumpsite and the Port Harcourt waste recycling depot as part of our short-term waste management strategy.

In addition, we completed the design for retrofitting the medical waste incinerator in Port Harcourt to use gas as fuel. To optimise the capacity utilisation of this incinerator, we are evaluating the possibility of treating medical waste from selected third party clinics in Port Harcourt.

The contractual difficulties previously reported on the proposed Integrated Waste Management Facility at Umuakwuru could not be resolved during the year. The project was eventually suspended due to a combination of contractor performance and community opposition. However, we will continue to review these developments and take a firm position as soon as all the issues and the associated





"SNEPCo has done very well in HSE compliance issues and could do even better... I suggest that the company interacts more with communities and involve community representatives in stakeholder meetings."
Ms. Dorothy Bassey, Chief Environmental Officer, HSE, DPR, Lagos.

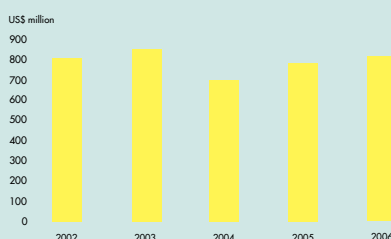
court case have been resolved. Work on the Egbeleku landfill project during the year and is now 27 per cent complete.

Biodiversity

During the year, we signed biodiversity plans to protect forest reserves at Gilli-Gilli and Urhonigbe, partnering with NAPIMS, the state and local governments of Edo State, the Oba of Benin and the Nigerian Conservation Foundation. The foundation will manage the project with an initial grant of \$1 million and will start work in 2007.

We carried out in-house biodiversity awareness seminars for 237 staff and plan to start a pilot biodiversity management plan in Shell Nigeria's offices and residential areas in 2007. At our residential area in Warri we completed a study of bat colonies and started conservation measures.

Environment-related Spending Profile (2002–2006)



Environmental-Related Spending 2006 (US\$ million)	
Environmental Affairs	18
Spill Response Equipment, Waste Mgt, Pollution	26
Associated Gas Gathering	413
Flowline Replacement & Maintenance	11
Flowstation Upgrade, Bundwall, Smokeless Flares	6
Jetty, Shoreline Protection	1
Pipeline Replacement and Maintenance	96
Terminal Upgrades	239
Total	810

Driving Conservation Using Biodiversity Action Plans

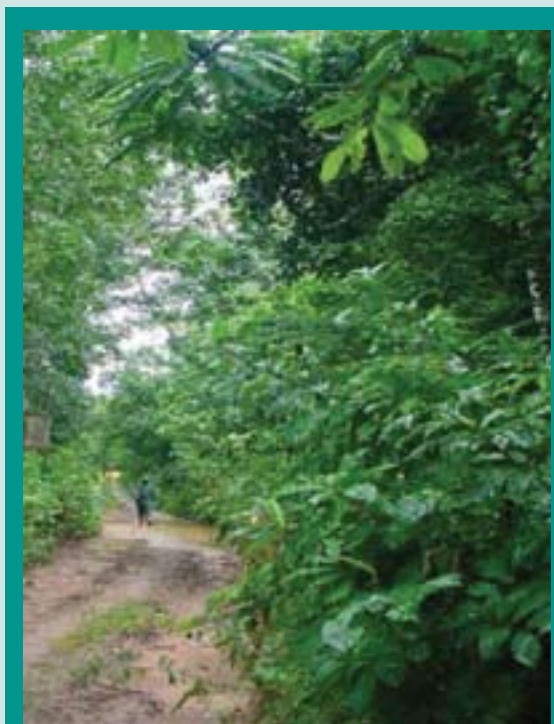
Gilli-Gilli and Urhonigbe are two out of the 22 threatened forest reserves in the Niger Delta.

The Gilli-Gilli forest reserve is in the south western part of Edo State, covering 363 square kilometres with a range of habitats varying from fresh water swamp forest to tropical rain forest. Established in 1927 under the Benin Native Authority, Gilli-Gilli forest reserve was converted to a State Forestry Reserve in 1935.

The Urhonigbe forest reserve is in the south east of the Sakponba forest reserve, between Urhonigbe and Evboesi. It covers 308 square kilometers. Rights have been granted to timber contractors and local communities to exploit timber and other resources within the forest reserve, apart from a protected core area.

Both the Gilli-Gilli and Urhonigbe reserves had in the past undergone uncontrolled exploitation of forest resources, particularly timber, to the point that forests have almost disappeared. Without urgent intervention the forests would probably completely disappear.

The Biodiversity Action Plans are designed to protect the environment while providing sustainable livelihoods to the peoples of the areas by offering them alternative sources of income.



• Gilli-Gilli Forest Reserve

What we are witnessing today is that, the government, SPDC and communities have agreed to partner together and collectively protect, preserve, develop and manage the two forest reserves for the present and posterity ... The communities involved should appreciate that they and their children are the immediate beneficiaries of these plans. **His Excellency, Dr. Lucky Nosakhare Igbinedion, Executive Governor of Edo State**

2006 Health, Safety and Environmental Performance Summary

From 2005, where applicable, we report integrated data for the four Shell Companies in Nigeria, which are under Shell's operational control. Prior to 2005, the scope of reported data only related to SPDC's operations. The data are supported by explanatory notes, which give further information on data quality and comparability. We have not reported on Sulphur oxides emissions, oil spill volume, TROIF or TRCF data for the reasons set out on pages 14, 15 and 21.

Oil & Gas Production ¹	Units	2002	2003	2004	2005	2006
	mln tonnes	48.00	61.56	66.67	62.44	49.48

¹ Reported production data represents the combined volumes handled at our Terminals. These data therefore comprise fiscalised, rather than well-head volumes. The difference between well head and fiscalised data is estimated to be 16,000 to 24,000 bpd (2,000 to 3,000 tonnes per day) which comprises oil stolen through bunkering and sabotage.

Emissions	Units	2002	2003	2004	2005	2006
Gas Flaring (hydrocarbons) ¹	'000 tonnes	5,222	6,385	6,611	5,247 - 6,260	3,726 ▲
Total emissions of Carbon Dioxide (CO ₂) ²	'000 tonnes	15,467	18,821	19,798	17,122	11,696 ▲
Total emissions of Methane (CH ₄) ²	'000 tonnes	72.8	87.0	90.7	77.5	53.5 ▲
Total hydrocarbon emissions (methane + VOC) ²	'000 tonnes	100.4	117.2	156.6	137	96.6 ▲
Total emissions of Nitrogen Oxides (NO _x) ¹	'000 tonnes	22.3	23.1	21.9	26.2	19.5 ▲
GHG emissions ¹	mln tonnes	-	-	-	18.9	12.6
HCFC/CFC/Halons (Lost to atmosphere)	Kg	2,960	1,198	2,403	1,659	1,660 ▲

¹ The determination methodology for flaring has changed in 2006, therefore the data is not comparable with prior years.

² VOC data prior to 2004 is based on a different determination method. The comparability of the total hydrocarbon data is therefore impacted. The reported data excludes VOC emissions from waste water treatment.

Oil Spills	Units	2002	2003	2004	2005	2006
Total number of oil spills ¹	No.	262	221	236	224	241

¹ Total spills includes all spill events including spills <100kg. 100 Kg is the threshold within the internal reporting guidance to identify more significant spill events.

Produced Water	Units	2002	2003	2004	2005	2006
Oil discharged to surface water ¹	tonnes	226	242.9	321	481.4	328 ▲
Total volume of Produced water discharged ¹	'000 m ³	26,424	33,147	39,922	42,994	16,885
Average oil in surface water discharged ¹	mg/l	8.5	7.3	8.1	11.2	17.8 ▲

¹ This parameter includes oil in produced water and oil in rainwater run-off. In the absence of water flow rate measurements, oil in rainwater is based on the following assumptions: 10ppm average oil in water, 4000mm annual rainfall over a surface area of 1sqkm, with a percolation rate of 20 per cent and evaporation rate of 10 per cent. Oil in rainwater run-off from Forcados terminal is excluded, as it only operated between January 1 and February 15 2006, during the dry season.

Health and Safety	Units	2002	2003	2004	2005	2006
Fatalities (company/contractor) ¹	No.	7	11	12	6	17 ▲
Fatalities (third party) ¹	No.	1	12	9	3	4
Lost Time Injury Frequency (LTIF, company/contractor) ²	per mln exp. hrs	0.3	0.4	0.3	0.7	0.5 ▲

¹ Reported fatalities are work related.

² These frequency data reflect incidents reported/hours worked. The reported frequency may have been impacted by limitations in controls to capture incident events.



Investing in People and Living our Values



• Shell staff in the Lagos office

Shell Nigeria offers equal opportunities to all staff and prospective employees. These opportunities range from internal placements through open competition for jobs, coaching and mentoring to opportunities outside the country, such as cross-posting, short-term assignments, and job exchange programmes with other Shell companies around the world.

Currently, some 160 Nigerian staff are on posting assignments outside the country for periods longer than one year, and about 40 other staff are on short-term assignments in other Shell companies around the world.

Occupational Health and Safety

Safety still remained a major challenge for us in 2006, particularly in the areas of marine and road transport. As reported last year, we continued to take a number of measures as part of efforts to improve our performance. We built awareness of health by providing

information to our staff and contractors on cardiovascular risks, hypertension, obesity and related medical cases.

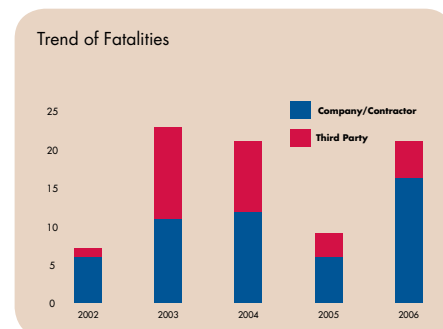
We organised driving safety programmes for over 1,600 Shell Nigeria senior managers, work site staff, drivers and commercial motorcyclists ('okada riders').

Sadly, there were 17 work-related fatalities (company and contractor) in 2006 against six recorded during the same period last year. Eight of these were the result of armed attacks on a staff member and contractors. Another four contractors died from drowning, two from industrial accidents and three from road traffic accidents.

Analysis of all the incidents revealed failures in some critical areas such as supervision at worksites, procedures, competence, and communication. This is a major challenge, which we are committed to address by focussing on improved supervision and behavioural change.

Despite the increase in fatalities, there was no corresponding increase in Lost Time Incidents Frequency per million hours worked by staff and contractors. The LTIF for 2006 was 0.44 compared to 0.7 in 2005. The difference in fatalities was mainly due to armed attacks on staff and contractors.

We have introduced a new incident reporting system across Shell Nigeria to harmonise and improve data gathering. Challenges remain in implementing this system, which we will continue to address through training and awareness. We will also work to improve



other controls over data capture, particularly the effectiveness and documentation of reviews. Due to problems encountered in rolling-out the new system and continued control weaknesses, we have not published data on total recordable case frequency or total reportable occupational illness frequency.

We organised lectures as well as radio and television programmes on HIV/AIDS that were attended by more than 57,000 mostly young people. Competitions were held for secondary school students and staff members' families.

We continue to make progress in the treatment of infected staff and their dependants, resulting in a reduction in the viral load recorded. However, preventing mother-to-child transmission remains a major challenge.

We also organised a workshop to raise awareness over transport safety for more than 150 persons from the Nigeria Police Force, State Ministries of Transport, Works and Health, the Federal Road Safety Commission, the Nigerian Institute of Safety Professionals, Nigerian Society of Engineers, commercial transport operators and unions, Federal Emergency Road Maintenance Agency, and the media.

Human rights and voluntary principles

Shell Nigeria's commitment to human rights is guided by the Shell General Business

Principles. Shell signed up to the Voluntary Principles on Security and Human Rights (VPSHR) in 2000. This is a security initiative adopted by a group of governments, extractive companies and human rights NGOs. The voluntary principles provide practical guidance to companies on how to maintain the safety and security of their operations, while respecting human rights and the fundamental freedoms of people in surrounding communities.

With an increased presence of government security agencies in the Niger Delta, we organised a workshop on the principles, attended by 20 senior government security officers. A key recommendation from the workshop was to engage the National Human Rights Commission to encourage the Nigerian government to adopt and ratify the voluntary principles. Security agencies protecting oil facilities are deployed by the Nigerian government, and can only be governed by international principles ratified by the government.



• Shell staff at work



• Participants at Human Rights workshop in Port Harcourt



SPDC continued a programme begun in 2005, training 500 staff members in human rights issues. The content of the 2005 programme was redesigned after consultation with local human rights groups, conflict resolution experts and the Danish Institute for Human Rights, which certified the programme. The training was aimed at promoting understanding of human rights and conflict resolution to support staff in the field, especially in their interaction with communities.

We started to develop an online training module for human rights that will be launched in 2007.

Diversity and Inclusiveness

SPDC appointed its first female director during the year, while two women's career development workshops were held.

All Shell companies in Nigeria have Nigerian CEOs, and five more Nigerians were added to our leadership ranks in the course of the year. Succession plans identifying Nigerians for the top 100 positions have been established.

We completed a crèche in our Port Harcourt office. It will open early in 2007. A similar crèche is being built in Warri.

Tackling Corruption

Some 960 Shell Nigeria staff members (766 from SPDC and 194 from SNEPCo), and 330 contractors attended training in Fraud Risk Management and Business Principles in 2006. More than 800 SPDC staff members also took part in a variety of business principles training.

We launched a Global Helpline, which staff can use anonymously to report breaches in business principles and other compliance concerns. There were 72 new whistleblowing cases in 2006 resulting in the release of 17 staff members and one contractor. Also, 32 contractors were either deregistered or suspended.

Nigerian content development

Shell Nigeria is committed to the development of the Nigerian content of its business, as part of its contribution to the sustainable development of the Niger Delta, and Nigeria as a whole. A policy signed by the Country

Chairman was put in place to ensure we follow through. We developed guidelines, manuals and templates for commercial processes, such as creating advertisements to seek contract bids.

Under the guidelines, lead contractors in high-value engineering, procurement, installation and commissioning contracts have to include a Nigerian content plan, which counts in the evaluation of tenders. We used this strategy in the drilling contracts for the EA field and a number of other projects.

In total, the value of contracts awarded by SPDC and SNEPCo to Nigerian firms in 2006 amounted to some \$1.15 billion in the core areas of our business.

Some Nigerian Content Initiatives

Front End Engineering Design Centre

An extensive programme to develop engineering capacity in the country has started yielding results with the opening of Shell's front end engineering design (FEED) centre in Port Harcourt. The \$15 million centre meets the need identified by



• FEED Centre, Port Harcourt

Shell's initiative in sponsoring a comprehensive human rights training for different categories of its staff is a paradigm shift. Before now, oil companies have not been able to integrate human rights issues and business development. Human rights had been wrongly perceived as a curb on efficiency and a distraction from the business objectives of oil companies. But, with greater globalization and corporate responsibility for environmental and human rights violations, oil companies are fast realising that good human rights practice reinforces business success. The human rights champions are a huge investment Shell has made for corporate social responsibility and sustenance of peace and progress in the Niger Delta. **Dr. Sam Amadi, Human Rights Lawyers and Development Consultant**

Nigerian Content Directive of the Nigerian government and Shell Nigeria's commitment to increase in-country engineering capacity and save costs.

About 80 per cent of the centre's staff are Nigerians who put in more than 68,000 man-hours in 2006 working on a number of projects on and offshore.

Lonestar Rigs

In 2006, SPDC handed over management of two rigs to Lonestar Drilling, a rig contractor from the Niger Delta and one of our key suppliers of drilling rigs and crew. This has increased the capacity of a Nigerian company, which has shown great potential in this critical business area.

Well Engineering

Well engineering contracts awarded to Nigerian companies rose from 45 per cent in 2004, to some 56 per cent in 2006. All drill waste management contracts were awarded to Nigerian companies in 2006. Also, more than 85 per cent of all drilling fluids contracts, and 75 per cent of drilling tools supplies, are awarded to indigenous

contractors. Local companies handled 70 per cent of work on integrated well completions, and 73 per cent of wellhead contracts. Nigerian companies have shown a strong presence in the provision and management of drilling rigs in our operations.

Technology

Since the discovery of oil in Nigeria by Shell, the company has been applying breakthrough technologies in the exploration and production of oil and gas in the country. Over the years, we have applied technologies that have allowed us to reduce the size of land taken up in our operations, increase oil and gas production, and reduce the costs of doing business while improving on our environmental performance.

In 2006, we continued to deploy technologies aimed at ensuring rapid maturation of development projects and adding value to the business.

vMonitor

The vMonitor Micro sensor enables key data to be collected at the wellhead via wireless network, without the need for an operator

on site. The device works with other smart well equipment that provides both data and control. This improves the monitoring of wells, allowing better reservoir and production management, lowering costs and reducing the need for field visits. In 2006, three sensors were installed as a trial before wider implementation.

The Expandable Open Hole

A key challenge in drilling wells where reservoirs are very close together is their effective isolation to prevent interferences and promote the precise measurement and management of flow rates and other vital indicators.

We used a solid expandable tube made of a swellable elastomer that inflates on contact with gas, oil or water to seal and isolate production zones in reservoirs. This saved \$3 million compared to the traditional method of pumping in cement to isolate production zones.



• A swamp rig

Sustainable Community Development



• Ikobi Water Scheme

We adopted a sustainable community development (SCD) framework in SPDC in 2003. In 2006, efforts were focused on applying the framework in other Shell companies in Nigeria, strengthening stakeholder relations and completing past community projects, which had been stalled.

Community project delivery and community issues management was integrated into the overall oil and gas project planning and delivery process. That means all major oil and gas projects include sustainable community development components, co-ordinated by a dedicated team of community relations and development officers. To ensure this integrated process worked, we ran sustainable development training for 82 middle managers involved in project management.

We began negotiating a new type of agreement with our host communities after a 2005 review of community support showed a proliferation of poorly coordinated short-

term projects. Called global memoranda of understanding (GMOU), they set up long-term agreements with communities allowing for planned and integrated activities that will hopefully encourage sustainable development for communities. This is a partnership that involves communities, Shell, civil society organisations, donors and other stakeholders and requires commitment from all parties to be successful.

GMOUs help improve management through increased accountability and transparency and by grouping communities into clusters or blocks based on a local government, clan, historical connection, or natural affinity.

They also give communities the lead in managing their own long-term development by encouraging them to identify projects and determine who implements them. In 2006, we negotiated 22 GMOUs. Another 10 are at various stages of negotiation.

Spending on community development projects in 2006 was \$53 million, compared to \$32 million in 2005. The increase covers a commitment to finish incomplete projects and upgrade existing hospitals and health facilities.

During the year we completed 131• community projects, with an increased emphasis on those that were stalled. Of 581 stalled projects identified in 2005, 66 were completed during 2006, bringing to 82 the number of stalled projects completed to date. Work was ongoing on 215 stalled projects during the year while the remaining 284 projects will become part of the GMOU of the relevant community clusters.

Partnerships

We look to deliver our community support through partnership, particularly GMOUs.

Our \$76 million partnership with NDDC in 2006 involved the construction of a 28-kilometre road from Ogbia to Nembe. Eight kilometres in the seasonal swamps were

Shell has been friendly and caring by providing my community with potable water. Shell operations in the community are, however, causing some problems to us.

Chief Chinwuba Ajuru, Nvakohia Community, Rivers State



cleared and sand filled. Work will continue in 2007 and it is expected that the road will be completed in 2009.

A SPDC/USAID partnership to develop community cassava enterprises helped set up 68 small mills for garri (a popular Nigerian food) and six medium capacity mills for cassava flour in nine states (Abia, Edo, Akwa Ibom, Delta, Bayelsa, Rivers, Enugu, Ebonyi and Cross River). Each of the medium-sized mills is capable of a daily production of two tonnes of garri and two tonnes of odourless flour. The plan is to export odourless cassava flour after local demand has been met.

The programme is being implemented by the International Institute for Tropical Agriculture, which also developed some 90 million high-yielding and disease resistant cassava cuttings, which were distributed to farmers. About 7,300 jobs were created by this programme, while more than 19,600 cassava farmers received training in modern agricultural practices, food processing and marketing.

We discussed expanding this partnership to include aquaculture during the year. The Bayelsa State Government committed \$2 million to support this new idea with SPDC and USAID to contribute \$4.5 million and \$1.5 million respectively. The programme will start in 2007.

In a partnership with AFRICARE we launched an integrated malaria and health programme in 2003, distributing long-lasting, insecticide-treated mosquito bed nets, making available artemisinin combination therapy (ACT) drug treatment, and teaching people how to avoid being bitten by mosquitoes.

Working with six states of the Niger Delta, these services have been established in 54 communities. ACT drugs, which treat uncomplicated malaria, are provided free to children under five years old. Mosquito nets are free for pregnant women attending antenatal clinics.

As part of an awareness campaign, education and communication materials on malaria control have been produced and distributed. Radio and television jingles in Pidgin English are continuously aired. During 2006, more than 100 teachers were trained on malaria control under a school health programme and 90 people from 30 community-based organisations were also trained.

A partnership with the UN Development Programme (UNDP) produced the 2005 Human Development Report on the Niger

Delta, a major baseline study of the region. The Report was launched in Abuja in July 2006 by His Excellency, Chief Obasanjo, the President of Nigeria. Following this, a two-day conference on the report was held in Port Harcourt in August. Copies of the report are available on CD-ROM, or on the UNDP website at www.undp.org

The partnership plans to establish three multi-purpose youth development centres in Rivers, Bayelsa and Delta States. The centres are planned to meet the recreational,

The UNDP-Shell Partnership – A perspective from UNDP

UNDP and Shell signed a five-year MoU in 2004. The partnership focuses on:

- (a) improving the knowledge base on the Niger Delta;
- (b) enabling responsive local governance;
- (c) addressing youth unemployment; and
- (d) restoring the natural environment.

Three significant results have been achieved to date:

First, the publication of the Niger Delta Human Development Report (2006), which provides the most up-to-date and comprehensive analysis of the region available at present and recommends a seven-point agenda for action.

Second, experience in managing the relationship between an oil major and the UN around what is presently the largest such partnership in the world.

Third, an expansion of the partnership to include UNEP.

Key lessons learnt from the partnership include the importance of bridging different operating cultures, promoting an open dialogue on development and operational issues, managing expectations about the feasible pace of change when dealing with deep-seated development problems, and maintaining regular communication. Moreover, as a result of their inter-action, both organisations have understood more clearly their complementary roles in the Niger Delta and realised the necessity of dealing with structural constraints rather than the symptoms of development failure – such as the quality of governance (through support for the forthcoming UNDP Local Development Programme) and management of the environment (through the UNEP-led Environmental Survey of Ogoniland).

Dr. Albéric Kacou
UNDP Resident Representative/Resident Coordinator
UN's Operational Activities for Development in Nigeria



developmental and income-generating needs of youth. Learning will be through documentaries, listening and sharing ideas with others, and acquiring skills.

A partnership with GLOBACOM continued to provide alternative self-employment opportunities for youths in telecommunications. In 2006, some 446 telephone kiosks (call centres) were set up under the Telecoms Self-Employment Programme, mainly in communities of Rivers, Bayelsa, Delta, Edo, Abia, Imo and Akwa Ibom States. The programme participants, aged 18 to 30 years, were trained in small-scale business management and mobile phone operations.

Our partnership programme also extends to working with state governments. We are currently working with the Rivers and Bayelsa States Governments on a framework for effective cross sector partnerships. SPDC is partnering the Delta State Government on the LiveWIRE programme, which encourages young entrepreneurs. The state government contributed 63 per cent of the programme cost in 2006.

A \$35 million Niger Delta Centre for Health was completed in 2006 in partnership with Bayelsa State Government and five other partners, including the federal government, the Community Development Foundation, Our Niger Delta, Pro-Natura International, Society for Family Health, Enterprise for Development International, and ACCORD for Community Development.

Two funding partners' roundtables for the centre were held at Yenagoa and Abuja during the year, attracting funding from the National Action Committee on AIDS, the UN Agencies in Nigeria, the World Health Organisation, Pfizer International, and Chembio Diagnostics. The SPDC joint venture is contributing 30 per cent of the project cost.

The project aims to reduce the number of new HIV cases, reduce the impact of the disease, improve the reproductive health of the people of Niger Delta and build local capacity to provide HIV/AIDS preventive treatment, care and support. A youth development and conference centre will be an integral component of this initiative and will be built in 2007.

To encourage discussion about community and sustainable development in the Niger Delta, SPDC held its annual partners' roundtable meeting during the year with a number of non-governmental and development organisations. Key recommendations from the forum were to improve contracting approaches and coordinate between separate developments.

Key recommendations from the forum were to improve contracting approaches and coordinate between separate developments.

Economic Empowerment

Our aim is to promote the use of local resources and provide technical and funding support to individuals and groups. Projects in 2006 included micro-credit schemes, land and marine transport, agricultural projects and cyber cafés. Thirty-six projects were completed in communities where we operate and more than 3,650 people trained. We monitor the progress of these projects for six months before handing them over to management committees made up of community members.



• Handing Over of Buses for Land Transport Businesses to 11 Communities

SPDC is implementing best practice strategies. Community projects are not imposed on beneficiaries. However, SPDC needs to improve on project planning. At the moment, it takes a relatively long time for agreed projects to get to implementation stage. In addition, more attention should be paid to project monitoring and impact measurement. **Emma Oyewo, CEO, Self Help Rural Development Association**



Community-based enterprises and micro-credit schemes

Community-based enterprises and micro-credit schemes remain the major components of our economic empowerment programme. These schemes benefit youth and women's groups in the communities by supporting income-generating projects.

Of the 36 projects completed, 25 were community-based, providing more than 2,300 jobs. Another 11 were micro-credit schemes, which benefited some 900 community people. The beneficiaries used the credits to trade various staple food items, textiles and building materials.

In 2005, we supported the expansion of a pottery and ceramic factory in Kono (Ogoniland), started in 2004. We also committed to help install a modern kiln for the production of floor tiles, plates and hand wash basins. In 2006, through its own initiative, the community invited the EU to contribute to the project. The EU has committed to providing the kiln, under its Micro Projects Programme.

Agricultural resource and training centres

Efforts to transform and strengthen the Agricultural Resource and Training Centres as independent and self-sustaining entities continued in 2006. All the centres, which were set up by Shell in the late 1970s and early 1980s as agricultural demonstration farms, were in 2005 transformed to agricultural research and training centres. These now have management committees of community representatives knowledgeable in agriculture. During the year, SPDC with

NAPIMS officials visited the Songhai Centre in Benin Republic in search of best practices for the sustainable transformation of the centres. Songhai Centre officials also visited the centres in Bori, Oguta, Agbarho and Jeddo leading to plans for further improvements, in managing the centres, to be implemented in 2007.

During the year, we supported SPDC's Bori and Jeddo farms by restocking them with chickens and pigs. In our Bori farm, we also provided materials and support to plant pineapples and plantain.

Cassava Enterprise Development Project: Widow's Mite Association

Widow's Mite is an organisation made up of 35 widows in Ikot Etuk Udo community in Abak Local Government area of Akwa-Ibom State. Partnership with this group started in May 2005. The widows were encouraged to cultivate their own cassava farms while a cassava factory capable of processing three tonnes of cassava per day was constructed and handed over to them. The mill produces high-quality cassava flour, which is used in the production of more than 15 bakery items. The women have also been trained in the production of confectionery with the high-quality cassava flour. The mill and its confectionery sections currently employ 55 persons, with an annual turnover of N15 million (\$115,000).

Kuruama Offshore Fishing Project

Kuruama offshore fishing project has employed 14 people on two new offshore fishing boats equipped with outboard engines. The \$67,460 (N8.8 million) project, which is run by the community and supported by Shell, included training in HSE and management skills as well as boat maintenance.

The project has provided employment for another 25 community people who are involved in related businesses including restaurants, shops and food vending, while a number of young people are employed daily on a casual basis to help process the fish.

Within the few months of operation in 2006, the project used profits to provide micro-credit loans of N50,000 (approximately \$400) each to 12 members of the community to start their own businesses.

The business is run by a Project Management Committee with 15 members drawn from all sections of the community and trained by the Centre for Development Support Initiatives – a development NGO based in Port Harcourt, Nigeria.

The project is now a model for similar initiatives in other communities.



Human capital development

We continued to offer scholarships, work to improve educational facilities and standards, and support youth development.

In 2006, we awarded 2,600 secondary school and 850 university scholarships. Another 130 university scholarships were awarded to the physically challenged. At any one time, a total of 13,000 secondary school students and 2,350 university students are Shell scholars.

We continued to help improve teaching standards in schools. Some 300 secondary school teachers from Rivers, Imo, Abia and Akwa Ibom states were trained in teaching science, mathematics, and the English language during the year. Our basic services team completed 11 classrooms and one teachers' quarters block. We started to build e-learning centres at Bonny and Nembe. Each centre will be equipped with computers with internet access and generators to ensure steady power supply. On completion, they will be handed over to elected community management committees trained in business management.

Youth programmes

Our LiveWIRE programme has continued to make a significant impact in the Niger Delta. In 2006, more than 525 youths from Delta, Bayelsa and Rivers states were trained to prepare business plans. Of these, 50 top performers were supported to start up their own businesses. We also assessed the businesses of some past LiveWIRE beneficiaries and identified three for additional support in 2007, based on their impressive performance. A full evaluation of the businesses set up under the programme will be carried out in 2007 by the implementing NGO.

We extended our LiveWIRE programme in the Niger Delta by partnering with the Delta State Government to train 600 youths from the State. These youths were also trained to prepare business plans and 144 of them were supported to start their businesses. The Delta State government provided more than 60 per cent of the funding of the programme now re-named LiveWIRE Extra. With the success achieved in Delta State, LiveWIRE Extra has now been offered to the governments of Abia, Bayelsa and Rivers states.

We are also teaching youths vocational, entrepreneurial and leadership skills. Our 18-month Youth Training and Enterprise Programme helps youths start up their own businesses by providing capital, skills and leadership training and mentoring. In 2006, four programmes for 239 youths were completed in the Gbaran and Afam areas. We also started four new training programmes at the Delta State University Skills Acquisition Centre, Abraka, for 113 youths from Otumara, Eruemukohwarien/Effurun Otor, and Northern Swamp communities. We help prepare youths for jobs in our Youth Workforce Training, targeting employment in industry. In 2006, we partnered with the Bayelsa State Government to train 60 youths in trades such as welding, pipe fitting and carpentry. The courses were held at the SAIPEM training school, Port Harcourt, and the Petroleum Training Institute, Warri. Another 50 youths from Bayelsa State were being trained at the end of the year while 100 more from the Afam communities have been selected to undergo similar training in 2007.

We also provide a Youth Apprenticeship Enterprise Scheme for young people with no



• Oteri Midwest, Groundnut Merchant



• Youth Skills Training session in Warri

"I am proud to be associated with LiveWIRE. The training and financial support has changed my entire business approach. I am happy contributing to the development of young entrepreneurs as a volunteer mentor to the programme, and it is good to be self-employed."

Ngozi Nwankwo, LiveWIRE beneficiary



formal education. We signed a contract in 2006 to train 40 youths in a pilot scheme focusing on vocational and entrepreneurial skills. The beneficiaries will work with artisans for an 18-month apprenticeship.

We are working with the Foundation for Ethnic Harmony in Nigeria and the University of Rhode Island Center for Non-violence and Peace Studies to sponsor more than 90 youths from the Niger Delta for training on avoiding violence and conflict management.

A network has been established for the beneficiaries to share ideas and work together on specific peace-building projects. In 2006, this network helped to resolve threats to operations at Afam, Kolo Creek, Ogoni and Etelobou. They also distributed relief materials to communities as part of SPDC's Western Delta re-entry project.

Basic services

During the year, we continued to support the development of social and economic infrastructure in our host communities, including classrooms, roads, bridges, drainage systems, jetties, water supplies,

electricity, town halls, market stalls and health facilities. Some of these projects, such as roads and bridges, are very expensive, especially in swampy terrains. We spent \$28.5 million on 89 projects, including 39 water projects, 14 electricity projects, nine roads with bridges, and seven civic centres/town halls. This was more than half of total spending on community projects in 2006. These projects are normally run by community project management committees and community contractors.

Electrification projects involve, in most cases, the supply of generating sets, regular maintenance and fuel supply. In addition to the 14 communities covered in 2006, we continue to supply fuel to those previously given electricity generating sets. This fuel supply programme cost some \$4.7 million in 2006. The challenge still remains to find a better solution for power supply in coastal communities where there is no national electricity grid.

Providing potable water to communities continues to be a challenge and we are trying to partner with major development agencies

to find new ways of solving this problem. We trained and equipped 32 people in water maintenance in 16 communities.

Community health

Our community health programme focuses on preventive healthcare in communities where we operate. In 2006, our emphasis was on managing the health impact of major projects such as the Gbaran Integrated Oil and Gas Project, and maintaining existing Shell-supported health facilities while we try to solve the problem of their sustainable management.

In 2005, we assessed the status of 27 Shell-supported community health facilities and another 45 health facilities at various stages of development in seven states of the Niger Delta. The outcome was a five-year programme to ensure these facilities remain viable and sustainable. This starts with refurbishing and upgrading 27 existing health facilities, rehabilitating utilities, replacing equipment and training staff.

Two of these health centres, at Oyigbo and Omadino, were refurbished in 2006. We



• Okoloma classroom block



• Immunisation at Obio Hospital

started to upgrade medical equipment in 20 existing health facilities in 2006 and 10 ambulances were delivered to Shell-supported health facilities. At the end of the year, work was ongoing at 12 other health facilities.

A total of 250,000 patients were treated at Shell-supported health facilities in 2006.

During 2006, we resumed work on a number of uncompleted health centres – which formed part of the stalled projects. One of these at Ogbo-Urhie was commissioned and handed over to a management committee. Work continued at the end of the year on eight similar facilities.

We trained 350 community health workers in skills such as malaria control, vaccine management, basic life support and treating HIV-positive patients. Some 62 traditional birth attendants and voluntary village health workers were trained and equipped to

strengthen the primary healthcare system.

In 2006, Shell Nigeria supported the National Immunisation Day programme. More than 1.8 million children under five years old were immunised against poliomyelitis in 35 local government areas assigned to Shell Nigeria by the states where we operate. In addition, we supported the immunisation of 15,000 women and children from communities in the Gbaran/Ubie area against measles and tetanus.

We also provided 12 solar vaccine refrigerators, 11 of which went to 10 communities in the Gbaran area of Bayelsa State and one to the central offices of the Public Private Partnership Immunisation Fund, Lagos State.

A Shell-supported baseline survey on knowledge, attitudes and behaviour associated with HIV/AIDS was completed in 2006. In addition, an HIV prevalence study was carried out by the Society for Family

Health and Planned Parenthood Federation of Nigeria. Results of the findings have been shared widely and form the basis for planned HIV/AIDS programmes in the project communities. Some 42 media executives participated in a Shell-sponsored training workshop on HIV, facilitated by the African Radio Drama Association.

We also supported the development of the HIV/AIDS Strategic Framework for Bayelsa State with a grant of \$168,000. This was done by Family Health International in partnership with the Bayelsa State Ministry of Health and the State Action Committee on AIDS.

An agreement was signed with Family Health International in December to pilot a \$2.5 million comprehensive HIV/AIDS treatment programme in five SPDC-supported health facilities.



• Ogbo-Urhie Cottage Hospital



• Otor-Owhe classroom block



Ogoni reconciliation

In May 2005, Nigerian President Olusegun Obasanjo inaugurated the Ogoni Presidential Reconciliation Initiative, under the leadership of Rev Father Matthew Kukah with support from the International Centre for Reconciliation of Coventry Cathedral and KREDHA – a Dutch NGO that engages in peace building.

In early 2006, the Ogonis and SPDC submitted their aspirations to Father Kukah. Common to both lists were an environmental study of Ogoniland, followed by a clean-up of all oil spills, irrespective of how they occurred (this is a long-term commitment of SPDC's). In addition, both sides agreed on a review of the social and community development needs of Ogoniland, to be followed up by a programme to meet them.

During the year, Father Kukah focused on achieving reconciliation among the Ogonis, as a key prerequisite for direct negotiations with SPDC and other external parties.

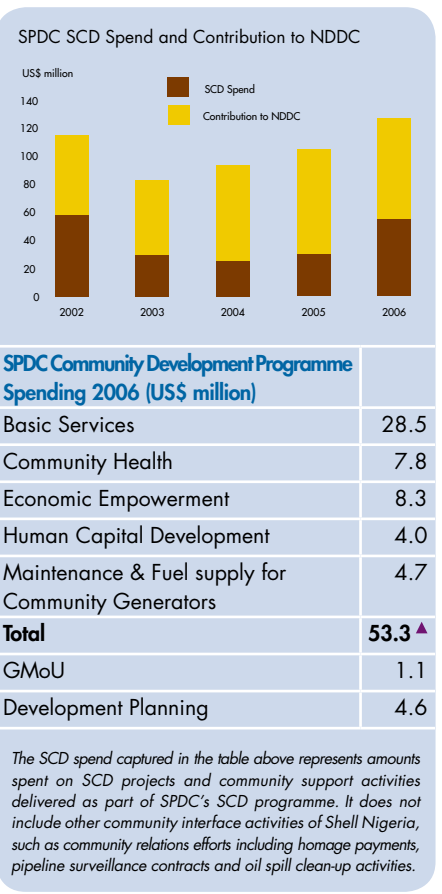
In May 2006, President Obasanjo laid the foundation stone of a monument at Bori in honour of the Ogoni leaders who lost their

lives during the Ogoni crisis. The event for the first time publicly brought together the families from opposite sides of the sad incidents of May 1994 (the four chiefs who were killed, and the nine leaders of the Movement for the Survival of Ogoni People, including Ken Saro-Wiwa, who were tried and convicted for the murders by a tribunal, and subsequently executed by the military government in power at the time).

The United Nations Environmental Programme (UNEP) agreed to undertake an environmental assessment of Ogoniland on the invitation of President Obasanjo to determine the extent of oil spillage and the cleanup that would be required. UNEP visited Ogoniland in December and is scheduled to commence field work by the first quarter of 2007.

A group of Ogonis has started work on development options for Ogoniland, which will be carried out under the Rivers State Sustainable Development Programme.

SPDC remains committed to an amicable resolution of issues and will continue to do its part to support the reconciliation process.



Monitoring and Evaluation

The External Stakeholder Review process was established in 2001 to verify community projects completed each year, using four broad assessment criteria (see definitions in box). This annual exercise provides an independent assessment of SPDC's Sustainable Community Development projects. The review is done by a team comprising development experts, community representatives, government officials and NGOs.

In 2006, we were unable to undertake this independent assessment of our completed projects for the first time due to the rising violence in the Niger Delta. However, as usual we undertook an internal review of projects completed in 2006 using the same criteria applied by the external review team. The internal review was managed by staff

in our Monitoring and Evaluation unit to ensure quality assurance. In 2006, we sub-contracted two local NGOs – the Centre for Development Support Initiatives (CEDSI) and Niger Delta Peace Coalition (NDPC) – to conduct the project assessments.

The NGOs assessed SPDC's performance in its sustainable community development programmes and commented on challenges facing project delivery. The scope of their activities included ongoing and completed community projects in 2006. In 2006, 131 completed projects and 29 ongoing economic empowerment projects were assessed.

As noted above, 131 completed projects were reviewed in various sectors of our sustainable community development programme. Of these, 120 (92 per cent) were rated

functional, 86 (66 per cent) successful, 101 (77 per cent) as beneficiary owned and 93 (71 per cent) as sustainable.

The process is also used to identify opportunities to improve project delivery. For example, projects were sometimes reported complete before all components had been fully installed. However, these results compared well with the external review results of 2005 (see table) and projects showed an improved level of functionality, success and sustainability. However, success – which is tied to the rate of use of projects – remains a major challenge. We will continue to review our needs assessment, baseline data and capacity-building processes to ensure effective use of projects by beneficiaries.

Thematic Area	Functional	Successful	Beneficiary Owned	Sustainable	Total Number of Projects Verified
Basic Services	78	62	61	56	89
Economic Empowerment	36	18	35	32	36
Human Capital Development	4	4	4	4	4
Community Health	2	2	1	1	2
Total	120	86	101	93	131
2006 Overall %	92%	66%	77%	71%	
2005 ESR Results	86%	64%	80%	62%	

Definitions

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

Completed Project: A project is considered to be completed when all components, as outlined in the project's design, have been delivered.

Functionality: Is defined as the operational standard of a project in relation to its purpose and technical design. This indicates that the project is delivered as designed and operating.

Success: A project is considered successful when it meets most of the needs of the beneficiaries.

Beneficiary Ownership: The degree to which a beneficiary or targeted community participates in the activities of a project/programme, enhancing their ability take over future control and management.

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

Reporting and Assurance

This report presents performance data and information for the reporting year ended December 2006. Unless otherwise stated, it presents consolidated data for those companies, which are under operational control. Operational control refers to those operations and exploration activities in which Shell Nigeria has full authority to introduce and implement Royal Dutch Shell's General Business Principles and policies. The report excludes reporting on the Shell interest in entities not under operational control.

The 2006 Health, Safety and Environmental (HSE) performance data comprise data and information for the following four operating companies: SPDC, SNEPCo, SNG and SNOP. Prior to 2004, the HSE data comprised SPDC only. From 2004 we have reported HSE data for the EA field, which is now transferred to SNEPCo. From 2005, where applicable, we report integrated data for the four operating companies listed above.

The 2006 Sustainable Community Development (SCD) data and information include SPDC only. SNEPCo, SNOP and SNG carry out some stakeholder outreach programmes, which could not be classified as SCD and therefore were not reported.

Shell Nigeria reporting policies

HSE data are collected using the procedures derived from Royal Dutch Shell's HSE Performance Monitoring and Reporting Guideline (revised February 2006). The Group Incident Classification and Reporting Guidance (February 2002) provides further classification and reporting guidance for health and safety incidents. The Group Reporting Guidance document provides definitions for the reported parameters, identifying methods for data determination and the units for reporting. A copy of the relevant guidance document can be found at http://www.shell.com/static/envirosoc-en/downloads/making_it_happen/our_

[commitments_and_standards/our_approach/performance_monitoring_manual.pdf](#)

Our reported production data comprise fiscalised production rather than the well-head production, which is required by the HSE Performance Monitoring and Reporting Guideline. We do not have accurate data on the volumes of crude oil that are stolen. Estimates used for volumes of oil lost through theft are reported on page 6.

Our SCD data are collected and prepared according to the definitions and guidance contained in the Shell Nigeria Policies and Procedures Manual for Sustainable Community Development (revised April 2005). A copy of the relevant guidance can be found at the Community & Environment section of the Shell Nigeria website www.shellnigeria.com

SCD activity does not include other community interface activities of Shell Nigeria, such as community relations efforts including homage payments, pipeline surveillance contracts and oil spill clean-up activities. We are aware that in some cases costs are incurred for communities by contractors as part of their operations. However, no reliable information is available to adequately quantify the value of such expenditure or the number of projects involved and it is not possible to confirm if they are completed in accordance with the Policy and Procedures Manual. These data are therefore not included in our report.

Due to differences in reporting requirements mandated by regulatory authorities and the Group, data included in this report may differ from data reported to regulatory authorities.

Considerations and limitations

We recognise that HSE and SCD data are subject to certain inherent limitations, resulting from variations in estimates, instrumentation accuracy and the need for professional judgement for some parameters.

These inherent limitations are particularly relevant in the case of oil spill incidents and health data reporting. Further to the typical inherent limitations affecting these data, the complex and difficult operating environment in Nigeria creates inherent constraints that impact data reporting, including in particular, access restrictions, technology limitations and interruptions in IT and other infrastructure.

In addition to the change in reporting scope outlined above, the comparability of year-on-year data may be impacted by changes in our data determination methods. This is particularly relevant in the context of our flaring data as a result of the installation of meters.

The PMR recommends the use of best estimates, but allows businesses to use a different methodology where this is prescribed by a regulator. We estimate oil spill volumes in accordance with Nigeria's regulatory requirements. The volume of oil spilled is initially estimated based on operational data and an estimate of spill area and thickness. The final estimated volume is then agreed by a joint investigation team (comprising staff of federal and state ministries of environment, DPR, Shell and representatives of affected communities) based on a field visit. In some cases, this final volume may differ from the initial volume.

Also, SPDC did not follow the PMR guideline in estimating the VOC emission from the Oil/Water separator, as the equation and default factors specified in the guideline are only valid for refinery operations.

Assurance

We recognise that our controls and documentation for the gathering and reporting of HSE and SCD data continue to need improvement across many of the reported parameters. We are continuing to work on the areas for improvement identified through our assurance process.



Independent assurance report to the Shell Petroleum Development Company of Nigeria Limited

The Shell Petroleum Development Company of Nigeria Limited (SPDC) engaged KPMG LLP (UK) to provide assurance over selected data reported in the 2006 People and the Environment Report (the Report) with respect to:

- the health, safety and environmental (HSE) performance for Shell Companies in Nigeria (SCiN); and
- SPDC's Sustainable Community Development (SCD) programme's total expenditure and completed projects.

This report is made solely to SPDC in accordance with the terms of our engagement letter dated 4 January 2007. Our work has been undertaken so that we might state to SPDC those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than SPDC for our review work, this report, or for the conclusions we have reached.

Respective responsibilities of the directors and reviewer

The directors of SCiN are responsible for the preparation of the Report and the information and statements contained within it, for determining the companies' objectives in respect of HSE and SCD performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

For reporting HSE performance, SCiN applied the Royal Dutch Shell plc's February 2006 Group HSE Performance Monitoring and Reporting (PMR) guidelines, except for the specific variation in relation to total hydrocarbon emissions as outlined on page 33 of the Report. For reporting SCD performance, SPDC applied its April 2005 SCD Policies and Procedures Manual.

Our responsibility is to express our conclusions to SPDC on the findings of our review, based on the work referred to below.

Scope of review

We reviewed the following data:

- SCiN's HSE data marked with symbols ▲ presented in the 2006 HSE Performance Summary table on page 18 of the Report; and
- SPDC's total SCD expenditure set out on page 31 and the total number of SCD projects completed in the year set out on page 24 and marked with the symbols ▲ and ●.

We have not been engaged to provide assurance on any prior year data presented in the Report. We have not undertaken work to confirm whether or not all relevant issues relating to SCiN's stakeholders or sustainability performance are included in the Report.

Volume of oil spilled, Total Reportable Case Frequency (TRCF) and Total Reportable Occupational Illness Frequency (TROIF)

We were asked at the outset of our engagement to review SCiN's Volume Oil Spilled, TRCF data and TROIF data. This data has not been reported due to reasons outlined in pages 14, 15 and 21 of the Report. In summary, the findings from the work conducted include:

- Volume of oil spilled over 100 kgs – Due to inaccessibility to the areas affected, a number of spills were yet to be classified and estimated at the date of this Report. These may be significant to the total volume of spills. We were not provided with sufficient underlying data and calculations to support how the volumes were derived.
- TRCF – Control weaknesses were found in reporting TRCF data including limited reviews of primary records, a lack of supporting evidence, and insufficient use of the new reporting system.
- TROIF – We were unable to access sufficient primary TROI records, including access to clinical logs with occupational illness cases, due to the security situation.

Basis of our work

We conducted our work in accordance with *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, social performance and assurance specialists.

Work performed

We planned our work to obtain all the information and explanations that we considered necessary to provide sufficient evidence for us to be able to give limited assurance. However, due to the security situation in the Niger Delta, it was not possible for us to conduct any work relating to the total number of completed SCD projects at a field level. Additionally, the External Stakeholder Review process, a key control over the total number of completed projects, was unable to take place due to the security situation. We were, therefore, unable to form a conclusion on the total number of completed projects.

Our assurance work was limited to conducting interviews, systems reviews and documentation analysis from SCiN offices in Port Harcourt and Lagos.

Our work consisted of:

- Conducting interviews with management and other personnel at the operational and corporate level to obtain an understanding of the systems and controls used to generate, aggregate and report the selected HSE and SCD performance data;
- Confirming our understanding of the systems and controls used to generate, aggregate and report the selected HSE and SCD performance data by conducting walkthroughs of systems at SCiN offices in Lagos and Port Harcourt;
- Assessing the completeness and accuracy of the selected HSE and SCD performance data by:
 - testing the operating effectiveness of systems and controls;
 - reviewing relevant supporting documentation used to aggregate and report the selected HSE and SCD performance data;
 - assessing the significant assumptions and judgements made by the directors in the preparation of the selected HSE and SCD performance data;
 - testing the documentation which supports the measurement, calculation and estimation of the selected HSE performance data;
- Reviewing the disclosures in the Report relating to the selected HSE and SCD performance data in light of our findings.

Conclusion

Based on our work described above for the year ending 31 December 2006, in our opinion:

- nothing has come to our attention that causes us to believe that the data relating to the parameters marked with symbol ▲ on pages 18 and 31 in the Report, are not fairly stated; and
- we are unable to complete work required to form a conclusion on the data relating to the total number of completed SCD projects marked with symbol ● on page 24 of the Report.

Data in relation to volume of oil spilled, TRCF data and TROIF data has not been included in the Report. Our findings in relation these parameters are set out in the Scope of Review above.

Disclaimer statement

This report contains forward-looking statements concerning the financial condition, results of operations and businesses of Royal Dutch Shell. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forward-looking statements include, among other things, statements concerning the potential exposure of Royal Dutch Shell to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target", "risks", "goals", "should" and similar terms and phrases. There are a number of factors that could affect the future operations of Royal Dutch Shell and could cause those results to differ materially from those expressed in the forward-looking statements included in this Report, including (without limitation): (a) price fluctuations in crude oil and natural gas; (b) changes in demand for the Group's products; (c) currency fluctuations; (d) drilling and production results; (e) reserve estimates; (f) loss of market and industry competition; (g) environmental and physical risks; (h) risks associated with the identification of suitable potential acquisition properties and targets, and successful negotiation and completion of such transactions; (i) the risk of doing business in developing countries and countries subject to international sanctions; (j) legislative, fiscal and regulatory developments including potential litigation and regulatory effects arising from recategorisation of reserves; (k) economic and financial market conditions in various countries and regions; (l) political risks, project delay or advancement, approvals and cost estimates; and (m) changes in trading conditions. All forward-looking statements contained in this report are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Readers should not place undue reliance on forward-looking statements. Additional factors that may affect future results are contained in Royal Dutch Shell's 20-F for the year ended December 31, 2006 (available at www.shell.com/investor and www.sec.gov). These factors also should be considered by the reader. Each forward-looking statement speaks only as of the date of this report, [insert date]. Neither Royal Dutch Shell nor any of its subsidiaries undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this report.

The United States Securities and Exchange Commission (SEC) permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms in this report that SEC's guidelines strictly prohibit us from including in filings with the SEC. U.S. Investors are urged to consider closely the disclosure in our Form 20-F, File No 1-32575, available on the SEC website www.sec.gov. You can also obtain these forms from the SEC by calling 1-800-SEC-0330.



This report covers the operations of:
The Shell Petroleum Development Company of Nigeria Ltd
(operator of the NNPC/Shell/Total/Agip joint venture);



Shell Nigeria Exploration and Production Company (SNEPCo);
Shell Nigeria Oil Products Limited (SNOP); and Shell Nigeria Gas Limited (SNG).