

## **Exhibit 87**

### Note for Information

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#### Subject: SPDC Onshore Oil Reserves

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##### Introduction

This note raises the issue of how much additional proved oil+NGL reserves the Group should book in SPDC in view of the arguably already high 'proved' onshore production forecast underlying the booked proved reserves.

##### Definition Proved Reserves

According to Group definitions, proved reserves require *reasonable certainty* to be producible within the existing licences period; in probabilistic terms volumes need an *85% confidence level* (see appendix).

##### Shallow Offshore Proved Reserves

SPDC's Shallow Offshore licences (EA, K-H), expire at 30.11.2008 or, in the case of EA, at the moment a cumulative production of 350 mln bls from EA/EJA (100%) is reached, if that moment is later. Prior to any 1999 additions, SPDC have booked shallow offshore proved reserves of 9 mln m3. After EA FID and alternative funding, there is clear scope to book more shallow offshore proved reserves.

##### Onshore Proved Reserves

The SPDC onshore MOU licence expires in 30.6.2019. Prior to any 1999 additions, SPDC have currently booked proved onshore reserves of 410 mln m3. In order to produce these within licence, SPDC onshore production has to steadily increase from its current 700 kb/d level by about 100 kb/d for some 7 years (2002 to 2008) and thereafter be sustained at the 1400 kb/d level (see attached graph).

For comparison, SCIN's reference case, submitted in September 1999, resulted in a substantiated production growth of some 120 kb/d for the next five years and a 2000-2019 average of 1,500 kb/d. As a first step, the current integrated production system capacity of 1,235 kb/d is planned to increase to well over 1,500 kb/d by 2003 as part of T3IP.

This growth programme is premised on:

- a) restoration of peace in the Delta with deferments by end of plan period to pre 1998 levels,
- b) completion of the asset integrity programme,
- c) continuation of funding of delta operations by NNPC as planned, and
- d) most crucially growth in SCIN's oil production quota through either a general increase of Nigeria's OPEC quota or preferential allocation of quota to SCIN pursuant to the integrated nature of T3IP -NLNG requires rich AG in order to make it economically viable as per the signed supply contracts- and priority to PSC and alternatively funded projects.

##### Issue

The risk exists that above conditions are not met and SCIN's production targets will not be achieved and consequently, if the situation is not managed timely, some of the booked reserves, notably in the Delta, would have to be reversed (c.f. Abu Dhabi today). This exposure is to a certain extent offset by the upsides of new licences, condensate developments and licence extensions.



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Medium term issue:

SPDC has been, and was projected to be, an important source of Group proved reserves additions:

Proved Oil+NGL additions	1997 actual	1998 actual	1999 (SPDC proposal)	2000 plan	2001-2004 plan
SPDC Mln m3	20	101	80	31	155
Group Mln m3	174	187	117	57	699
SPDC as % of Group	12%	54%	68%	55%	22%

During 2000, as part of firming up the next step in its long-term strategy (T4IP, condensate and NAG strategy), SCIN will validate their premises and develop proposals for the policy of booking further reserves in 2000 and beyond. These will need to be integrated in Excom's global EP reserves replacement strategy.

Short term issue:

Pending this follow-up, in view of the Group Resources Report per 1.1.2000, an urgent decision is required on what to book of SPDC's 80 mln m3 potential new proved reserves over 1999.

Short Term Options

To create scope to cater for future shortfalls with respect to the current underlying proved production forecast, at least until more confidence is justified, five options exist which are in order of increasing impact:

1. **Book as per submission:** Ignore the issue until an in-depth analysis is completed.
2. **Freeze onshore (MOU):** Use any new proved onshore(MOU) reserves as an offset, but continue to book realistic shallow-offshore (extra EA) and SNEPCO Deepwater reserves.
3. **Freeze SPDC:** Use any new proved onshore(MOU) and shallow offshore (extra EA) proved reserves as an offset, but continue to book realistic SNEPCO Deepwater reserves (Ehra).
4. **Freeze Nigeria:** Use any new proved onshore (MOU), shallow offshore (extra EA) and SNEPCO Deepwater reserves (Ehra) as an offset (in 2000).
5. **Freeze Eastern Hemisphere excluding Europe:** Use any new proved reserves within the "Other Eastern Hemisphere" as an offset. "Other Eastern Hemisphere" is the most detailed the Group traditionally reports externally. This allows the quickest fix without having to publicly write-off proved reserves.

Option	Additional Proved oil+NGL reserves (mln m3) in 1999						Required onshore plateau kb/d (as of year)	Group repl. Ratio oil
	SPDC onshore (MOU)	SPDC offshore	SNEPCo	Nigeria	Eastern Hemi (excl. Europe)	Group		
Book as per submission	50	30	21	101	144	117	1700 (2011)	89%
Freeze onshore	0	30	21	51	94	67	1400 (2008)	51%
Freeze SPDC	-30	30	21	21	64	37	1300 (2007)	28%
Freeze Nigeria	-51	30	21	0	43	16	1200 (2006)	12%
Freeze Eastern Hemisphere excl. Europe	-94	30	21	-43	0	-26	1000 (2004)	-20%

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**Short Term Considerations**

SCIN are from portfolio perspective comfortable to book all the reserves (option 1). However, not booking the proved reserves for Group purposes will not lead to insurmountable difficulties.

For the Group there is some mitigation for a poor replacement ratio in 1999 from being able to mention the significant Atabasca reserves which formally don't qualify as reserves under the SEC rules, and have hence not been included above.

Any reserves added over 1999 cannot be used to mitigate a low replacement ratio in later years (c.f. the low in 2000 in the first table above).

**Recommendation for Short Term Issue**

In view of the above, it is recommended to ExCom to accept option 2: Freeze Nigeria MOU (don't book the suggested 50 mln m3 increase), but book increase in Shallow Offshore (EAEAJ) and SNEPCo (Ehra).

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**Appendix:**

**Quotes from 'Petroleum Resource Volume Guidelines - Resource Classification and Value Realisation', SIEP 99-1100, of September 1999:**

Externally reported resource volumes have two primary purposes – financial calculations and investor assessments. The reported figures are used to calculate the depreciation of EP sector capital investments. The amount of depreciation affects the company's book earnings that are also externally reported. Shareholders and the investment community use the reported volumes and earnings to assess the performance and value of the company. It is essential that externally reported proved reserves volumes are a true reflection of shareholder value. **Externally reported proved reserves volumes should be equal to internally used proved reserves numbers.**

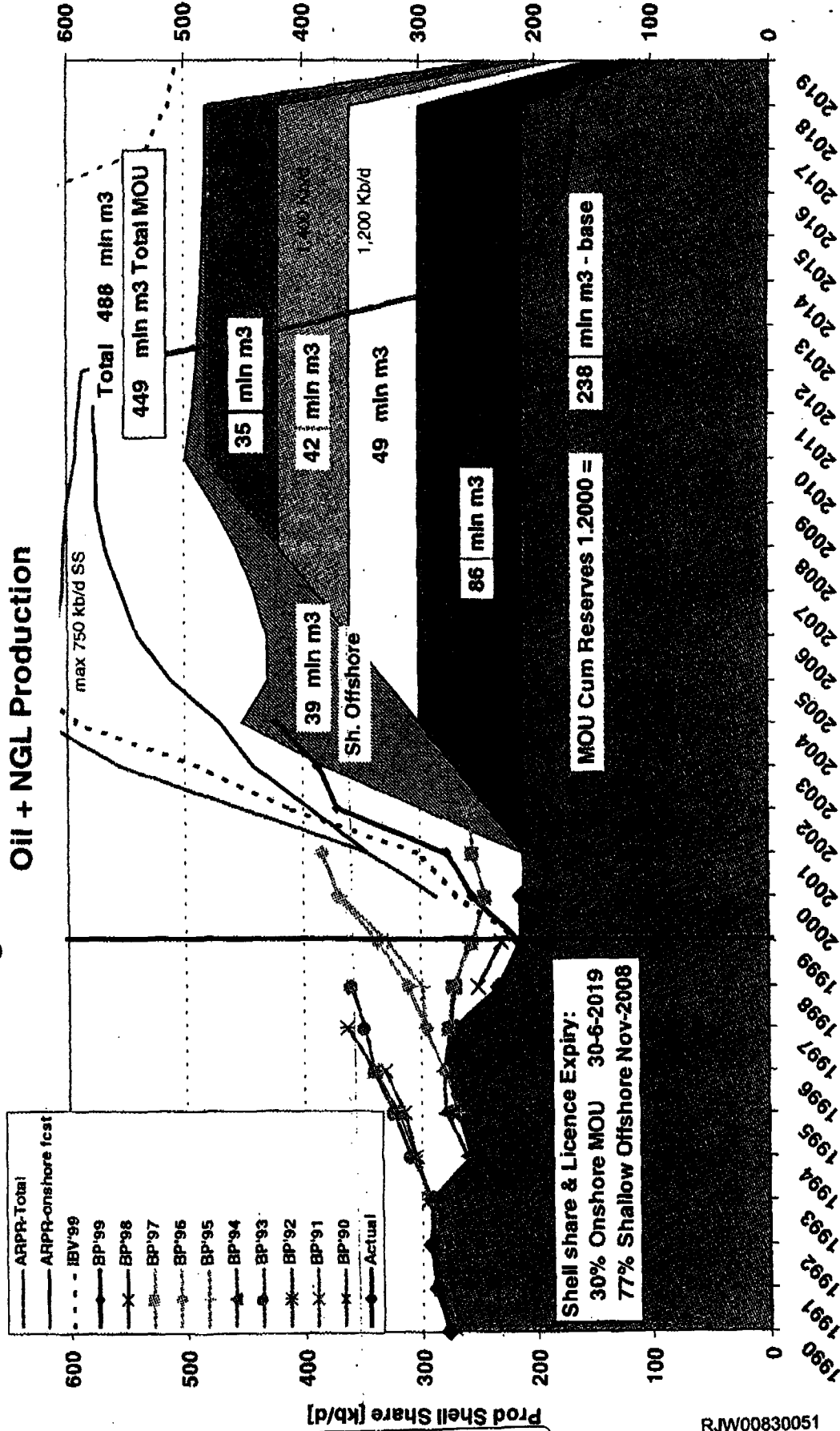
Cumulative production, total proved reserves and proved developed reserves are externally reported annually for oil, gas and NGL sales quantities as of the 1st of January. The reported volumes must comply with SEC definitions, ..... The Shell Group definitions contained in this section are in full compliance with these definitions. Where Group guidelines interpret SEC definitions, ....., these interpretations have been accepted by external auditors as fulfilling SEC requirements. A summary of the Group definitions for the external categories is .....

Proved reserves are the portion of reserves, as defined for internal reporting, that is **reasonably certain to be produced and sold during the remaining period of existing production licences and agreements**. Extension periods are only included if there is a legal right to extend, which may derive either from the initial concession agreement or from a subsequent letter of assurance. **Any applicable government restrictions on oil export and contractual or practical market limitations to gas delivery rates should be taken into account**. Only the Group share of proved reserves is reported.

If probabilistic methods are used, reserves are reasonably certain when there is an **85% probability** that the quantities actually recovered will equal or exceed the estimate. This is the P85 value of the cumulative probability curve. If scenario deterministic methods are used, the term reasonable certainty is intended to express a **high degree of confidence** that the quantities will be recovered. **This is the low side estimate.**"

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# Nigeria - SPDC Historic and Forecast Oil + NGL Production



EPB-P.R.D. Aalbers # 1

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