Austin Avuru
Chief Executive Officer

Resolute focus on solutions in our control

> 2016 has been our most challenging year since inception and, whilst the obvious headwinds we have been faced with are clearly reflected in our 2016 results, we have responded effectively by focusing on the delivery of solutions to those challenges that are within our control. Our decisiveness coupled with the strong underlying fundamentals of the business have put us in a position to restore operational and financial momentum and deliver long-term value for our shareholders.

Meeting challenges head on

The difficult macro backdrop and sustained low oil price environment have, rightly, forced a much greater emphasis on operational efficiency and cost control to protect and enhance cash margins. Whilst oil prices staged a recovery to exit the year around the US$55/bbl level, having "bottomed out" in January at around US$26/bbl, the direction of travel from here remains uncertain, with no obvious consensus view and much depending on a complex blend of factors that will determine at what pace the market re-balances. Our business model and strategy is designed to deliver sustainable long-term value even in a low oil price environment, whereby we manage for value and in doing so have lowered our unit operating cost to around US$9/boe from a level of over US$15/boe in 2012 (a circa 40% reduction). However, we can always do more and go further so we ensure tight budget controls, cost reduction targets and a culture of accountability at all levels within the organisation. Similarly, when making investment decisions we have a robust system whereby, through a process of benchmarking and high-grading, capital is selectively deployed only to opportunities that offer the best cash returns. We are also careful to maintain discretion over the level and timing of spend, and have the ability to dial-up or dial-down levels of activity to align with cash generation and financing commitments.

The principal challenge for the business throughout the year was the impact of the shut-in of the Forcados terminal from mid-February onwards. This led to our average total working interest production for 2016 ending at 25,877 boepd, down 40% year on year. Prior to this, the Company's working interest production from mid-2015 to February 2016 averaged around 52,130 boepd and is an indicator of our strong underlying production capability.

Unlocking the benefits of greater diversification

Diversification is a key element of positioning Seplat to deliver sustainable returns and value growth over the long term. Last year I set out four ways in which we can mitigate risk through diversification, namely:

- Export infrastructure diversification.
- Asset diversification.
- Commodity diversification.
- Terrain diversification into the offshore.

We have made good progress overall against these objectives but there remains much for us to do. Firstly, we have prioritised access to alternative crude oil export routes and in doing so established an interim solution whereby crude oil production from OMLs 4, 38 and 41 is sent via Seplat's own 100,000 bopd capacity pipeline to available storage tanks at the Warri refinery and sold FOB to Seplat's offtaker Mercuria at the Warri refinery jetty, from where the oil is then transported by barge to a mother-tanker positioned offshore. In 2016, a gross volume of 3 MMbbls was evacuated via this route and our next step is to complete jetty upgrades and establish a steady 30,000 bopd export stream on a more permanent basis. This in turn has been the enabling factor that permitted continuity of gas production to the domestic market and can be used going forward as a means of greatly improving security of gas supply. Furthermore, exports via the Warri refinery jetty are not subject to the reconciliation losses or crude handling charges encountered when exporting via the Forcados system.

Alongside this, the Government is prioritising the fast-track completion of the 160,000 bopd Amukpe to Escravos pipeline which, when it becomes available, we expect to provide a third long-term export option. Improving the uptime and optionality for producers around crude oil export routes will have a far-reaching effect for the industry and Nigeria overall – as company cash flows improve operators like Seplat will have the means to breathe new life back into the Nigerian E&P sector and trigger a new wave of investment that will boost production and in turn benefit local economies, generate employment, engage service industries and drive value creation for all stakeholders.

In terms of diversifying our asset base, the acquisition of an interest in OML 53 in particular provides us with exposure to the large-scale ANOH gas and condensate development project and numerous appraisal and development opportunities to also grow oil production on the block materially.

On the theme of commodity diversification, it is important to note that gas prices in the domestic market are de-linked from oil price and therefore are not exposed to the price volatilities the industry has endured since the abrupt down-turn in mid-2015. In 2016, we saw increases in both realised gas price and production that meant gas revenues broke through the US$100 million mark for the first time in our history and are set to climb higher this year as we benefit from further expansion of processing capacity at the Oben hub. It is easy to forget that in 2013 gas revenues were only US$18 million, which shows how far we have come.

Expansion into the shallow water offshore parts of the Niger Delta has been a stated ambition since IPO and we view it as a logical part of our evolution. Whilst we have not yet taken steps in this area, we possess the necessary skills and experience and can transpose our strong operating track record to capitalise on potential offshore opportunities where high levels of uptime can typically be achieved with direct access to markets and minimal losses, all of which would be highly complementary to our onshore activities.

Sustained growth of our gas business

Having been quick to seize early mover advantage back in 2012 and commit to developing our gas business, there is no doubt that Seplat is positively re-shaping the domestic industry as a result of our ambitious gas expansion plan. We felt the full-year benefit in 2016 of the Phase I expansion of our Oben gas processing facility, which took gross Company processing capacity to 300 MMscfd and allowed gross production to be stepped-up to 210 MMscfd, an increase of 10% year on year, despite condensate handling constraints owing to the declaration of force majeure at the Forcados terminal. With the Oben Phase II expansion taking gross Company processing capacity to a minimum of 525 MMscfd we are now in a position to contract more sales volumes and are aiming to further boost the supply of gas to the domestic market to around the 400 MMscfd (gross) level in the coming months.

Looking further down the line the ANOH gas development at OML 53 (and adjacent OML 21 with which the project is unitised) is going to underpin the next phase of growth for the gas business and our involvement positions us at the heart of one of the largest greenfield gas and condensate developments onshore the Niger Delta to date. We are working with our partners to finalise a framework within which to progress the upstream and midstream elements of the project to FID and look forward to communicating plans for this exciting development as they firm up.

The positive outlook for the domestic gas market in Nigeria is one that we see continuing and we are well positioned to take advantage of this opportunity, cementing our position as one of Nigeria's leading producers and suppliers of gas for domestic use.

Financial discipline

Taking into account the unforeseen extended force majeure conditions at the Forcados terminal we adopted a prudent approach and proactively engaged in discussions with our lenders in the seven-year term facility to realign near-term debt service obligations within the existing tenor. Our lenders in the term loan approved the deferment of H2 2016 and 2017 principal repayment obligations totalling US$150 million until the end of 2017, thereby reducing Seplat's principal debt service obligations during this period to US$57 million with the deferred obligations now being payable between end Q1 2018 and end Q2 2020 after which we fall into line with the original schedule. We value the excellent relationship we have with our lending banks who recognise the high quality of our underlying portfolio and strong operating credentials. The smoothing of the repayment profile will assist in ensuring we preserve a liquidity buffer to operate under prevailing conditions. In managing the business through such difficult times we are faced with tough decisions. One of these is the decision by the Board to suspend the dividend, judging that shareholders are better served at this point in time by retaining cash on the balance sheet with investments made on a highly selective and discretionary basis for production opportunities to further help preserve the liquidity buffer. It is our full intention to reinstate the dividend at the earliest opportunity judged appropriate by the Board.

Strong fundamentals

Seplat's long-term outlook is positive. The core fundamentals of the business remain sound, and give Seplat a strong platform of high-quality assets upon which we can return to growth. Our 2P reserves at end 2016 stood at 462 MMboe, down modestly by 3.8% on end 2015, and we have a further 90 MMboe of 2C resources taking our total working interest reserve and resource base to 552 MMboe. This is a material volume by any standard and gives the business a great deal of running room production wise.

Proud of our local commitments

As an indigenous Nigerian oil and gas company we are proud of the positive contribution we are able to make to our host communities through our social investment programmes. To sustain our leadership position, we continually invest in and develop local talent, creating a domestic multiplier effect in the communities where we operate.

Seplat understands the critical role that every employee plays in our success. This is why tailored training is vital to our employee development programme. We are proud of our diversely skilled and committed employees and look forward to working with them in 2017 to fully realise the Company's potential.

Management changes

Following his retirement from the Board effective 30 March 2017, I would like to personally thank Stuart Connal for his significant contribution to Seplat in the last few years. He has provided excellent operational and technical leadership that has translated into the consistent growth in reserves and production capacity we have delivered and also in particular his contribution to the growth of our gas business. I am delighted to say that Stuart's vast expertise will remain available to the Company though an ongoing involvement with delivery of the ANOH gas project. Following his retirement, we have divided Stuart's responsibilities into two leadership roles and I am delighted to welcome Jay Smulders to Seplat as Technical Director. Alongside this we are in the process of appointing an Operations Director and believe this new structure will provide an optimal framework as we push ahead with current and new projects in the future.

2017 outlook

Whilst 2016 was an extremely testing year for the industry and the Company, Seplat enters 2017 with a clear line of sight on steps that will be taken to restore operational and financial momentum to the business and return us to profitability. Our focus is on protecting our core business through optimising production performance of the existing asset base and mitigating the infrastructure concentration risk so apparent in 2016 through long-term availability of alternative export routes capable of handling our full volume. We will continue to scale up our gas business and leverage our strategically important status in this area, continue to drive down costs, improve efficiency, carefully manage our finances to preserve a liquidity buffer and improve the balance sheet to ensure we become a fitter, stronger and more resilient business point forward.

I want Seplat to be known as the most effective, innovative and efficient operator in Nigeria delivering premium value to stakeholders. I want Seplat to be best-in-class.

Austin Avuru
Chief Executive Officer