

A.B.C. Orjiako  
Chairman



# Adapting to overcome challenges

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### Restoring momentum

Seplat started the year very strongly with average daily gross production consistently running at around 120,000 boepd across all assets (52,000 boepd being net working interest to Seplat) up to mid-February when production was reduced and exports suspended on OMLs 4, 38 and 41 as a result of the shut-in of the third-party operated Forcados terminal for the rest of the year. Thus, 2016 proved to be our most challenging year since Seplat's inception, further compounded by the low oil prices that persisted from 2015 throughout 2016.

In response to the protracted shut-in of the Forcados terminal, the Board accelerated various initiatives to diversify risk by reducing our reliance on a single export route, both in the short and the long term. One such initiative is the barging solution that utilises our own 100,000 bopd capacity pipeline to the Warri refinery from where crude is exported via barge. Barging commenced in May 2016 and by the end of the year 3 MMBbls (1.4 MMBbls working interest) of Seplat crude had been monetised via this route. Going forward, our target is to export a gross average of 30,000 bopd on a regular basis. Separately, a government led project to complete a new 160,000 bopd pipeline to the Escravos terminal has gathered pace and will open up a long-term alternative export route for Seplat and other operators when completed in the coming months.

### Our gas business

I am pleased to report continued success in our strategy of mitigating the impact of lower oil prices through the ongoing and significant expansion of our gas business. Although not completely unaffected by the extraneous production constraints, the benefits of a strong gas business have been further underlined this year with the Forcados terminal shut-in. Our gas business enabled us to maintain a steady revenue stream throughout the year.

Our gross gas production capacity doubled to 300 MMscfd following completion of the Phase I expansion of the Oben gas processing plant in 2016, making Seplat a key supplier to the domestic market, accounting for about a third of Nigeria's gas-to-power generation requirement. We remain on course to significantly step up gas production again in 2017 as the Phase II expansion of the Oben plant kicks in and takes our overall gross processing capacity to a minimum of 525 MMscfd.

The demand for domestic gas is likely to increase exponentially over the coming years as the government seeks to increase power generation in line with its 2020 targets and the domestic gas price is likely to continue to increase in line with the growing demand. We have seen an increase of about 34% in our average realised gas price since 2014, and Seplat is well positioned to continue to benefit from these trends.

## New opportunities

Over the next few years, we will see the development of OML 53's large, undeveloped Ohaji South gas and condensate field which has gross 2P gas reserves of 671 working interest Bscf. This development will be coordinated with the Assa North field on adjacent OML 21 which is operated by Shell Petroleum Development Company ('SPDC'). Together referred to as the ANOH project, this is set to be one of Nigeria's largest ever greenfield gas developments.

With the diversity of export solutions in place and our increasing gas processing capacity, Seplat has the potential to deliver material production upside with less risk of significant constraints from any infrastructure disruption.

The drive to diversify revenue streams and export risk does not end with these achievements. We have ambitious growth plans and an appetite to pursue high-quality acquisitions that are value accretive for our shareholders and help balance our risk profile. The skill set and expertise we have obviously lends itself to other onshore opportunities but we are also well equipped to look towards the shallow offshore sector.

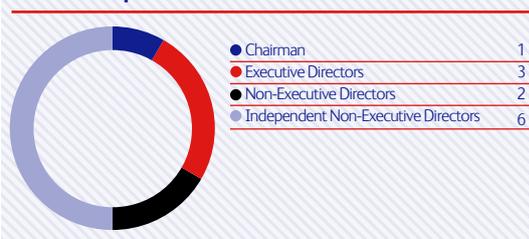
Despite the challenges faced in 2016, the strong fundamentals for the Nigerian E&P sector remain in place. Furthermore, in October 2016, the Nigerian Government set out a roadmap of seven steps to strengthen the country's oil industry. These include fiscal reform and clearer national oil and gas policies; improved domestic refining and production capacity; measures to address security issues; and a focus on Nigeria's gas sector, in particular gas-to-power initiatives. We welcome these steps and believe that any progress will have material benefits for the indigenous E&P sector.

## Prudence and value protection

The Board's responsibility to determine capital allocation was brought into sharp focus by the constraints placed on our ability to produce. During the year under review, we took the prudent decision to approach our lenders to consider amending the existing "front-ended" sculpted principal repayment schedule on our seven-year secured term facility. I am pleased to say that agreement was reached to re-profile and set a more evenly balanced repayment schedule over the remaining loan life, which runs to 2021.

Having already reduced the dividend in 2015 as a result of the lower oil price, the Board took the difficult but necessary decision not to pay a dividend for 2016, under the obvious circumstances. This has enabled the Company to maintain the necessary level of financial flexibility and selectively deploy the available capital into its portfolio of production opportunities while preserving a tight liquidity buffer. Across the business, we

## Board composition as at 31 December 2016



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have continued to reduce corporate costs and pursue an extremely disciplined approach to capital expenditure. We will look to restore the dividend at the earliest opportunity.

## Corporate governance

As a Board, our collective responsibility is to promote the long-term success of the Company by institutionalising the best processes to make the right decisions for all of our stakeholders. We recognise that high standards of corporate governance are integral to the success of our business and, as such, we continually strive to align ourselves with best practice global standards. Throughout 2016, the Board undertook a detailed review of all its policies to ensure continued alignment with current laws and regulations in both the Nigerian and UK markets.

In last year's Annual Report and Accounts, I discussed the robust process we undertook in 2015 to ensure all our employees and other stakeholders were continually appraised of our corporate governance policies whilst simultaneously significantly strengthening our whistleblowing procedures. This led to our participation in the Corporate Governance Rating System ('CGRS') conducted by the Nigerian Stock Exchange in partnership with the Convention on Business Integrity ('CBI'). As part of the CGRS, our governance processes were evaluated through a Corporate Self-Assessment, which was independently verified by the CBI and I'm delighted to report that all members of the Board undertook and passed the Fiduciary Awareness Certification Test. Committing to an ongoing process of review and refreshment, we will ensure that Seplat continues to uphold the highest standards of corporate governance.

## Corporate social responsibility

Our shared value model continues to ensure that our investment creates a positive impact amongst our host communities. The strong partnership we have built with our local stakeholders is an integral part of our operating model. As an ongoing commitment to leaving a lasting and positive legacy, the Board focused efforts in 2016 on reviewing our CSR strategy to ensure that our corporate social investments are strongly evident, self-sustaining and have the capacity to continue beyond Seplat's involvement.

This strategic review will ensure our CSR model manages the social risks and impacts of the Company's operations whilst simultaneously contributing to the broader socio-economic development of the country, aligned with the United Nation's Sustainable Development Goals ('SDGs'). Going forward, we are working towards developing and implementing this revised strategy and ensuring that all efforts are measured and reported with the same rigour as our operational performance.

## Board changes

On behalf of the entire Company, I would like to thank Stuart Connal, Chief Operating Officer, who retired this year. All involved with Seplat owe him a debt of gratitude for his contribution since 2010, having joined the Company at foundation, not least for his work to establish the team that will succeed him and continue to take the business forward.

## Looking ahead

Our experiences in 2016 mean that the Board approaches the year ahead with a revised view of our strategic priorities, but with an undiminished zeal to deliver value for our shareholders. Our continued resilience is testament to the quality of our assets and our people. Whilst we cannot rule out further disruption, we have laid strong foundations to mitigate such risks. The diversification of revenue streams and export routes implemented over the past two years leave us in a much stronger position to operate through any such headwinds. With a fair wind, 2017 could be a significantly strong year for Seplat, reinforcing our position as Nigeria's leading independent E&P company.

After a difficult couple of years, I look forward to 2017 with great excitement, confident in Seplat's future and our ability to deliver exceptional results if given the opportunity to operate to our full potential.

Thank you for your continued support.

A.B.C. Orjiako  
Chairman