The challenge

A complex macro environment

- Oil price weakness continued into 2016 with Brent touching a low of US$26.01/bbl in January. Although prices staged a modest recovery over the remainder of the year, exiting 2016 at a peak of US$54.96/bbl following the announcement of production cuts by OPEC members and certain other producers, they remained well below the average of US$103.43/bbl and peak of US$128.14/bbl that was seen from the start of 2010 to September 2014 when the abrupt decline set in.
- The challenge of adjusting to the low oil price environment was further compounded by significant levels of price volatility in the year and uncertainty created by the overall fragile market state.

Brent oil price (dollars per barrel) 2015 to 2016

Source: US Energy Information Administration, Thomson Reuters (Europe Brent spot price FOB).

Market overview
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Our solutions

Growing our gas revenues

Implementation of our oil hedging strategy

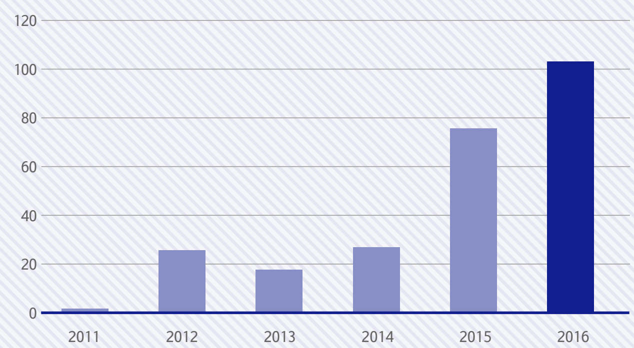
Diversification through developing our gas business

Oben gas plant expansion

Our gas business is making an increasingly important financial contribution. In contrast to the oil side of the business, where the severe decline in oil price coupled with unprecedented periods of downtime at key export infrastructure have severely impacted 2016 performance, the fundamentals of the gas opportunity have strengthened considerably with price and volume both increasing dramatically in recent years. Gas prices in the Nigerian domestic market are de-linked from oil price and have reached clear-cut commercial levels. The Domestic Supply Obligation ('DSO') price has increased from US$0.3/Mscf in 2010 to the current level of US$2.50/Mscf. Beyond this, we have seen prices on willing buyer/willing seller agreements move to the US$3.50/Mscf level.

With gross 2P and 2C reserves and resources in the ground at OMLs 4, 38 and 41 of 1.9 Tscf and a minimum gross processing capacity of 525 MMscfd following expansion of our Oben gas processing hub, we have further cemented our position as a pre-eminent supplier of processed gas to the domestic market – and a strategic link connecting the major demand centres on the Lagos and Abuja axis with a secure source of long-term supply.

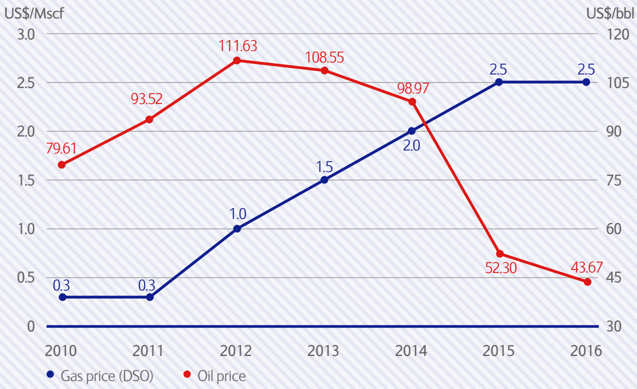
Company gas revenues (US$m)



OML 53 to drive the next phase of growth

To scale our gas business up further and commit to additional long-term supply contracts, we need to ensure we have the gas in the ground and develop processing capacity above the ground to match. To this end, the acquisition of an interest in OML 53 (and therefore the ANOH gas project which is unitised with the adjacent OML 21) will provide us with solutions to both these requirements and place Seplat at the heart of what will be one of Nigeria's largest greenfield gas developments to date.

Relative oil and gas price movement (2010-2016)



Hedging to provide a level of cash flow assurance

Having initiated a hedging programme at the end of 2015, we put in place dated Brent put options covering a volume of 6.0 MMbbls in 2016 at an average strike price of US$42.75/bbl. Realised gains on hedging stood at US$0.74 million. We have extended the hedging programme into 2017 and as at 31 March 2017 had put in place dated Brent put options covering a volume of 3.69 MMbbls at an average strike price of US$48.38/bbl over the year. We continue to closely monitor prevailing oil market dynamics and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and/or volatility.