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

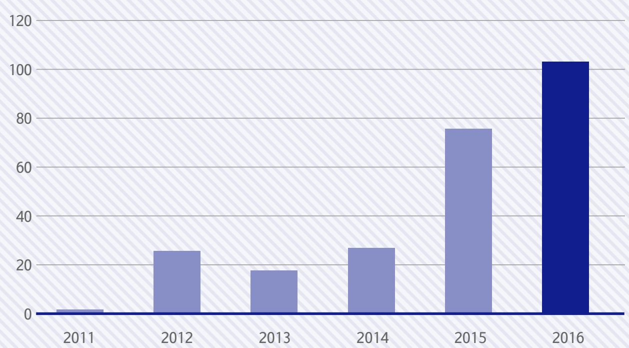
Diversification through developing our gas business

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.

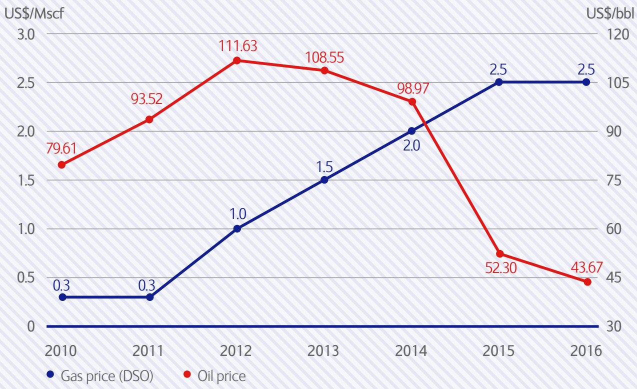
Company gas revenues (US$m)



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.

The challenge

Disrupted operating conditions

- Nigeria's oil production in 2016 was severely impacted by elevated levels of militancy targeted at key export infrastructure throughout the Niger Delta, and in particular the export terminals that the onshore producers have relied upon to monetise their production.
- Seplat was significantly impacted by this and, like many other producers, was forced to halt exports via the Forcados terminal when the terminal operator, Shell Nigeria, declared force majeure on 21 February 2016 following disruption by militants to the terminal subsea crude export pipeline. The terminal remained under force majeure for the remainder of the year meaning operators reliant on that system were faced with an unprecedented level of disruption in 2016.

Chief Executive Officer's statement

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Our solutions

Establishment of an alternative crude export route

Strong community and stakeholder relations

Crude exports via the Warri refinery export route

We are actively pursuing alternative crude oil evacuation options for production at OMLs 4, 38 and 41 and potential strategies to further grow and diversify production in order to reduce any over-reliance on one particular third-party operated export system in the future. In line with this objective, we successfully implemented an alternative export solution during the second quarter of 2016 whereby crude oil production from OMLs 4, 38 and 41 is sent via the JV owned 100,000 bopd capacity pipeline to available storage tanks at the Warri refinery and sold Free On Board ('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. At 31 December 2016, a gross volume of 3 million barrels had been evacuated via the Warri refinery route, with the target being to stabilise exports at an average 30,000 bopd on a gross basis.

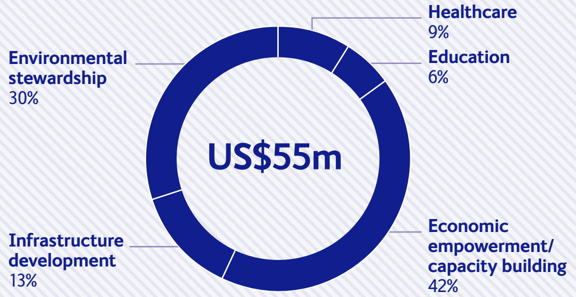
52,000 boepd
Seplat's working interest production prior to Forcados shut-in

3 MMbbls
gross volume exported via Warri refinery in 2016

A successful model for community and stakeholder engagement

We have built strong relationships with our host communities since inception, promoting trust and confidence amongst the various stakeholders, ultimately resulting in a stable environment at our operated facilities and infrastructure. In December 2010, we entered into a Global Memorandum of Understanding with the host communities within OMLs 4, 38 and 41 and established a trust fund structure for projects based on sustainable development principles. These initiatives seek to support capacity building, community participation and enhance quality of life through provision of high-standard healthcare, education and development programmes. Since 2011, we have not suffered a single day of production downtime due to disruption at our operated facilities and infrastructure. It is this successful model of engagement that also forms the basis of our community engagement activities at our other operated assets.

Investments in our communities (2010-2016)



The challenge

Positioning Seplat for future growth and diversification

- The unprecedented level of interruption to oil production in 2016 has inevitably had a financial impact on the business. As the severity of this external shock increased throughout the year, the effectiveness of our financial and risk management strategies was tested by the challenges presented.
- The events of the year in turn amplified the strategic importance of mitigating high asset and/or infrastructure concentration risk in the future through achieving greater portfolio diversification.

Financial review
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Our solutions

Strong financial discipline and risk management strategies

Prioritise complementary portfolio expansion opportunities that can offset the current risk profile

Discretion over spend and a prudent approach to financial and risk management

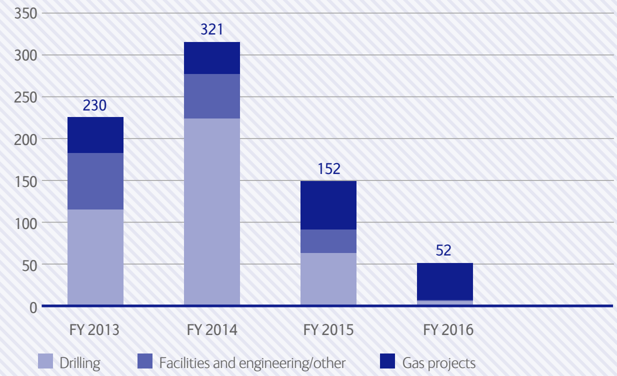
The vast majority of our capital expenditures are discretionary meaning that we have the flexibility to keep a close alignment between spend and cash flow on a rolling basis. At the start of the year we initially guided to a net FY 2016 capital investment programme of around US$130 million which we were able to adjust down to a level of US$52 million. We also proactively engaged in discussions with our lenders in the US$700 million seven-year term facility to re-align near-term debt service obligations within the existing tenor. Having refinanced in January 2015 with a sculpted repayment schedule which was "front-ended", our lenders in the term loan agreed to defer H2 2016 and 2017 principal debt service obligations totalling US$150 million until the end of 2017.

Risk management is an integral part of all business activities of Seplat. The Company's risk management policy is focused on the early identification of risks and future risks that are central to Seplat delivering its strategy, their possible impact on the business and measures that can be implemented to mitigate the identified risks so that we continue to operate safely and effectively. At the same time, we continually map out our response and plans should events go wrong. We recognise that risk management is a continuous journey of improvement and not a destination, and will continue to develop our processes to ensure we are fully equipped to deal with the constantly evolving operating and business environment of the oil and gas industry.

US$324m

Almost one third of principal outstanding has been repaid since the 2015 refinancing

Capex (US$m)



Portfolio expansion and diversification

We have a well-established presence onshore the Niger Delta and a proven track record of successfully operating and developing oil and gas assets to realise their full reserves and production potential. We will continue to capitalise on our position onshore and prioritise future acquisition and farm-in opportunities that can enhance the wider portfolio mix and overall balance with a particular emphasis on opportunities that provide near-term production growth, free cash flow and reserve replacement potential. Added to this, we will also high-grade opportunities that can offer additional optionality around crude oil export routes and/or feed into our future expansion plans for the gas business.

Looking further ahead, we see the shallow water offshore areas of the Niger Delta as a logical diversification opportunity for a number of reasons, and one which we are equipped with the skill set and expertise to succeed in. Offshore projects are generally less prone to disruption, have minimal losses, higher levels of facility uptime and sales direct to market FOB at the facility – all of which can help to improve operational efficiency, profitability and cash flow. Consequently, we view a presence in the offshore sector as highly complementary to our core onshore operations.