Planning for our future

In 2016, we carefully managed our financial position and proactively responded to the exceptional circumstances that were a direct result of force majeure at the Forcados terminal, making sure we continue to have the financial capability and flexibility that is required to realise the value of our asset base.

Roger Brown
Chief Financial Officer

The Group benefits from discretion over capital expenditures and in 2016 significantly scaled back investments to take account of the severe interruptions to oil exports at the Forcados terminal and inevitable adverse impact on cash flows. Investments made during the year were directed towards the gas business and in particular the Phase II expansion of processing capacity at the Oben gas plant. In 2017, we will retain discretion over spend and appropriately scale our investment programme, taking account of the prevailing operating environment and availability of crude export terminals, oil price and the influence of these factors on free cash generation within the underlying business. We will maintain our strict discipline of only allocating capital to the opportunities that offer the greatest returns to deliver shareholder value.

Revenue

Revenues were impacted during the year due to the shut-in of the Forcados terminal after the terminal operator, Shell Nigeria, declared force majeure on 21 February following disruption to the Forcados terminal subsea crude export pipeline. The terminal remained under force majeure for the remainder of the year. Despite this prolonged shut-in, over 1.4 MMbbls of Seplat's equity crude (3 MMbbls gross) was successfully evacuated via the Warri refinery export route (utilising the joint venture owned and operated 100,000 bopd pipeline installed in 2014 linking the refinery to the Rapele manifold) allowing for a partial recovery in crude revenues in the period. Gas sales on the other hand were sustained throughout the year, albeit at constrained rates prior to establishment of the alternate export route owing to condensate handling limitations, and did provide a partial offset to the impact of the lower oil production. Consequently, revenue in 2016 was US$254 million, a decrease of 55% from 2015 (2015: US$570 million).

Oil revenues (after stock movements) of US$149 million accounted for almost 60% of revenues in 2016 (2015: US$493 million). Working interest liquids production in 2016 stood at 10,091 bopd, down from 29,003 bopd in 2015, whilst the total volume of crude lifted in the year was 3.422 MMbbls compared to 8.129 MMbbls in 2015. The global oil price decline, with prices touching a low of US$26/bbl in January, contributed to a negative year-on-year impact on the Group's realised oil price of US$40.4/bbl in 2016 (2015: US$51.2/bbl) before royalties. The average premium to Brent achieved in 2016 was US$0.24/bbl (2015: US$1.02/bbl). Whilst oil prices did firm up over the course of the year to exit 2016 around the US$55/bbl level, the heavily constrained volumes of crude sold meant that the Group did not realise the full benefit of the price recovery.

The Group put in place dated Brent put options covering a volume of 6.0 MMbbls to year end at an average strike price of US$42.75/bbl. The amount paid out during the year was US$20.3 million (with realised gains on hedging net of costs standing at US$0.74 million). The Company has also put in place dated Brent put options covering a further volume of 3.69 MMbbls at an average strike price of US$48.38/bbl over 2017. The Board and management 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 volatility.

To assist in minimising the impact of disruption to key export infrastructure, the Group continues to make efforts in order to optimise the use of its alternative export route via the Warri refinery jetty, where upgrades are underway that will enable exports to be increased to a gross level of 30,000 bopd in Q2 2017. In addition to the Warri and Forcados export routes Seplat is also supporting NAPIMS (a 100% subsidiary of NNPC) on completion of the 160,000 bopd capacity Amukpe to Escravos pipeline system that will offer a third export route via the Escravos terminal. Seplat plans to tie-in to the new pipeline at the Amukpe location on OML 4. All three export routes are expected to be available in H2 2017 and the intention is to utilise all three to ensure there is adequate redundancy in evacuation routes thereby reducing downtime, which has adversely affected the business over a number of years.

Gas revenues increased significantly year on year to US$105.5 million (2015: US$76.9 million). This trend was driven by a 19% increase in the average realised gas price to US$3.03/Mscf (2015: 2.55/Mscf) and an 11% increase in working interest production to 95 MMscfd (34.7Bscf) compared to 86 MMscfd (31.3Bscf) in 2015 despite the force majeure at the Forcados terminal impacting gas production volumes. The increase in volume is as a result of the full-year benefit being felt of the new 150 MMscfd Oben gas processing facility installed mid-year 2015 that doubled plant processing capacity to 300 MMscfd.

Gas revenues more prevalent

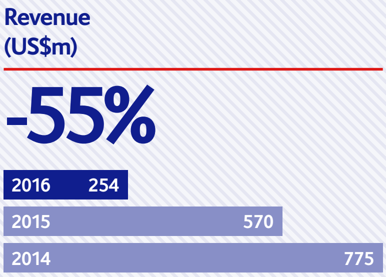
- Accounted for 41% of total revenues (2015: 14%)
- Gas price de-linked from oil price
- Realised price up 19% year on year at US$3.03/Mscf (2015: US$2.55/Mscf)

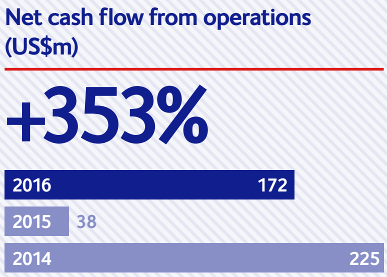
Cost control and flexibility

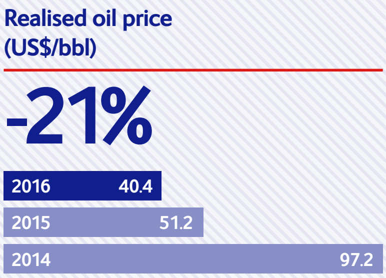
- Capex scaled back to US$52 million (2015: US$152 million)
- Low unit cost of production at US$9/boe
- Discretion over forward spend

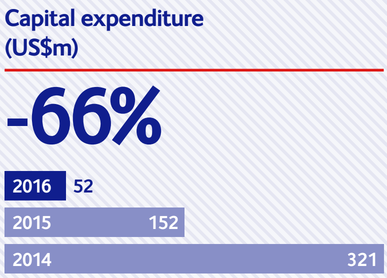
De-leveraging and improving balance sheet

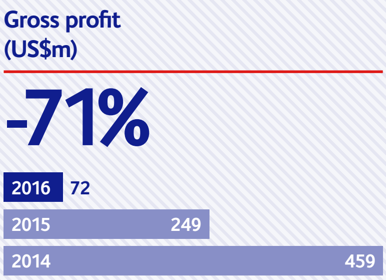
- US$324 million debt principal repaid since January 2015 re-financing
- Seven-year term facility re-profiled
- NPDC receivables reduced

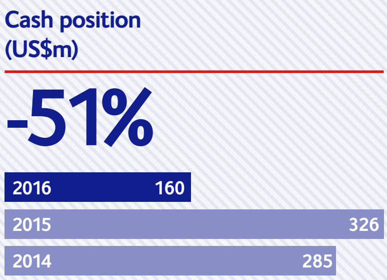


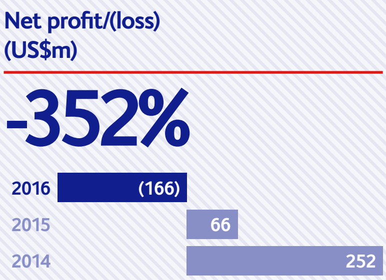


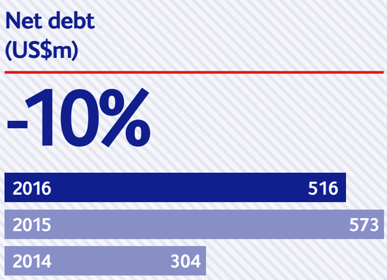












Gross profit

Gross profit for the year was US$72 million, a decrease of 71% on the prior year (2015: US$249 million). This principally reflects the shut-in of the Forcados terminal resulting in lower production, lower oil price realisations and higher costs associated with the alternative export route to the Warri refinery. Direct operating costs, being crude handling fees, barging costs, rig-related costs and other field expenses, were US$83 million in 2016 against US$151 million in 2015. Non production costs primarily consisting of royalties and DD&A were US$99 million compared to US$171 million in the prior year. There was a reduced level of field expenditures but crude handling charges per barrel increased proportionally reflecting the higher cost of the barging operation at the Warri refinery jetty. Management is committed to the need to operate as efficiently as possible in the current low oil price and operationally disrupted environment whilst maximising the production and cash flows from existing assets.

To aid this, management is focused on advancing completion of the Amukpe to Escravos pipeline system that has the potential to offer a high volume alternative export route over the longer term. The DD&A charge for oil and gas assets decreased during 2016 to US$54 million (2015: US$68 million) reflecting a decrease in field investments during the year.

Operating loss

Operating loss for the year was US$158 million when compared with a prior year operating profit of US$158 million. Included in the loss is a charge of US$101 million relating to unrealised foreign exchange losses principally on amounts owed by our joint venture partner NPDC.

Historically, Naira balances have arisen on the receivable as a result of carrying NPDC on cash calls by converting USD to Naira and paying on its behalf. Under the reconciliation with NPDC, the receivable is accounted for in USD as the functional currency and the Naira balances are determined by converting USD using the weighted average USD/Naira exchange rate in the year the expenditure was incurred. These rates are set out in agreed reconciliation schedules signed off between the partners.

Seplat will continue to pursue amounts owed using this convention to avoid being in a currency loss position on account of funding partners cash calls. However, for the purposes of the 2016 results and in accordance with IFRS, we have used the year end 31 December 2016 closing rate to value the outstanding receivable. This has resulted in a foreign exchange loss of US$77 million. In accordance with the provisions of the Joint Operating Agreement, we have also recognised finance income which has the effect of reducing the FX loss on the NPDC receivable (before impairment of US$10.3 million) to US$29 million.

A 'Value for Money' review is currently underway with NPDC and functional currency will form part of those discussions in ensuring that the Joint Venture has delivered value for money for each partner.

In addition, and contributing to the operating loss, was a hedging adjustment of US$13 million which was a reversal of a forward hedging gain recognised in the 2015 accounts not realised and subsequently written off in 2016. Partially offsetting the impact of these charges was a decrease in G&A expenses to US$114 million. Included within the reported G&A figure are financing fees of US$15 million, depreciation of US$5.5 million, discounting on the outstanding NPDC receivables balance of US$10 million, US$11 million for past costs on OML 25 and legal costs totalling US$15 million.

Tax

Whilst the Company awaits the outcome of a review by the Nigerian Investment Promotion Commission on whether an extension of the pioneer tax incentive will be granted beyond the initial three-year period (which concluded at the end of 2015), the Company has prepared its 2016 financial statements excluding the effect of pioneer tax status which correspondingly forms the basis of the current and deferred taxation credit of US$6.7 million compared to a charge of US$21.5 million for the same period in 2015.

In line with sections of the Companies Income Tax Act which provides the incentives available to companies that deliver gas utilisation projects, Seplat is entitled to a tax holiday of three years, extendable to five years, on the new Oben gas plant.

The Federal Inland Revenue Service has been notified that there will be a claim on these incentives in the tax returns for 2016.

Net loss

Net loss for the period was US$166 million, compared to a full-year profit of US$66 million in 2015. The resultant LPS for 2016 was US$0.29 compared to an EPS in 2015 of US$0.12.

Dividends

Owing to the exceptional circumstances as a direct result of force majeure events at the Forcados terminal no dividend is being declared for 2016.

Cash flows and liquidity

Cash flows from operating activities

Net cash flows from operating activities in 2016 stood at US$172 million (2015: US$38 million). The outstanding net NPDC receivable at year end, after offsetting NPDC's share of gas revenues and further adjusting for crude handling charges, in addition to adjustments arising from foreign exchange differences and impairments, stood at US$229 million (2015: US$435 million).

In 2016, Seplat received a total of US$213 million towards the settlement of outstanding cash calls. In addition, a total of US$59 million in crude handling charges has now been formally netted off the outstanding receivables balance. Seplat has continued discussions with NPDC to ensure further reduction of outstanding receivables in 2017. Naira currency receivables reported in prior years coupled with the devaluation of the Naira in 2016 led to the FX losses of US$77 million adjusted in the accounts in 2016, and partially mitigating this loss is the interest of US$48 million which is being charged to NPDC in accordance with provisions of the JOA. This will be pursued with NPDC as discussions on repayment of past costs continue in the coming weeks and months.

Cash flows from investing activities

Net cash out flows from investing activities were US$52 million (2015: US$79 million).

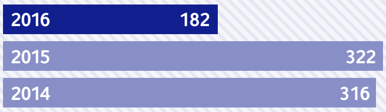
Having acquired in 2015 a 56.25% shareholding in BelemaOil Producing Limited ('BelemaOil'), a Nigerian company which in turn acquired from Chevron Nigeria Limited a 40.00% interest in OML 55 located in the swamp to coastal zone of south eastern Niger Delta, Seplat had prior to 30 June 2016, consolidated the accounts of BelemaOil as Seplat believed it exercised control over this subsidiary. At that time, the minority shareholders of BelemaOil had begun to dispute Seplat's majority shareholding and steps were purportedly and illegally taken to unilaterally withdraw the shares held by Seplat (through its wholly owned subsidiary Seplat East Swamp Company Limited). Consequently, the Company filed an action at the Federal High Court challenging this purported withdrawal. On 3 June 2016, Seplat received a letter from Chevron Nigeria Limited stating that it had discontinued the provision of support services on the production operations in OML 55 effective on 2 June 2016 and had handed over the custody of OML 55 operations to BelemaOil. On 7 June 2016, Seplat filed a legal injunction restraining Chevron from engaging with BelemaOil, in the capacity of operator of OML 55, pending the case before the Federal High Court. In a bid to settle the pending legal disputes, representatives of both Seplat and BelemaOil have agreed to a new arrangement, which provides for a discharge sum of US$330 million to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55.

In turn, Seplat will no longer be a shareholder in BelemaOil. The 40.00% operated interest in OML 55 will be jointly controlled by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and unanimous consent of all parties is required for decision making. As such, Seplat no longer exercises control and has now deconsolidated BelemaOil in the financial statements in accordance with IFRS 10. Joint control however will exist over OML 55 through the representation on the Asset Management Team.

The Asset Management Team of OML 55 has now been formally inaugurated, and the first lifting has taken place in February 2017, the proceeds of which have been deposited into the escrow account as prescribed in the agreements.

Cost of sales (US$m)

-43%



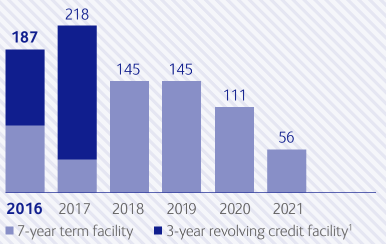
Gearing (total debt/total assets) (%)

-6%

G&A (US$m)

-6%

Debt maturity profile (US$m)



1. Assuming the 3-year corporate facility is not extended.

Reconciliation of net NPDC receivables balance

	US$ million
Opening balance at 31/12/15	492
Net expenditure in 2016	48
	540
Less cash received in 2016	(116)
Less gas receipts in 2016	(97)
Crude handling charges formally offset	(59)
Headline receivable	**268**
FX loss net of interest charge	(29)
Impairment	(10)
Net receivable	229

Net debt at 31 December 2016

	US$ million	Coupon	Maturity
7-year secured term facility	501	L+8.75%	December 2021
3-year secured RCF	175	L+6.00%	December 2017
Gross debt at parent	676		
Cash and cash equivalents	**160**		
Net debt	**516**		

Capital expenditure ('Capex') attributed to oil and gas assets in the year amounted to US$52 million (2015: US$152 million). These expenditures include drilling costs in relation to one water disposal well, facility costs in relation to the Oben gas plant expansion, Sapele gas plant rehabilitation, water treatment facility upgrades and other gas related projects.

As of 2016, an advance of US$45 million to vendors and US$20.5 million currently held in an escrow in relation to a potential investment in OML 25 has been reported in the books. In January 2017, Crestar Natural Resources Limited ('Crestar') commenced proceedings in the English High Court against Newton Energy Limited, a wholly owned subsidiary of Seplat Plc, relating to the deposit of US$20.5 million currently held in escrow. The escrow monies relate to the potential acquisition of OML 25 by Crestar which Newton has an option to invest into. These monies were put in escrow in July 2015 pursuant to an agreement reached with Crestar and the vendor on final terms of the transaction, further details of which were announced by Seplat on 9 July 2015. The potential acquisition of an interest in OML 25 was initially identified in 2014 at which time the Group placed a sum of US$453 million as a deposit towards the potential investment. However, after material delays, US$368 million was returned to the Group in July 2015. Certain events then led to renewed efforts by the consortium to secure the asset and to the Group providing the escrow monies. Furthermore, the Group has paid US$11 million to Crestar for past costs and a US$45 million deposit remains with the potential vendor of the asset. The Group intends to defend the claim vigorously. A further announcement, if appropriate, will be made in due course.

Cash flows from financing activities

Net debt at the year end was US$516 million, compared to US$573 million at December 2015. Net cash outflows from financing activities were US$283 million (2015: cash inflow US$82 million). Despite the significant interruptions to oil production the Group met all of its financing obligations during the year.

Considering the unforeseen extended force majeure conditions where the Forcados terminal was shut-in, and the inevitable

Our focus remains on ensuring strong underlying cash generation. To deliver this, we will prioritise capital investments to projects that yield the highest cash return per dollar invested and keep firm downward pressure on our cost structure.

impact on revenues, the Company adopted a prudent approach and proactively engaged in discussions with its lenders in the US$700 million seven-year term facility (the 'term loan') to realign near-term debt service obligations within the existing tenor. Having re-financed in January 2015 and set a sculpted repayment schedule which was front-ended (i.e. three years' average life for a seven-year facility) the Company received approvals from its lenders and successfully concluded the re-profiling to set a more evenly balanced repayment schedule over the remaining loan life which runs out to 2021.

The Company is currently in discussions with the lenders on the three-year corporate facility with a view to extending the facility until end December 2018.

Outlook

Our financial strategy continues to be driven by preservation of the financial capability and also flexibility that is required to realise the value of our enlarged asset base. Having experienced a year with unprecedented levels of interruption to Seplat's crude oil production and sales, our immediate priority is to increase exports via the Warri refinery jetty to a gross average level of 30,000 bopd and, looking further ahead, support NAPIMS to achieve completion of the new Amukpe to Escravos pipeline in order to allow future crude oil export via the Escravos terminal, thereby opening up a third export option to further mitigate against any over-reliance on a single export infrastructure system. Alongside this, we will continue to closely monitor the oil price, performance of our productive asset base and the implications these factors have on cash generation over the near, medium and long term, allowing us to scale and phase our future investments appropriately.

Our enlarged asset base provides greater optionality and will allow us to more rigorously benchmark and high grade the extensive inventory of drilling and development opportunities we have, making sure that each dollar invested goes to the highest cash return projects. We will continue to prioritise expansion of our domestic natural gas business which provides a revenue stream that is de-linked from the oil price, and underpinned by the strong fundamentals of high demand and increasing pricing. Eliminating the outstanding NPDC receivables balance remains an absolute priority, and we have measures in place that will achieve this and allow us to further strengthen and improve our balance sheet. The combination of all these factors will ensure we have a sound financial platform from which we can build and grow further, both through organic means and also capitalising on inorganic opportunities to further diversify our business as and when they may arise.

Roger Brown
Chief Financial Officer