A clear focus on delivery

Seplat Petroleum Development Company Plc
Annual Report and Accounts 2016

Seplat is Nigeria's leading independent upstream oil and gas company with a focus on production and development opportunities in Nigeria and a dual listing on both the Nigerian Stock Exchange (SEPLAT) and the Main Market of the London Stock Exchange (SEPL).

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Contents

2016 was a year in which Seplat **faced a set of unprecedented challenges.** The Company remained resolute in its response; delivering on what is in its control **to restore operational and financial momentum,** and at the same time make the business more resilient in the future.

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

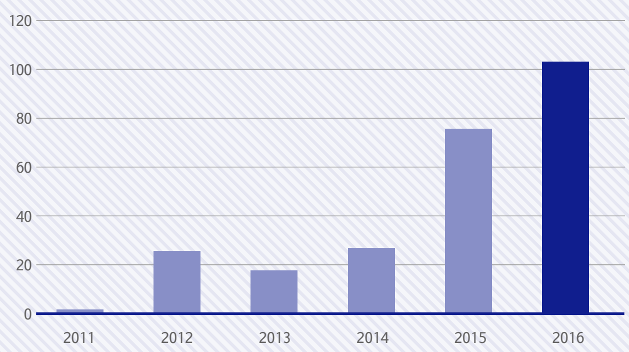
Diversification through developing our gas business

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.

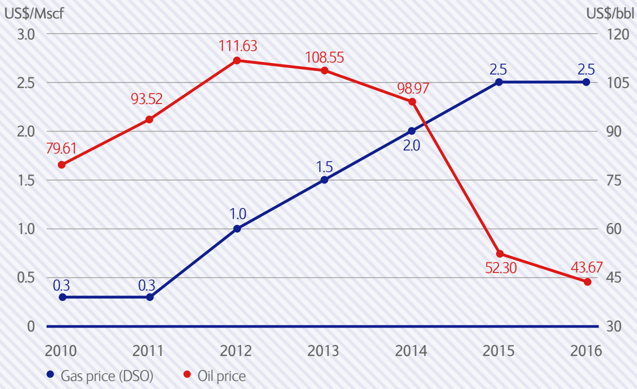
Company gas revenues (US$m)



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.

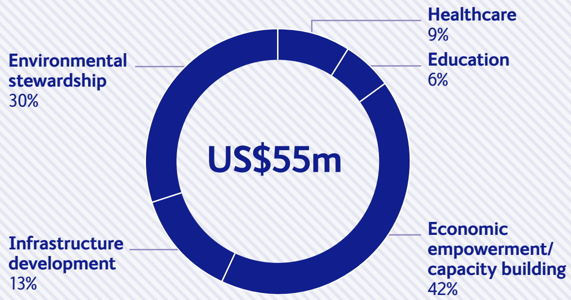
52,000 boepd
Seplat's working interest production prior to Forcados shut-in

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

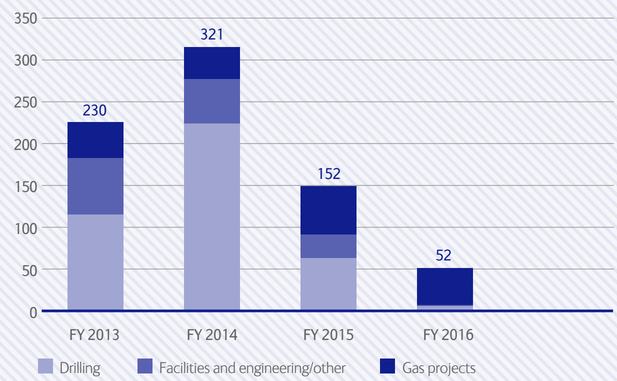
The vast majority of our capital expenditures are discretionary meaning that we have the flexibility to keep a close alignment between spend and cash flow on a rolling basis. At the start of the year we initially guided to a net FY 2016 capital investment programme of around US$130 million which we were 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.

Executive summary

Overview of our business year

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Seplat has a high-quality asset base located in the prolific Niger Delta.

2016 highlights

Working interest production (boepd)

-40%

2016	25,877
2015	43,372
2014	30,823

Revenue (US$m)

-55%

2016	254
2015	570
2014	775

Gross profit (US$m)

-71%

2016	72
2015	249
2014	459

Net cash flow from operations (US$m)

+353%

2016	172
2015	38
2014	225

Who we are

Seplat is a leading independent oil and natural gas producer in the prolific Niger Delta area of Nigeria and a leading supplier of gas to the domestic market.

As a full-cycle upstream oil and gas exploration and production company, our focus is on maximising hydrocarbon production and recovery from our existing production and development assets, acquiring and farming into new opportunities in Nigeria (specifically those which offer production, cash flow and reserve replacement potential with a particular focus on the onshore and shallow water offshore areas) and realising the upside potential within our portfolio through focused appraisal and exploration activities.

A strong track record and high-quality asset base

Our portfolio comprises direct interests in five blocks in the Niger Delta area, four of which Seplat operates, and one further revenue interest. Since we acquired our first blocks and commenced production in 2010, we have consistently increased oil and gas production capacity and grown reserves through both organic and inorganic activities. Gross operated liquids production at OMLs 4, 38 and 41 at the time of acquisition was 14,000 bopd. Through the implementation of a focused redevelopment work programme and drilling campaign, we had grown this to a gross peak rate of over 84,000 bopd going into 2016 (prior to force majeure at the Forcados terminal), representing a six-fold increase and significantly ahead of the peak rate achieved by the previous operator of approximately 56,000 bopd in 1996. These high levels of drilling and development activity at our core producing asset base have also delivered solid underlying organic reserves growth (driven largely by conversion of 2C resources to 2P reserves) which has been augmented by inorganic growth via strategic acquisitions, most notably the acquisition of an interest in OML 53 and in turn participation in one of Nigeria's largest greenfield gas/condensate development projects. Looking ahead, our portfolio today provides a robust platform of oil and natural gas reserves and production capacity together with an extensive opportunity set of material upside opportunities through further developments, 2C to 2P conversion and exploration and appraisal drilling.

Strategically important gas business

Alongside our oil business, we have successfully become the pre-eminent supplier of natural gas to the domestic market in Nigeria through substantial investments made in the commercialisation, development and monetisation of the large-scale gas reserves that exist on our blocks.

Whilst natural gas was commonly viewed as a by-product from oil production in previous years, Seplat was quick to see the opportunity created by the increasing importance of natural gas as a key source of energy for Nigeria. We have invested in the installation of dedicated gas production and processing facilities as well as the drilling of gas production wells to meet domestic supply obligations and provide feedstock to power projects and industry that will help increase Nigeria's power generation capacity and industrial output. Rather than being the by-product, natural gas for Seplat is a valuable primary commodity in its own right that will form a significant component of its future growth and success in Nigeria.

The only Nigerian company fully listed on the Nigerian Stock Exchange and London Stock Exchange

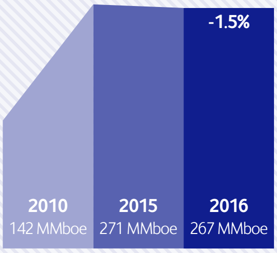
In a first for any Nigerian company we completed the dual listing of Seplat on both the London Stock Exchange and the Nigerian Stock Exchange in April 2014, where we raised US$535 million in an initial public offering. This has allowed us to further implement the Company's business strategy, acts as a strong and tangible endorsement of our corporate governance standards and opened up greater access to both the domestic and international capital markets. To date we are the only Nigerian company to have achieved this feat, something of which we are justifiably proud.

Strong relationships with local communities

We have built strong relationships with our local communities, promoting trust and confidence amongst our various stakeholders, ultimately resulting in a stable operating environment across the areas within our control, which facilitates the creation of shared value. In December 2010, we entered into a Global Memorandum of Understanding with the communities within OMLs 4, 38 and 41 which host our operations and have established a trust fund for community projects. To continue to nurture these relationships, we are fully focused on proactive engagement with the communities where we operate, implementing community projects based on sustainable development principles.

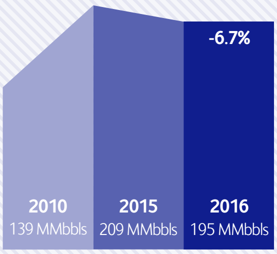
These initiatives seek to promote local capacity building and aim to support host community participation and enhance the quality of life for individuals within these communities through the provision of high-standard free healthcare, implementation of education and community development programmes, skills training, educational scholarships/ grants and the development of local infrastructure. We have established an operational base office within these host communities, reflecting the depth of our commitment and the importance we place on the relationship we have with our host communities and partners. It is this successful structure that has proven to be so effective at OMLs 4, 38 and 41 that we use as a template for engagement at our other operated assets.

Working interest 2P gas reserves (2010 to 2016)



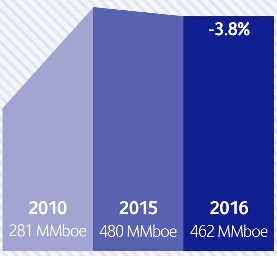
Movement in working interest 2P gas reserves from end 2010 to end 2016.

Working interest 2P liquid reserves (2010 to 2016)



Movement in working interest 2P liquid reserves from end 2010 to end 2016.

Total working interest 2P reserves (2010 to 2016)



Movement in total working interest 2P reserves from end 2010 to end 2016.

Our vision, mission and values

With a total work force of over 380 people, we strive to be a first-class employer and comply with all relevant regulations, frameworks, guidelines and best practice at all times. We encourage and promote diversity and equality of opportunity throughout the business, and appreciate that our people constitute our most valuable asset.

Our vision

To be a world-class energy company delivering premium value to all stakeholders.

Our mission

To build and sustain a world-class oil and gas company through innovative partnerships and premium value delivery.

Our values

Our values are vitally important to all areas of our business:

- **S**afety
- **E**nvironment
- **P**artnership
- **L**eadership
- **A**ccountability
- **T**eamwork

We are dedicated to the Safety of our people and ensure that our operations are Environmentally responsible. We work in Partnership with our stakeholders and for us Leadership means acting responsibly with total integrity at all times. We remain Accountable to both our internal and external stakeholders as we commit to Teamwork in order to deliver results far beyond individual capabilities.

A.B.C. Orjiako
Chairman

Adapting to overcome challenges

> 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.

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.

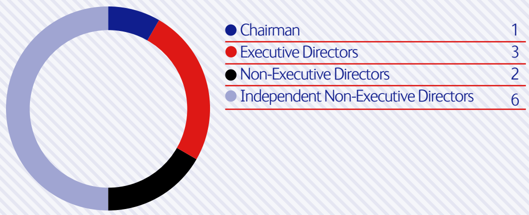
Despite the challenges faced in 2016, the strong fundamentals for the Nigerian E&P sector remain in place. Furthermore, in October 2016, the Nigerian Government set out a roadmap of seven steps to strengthen the country's oil industry. These include fiscal reform and clearer national oil and gas policies; 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 view, 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 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.

Board composition as at 31 December 2016



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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

Understanding the Nigerian opportunity

Nigeria has proven geology, long-established infrastructure, stable regulatory and fiscal regimes which combine to make it a high potential long-term investment opportunity.

Prolific hydrocarbon geology

Nigeria's oil and gas industry represents a compelling value proposition and is attractive, not just to Seplat but the wider industry also, on many levels. It starts below the ground and the prolific hydrocarbon geology of the Niger Delta area, where Nigeria's oil and gas industry is concentrated. Covering an area of approximately 75,000km^2 and with up to 10km sedimentary thickness, the critical factors required for hydrocarbon generation have all combined to great effect in the Niger Delta basin, namely the existence of source rocks with high levels of organic content, high rates of sedimentation and rapid burial to allow hydrocarbon generation, and the presence of good quality reservoir rocks and effective trap/seal mechanisms where hydrocarbons have accumulated in vast quantities. Nigeria is estimated to hold remaining recoverable proved reserves of around 37 billion barrels of oil and 181 trillion cubic feet of gas, making it a globally significant source of long-term supply.

Nigerian ownership of the E&P sector

In recent years, the Government of Nigeria has taken significant steps to increase the level of local Nigerian participation in the oil and gas industry, both through the re-licensing of blocks to Nigerian companies and the enactment of policy such as the Local Content Act. The Act not only presents advantages to the Nigerian operators seeking to acquire oil licences in-country, but also guarantees the creation of composite value to the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilisation of Nigerian human resources and services in the Nigerian oil and gas industry. This inclusive approach has gone some way to re-engaging with disenfranchised local communities and militants that can threaten the performance of oil and gas operations.

Nigerian oil

Africa's largest oil producer and 11th largest globally, capable of

2.2m
barrels per day

Sub-Saharan Africa's largest, and 11th largest globally, remaining proven oil reserves

37bn
barrels

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Divestment programmes, whereby the Major IOCs have sold a number of blocks to Nigerian bidders, have also been a significant factor in expanding local Nigerian ownership and participation in the sector. Between 2009 and the end of 2016, Nigerian operators – including Seplat – had acquired oil and gas blocks with a total estimated aggregate transaction value of around US$17.4 billion from the IOCs (the majority of which was debt funded), accounting for around 11% of total Nigerian oil production. However, despite this and the favourable policy changes that have been implemented, the sharp and extended decline in oil price is taking its toll by restricting access to further capital, eroding profitability and free cash flow generation such that balancing debt service obligations with capital investments required to increase output has become increasingly difficult for many companies to manage. The longer this situation persists the greater the risk becomes that Nigerian ownership of the oil and gas sector will begin to contract. Those that remain will only continue to succeed if they possess strong fundamentals that ensure low break-even economics, balance sheet strength and access to capital so that they can invest to diversify and dilute asset concentration risk, for example in order to capitalise on the gas-to-power opportunity in the Nigerian market.

Gas opportunity

For over 50 years, oil has been a critical economic driver in Nigeria. However, the country's gas reserves exceed those of its oil (it is ranked ninth in the world for proven gas reserves) and yet historically gas flaring has been employed to dispose of the majority of associated gas produced from crude oil.

Although difficult to measure precisely, Nigeria's current share of total gas flared globally is estimated to be as much as 2.5 billion cubic feet per day meaning that, after Russia, it flares more gas than any other country in the world. Concurrently, Nigeria lags behind many of its frontier market peers in electricity production per capita despite considerable domestic demand and its power generation deficit is widely recognised as a critical constraint on economic growth. The Nigerian Government has been implementing an ambitious strategy to triple natural gas production capacity to 12 billion cubic feet per day to fulfil electricity generation and industrial development demand. Significant investment has been required to translate surplus gas production into gas-fired power generation. The prior awarding of Pioneer Tax Status to local Nigerian operators has allowed them to allocate significant capital expenditure into gas projects to further this development and generate employment. To this end, a more favourable policy environment for producers seeking to commercialise their gas reserves has been institutionalised.

Political landscape and the reform of Nigeria's oil industry

Two years on from the general election in 2015, the government's commitment to reforming the country's energy sector remains front of mind. The challenging economic environment in Nigeria following the sharp decline of the oil price and elevated levels of militancy in the Niger Delta shutting in significant levels of oil production has placed even greater importance on action undertaken by the government to restructure the oil industry and to diversify the economy away from its heavy reliance on the oil sector.

Underpinned by a firm commitment at the highest levels of government, there is a concerted drive to optimise efficiency of the Nigerian oil and gas industry, eliminate corruption and attract inwards investment from indigenous and international partners. The reform of the NNPC has been and will continue to be critical in delivering this. Historically plagued by a lack of autonomous

Gas monetisation

Africa's largest gas reserve and ninth largest globally

181 trillion ft³

Africa's second largest gas producer

4.8 Bscf
per day

Nigeria is estimated to have the world's

9th
largest gas reserve

Source: BP Statistical Review of World Energy, 2016.

> "Nigeria possesses one of the largest, yet least developed gas reserves on the continent coupled with domestic demand growing faster than ever."

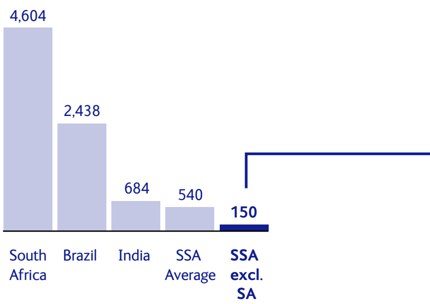
control of its revenue streams, the NNPC became unable to meet its two principal financial commitments: funding upstream joint ventures, including the payment of receivables, and paying fuel subsidies.

Progress has been made that has led to a proposed restructuring of the NNPC into seven coordinating units, focused on upstream, downstream, midstream (refining), gas and power, other ventures, corporate services and finance services – with a presiding CEO over each unit. Whilst previous efforts to reform the oil industry have required significant legislative approval, the restructuring of the NNPC does not. With continued support and drive from government, the NNPC restructuring, whilst complying with the current legal framework, remains achievable in the near term.

Alongside the reform of the NNPC, the Petroleum Industry Bill ('PIB') is a critical component of Nigeria's energy sector reform initiatives. Since 2012, the draft of the PIB has remained in the Nigerian National Assembly under review whilst the various administrations consulted internally and externally with oil companies on its design and construct. Originally, the Bill aimed to replace 16 existing pieces of legislation, revising fiscal parameters, improving governance systems and regulatory oversight, and contributing to greater efficiencies within the NNPC.

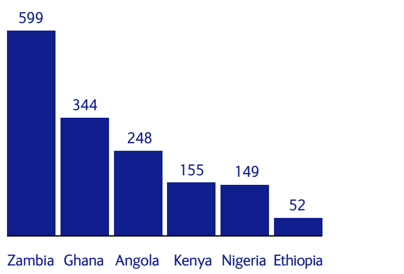
It has been reported that the government is considering deconstructing the PIB and replacing it with the Petroleum Industry Governance Bill ('PIGB') which looks solely at institutional and governance structures for the industry, allowing government to focus on priority areas of reform. The first reading of the PIGB took place at the Senate on 22 March 2016. It was followed by the second reading which took place on 2 November 2016 and from there it was referred to the Committee on Petroleum Upstream, Downstream and Gas.

Major emerging markets' power consumption (kWh/capita, 2011)

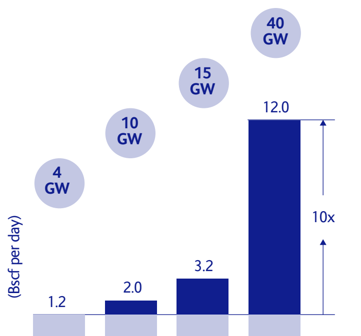


Source: McKinsey study, Company data.

Sub-Saharan Africa power consumption (kWh/capita, 2011)



Gas supply required to scale up power generation



Market analysis

Oil price in 2016

The backdrop of a prolonged market oversupply and overhang of sluggish global economic growth in 2015 saw the oil price remain at a depressed level coming into 2016, reaching a low of US$26.01 per barrel on 20 January after a sharp sell-off in Chinese equity markets further elevated fears around the slowdown in growth of the world's largest oil consuming economy and potential consequences on oil demand. However, rising political tensions in the Middle East and a decline in non-OPEC supply prompted oil prices to firm up, reaching the US$40 per barrel level by the end of March and trading upwards to touch the US$50 per barrel range by mid-year. Adding momentum to this (albeit modest) recovery was the inevitable toll low oil prices have been taking on oil dependent economies and the fiscal pressures (deficits) facing those governments, prompting a cautious optimism in the market that OPEC members and other key producers would ultimately be drawn into making production cuts in order to re-balance supply/demand dynamics, previously having adopted a strategy of protecting market share (volume) in the aftermath of the price crash. The second half of the year saw Brent trade in this range until early December when OPEC agreed a deal to cut production by 1.2 million barrels per day if certain non-OPEC states also agreed to cuts totalling 600,000 barrels per day (a combined volume of 1.8 million barrels per day that equates to around 2% of global production). On the back of this news, crude prices rallied steadily to end the year at US$54.96 per barrel. The average Brent crude price over 2016 was US$43.67 per barrel.

The direction of travel for oil prices in 2017 may, to a large extent, be driven by levels and symmetry of compliance within OPEC and non-OPEC states that agreed to the cuts which will run for six months (but could in theory be extended), countered somewhat by the fact that data shows US onshore production trending upwards as producers have taken the opportunity to hedge into the elevated forward curve and steadily re-deploy rigs and capital into short-cycle production drilling opportunities. Against this complicated backdrop, efficiency gains and lower costs in the oil services sector are allowing many operators to push down break-even costs as the oil price has fallen which could result in increased supply coming to market, although high cost projects typically in mature and deep-water basins have continued to be hardest hit with many still rendered sub-economic. The restoration of oil production in Libya (where output at end 2016 was at a three-year high of around 715,000 barrels of oil per day) towards pre-conflict levels of 1.25 million barrels per day is also widely identified as a potential downside risk to prices together with the return of barrels to market that were shut-in by militancy in Nigeria during 2016.

Brent oil price (dollars per barrel) 2010-2017

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

Nigerian economy in 2016

Following a decade of average GDP growth rate of around 7% alongside single-digit levels of inflation, Nigeria slipped -1.5% into its worst economic recession in 25 years in 2016 on the back of a weak macroeconomic environment driven by lower crude oil revenues escalated by production disruptions due to militancy, which led to currency volatility and rising double-digit inflation.

Despite a diversified GDP, the Nigerian Government is largely dependent on the oil sector, receiving around 70% of its tax revenue and 90% of export income, even though it accounts for only 10% of GDP. In a bid to generate more revenue for the country, the government had developed policies to diversify the structure of the nation's revenue and grow national industries. Such policies included an improvement in tax collection, anti-corruption drive to block revenue leakages, foreign exchange restrictions and outright bans placed on the importation of certain items that can be produced in Nigeria.

Unfortunately, these restrictions led to lower foreign exchange liquidity and manufacturers struggled to source dollars to pay for imports, which triggered a free fall of the Naira and weaker inflation-induced consumption demand. All sectors of the economy experienced a downturn, followed by foreign investors exiting the country. The Central Bank in June 2016 announced a move to a purely market-driven currency system but now operates a managed float system and from July 2016 held the Naira at between NGN283:US$1 and NGN315:US$1, depreciating up to 60% from where it was in the prior year in the official markets. The parallel market was worse off as capital controls spiked rates, with the Naira depreciating by up to 120% in this market.

However, as oil prices rise and with militancy under control, 2017 is poised to be a recovery year with IMF growth projections at +0.8%. Given Nigeria's stable political environment, large population and growing middle class, the government's infrastructure spending stimulus plan along with the recently launched Economic Recovery Growth Plan ('ERGP') is expected to sustainably boost other sectors of the economy.

Global economy in 2016

Global economic growth is estimated to have fallen 2.3% in 2016 – the weakest performance since the global financial crisis hit. China (the largest net importer of oil and other liquid fuels) saw its economy decelerate further from 6.9% in 2015 to 6.7% in 2016. This was the slowest in 26 years but within the government's target range of 6.5% to 7%.

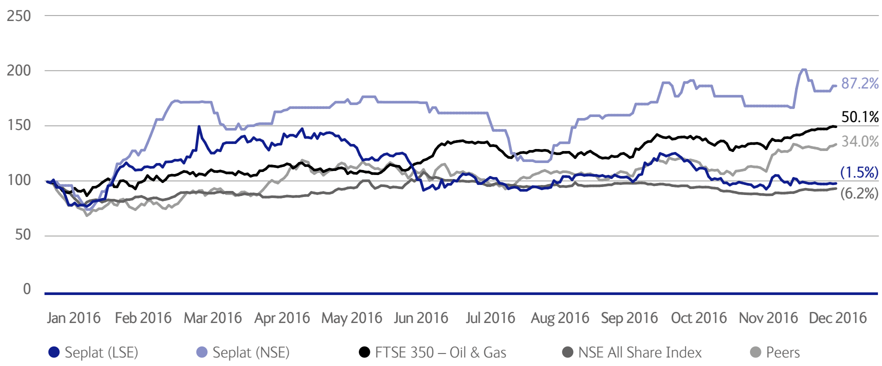
However, global growth is widely expected to rise to 2.7% in 2017, mainly reflecting a recovery in emerging market and development economies, in part driven by recovering commodity prices. After slowing to 1.6% in 2016, growth in advanced economies is also projected to recover somewhat in 2017-19, although according to the World Bank's 2017 Global Economic Prospects report the range of possible outcomes has widened following the presidential elections in the United States and the United Kingdom's decision to leave the European Union. Despite this recent slow-down, global demand for energy will continue to rise due to population growth, increases in income per household and continued economic growth. According to BP's 2017 Energy Outlook, the world economy is expected to almost double over the next 20 years, driven by emerging economies, with growth averaging 3.4% per year and more than 2 billion people lifted from low incomes. It is energy that drives the rise in living standards, with the majority of this growth in energy demand originating from the developing world. Meanwhile, the world's population is projected to increase by around 1.5 billion people to reach nearly 8.8 billion. The growing world economy will require more energy, but consumption is expected to grow less rapidly than in the past – at 1.3% per year between 2015-2035 compared with 2.2% per year in 1995-2015.

Global corporate activity trends in 2016

Global M&A volumes were c.US$3,300bn in 2016, a fall from the prior year's record highs of c.US$5,000bn, with 37 mega deals (>US$10bn) announced, compared to 69 in 2015. Despite a persistence of inorganic growth opportunities, the first half of the year was subdued for corporate activity given the uncertainty surrounding major global political events. The headline news in M&A was the completion of the Shell/BG deal in February and the announcement of the Bayer/Monsanto US$64bn merger in May. Following the EU Referendum, the UK economy's surprisingly good economic performance and a low interest rate environment encouraged substantial amounts of M&A to take place in the wider market place, including the British American Tobacco/Reynolds American US$58bn merger in October. However, deal count and value in the oil and gas sector fell to the lowest level in recent years as oil price uncertainty created a wide spread between buyer/seller expectations, access to finance and pressure on balance sheets constrained the ability of buyers to execute deals and depressed equity valuations limited options for paper deals. The major integrated IOCs that have traditionally been a sizeable source of deal-flow for the E&P sector continued to rationalise their portfolios but disposal programmes tended to include infrastructure and downstream assets where greater valuations could be achieved. There were signs of life returning to the E&P sector in the second half of the year when the number of transactions steadily picked up, although the majority of returning deal-flow was in the US onshore space and to a lesser extent OECD countries, with deal count in frontier and emerging markets all but drying up.

Equity markets traded at all-time highs at the end of 2016, providing an opportune setting for companies to raise fresh equity. In the UK however, appetite for equity issuance, including IPOs, was challenged given the uncertain economic outlook surrounding Brexit. Private Equity players with significant firepower remained active, with several focused primarily on exits given valuation multiples for quality businesses remained elevated. For the oil and gas sector, the low oil price, correspondingly low equity valuations and uncertainty over when oil markets will rebalance rendered the option of raising new equity unattractive and too dilutive. The few equity raises that were completed tended to be as part of wider debt restructuring situations. Despite the continued low interest environment, debt financing in the oil and gas industry specifically remained challenging whilst other sectors benefitted from increased availability.

Share price performance versus indices and peers (rebased to 100)



Source: Bloomberg.

Global equity markets in 2016

Major movements in global equity markets were largely a function of significant political events which occurred during the year. The UK's vote to leave the European Union surprised the market, and initially caused a wide sell-off in Sterling-exposed equities, with the FTSE 100 and FTSE 350 down 3.5% and 7.2% on the day respectively. In addition, Sterling plummeted against the major currencies and continued its decline, most significantly at the start of October as it became apparent that the UK government would seek to negotiate a "Hard Brexit". Equities, however, recovered from their lows following the EU Referendum over the summer months to finish at near record highs, with non-Sterling earners outperforming due to the translational FX benefits.

In the run up to the US presidential election in November, volumes in equities were muted, with many investors expecting a negative impact on the market in the event of a Trump victory. Whilst there was an initial sell-off post the result becoming known, the FTSE 100 and 250 absorbed the result well, gaining 1.0% and 0.8% on the day respectively. Following the election, President Trump's pledges to simplify and cut corporation tax, whilst also significantly boosting infrastructure spending, permeated through a number of different asset classes, with basic materials stocks experiencing some of the biggest gains over the month of November in anticipation of greater demand as a direct result. Financial stocks were also positively affected as investor inflation expectations increased, as evidenced by the steepening of the yield curve on long-dated US treasuries. In general, money rotated out of defensive stocks and into cyclicals in what has been termed the 'Trump trade'.

Specifically in the oil & gas sector, oil prices staged a steady recovery over the first half of the year from January lows of around US$26 per barrel to around the US$50 per barrel mark in June before the re-introduction of Iranian oil supplies into the market in the latter half of 2016 caused prices to fluctuate.

The headline news story was the successful deal in November between OPEC members to curtail crude production by 1.2 million barrels per day. Brent immediately rallied 8%, as markets had expected a deal to fall through, particularly as it relied on cooperation between Saudi Arabia and Iran. The outcome resulted in Saudi Arabia having to implement nearly half the production cuts whilst Iran's output is to be unrestrained. Subsequent to the deal, it was revealed that Russia would also participate in the production cuts, reducing supply by 300k barrels a day, which subsequently caused Brent to jump a further 6.6% on announcement.

Monetary policy in the US loosened over the year with FOMC raising interest rates to 0.50%-0.75%, the first increase in interest rates since their first hike in December 2015. Conversely, in the UK, the BoE cut interest rates to 0.25% and bolstered its asset purchase programme following the result of the EU Referendum, applying further pressure on Sterling compared to the Dollar.

The NSE All Share Index fell by 6.2% in 2016, reflecting a difficult year for the wider Nigerian economy, which included falling private consumption and militant attacks causing issues for oil infrastructure. On the LSE, Seplat ended the year 1.5% lower at 73p/sh whilst on the NSE, the shares closed up 87.2% at 390 Naira/sh.

Turn over to see our strategic advantages

Understanding trends. Creating opportunities.

1 First and only full dual listing on NSE and LSE

In April 2014, Seplat completed the first ever dual listing on both the Nigerian Stock Exchange and the London Stock Exchange (main market segment, standard listing). We raised US$535 million in an initial public offering that still ranks as the largest for a sub-Saharan Africa company since 2008, the second largest ever for a Nigerian company and largest IPO of an independent E&P company on the LSE in recent years, demonstrating the domestic and international investor appetite for a high-quality Nigerian indigenous operator in the oil and gas sector. The capital raised allowed Seplat to further implement the Company's business strategy, including the acquisition of additional blocks and accelerating growth of the gas business. Furthermore, the dual listed status underscores the strong and effective corporate governance, risk management and HSSE practices embedded and upheld within Seplat whilst pursuing long-term sustainable value for all stakeholders.

2 Early mover advantage to capitalise on Nigeria's gas opportunity

Far from seeing gas as a commodity to be exported or a by-product to be disposed of, we firmly believe that supplying Nigeria's domestic market is an attractive commercial opportunity and that gas-to-power is vital to future economic growth and diversification for Nigeria. In 2010, when Seplat was founded, the Nigerian gas sector was characterised by many constraints including poor pricing, inadequate infrastructure and non-payment by consumers.

We reviewed our gas business and developed an expansion strategy when the Nigerian Government launched initiatives to improve the debilitating impact of poor power generation and supply by opening the Domestic Supply Obligation pricing to market forces, making it economic for corporates to invest to increase domestic gas availability. Rolling forward to the present, this expansion has seen Seplat become the second largest supplier of processed gas to the Nigerian market with growth projects in the pipeline that are set to make us the largest single supplier of gas to the domestic market in the years ahead.

3 First to acquire divested assets from Major IOC in Nigeria

Seplat was formed in June 2009 through the partnership of Shebah Petroleum Development Company Limited and Platform Petroleum Joint Ventures Limited to specifically pursue upstream oil and gas opportunities in Nigeria, and in particular, divestment opportunities arising out of the incumbent Major IOCs' portfolios. In December 2009, Maurel et Prom acquired a 45% shareholding in Seplat and was followed by certain other pre-IPO investors in 2013/14.

In July 2010, we acquired a 45% working interest in, and were appointed operator of, a portfolio of three onshore producing oil and gas leases from Shell, Total and Eni: OMLs 4, 38 and 41 located in the prolific western delta basin of Edo and Delta States. Initially, Seplat formed a JV partnership with NNPC, until NNPC transferred its 55% interest to NPDC. Today, Seplat operates the blocks on behalf of the Seplat/NPDC joint venture. Since then we have acquired direct interests in two further producing blocks with substantial development upside and a revenue interest in one further producing block.

A deep knowledge of the Nigerian oil and gas sector and energy market, combined with our strong operating credentials and access to local and international capital markets, differentiates Seplat as the Nigerian partner of choice.

Seplat's strong track record of delivery and strategic positioning: The partner of choice

In our comparatively short history, Seplat has risen to become the leading Nigerian independent E&P, combining all of the core ingredients necessary for success – namely technical expertise, proven operating capabilities, commercial acumen, tight financial control, international standard corporate governance and risk management frameworks, excellent HSSE performance and community relations with access to both domestic and international capital markets. We have been quick to identify and understand trends within our sector and marketplace, protecting our core business, moving swiftly to capitalise on value growth opportunities with precision and discipline but remaining true to our founding entrepreneurial spirit. All of this has translated into tangible results and served to differentiate Seplat from its peers as the Nigerian investment proposition and partner of choice. Our gas business in particular adds a strategic angle, offering revenue diversification de-linked from oil price and a strong symbiotic bond with Nigeria through underpinning vital gas supply for power generation and industrial use. Whilst nobody is immune to the difficulties and challenges that have faced the industry in Nigeria in 2016, this powerful combination of factors undoubtedly means that Seplat is best equipped to overcome them and deliver sustainable long-term value to our stakeholders.

2050

The year Nigeria is projected to become the third most populous country in the world behind India and China

Nigeria has one of the world's largest reserves of natural gas that can underpin substantial power generation, which in turn is a key driver of economic growth and a higher standard of living.

Energy for a brighter future

An expert's view by
Melissa Cook, Founder and Managing Director
African Sunrise Partners LLC

Melissa Cook, CFA, is the Founder and Managing Director of African Sunrise Partners LLC, a business intelligence and advisory firm. Ms. Cook spent 25 years conducting equity research for Wall Street firms including Prudential Securities, Lazard Asset Management, and CLSA Asia-Pacific Markets. Ms. Cook holds an A.B. in History from Dartmouth College and an M.B.A. in Finance from the Stern School of Business at New York University. She is a CFA charterholder.

In 2011, Ms. Cook founded African Sunrise Partners LLC to provide business intelligence and advisory services to investors and companies interested in doing business in sub-Saharan Africa. During over 40 trips to Africa, Ms. Cook has hosted meetings with business executives, policymakers, and investors in 16 countries. In 2014, Ms. Cook was appointed to a two-year term on the U.S. President's Advisory Council on Doing Business in Africa.

Nigeria is like a giant high-horsepower engine with grit in the gears. Africa's highest-potential, most dynamic economy is stuck in the slow lane. The country's electricity sector produces a fraction of the power needed to run the economy – the lack of consistently available, appropriately priced electricity is a major source of friction preventing Nigeria from accelerating to a new cruising speed.

It's easy to place blame for the current situation: legacy government-owned power assets were mismanaged and sub-scale. Several years after privatisation of the generation assets, grid-based capacity is only 12,500MW, and output is barely touching the 5,000MW mark on a good day. Historically, pricing distortions acted as a disincentive for gas producers to supply domestic Nigerian customers, so production and distribution infrastructure was built to serve export markets. Powerful entrenched interests in the diesel supply/generation arena stymied power-sector reform for many years, forcing manufacturers, businesses, and families to devise their own energy solutions. More recently, the power grid has been brought to near-total collapse by the sabotage of gas infrastructure, severe currency depreciation, and inadequate cash collections.

Despite the gloomy backdrop, we are very optimistic about Nigeria's long-term economic potential. With over 170 million people, a commercially oriented mentality, abundant unused resources, and increasingly vocal and increasingly frustrated citizens, Nigeria has the building blocks it needs to grow and prosper. This can only happen, however, if there is sufficient gas to run power stations and factories.

Nigerian households can't depend on grid power, so they must spend a material proportion of their income on (usually imported) diesel to run home generators. These machines are noisy and dirty; they require regular upkeep and repair. Grid-based electricity – fuelled by gas – is dramatically cheaper than self-generation. Reliable, affordable, and ubiquitous access to grid-based electricity would free up consumer-spending power – for education, household goods and services, housing, healthcare, communications, travel, and more, as well as using scarce foreign exchange reserves to import diesel rather than using abundant gas resources in country that are paid for in Naira.

Most Nigerian manufacturers produce their own power, out of necessity. Scarce and costly capital must be invested in captive power plants – rather than in a company's growth and expansion. When gas is unavailable, firms switch to more expensive fuel oil, pinching the bottom line. Lack of appropriately priced power negatively affects capital allocation, margins, and returns on investment; high electricity costs are passed along to consumers in the form of higher prices, rendering Nigerian-made goods uncompetitive. Unlocking gas as a predictable, reliable fuel for power – even if companies continue operating captive power plants for the foreseeable future – would boost profitability and competitiveness. This could generate considerable business investment and job creation.

What are some potential solutions? Transportation remains the biggest bottleneck. The Government is working on resolving long-standing security problems around transportation infrastructure. Public-private partnerships are a potential means of attracting investment in gas pipelines. Companies are seeking new ways to move the molecules – in compact CNG containers, offshore pipelines, or LNG transport from domestic sources to domestic destinations. In some cases, power plants or manufacturing capacity will have to be located closer to gas reserves.

Once Nigeria has adequate domestic gas supply and transportation capacity, the industry must move toward a "willing buyer, willing seller" pricing regime, arriving at a proper market price to satisfy demand from the electricity and manufacturing sectors. Today, even after the significant increase since 2011 in the Domestic Service Obligation price, industrial users are willing to pay far higher prices than the lower price allowed in the regulated electricity sector.

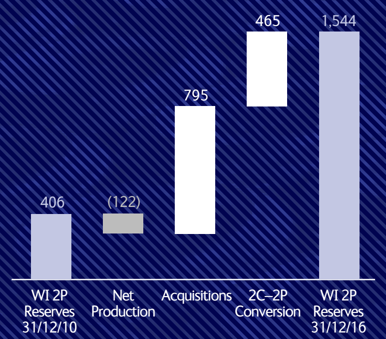
An estimated

80 million

people without access to electricity in Nigeria

Where does Seplat fit in?

WI 2P gas reserve base 2010-2016 (Bscf)[1,2]



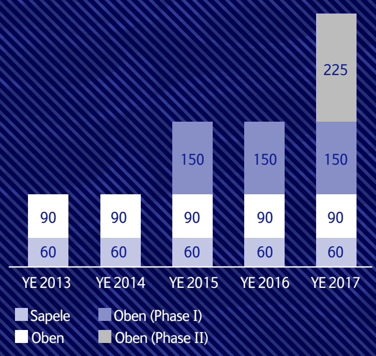
Source: Company information.

1 Volumes stated at 31 December 2010 based on estimates from Gaffney Cline & Associates.
2 Volumes stated at 31 December 2016 and for acquisitions based on independent estimates from DeGolyer & MacNaughton.

Indigenous oil & gas companies are a critical part of the solution. These firms have a unique focus on exploiting Nigeria's resources, building local hard and soft infrastructure, and establishing operations in ways that are beneficial to the Company and to the country. Long term, we expect all local firms to maintain better local community relations, which are critical to security and broad-based economic development. Historically, international oil companies operating in the country have not had a management, strategic, or budgetary orientation toward developing Nigeria's domestic market.

We're excited about Nigeria's potential – and gas is critical to the story. For now, let's leave aside issues of corruption, politics, currency, global commodity price fluctuations, infrastructure shortfalls, and inadequate cash flows. Think for a moment on this bullish scenario: When there is free flow of locally produced gas to the market, grid-based power plants can operate consistently. Distributed and captive power plants can run predictably on natural gas, allowing companies to manage expenses and optimise capital allocation.

Gas plants capacity (MMcfd)

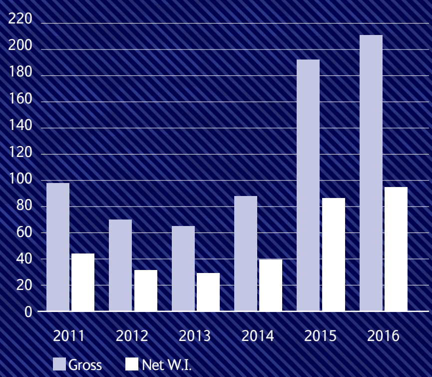


> Reliable access to affordable grid-based electricity – fuelled by gas – could generate considerable industrial investment and job creation.

Confidence in investment returns will rise as volatility subsides. This should, in turn, reduce risk factors, bring down the cost of capital, and stimulate fresh investment. Local manufacturers will become more competitive. Small businesses and entrepreneurs can survive and even thrive. Households will have more discretionary income. Businesses can expand and create jobs. Lower demand for imported diesel, coupled with soon-to-be-built domestic refining capacity, will remove a big overhang on the Nigerian currency. All of this should help Nigeria move toward realising its economic and human potential.

We realise that some of this may seem too good to be true, from today's vantage point. We are fully cognisant of the challenges involved in doing business in and investing in Nigeria and are not trying to imply that gas is the single solution to the country's problems. Our belief in the validity of this scenario comes from seeing challenges elsewhere in Africa improve after one longstanding problem has been solved – like moving traffic out of downtown Nairobi onto new bypass routes. The success inspires confidence that other problems can be solved, and with confidence comes investment and solutions. We never underestimate the ingenuity, determination, and power of ordinary Africans to solve their country's problems, once the path is clear.

Gas production supplied to the domestic market (MMscfd)



An average of 2,000 homes in SSA can be powered by...

1MW

...our current gas processing capacity is

525MM

scf/day...

...capable of underpinning almost

2,000MW

worth of power...

...enough for approximately

4m homes

African Sunrise Partners has received compensation from Seplat Petroleum Development Company Plc for writing this article.

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.

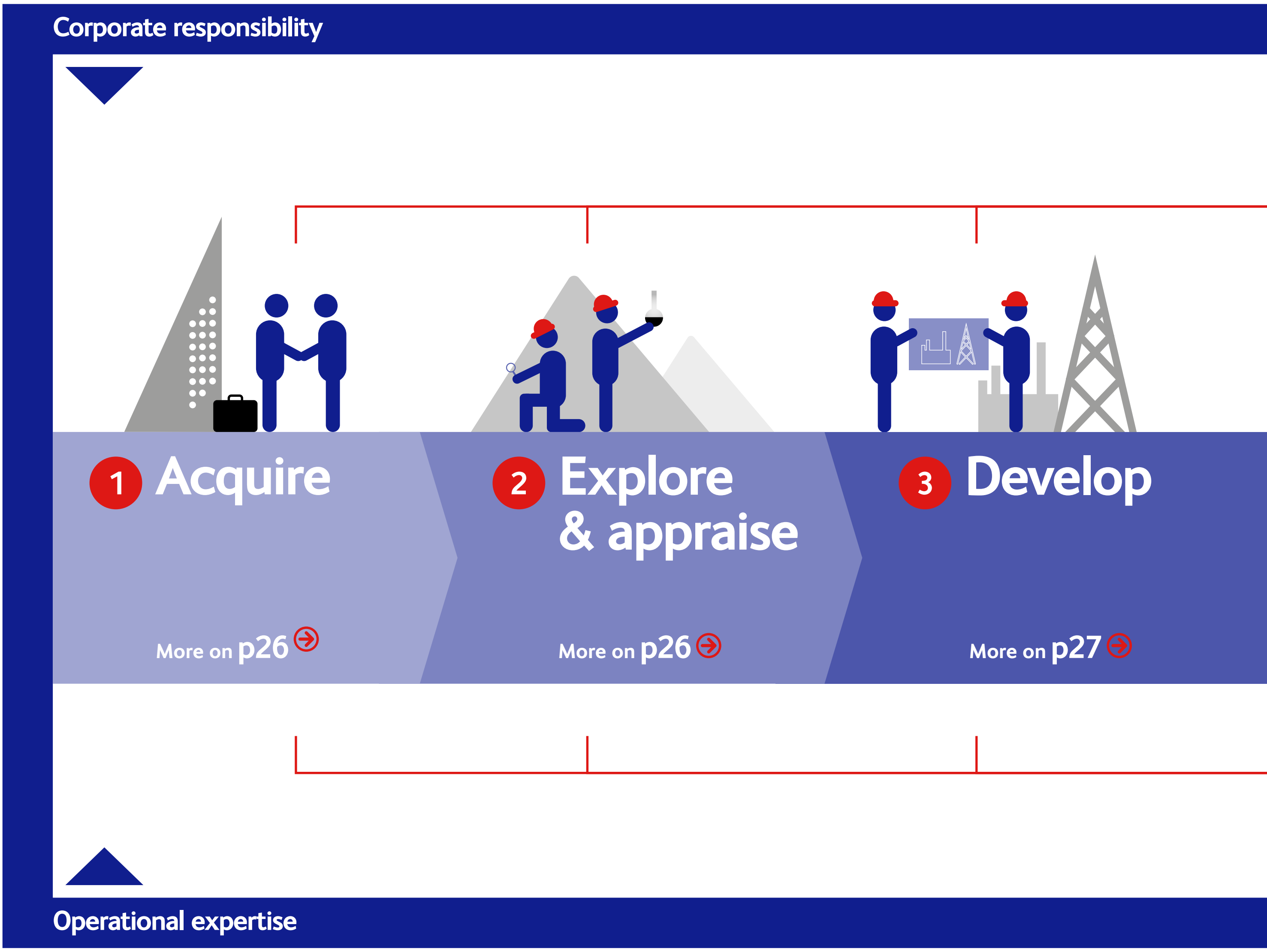
I want Seplat to be known as the most effective, innovative and efficient operator in Nigeria delivering premium value to stakeholders. I want Seplat to be best-in-class.

Austin Avuru
Chief Executive Officer

Our business model

Leveraging our core strengths and expertise

Our business model has been carefully designed to create long-term value and shared prosperity for our shareholders and other stakeholders, leveraging our core strengths and expertise to capitalise on growth opportunities available to us across the upstream oil and gas and midstream gas value cycle.



1 2 3 4

High grading of portfolio opportunities and disciplined allocation of capital

We have assembled a multi-disciplinary team that has an in-depth knowledge of the areas in which we operate, both below and above the ground. When considering our capital investment opportunities, we benchmark each option in the context of the whole portfolio so that we can be sure that each dollar of capital deployed is allocated to those opportunities that meet our technical, commercial and strategic requirements.

5

Strong margin cash flow

High grading of portfolio opportunities
It is important to maintain the financial strength and financial flexibility to fund our work programme within our existing portfolio and also the range of growth opportunities available to us. We aim to operate in the E&P "sweet-spot" whereby cash flow generation from our current portfolio more than covers investments there too.

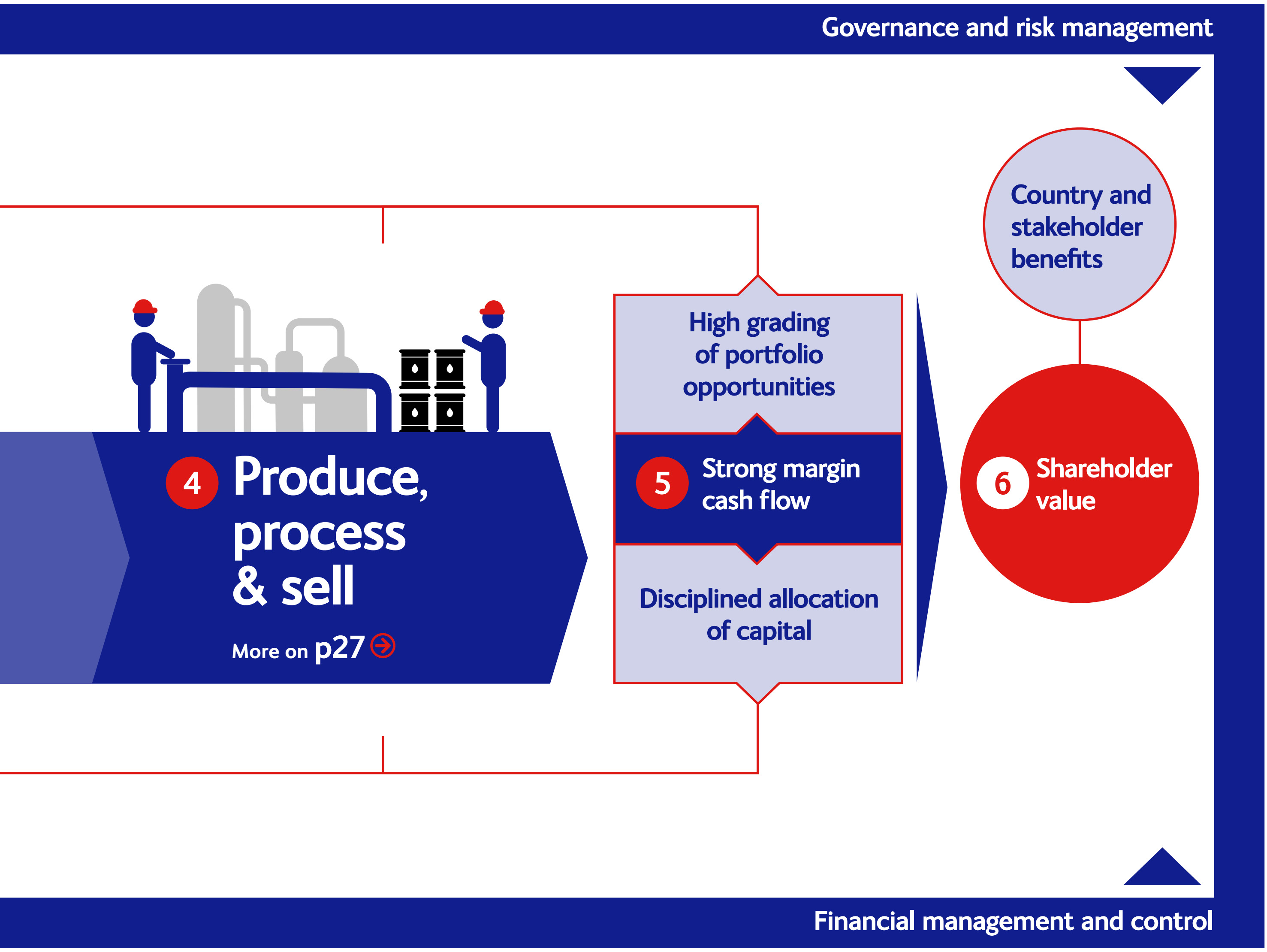
Disciplined allocation of capital
We also seek to utilise appropriate external funding sources, including debt, in support of new business opportunities where up-front acquisition costs and early capital investments may be required to bring them to self-funding status over the long term.

6

Shareholder value

In addition to offering strong capital growth potential through the successful execution of our strategy, we also have a clear dividend policy that, in the absence of adverse macroeconomic and/or operating conditions, should allow us to pay our shareholders a regular dividend taking into account our financial position and funding requirements.

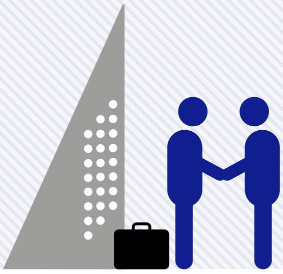
Country and stakeholder benefits
We are proud of the positive impact our business has on the country. In addition to the government royalties and taxes levied on our revenues, we have directly and indirectly created over 1,300 jobs and the gas we produce is enough to underpin around a third of Nigeria's current power generation.



Strategy: page 28

1

Acquire



To date, we have acquired direct interests in five blocks and a revenue interest in one further block, located in the onshore and swamp areas of the Niger Delta. We will continue to pursue new acquisition and farm-in targets to help us grow reserves and production.

In line with our strategy, we will maintain a price-disciplined approach and prioritise opportunities in the onshore to shallow water offshore areas of Nigeria that offer near-term production, cash flow and reserve replacement potential.

In January 2016, the full transfer of operatorship to Seplat on OML 53 (onshore north eastern Niger Delta), where it has a 40% working interest, was concluded and a revised set of commercial terms agreed whereby Seplat's participation in OML 55 (in the coastal zone of south eastern Niger Delta) will take the form of a revenue interest until a sum of US$330 million has been paid to Seplat over a six-year period through allocation of crude oil reserves. These acquisitions have expanded our footprint in the Niger Delta and further cement our position as a leading indigenous independent E&P in Nigeria.

The acquisition of an interest in OML 53, in particular, places Seplat at the heart of one of Nigeria's largest greenfield gas and condensate development projects that is set to drive future growth of our gas business and cement our position as a pre-eminent supplier of gas to the domestic market.

Key facts

- First Nigerian operator to acquire blocks from Major IOCs
- Six blocks acquired to date (five direct interests and one revenue interest)
- Ability to match opportunities with access to capital
- OML 53 set to be a transformational driver of our gas business

2

Explore & appraise

We will continue to appraise and test upside at our producing fields and also have a number of discovered but undeveloped discoveries on our blocks, some of which may be considered as appraisal targets in the future.

In 2016, we did not drill any exploration or appraisal wells, electing instead to scale back capital expenditures against a weak oil price backdrop and unprecedented levels of interruption to oil production following the declaration of force majeure on 21 February by the operator of the Forcados terminal (Shell Nigeria).

Through the acquisition of an interest in OML 53 (the full transfer of operatorship being concluded in 2016), we have not only extended our inventory of development opportunities but also our inventory of exploration leads and prospects. It is our intention to fully assess the exploration potential of this block and incorporate it into our overall planning in future years.

Key facts

- Evaluating potential for a new deeper exploration play in OMLs 4, 38 and 41 indicated by the Ogegere-1 exploration well (drilled in 2014)
- OML 53 expands inventory of E&A growth opportunities
- Focus on opportunities close to infrastructure that can be monetised rapidly

3

Develop

In recent years, Seplat has been one of the most active drillers in Nigeria and has successfully undertaken and completed significant facilities and infrastructure projects on a fast-track timetable and within budget.

Since we acquired our interest in OMLs 4, 38 and 41 in July 2010, as operator we have drilled 45 new development wells, completed multiple workovers, reactivated production from pre-existing wells, constructed and installed a new liquid treatment facility, upgraded and significantly expanded the Oben gas plant, completed a new liquids pipeline linking our assets directly to the Warri refinery, installed additional storage capacity and implemented gas lift to aid our production with pressure support.

Development activity in 2016 was largely focused around the Oben gas processing plant Phase II expansion project. This involved the installation of a further three 75 MMscfd processing modules (225 MMscfd aggregate capacity) that will see overall Company operated gross processing capacity leap from 300 MMscfd to a minimum of 525 MMscfd. We did not drill any new development wells in 2016 owing to the weak oil price backdrop and unprecedented levels of interruption to oil production following the declaration of force majeure on 21 February by the operator of the Forcados terminal (Shell Nigeria).

Key facts

- Proven track record as a skilled operator
- Installed and commissioned the Oben gas plant Phase II expansion to take gross processing capacity to a minimum of 525 MMscfd in 2017
- Full discretion over future work programmes and flexibility to respond to macro conditions

4

Produce, process & sell

Seplat has consistently grown oil production capacity and has more than doubled gas production following significant expansion of the Oben gas processing plant.

At OMLs 4, 38 and 41 we have increased liquids production six-fold from an initial gross rate of 14,000 bopd at time of acquisition in 2010 to a peak rate of over 84,000 bopd (prior to shut-in of the Forcados terminal in mid February). Similarly, we have seen our overall annualised average working interest production grow during this period, from 21,431 boepd in 2011 (our first full year of operations) to 43,372 boepd in 2015. Prior to shut-in of the Forcados terminal in mid-February 2016, our working interest production was running at an average rate in excess of 52,000 boepd.

A key priority of ours is to actively pursue alternative crude oil evacuation options in order to reduce any over-reliance on one particular third-party pipeline system and/or export terminal. In line with this objective during 2016, we established an alternative option for crude oil and condensate produced at OMLs 4, 38 and 41 whereby crude oil is sent to available storage tanks at the Warri refinery, via our own 100,000 bopd capacity pipeline, from where the barrels are then sold FOB at a loading jetty to our offtaker Mercuria. By the end of 2016, a net volume of 1.4 million barrels had been monetised through this route (Seplat's equity barrels), with the target being to export a gross average of 30,000 bopd on a longer-term basis. Furthermore, as a direct result of this alternative export route via the Warri refinery, we were able to de-constrain gas production (previously impacted by condensate handling constraints following shut-in of the Forcados terminal) and greatly improve security of domestic supply. 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 has grown its natural gas output dramatically and in 2016 supplied 210 MMscfd gross exclusively to the domestic market, enough gas to underpin around a third of Nigeria's current power generation. The Phase II expansion of the Oben gas processing plant will provide headroom to further increase future gas production in the near term, whilst the development of our gas reserves at OML 53 offers significant growth potential in the medium term.

Key facts

- Consistently grown oil production capacity since inception
- Operate enough gas production to underpin around a third of Nigeria's current power generation
- Significant inventory of future development and appraisal projects in current portfolio to provide continued growth in the coming years

Strategy

A robust strategy for growth

Since inception we have been guided by a clear and consistent strategy that is supportive of our long-term strategic vision to be the leading indigenous African independent oil and gas company.

Strategic pillar	Description
Maximise production and cash flows from operated assets	The development stage of the upstream value chain is where the majority of capital investments are usually made. It is imperative that we do this well, maintaining strict cost control, implementing the most appropriate technical solutions and organising ourselves and our service providers so that we deliver projects on time and within budget. This enables us to generate strong margins and cash flows from our production, which in turn underpins our ability to fund our work programme. At the same time, we seek to improve operational efficiency by maximising uptime, reducing reconciliation losses, and mitigating asset concentration and sole reliance on third-party export infrastructure.
Move up 2C resources into 2P reserves category	Our drilling campaigns have, in addition to development wells, an appraisal component built in so that we are constantly testing upside potential at our assets, gathering and interpreting new information to allow us to maximise hydrocarbon recovery from the reservoirs and capitalise on low risk reserve addition opportunities. We also recognise the importance of exploration as a means of growing reserves. It is our intention that we will return to our objective of drilling at least one exploration well per year when oil prices and production recover and stabilise, with a focus on prospects that if successful can offer rapid monetisation, utilising our existing infrastructure where possible.
Commercialise and produce gas reserves	Nigeria has a vast natural gas resource that, to date, has barely been developed. We see the commercialisation and monetisation of Nigeria's natural gas resource as an attractive long-term opportunity and have strategically positioned ourselves by developing the Oben facility as a core gas processing hub through which Nigeria's greatest demand centres can be accessed and supplied, whilst the acquisition of an interest in OML 53 positions Seplat as a key participant in what will be one of Nigeria's largest greenfield gas developments. During periods of oil price weakness, the gas business takes on added importance. Gas prices are de-linked from oil price and have steadily increased to commercial levels, meaning that we can confidently plan, finance and invest in gas opportunities independent of oil price dynamics.
Pursue a focused acquisition and farm-in strategy	We see a rich opportunity set and a wide range of growth opportunities in Nigeria including further asset divestments from the Major IOCs, asset farm-in and acquisition opportunities amongst the independent E&P sector as liquidity in the secondary asset inevitably increases and future licensing awards occur. Our focus is on securing blocks in the onshore to shallow water areas of the Niger Delta that offer near-term production growth, cash flow and reserve replacement potential.
Be a highly responsible corporate citizen	Being a highly responsible and accountable corporate citizen is a key priority of ours. We recognise that minimising the effects of our activities on the environment, understanding local issues, positively contributing to our local communities, being a first-rate employer and providing our staff with a safe working environment and career development opportunities are essential enablers that allow us to achieve our goals. Underpinning all of this is a strict adherence to strong corporate governance and business integrity throughout our organisation.

Key performance indicators: page 30

Risk management: page 46

Measuring our performance	Risk	Outlook
• **Working interest production** • **Earnings before interest and tax ('EBIT')** • **Opex per boe**	Oil and gas production operations have a number of risks attached, above and below the ground. The Company has a skilled technical team with a detailed knowledge of the geology and reservoir dynamics to allow optimal production solutions to be implemented. Above the ground, the Company has clear systems and procedures in place to ensure the safe and secure operation of its operated oil and gas production, processing and transportation facilities. The Company does, however, rely on third-party operated export infrastructure that has been susceptible to interruptions.	• Prioritisation of establishing long-term alternative oil export routes, mitigating concentration risk • Disciplined allocation of capital to growth opportunities that offer strongest cash returns • Right-sizing of capital investments to match prevailing environment and continued downward pressure on cost base
• **Reserves replacement**	Exploration activities are focused on determining the presence of hydrocarbons whilst appraisal activities are focused on better defining and assessing the commerciality of a hydrocarbon discovery. Both activities by definition carry significant geological risk, so the technical maturity of an E&A target is key to narrowing the range of risk and uncertainty. Seplat seeks to use available technologies including seismic analysis to minimise pre-drill risks and maximise chances of a successful drilling outcome.	• Continued evaluation and high-grading of the E&A potential within Seplat's portfolio • Assessment of OML 53 E&A potential • Resume plans to drill one exploration well a year when oil prices and free cash flow permit
• **Gas reserves, production and revenues**	Despite the abundance of resources in the ground, the natural gas sector in Nigeria is at a relatively nascent stage of development and requires significant ongoing investment to grow capacity. The pace at which the sector grows and scale of investment will to a large extent dictate the timing and magnitude of opportunities for producers such as Seplat.	• Oben Phase II expansion to take gross processing capacity to a minimum of 525 MMscfd in 2017 • Progress development of OML 53 strategic gas resource and aim to aggregate additional opportunities • Increase supply to the domestic market
• **Portfolio expansion** • **2P reserves and 2C resources** • **Working interest production**	Competition for upstream oil and gas blocks in Nigeria is intense and there are an increasing number of industry participants seeking to grow their presence in or gain access to the sector. High levels of competitive tension can drive acquisition prices higher. Oil price volatility also presents increased uncertainty when evaluating opportunities and access to capital can also constrain ability to successfully execute transactions.	• Continued long-term pursuit of our focused acquisition strategy • Price discipline and seek to implement innovative structures to protect the balance sheet • Targeting both oil and gas
• **Lost time incident frequency ('LTIF')** • **Corporate responsibility initiatives**	Failure to adhere to the highest standards of corporate responsibility can severely impede the Company's ability to efficiently operate its current portfolio, access new business opportunities, secure capital and ultimately deliver value accretion to its shareholders.	• Continually strive to improve environmental, health and safety performance • Strict adherence and commitment to international governance standards • Positively contribute to our host communities

Key performance indicators

Measuring our progress

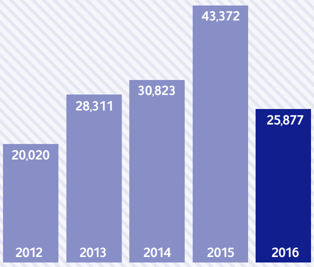
Seplat measures its progress through certain key performance indicators that are closely linked to the successful delivery of its strategy.

Strategic pillars

- Maximise production and cash flows from operated assets
- Move up 2C resources into 2P reserves category
- Commercialise and produce gas reserves
- Pursue a focused acquisition and farm-in strategy
- Be a highly responsible corporate citizen

Net working interest production (boepd)

25,877



Delivering on our strategic pillars:

Definition

The Company's share of oil and gas produced during the year proportionate to its working interest in each producing block. Volumes expressed are as measured at the Company's facilities, prior to any reconciliation losses.

Relevance

An indicator of production strength at the Company's current blocks and the impact of development activities at organic and inorganic projects.

Progress

2016 oil production was heavily influenced by the operator of the Forcados terminal declaring force majeure owing to disruption of the subsea export pipeline in February. An alternative export route via the Warri refinery was established mid-year that allowed for the resumption of exports at a heavily constrained rate. Consequently an uptime level of just 19% was recorded over the full year. Despite this, gas production increased year on year by 10% to 95 MMscfd but total production was down 40% at 25,877 boepd.

Outlook

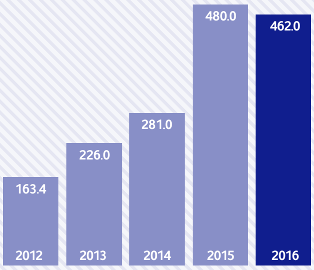
The Company is making upgrades to the Warri refinery jetties that permitting exports via that route to be increased to a gross rate of around 30,000 bopd. Alongside this, a new export pipeline into the Escravos terminal is expected to be completed in 2017 and become available for Seplat to utilise in the future. Having also increased gas processing capacity to a minimum of 525 MMscfd, the Company expects to sign additional GSAs that will allow for gas production to be increased further.

Risk management

The Company has an in depth understanding of the subsurface and constantly monitors individual well and reservoir performance in order to optimise the drawdown rate on each well and maximise long-term economic recovery of oil and gas from the reservoirs. It has also prioritised the establishment of alternative oil export routes to mitigate high concentration risk.

2P reserves movement (% increase/decrease)

(3.8)



Delivering on our strategic pillars:

Definition

The number of barrels of oil equivalent added to the 2P reserves base during the year, expressed as a percentage increase/decrease.

Relevance

An indicator of the Company's ability to capitalise on organic opportunities within its portfolio and inorganic opportunities to replenish its reserves base.

Progress

Working interest 2P reserves at the end of 2016 stood at 462 MMboe, a decrease of 3.8% year on year. The downward revision is due to the reassessment of booked reserves attributed to the revised commercial terms at OML 55 where the Company now holds a revenue interest.

Outlook

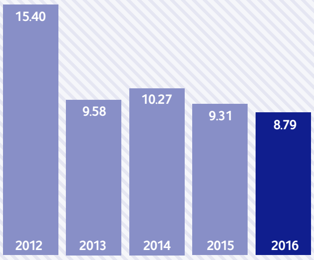
The Company has a significant working interest 2C resource base of 90 MMboe that offers good long-term reserves growth potential. The Company will also continue to evaluate acquisition opportunities and undertake a focused E&A drilling programme.

Risk management

The Company high grades its inventory of exploration and appraisal opportunities, each being subject to rigorous technical and commercial evaluation to de-risk as far as possible, prior to committing capital. When evaluating new acquisitions, the Company is careful to maintain price discipline and undertake rigorous analysis.

Production opex (US$/boe)

8.79



Delivering on our strategic pillars:

Definition
The operating costs (excluding non-cash flow expenses, and financing costs) net to the Company divided by the Company's working interest barrels of oil and equivalent produced in the period.

Relevance
An indicator of how cost efficiently the Company is able to produce its oil and gas reserves. By controlling its operating cost base the Company is able to be more resilient to periods of depressed oil prices.

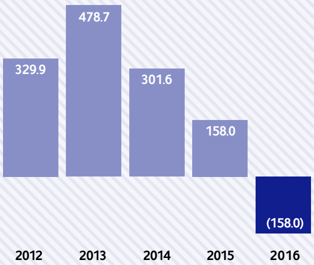
Progress
Opex costs per unit of production reduced 6% year on year to 2016 as a result of continued efforts to improve operational efficiency. Within overall opex, the costs incurred by exporting crude via barges from the Warri refinery jetty were more than offset by lower crude handling charges and operational maintenance expenses as a result of constraints on exports via the Forcados terminal.

Outlook
The Company remains focused on cost control. Whilst increases in certain cost components are expected to increase year on year there are areas where downwards pressure can be applied with the objective of achieving a stable unit cost.

Risk management
The Company carefully monitors expenditures and continually analyses its underlying cost base, making comparisons to prevailing market rates in order to ensure that the Company is identifying and able to action cost saving and efficiency gains, keeping it competitively positioned on the cost curve.

EBIT (US$m)

(158.0)



Delivering on our strategic pillars:

Definition
The Company's earnings before the deduction of interest and tax expenses.

Relevance
An indicator of the Company's earnings ability. An increase in EBIT requires growth in revenue and/or strong cost control.

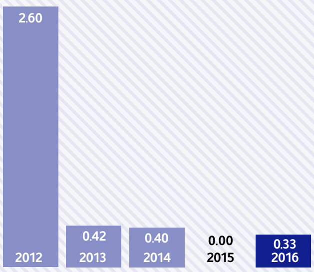
Progress
EBIT in 2016 reflects the lower oil production and oil price realisations year on year; and it has also been impacted by a number of non-recurring charges, in particular unrealised foreign exchange losses resulting from the Naira devaluation in 2016.

Outlook
Improved oil production levels, tight cost control and anticipated growth in gas production at OMLs 4, 38 and 41 will ensure robust earnings potential in the future. Development of the substantial gas and condensate reserves at OML 53 will also enhance the future earnings profile.

Risk management
The Company has robust financial processes in place and carefully monitors revenues, cost of sales and admin costs to ensure continued strong profitablility. Oil price is a major influencing factor on the Company's revenue. The Company is analysing hedging strategies to help mitigate exposure to oil price volatility.

LTIF (number of incidents per million man hours)

0.33



Delivering on our strategic pillars:

Definition
The number of lost time incidents recorded per million man hours worked.

Relevance
An indicator of health and safety performance that is widely established within the oil and gas industry.

Progress
Despite the low level of rig-based activity in 2016 (with just the workover of the Sapele-4 well and recompletion as a water injector) the Company remained operationally active, undertaking the Oben gas plant Phase II expansion project and establishing an alternative oil export route via the Warri refinery. The Company achieved an LTIR of 0.33 in the year, compared to 0 in 2015.

Outlook
In 2017, efforts will continue to minimise the frequency of lost time incidents in all areas of operations. The Company will continue to ensure high HSSE standards are met and assess opportunities to constantly improve its HSSE systems and protocols.

Risk management
The Company has in place extensive and well developed HSSE policies and reporting procedures with an emphasis on the early identification and mitigation of HSSE risks. The Company closely monitors its HSSE performance and is constantly evaluating ways to improve its performance.

Additional performance metrics

Tracking our performance

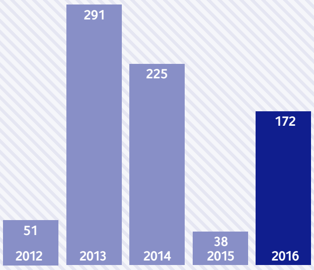
In addition to its key performance indicators, Seplat also tracks performance against additional metrics that further assist in measuring progress.

Strategic pillars

- Maximise production and cash flows from operated assets
- Move up 2C resources into 2P reserves category
- Commercialise and produce gas reserves
- Pursue a focused acquisition and farm-in strategy
- Be a highly responsible corporate citizen

Net cash flow from operating activities (US$m)

172



Delivering on our strategic pillars:

Definition
The Company's net operating cash flow in the year.

Relevance
An indicator of the cash generative potential of the Company's producing oil and gas blocks.

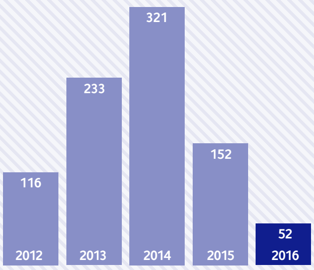
Progress
The Company's operating cash flow was severely affected by lower oil production owing to force majeure at the Forcados terminal, compounded by lower realised oil prices. However, the contribution of the gas business increased significantly during the year following expansion of capacity at the Oben gas processing facility and gas sales agreements being secured at progressively higher pricing levels. In 2016, the Company also received US$213 million towards the settlement of outstanding cash calls.

Outlook
Strong underlying wellhead oil production capacity and anticipated future growth in gas production will ensure robust cash flow generation in the future when a normalised level of oil exports is restored. Development of the recently acquired OML 53 block together with OPL 283 will also significantly augment future cash flow potential.

Risk management
Careful financial management and high levels of operating efficiency allow the Company to ensure positive cash generation from its operating activities.

Capital expenditure (US$m)

52



Delivering on our strategic pillars:

Definition
The total amount of capital expenditure made during the year, excluding acquisition costs.

Relevance
An indicator of the Company's level of investment activities in production, development and exploration and appraisal activities.

Progress
The Company has continued to invest in the development of its portfolio of blocks onshore the Niger Delta and in particular has prioritised acceleration of gas capacity development to supply the domestic market. By having discretion over capex, 2016 spend was scaled back from a pre-force majeure budgeted level of US$130 million.

Outlook
The Company will continue to invest in the development of its portfolio, allocating capital to the opportunities that offer the best returns and volume growth potential whilst scaling and timing investments at appropriate levels to closely match cash flow generation.

Risk management
Project investments are monitored closely against budgets to minimise the risk of over-runs. The Company benchmarks every investment opportunity to ensure capital is deployed to only the highest return projects, and adheres to a price disciplined acquisition strategy.

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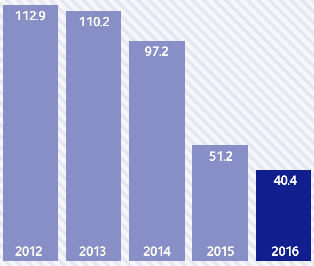
Realised oil price (US$/bbl)

40.4



Delivering on our strategic pillars:

Definition
The average oil price per barrel sold by the Company during the period.

Relevance
The Company's financial performance is closely linked to the oil price.

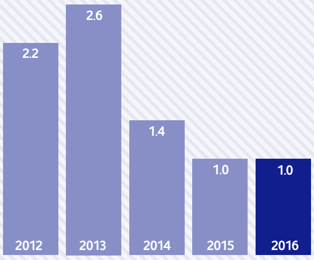
Progress
Oil prices remained weak in 2016, touching a low of US$26/bbl in January but recovering to exit the year around US$55/bbl. The Company put in place dated Brent put options covering a volume of 6.0 MMbbls in 2016 at an average strike price of US$41.8/bbl. This hedging programme has been rolled forward into 2017 when deferred premium put options covering a volume of 3.69 MMbbls have been put in place at a combined weighted average strike price of US$48.38/bbl.

Outlook
The Company has historically sold its produced oil under the Forcados blend that has generally received a premium to a Brent marker price. Oil prices are expected to remain subject to macro-economic volatility.

Risk management
Management continue to closely monitor prevailing oil market dynamics and will consider further measures and take advantage of opportune periods to implement additional hedges to provide appropriate levels of cash flow assurance.

Staff turnover (%)

1.0



Delivering on our strategic pillars:

Definition
The rate at which full-time staff of Seplat choose to leave the Company voluntarily, expressed as a percentage of average full-time headcount during the year.

Relevance
An indicator of the Company's ability to attract and retain personnel. The loss of people can result in skills shortage, loss of knowledge and higher recruitment costs.

Progress
The Company has continued to develop its employment policies with the aim of attracting and retaining high calibre industry talent. This resulted in staff turnover remaining low in 2016 at 1%, unchanged from the prior year.

Outlook
The industry is still expected, over the longer term, to continue to face skills shortages in key areas with competition for high performing individuals amongst competitors being intense.

Risk management
The Company's policy is to provide industry competitive benefits packages and provide progressive career opportunities to retain and attract high performing employees.

Operational overview

Strong operating track record

A significant working interest 2P reserves base of 462 MMboe and strongly productive existing well stock mean that Seplat's fundamentals remain very strong despite the distribution challenges encountered in 2016. Point forward, our proactive approach to overcoming challenges and management actions lead to an improved performance outlook with greater optionality around export routes at our core assets.

Overview

Seplat's current portfolio comprises direct interests in five oil and gas blocks and a revenue interest in one further block, all of which are located in the onshore to swamp areas of the prolific Niger Delta. This portfolio provides the Company with a robust platform of oil and natural gas reserves and production capacity together with material upside opportunities through future development projects, 2C to 2P conversion and exploration and appraisal drilling. We also continue to view the shallow water offshore areas of the Niger Delta as an appealing opportunity set and one we hold ambitions to access in the future.

Working interest reserves

Working interest 2P reserves as assessed independently by DeGolyer and MacNaughton at 31 December 2016 stood at 461.8 MMboe, comprising 195.4 MMbbls of oil and condensate and 1,544 Bscf of natural gas. This represents a modest decrease in overall 2P reserves of 3.8% year on year. The main driver of the downward revision is a re-assessment of booked reserves attributed to the revision of commercial terms at OML 55 where Seplat now holds a revenue interest until a discharge sum of US$330 million has been paid to the Company.

At 31 December, working interest 2C resources stood at 90.3 MMboe, comprising 46.2 MMbbls of oil and condensate and 255.9 Bscf of natural gas. Consequently, the Company's working interest 2P+2C reserves and resources stood at 552.0 MMboe at 31 December 2016, comprising 241.6 MMbbls oil and condensate and 1,800 Bscf of natural gas.

2016 full-year average working interest production stood at 25,877 boepd and represents an overall decrease of 40% year on year. Within this, liquids production was down 65% year on year whilst gas production was up 10% year on year. The 2016 figures reflect an oil production uptime level of just 19% after the operator of the Forcados terminal, Shell Nigeria, declared force majeure at the terminal on 21 February 2016 following disruption in production and exports caused by a spill on the Forcados terminal subsea crude export pipeline. Overall reconciliation losses arising from use of third-party infrastructure were around 10%. Prior to force majeure being declared at the Forcados terminal net working interest production from July 2015 to mid-February averaged over 52,000 boepd.

The increase in gas production is a result of the full-year benefit being felt in 2016 of the Oben gas processing facility Phase I expansion project (completed mid-2015 and doubling gross Company-operated processing capacity to 300 MMscfd) and availability from mid year of the alternative liquids export route via the Warri refinery jetty (to handle condensate volumes associated with gas production) which in-turn allowed for increased security of supply to the domestic market.

Production guidance for 2017 will be set once force majeure is lifted at the Forcados terminal and production has returned to normalised levels.

Working interest reserves

	Working interest reserves at 31/12/2015			Working interest reserves at 31/12/2016		
	Liquids MMbbls	Gas Bscf	Oil equivalent MMboe	Liquids MMbbls	Gas Bscf	Oil equivalent MMboe
OMLs 4, 38 & 41	137.1	786	273	137.3	766	269
OPL 283	9.1	81	23	8.5	72	21
OML 53	46.0	533	138	41.1	671	157
OML 55[1]	16.7	173	47	8.5	35	15
Total	**208.9**	**1,573**	**480**	**195.4**	**1,544**	**462**

Full-year average daily production

		Gross			Working interest		
	Seplat %	Liquids[2] bopd	Gas MMscfd	Oil equivalent boepd	Liquids bopd	Gas MMscfd	Oil equivalent boepd
OMLs 4, 38 & 41	45.0%	16,560	210	51,640	7,452	95	23,238
OPL 283	40.0%	1,531	–	1,531	612	–	612
OML 53	40.0%	2,954	–	2,954	1,182	–	1,182
OML 55[1]	n/a	3,756	–	3,756	845	–	845
Total		**24,801**	**210**	**59,881**	**10,091**	**95**	**25,877**

1 Under the revised commercial terms in relation to OML 55 Seplat will no longer be a shareholder in BelemaOil but will instead have a revenue interest until a discharge sum of US$330 million has been paid to Seplat. Working interest production reported for OML 55 is for preceding volumes to end June 2016.

2 Liquid production volumes as measured at the LACT unit for OMLs 4, 38 and 41. Volumes stated are subject to reconciliation and will differ from sales volumes within the period. Based on preliminary compilations.

Increased power generation is key to Nigeria's future. Seplat is investing to grow gas production and processing capacity to further step-up supplies of processed gas to the domestic market that can underpin greater levels of power generation in the future.

Alternative oil export route

Seplat is 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 whereby crude oil production from OMLs 4, 38 and 41 is sent via the Company'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. At 31 December 2016, a gross volume of 3 million barrels had been evacuated via this route. The Company's intention is to establish regular exports of 30,000 bopd (gross) via Warri.

In order to achieve this, the piping configuration in the tank farm has been modified to allow for simultaneous production and vessel loading. In addition, two of the four jetties are being upgraded to increase the frequency of the shuttling operations. The first jetty upgrade is nearing completion and the second jetty will be available towards end Q2. It is expected that these jetty upgrades will comfortably allow the JV to stabilise exports at a gross level 30,000 bopd during Q2. As a result of the increased volumes and improved operational efficiency there will be scope to reduce demurrage charges in particular to reduce the unit cost of the barging operation. Upgrades to our liquid treatment infrastructure at OMLs 4, 38 and 41 were also made during the year that will enable us to inject export grade dry crude via alternative routes and at the same time eliminate crude handling charges that have historically been incurred on water in the wet crude injected into the Forcados pipeline. It is Seplat's intention to keep the alternative export route via the Warri refinery jetty available for the foreseeable future. Exports via the Warri refinery jetty are not subject to the reconciliation losses (typically in the order of 10% to 12%) or crude handling charges that the Company is subject to when exporting via the Trans Forcados System ('TFS').

Prior to establishing the alternative oil export route via the Warri refinery, gas production was limited by storage constraints for associated condensate volumes that would ordinarily be spiked into crude oil production and exported via the Forcados terminal. Crucially, availability of the alternative export route enabled Seplat to de-constrain gas production, step-up deliveries to the domestic market and greatly improve security of supply. 100% of Seplat's gas production is supplied to the domestic market.

In addition to the Warri and Forcados export routes, Seplat is supporting NAPIMS (a 100% subsidiary of NNPC) on completion of the 160,000 bopd capacity Amukpe to Escravos pipeline that will offer a third export route through the Escravos terminal. All three export routes are expected to be available during H2 2017 and the intention is to utilise all three to ensure there is adequate redundancy in evacuation routes, reducing downtime which has adversely affected the business over a number of years.

Gas business

Alongside our oil business, we have also prioritised the commercialisation and development of the substantial gas reserves and resources identified at our blocks, positioning Seplat today as a leading supplier of natural gas to the domestic market in Nigeria. Going forward, we plan to further increase our gas production and processing capacity to help meet Nigeria's growing demand, particularly in the gas-to-power sector. A major step forward in the growth of Seplat's gas business is the modular build-up of processing capacity at the Oben facility to create a strategic gas hub ideally located to aggregate and supply gas to Nigeria's main demand centres.

Phase I expansion of the Oben gas processing facility was successfully completed in mid-2015 when the new 150 MMscfd processing plant was installed and commissioned, doubling gross Company processing capacity to 300 MMscfd. Further to this, we embarked on the Phase II expansion project in 2016 that has seen a further 3 x 75 MMscfd processing modules installed at the new plant location (adding an additional 225 MMscfd aggregate processing capacity) that takes gross Company processing capacity to a minimum of 525 MMscfd. The new processing modules arrived in-country in June and clearing/site delivery was completed in August. Installation of the new modules and completion activities were carried out in Q3/Q4 2016 and are now being commissioned with project hand over expected in Q2 2017.

Of the 525 MMscfd total processing capacity, 465 MMscfd is located at Oben with the remaining 60 MMscfd located at Sapele. The 375 MMscfd expansion at Oben (Phases I and II) was completed by Seplat as a 100% sole risk project.

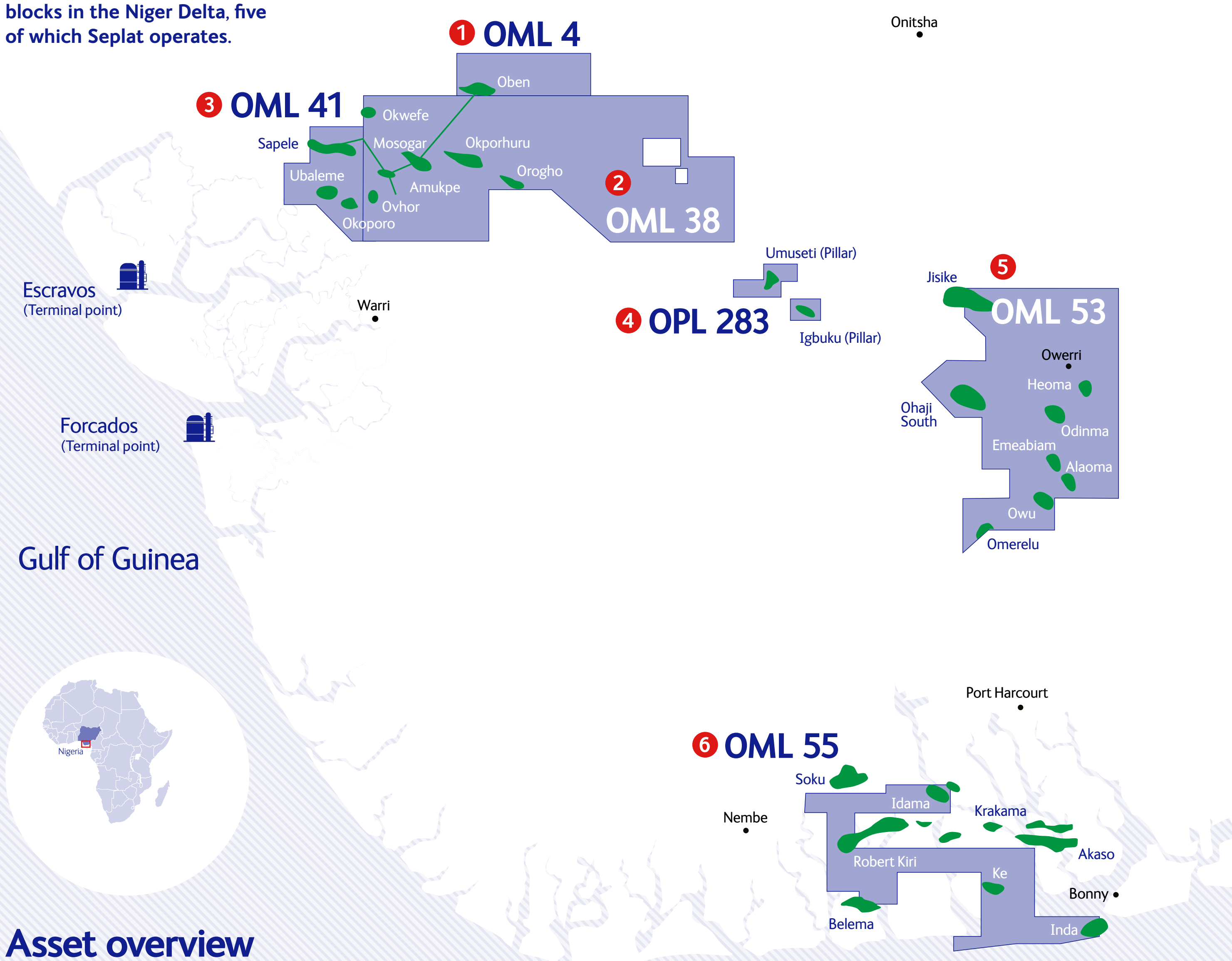
As a derivative of the increase in gas production, condensate volumes have significantly increased. Produced condensate has ordinarily been spiked into the crude oil stream and exported via the Trans Forcados System ('TFS'). Following completion of the two 50,000 barrel storage tanks at the Amukpe field in 2015 we now have the means to store associated condensate volumes, which means that together with the alternative liquids export route via the Warri refinery we have assurance over continuity of gas production and sales during periods when the TFS is shut-in.

An additional 2x 10 MMscfd compressors to further capture available associated gas ('AG') at the Oben flow station (following on from the successful installation of 3x 10 MMscfd compressors in 2015) have been installed and are being commissioned for operations. The project is geared towards elimination of routine flares and monetisation of AG and is expected to be completed during Q2 2017. Seplat's focus on gas monetisation also includes the Sapele non associated gas ('NAG') for which commercial discussions are ongoing and development options are being finalised.

Rig-based activity

In common with the rest of the industry, the continued and severe weakness in oil prices combined with the prolonged interruption of crude oil exports meant we had to adjust our work programme to reflect this reality. Having been one of the most active drillers in Nigeria in recent years, we reduced our rig-based activity to comprise only the workover and re-completion of the Sapele-4 well as a water disposal well, which has successfully been completed.

Seplat's portfolio comprises six blocks in the Niger Delta, five of which Seplat operates.



Asset overview

1 2 3 OMLs 4, 38, 41

2016 activities
- Production and development

Highlights
- Alternative crude oil and condensate export route established via Warri refinery jetty
- Full-year benefit of Oben gas processing facility Phase I expansion led to increased gas production year on year
- Executed Phase II expansion project to take gas processing capacity of the Oben facility to 465 MMscfd (gross)
- Including the Sapele gas processing facility total Company processing capacity increased to 525 MMscfd (gross)
- Installation of 2x 10 MMscfd compressors at Oben to capture and monetise associated gas
- Upgrades made to liquid treatment facility at Amukpe to achieve export grade specification of crude oil production
- Work ongoing to define a full development and drilling strategy for Sapele Shallow
- Re-completed Sapele-4 well as a water injector

4 OPL 283

2016 activities
- Production

Highlights
- Detailed subsurface study completed to define optimal development strategy for Umuseti oil field
- New 3D seismic survey over Igbuku gas field planned
- Pre-drill and site preparation for Anagba-1 appraisal well

5 OML 53

2016 activities
- Production and development planning ('ANOH')

Highlights
- Full transfer and operatorship of block transferred to Seplat
- Development planning for upstream and midstream elements of the ANOH gas and condensate project (unitised with OML 21) with FID targeted in 2017
- Defining oil production optimisation strategies for Jisike field and other discoveries on the block

6 OML 55

2016 activities
- Production

Highlights
- New commercial terms agreed that provide for a discharge sum of US$330 million to be paid to Seplat through allocation of crude oil reserves
- Asset Management Team formed under joint control between Seplat and BelemaOil to manage technical and commercial activities

OMLs 4, 38 and 41

Produce, process & sell | Develop | Explore & appraise

Operator:	Seplat
Working interest:	45.0%
Partner:	NPDC
Main fields	Oben, Amukpe, Okporhuru, Ovor, Orogho, Sapele, Sapele Shallow
2016 working interest liquids production:	7,452 bopd
2016 working interest gas production:	95 MMscfd
Remaining working interest 2P oil reserves:	137.3 MMbbls
Remaining working interest 2P gas reserves:	766 Bscf
2017 activities:	Production and development

Seplat has a 45% working interest in OMLs 4, 38 and 41 which are located in Edo (OML 4) and Delta (OMLs 38 and 41) States onshore Nigeria. Seplat is operator of the three blocks, which together form one contract area, on behalf of the NPDC/Seplat Joint Venture. As operator, Seplat is empowered with running the day-to-day operations activities and is able to set production and operational improvement goals and lead exploration and appraisal activities, subject to the approval of its partner. Production is predominantly from seven fields, namely Amukpe, Oben, Okporhuru, Ovhor, Orogho, Sapele and Sapele Shallow, and the partners aim to bring additional fields onstream in the future.

Since acquiring the blocks in July 2010, the Company has consistently grown oil production capacity, primarily through the drilling of new wells and employing advanced and proven technologies to increase production in mature fields. The Company also became the first operator in the Niger Delta to install a LACT unit, enabling significantly improved measurement of produced oil prior to injection into the Trans Forcados Pipeline system. This has greatly reduced the reconciliation losses applied to the Company's oil production to a level of approximately 10% to 12%, compared to an average of approximately 18% to 20% prior to installation of the LACT unit.

Alongside the oil business, the Company has also prioritised the commercialisation and development of the substantial gas reserves and resources identified at OMLs 4, 38 and 41 and is today a leading supplier of gas to the domestic market in Nigeria. Going forward, Seplat plans to further increase its gas production and processing capacity to help meet Nigeria's growing demand, particularly in the gas-to-power sector. A major step forward in this respect has been the modular build-up of processing capacity at the Oben facility to create a strategic gas hub ideally located to aggregate and supply gas to Nigeria's main demand centres.

Delivering on our strategic pillars:

Background

OML 4 covers an area of 267km² and is located 78km north east of Warri, Delta State. The Oben field is located in OML 4 and is the main producing field on the block. Facilities on the block include a 60,000 bopd capacity flow station, a 465 MMscfd capacity non-associated gas processing plant and an associated gas compressor station with three 10 MMscfd associated gas ('AG') compressors. Oil exports from the Oben flow station are routed via the Oben–Amukpe pipeline to the Amukpe facilities and onwards to either the Forcados terminal or Warri refinery. Production operations and facilities are supported by the Oben Field Logistics Base. The Oben field, in particular, is central to the Company's future gas expansion plans and is strategically located as an important gas hub with access to Nigeria's main gas demand centres. The licence was renewed in 1989 for a further 30 years and is next due for renewal on 30 June 2019.

OML 38 covers an area of 2,094km² and is located 48km north of Warri, Delta State. There are currently three producing fields on the block, namely Amukpe, Okpohuru and Ovhor (which straddles OML 38 and OML 41). There are three further discoveries in OML 38: the Mosogar, Orogho and Jesse discoveries, which have not yet been brought into production. Facilities on the block include a 45,000 bpd capacity flow station, a Liquid Treatment Facility ('LTF') and two 50,000 bbls crude storage tanks, all located at Amukpe. The licence was renewed in 1989 for a further 30 years and is next due for renewal on 30 June 2019.

OML 41 covers an area of 291km² and is located 50km from Warri, Delta State. There are currently three producing fields on the block, namely Sapele, Sapele Shallow and Ovhor (which straddles OML 41 and OML 38), and two discoveries with contingent resources, the Ubaleme and Okoporo discoveries. Facilities on the block include a flow station with 60,000 bpd capacity, a 60 MMscfd capacity non-associated gas processing plant and a 26 MMscfd state-owned gas compressor station. Produced oil is exported via the Sapele–Amukpe delivery line to the Amukpe facilities and onwards to either the Forcados terminal or Warri refinery. The condensate stream is combined with the oil for export and produced gas is exported via the state-owned Oben-Sapele pipeline system which feeds into the Sapele power plant. The licence was renewed in 1989 for a further 30 years and is next due for renewal on 30 June 2019.

2016 activity

On OML 4, the Company executed Phase II of the Oben gas processing plant expansion programme which included the installation and integration of three new 75 MMscfd processing modules (225 MMscfd aggregate capacity), taking total gross processing capacity of the Oben plant to a minimum of 465 MMscfd following commissioning in Q1 2017. The second key project undertaken in 2016 and nearing completion, aimed at eliminating and monetising associated gas that was previously flared, is the installation of an additional 2 x 10 MMscfd compressors at the Oben flow station.

On OML 38, further to the earlier commissioning of the liquid treatment facility ('LTF') at the Amukpe field, the Company commenced a crude quality upgrade project aimed at achieving an export grade specification of 0.5 BS&W MAX, based on the crude handling agreement signed with SPDC. By doing this, Seplat has scope to eliminate in the future, the cost component of crude handling charges that have historically been incurred for exporting wet crude to the Forcados terminal and also free up additional haulage on the export pipeline for dry crude. With the completion of the project, Seplat will also be able to guarantee increased export quality crude shipments via the Warri refinery route. The system is operational, and the remaining full flow performance test will be completed as soon as full production has been reestablished.

On OML 41, the ongoing focus is the development of the Sapele Shallow field. During 2015, the partners drilled and completed three oil development wells on the field. Following the pause in drilling activities in 2016, Seplat is defining a full development and drilling strategy for Sapele Shallow, which overlies the productive reservoirs in the main Sapele field and is estimated to hold a significant accumulation of oil (around 500 MMbbls STOIIP). Prior to this Sapele Shallow had remained largely undeveloped due to the heavier nature of the oil (21° API) relative to that in neighbouring blocks. The Company believes that the full development of Sapele Shallow represents a material upside opportunity.

OPL 283

Produce, process & sell | Develop | Explore & appraise

Operator:	Pillar Oil/OPGC
Working interest:	40.0%
Partner:	Pillar Oil
Main fields:	Umuseti and Igbuku
2016 working interest liquids production:	1,531 bopd
2016 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	8.5 MMbbls
Remaining working interest 2P gas reserves:	72 Bscf
2017 activities:	Production

Background

Seplat has a 40% non-operated working interest in the Umuseti/Igbuku Marginal Field Area that is carved out of OML 56. The block is located in the northern onshore depo-belt of the Niger Delta and is operated by Pillar Oil Limited. The block contains one producing field, Umuseti, which came onstream in May 2012 and is currently producing from three development wells. There are 15 identified oil bearing reservoirs in Umuseti with production currently coming from four of these reservoirs. Further development drilling will be required to drain the remaining reservoirs. The Igbuku field contains predominantly gas and condensate and is currently undergoing appraisal prior to development. The block also contains four satellite exploration leads, namely Igbuku North, Igbuku Deep, Umuseti East and Umuseti North-East, which the joint venture partners intend to further evaluate. Facilities on the block include a 5,000 bopd Early Production Facility ('EPF') and two 20,000 bbls crude storage tanks. Umuseti production is evacuated to a Group Gathering Facility ('GGF') where it is metered and thereafter exported either via Agip's Kwale facilities to the Brass terminal or via NPDC's pipeline to Forcados.

2016 activity

There were no drilling activities during 2016, the operational focus being on production efficiency and minimising operating costs. A detailed subsurface study has also been completed which will be used to define the optimal development strategy to access additional oil reservoirs in the Umuseti field. Technical work also continued on Igbuku, planning wells and the monetisation of its gas reserves.

Negotiations with contractors for the acquisition of 106km² of 3D seismic data over the southern section of the Igbuku field were concluded with the contract planned to be awarded in the second half of 2017. The seismic will allow full definition of the Igbuku structure required for future development drilling activities. During the year, pre-drill and site preparation was undertaken for the planned Anagba-1 appraisal well. The well is intended to appraise a structure that straddles the block boundary with adjacent OML 60 (where the reservoirs are in production). Timing of the well is subject to finalisation between the JV partners.

Delivering on our strategic pillars:

OML 53

Develop | Produce, process & sell | Explore & appraise

Operator:	Seplat
Working interest:	40.0%
Partner:	NNPC
Main fields:	Jisike (producing) and Ohaji South (discovery)
2016 working interest liquids production:	1,182 bopd
2016 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	41.1 MMbbls
Remaining working interest 2P gas reserves:	671 Bscf
2017 activities:	Production and development

Background

OML 53 covers an area of approximately 1,585km² and is located onshore in the north eastern Niger Delta. The Jisike oil field, located in the north western area of the block, is currently the only producing field on OML 53. Existing infrastructure at Jisike comprises flow-lines, phase one separation facilities and a flow station with a design capacity of 12,000 bopd and 8 MMscfd. Oil production is sent for further processing at the nearby Izombe facilities on OML 124 from where it is exported via pipeline to the Brass oil terminal. The block also contains the large undeveloped Ohaji South gas and condensate field, the development of which will be coordinated with the SPDC operated Assa North field on adjacent OML 21, together referred to as the ANOH project which is set to be one of the largest greenfield gas condensate development projects in Nigeria to date. The expectation is that future gas production from the ANOH project will supply the domestic market, for which significant work on commercialisation terms and development concepts has been undertaken. There is also shallow oil development potential at Ohaji South that could be pursued as a separate standalone project in the near term. Prior to initiating development of the ANOH project, Seplat expects to focus efforts on increasing oil production at the Jisike field and development of the shallow oil reservoirs in Ohaji South. Pursuant to the Joint Operating Model, Seplat is designated operator of OML 53.

2016 activity

On 5 February 2015, the Company announced that it had acquired a 40.0% working interest in OML 53 from Chevron Nigeria Limited ('CNL'). However, the full completion and transfer of the block and operatorship was hindered by litigation brought against CNL and Seplat by one of the counter bidders that also sought to acquire the assets from CNL and contested the outcome of the sales process. The litigation ultimately reached the Supreme Court, the apex court in Nigeria, in January 2016 when the Supreme Court delivered its judgment and ruled in favour of CNL and Seplat. This ruling allowed CNL to conclude the full transfer and operatorship of the block to Seplat with immediate effect meaning the Company is now free to implement a forward work programme to realise the block's full potential.

OML 53, as part of the Assa North – Ohaji South ('ANOH') development, is at the core of Seplat's plans to significantly increase gas production and operated processing capacity in the near to medium term. Discussions are ongoing between the Shell JV (OML 21) and Seplat JV (OML 53) on a framework within which to progress the upstream and midstream elements of the project to FID in 2017.

Delivering on our strategic pillars:

OML 55

Produce, process & sell | Develop

Operator:	Asset Management Team
Working interest:	Revenue interest
Partner:	NNPC, BelemaOil
Main fields:	Robertkiri, Idama and Inda (producing)
2016 working interest liquids production:	845
2016 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	8.5 MMbbls
Remaining working interest 2P gas reserves:	35 Bscf
2017 activities:	Production

Background

OML 55 covers an area of approximately 840km^2 and is located in the swamp to shallow water offshore areas in the south eastern Niger Delta. The block contains five producing fields (Robertkiri, Inda, Belema North, Idama and Jokka). The majority of production on the block is from the Robertkiri, Idama and Inda fields. The Robertkiri field is located in swamp at a water depth of five metres and has a production platform and utility platform installed. Production capacity at the Robertkiri facilities is 20,000 bpd and 10 MMscfd. Production facilities at the Idama field comprise a jack-up mobile offshore production unit ('MOPU') and riser platform that have a capacity of 30,000 bpd of total fluids and 34 MMscfd. The Jokka field is produced through a manifold tied-back to the Idama facilities. Production facilities at the Inda field comprise a MOPU with a capacity of 30,000 bpd of total liquids and 34 MMscfd. Overall, the infrastructure on OML 55 comprises four flow stations, a network of flow-lines, and two eight-inch pipelines that connect to third-party operated infrastructure. The Belema field is unitised with OML 25 and is produced via a flow station on that block. All produced liquids from OML 55 are delivered via third-party infrastructure to the Bonny terminal for processing and shipping. In addition to the oil potential on the block there is also an opportunity to develop the significant gas resources that have also been identified.

2016 activity

Representatives of both Seplat and BelemaOil agreed to a new commercial arrangement in July 2016 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 but instead hold a financial revenue interest until the discharge sum has been received in full. 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 full control. Joint control however exists over OML 55 through the representation on the Asset Management Team.

Delivering on our strategic pillars:

Financial review

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

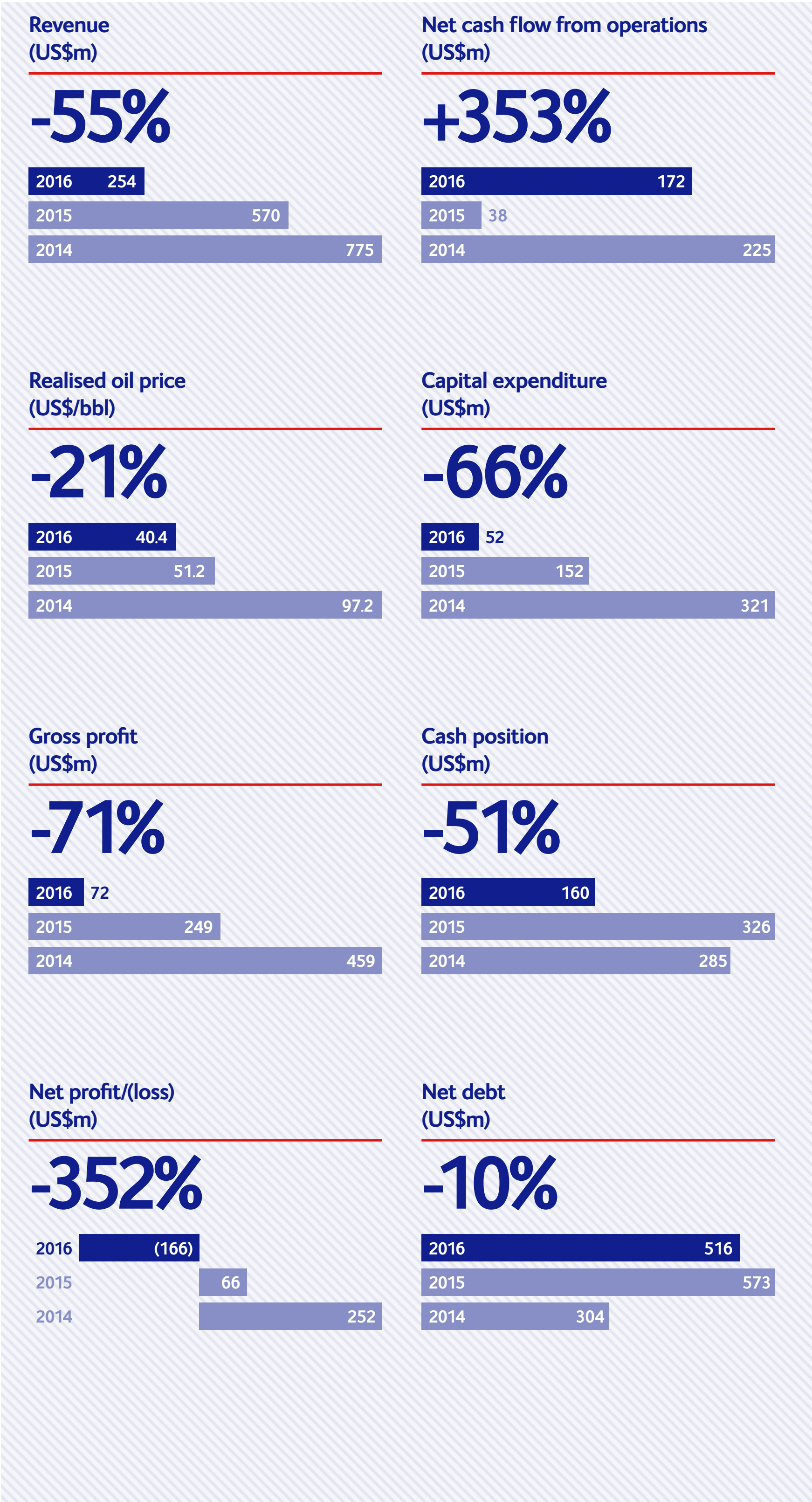
- Accounted for 41% of total revenues (2015: 14%)
- Gas price de-linked from oil price
- Realised price up 19% year on year at US$3.03/Mscf (2015: US$2.55/Mscf)

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).

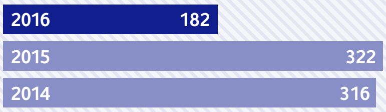
Having acquired in 2015 a 56.25% shareholding in BelemaOil Producing Limited ('BelemaOil'), a Nigerian company which in turn acquired from Chevron Nigeria Limited a 40.00% interest in OML 55 located in the swamp to coastal zone of south eastern Niger Delta, Seplat had prior to 30 June 2016, consolidated 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%



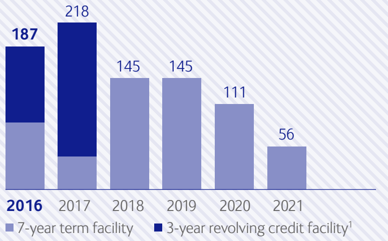
Gearing (total debt/total assets) (%)

-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

Risk management

Protecting our business

Strong and effective risk management is central to how we run our business and enables the delivery of our strategy.


Basil Omiyi
Chairman, HSSE and Risk Management Committee

Managing risk in protecting our business

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 achieving its strategy, corporate objectives and annual business plans, their possible impact on the business and measures that can be implemented to mitigate the identified risks so that Seplat can continue to operate safely and effectively. At the same time, the Company continually maps out its response and plans should events go wrong and learnings from past incidence reviews. Seplat recognises that risk management is a continuous journey of improvement and not a destination, and will continue to develop its risk management processes to ensure the Company is fully equipped to deal with the constantly evolving operating and business environment of the oil and gas industry.

Risk management system

The Company's risk management system is based on guidelines provided in ISO 31000, the international standards for risk management. The system is built on a top-down approach with the Board of Directors (the 'Board') determining the right risk appetite necessary to achieve the Company's corporate objectives.

The HSSE and Risk Management Committee assists the Board in overseeing the Company's risk management framework and the risk/reward strategy as determined by the Board. The Committee ensures that the Company has adequate risk management systems in place to manage the diverse and changing risks and opportunities faced by the Company as it creates value for shareholders. It meets at least three times in a year to analyse and evaluate the Company's key risk profiles, proposed mitigation strategies, mitigation actions taken by management and any residual risk exposures. The meetings are attended by Executive Directors who have accountability for ensuring that risk identification is comprehensive and proposing mitigating measures that are effective in achieving the desired objectives. Reports on the Company's corporate risk register, key risk exposures and reviews of its risk management systems are compiled and presented to the Board of Directors.

While key risks and associated risk appetites are determined at the top, the business units and functional managers are accountable for the respective risks within their areas. The Company's ERM system, coordinated by the Head, Internal Controls & Risk ('ERM Coordinator') and overseen by the HSSE and Risk Management Committee, supports risk management across the business and functions. The Company's ERM includes a robust risk identification, assessment, reporting and monitoring mechanisms and approaches that include maintenance of both corporate and operational levels risk registers, risk dashboard, mitigation actions tracking and monitoring and risk reporting.

In a bid to continually embed risk management across the business and functions, the Company utilises specially appointed and well trained Risk Champions to ensure common methodology, language and approach in the way risks are managed across the business.

The Internal Audit unit undertakes periodic audits of the various business units including the Company's corporate governance systems and risk management processes.

Key principles that underpin the Company's risk management framework and system:

- Strong focus on safety throughout the organisation.
- Close oversight by senior management in day-to-day business operations.
- "Risk owners" throughout the business.
- Accountability of staff and/or key personnel.
- Regular and timely reporting.
- Clear line of sight on the system of internal controls.
- Monitoring and independent reviews.

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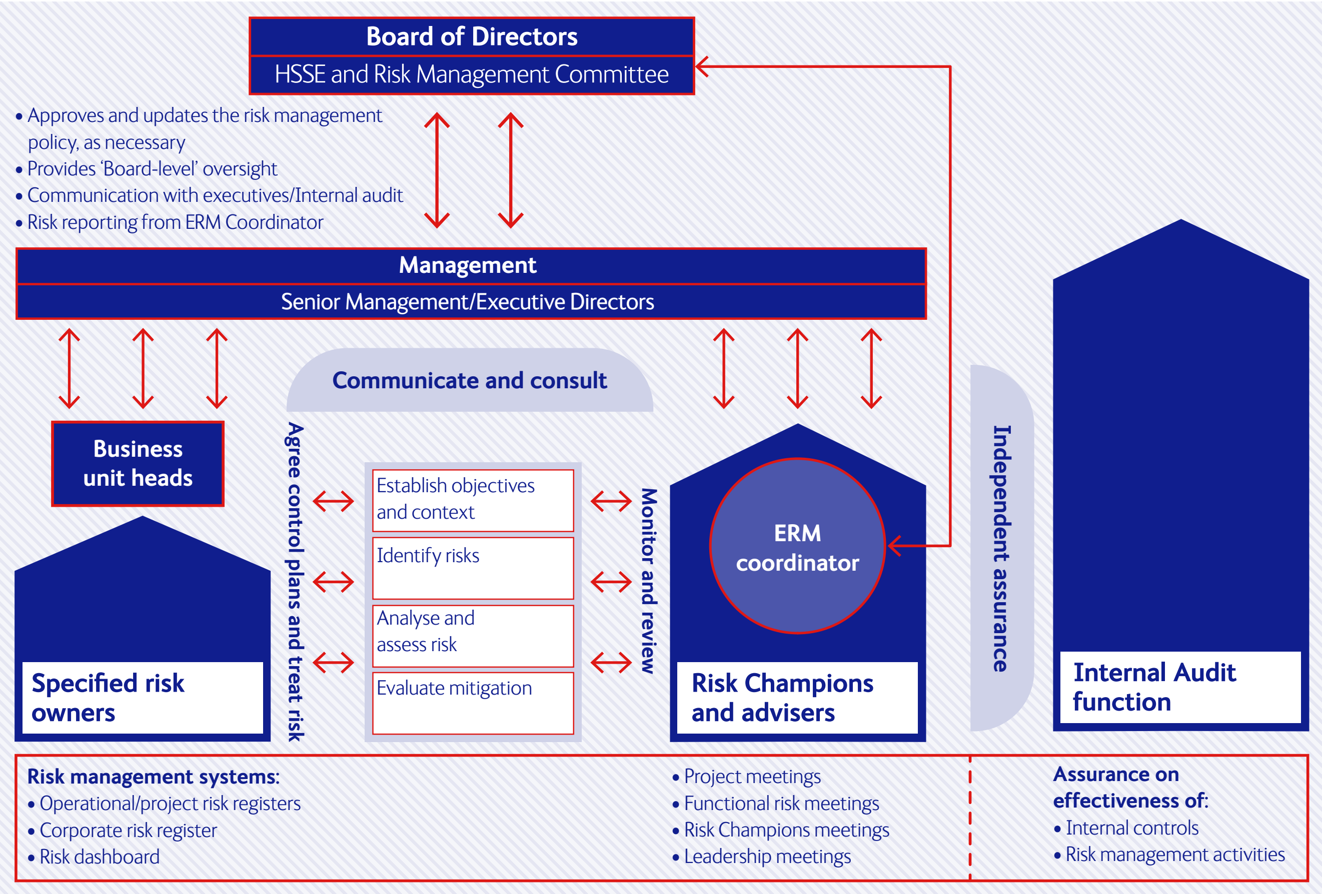
Risk management framework



Activities in 2016

In 2016, the Committee analysed and evaluated the various key risk exposures for the Company. In doing so, we reviewed the Corporate Risk Register and the risk reports presented by management. These reports detail the key risks, the potential impact of the risks and the likelihood of occurrence. Mitigating strategies were comprehensively considered, including but not limited to those related to Niger Delta stability, low oil price environment, export line breaches and alternative crude oil evacuation options, funding challenges with the majority joint venture partner, liquidity and market risks, and contractual-related risks and attendant litigation. The status and effectiveness of mitigation actions were reviewed and any residual gaps or follow-up actions were identified. Key performance indicators and other risk indicators and trends were monitored. Key risks requiring risk tolerance considerations and strategic actions were presented to and debated by the Board.

The Committee reviewed the risk management systems including the risk dashboard and assessment tables. The Committee gave further consideration to the achievements made by the Risk Champions appointed with a view to unify risk management approaches across the organisation.

The Committee received regular updates on Seplat's performance in regards to environmental, health, safety and community relations matters, reviewing any strategies and action plans developed by management in response to issues identified and HSSE performance on industry benchmark scorecards.

The Committee followed through to ensure that operational risk matters identified during the Committee's physical inspection of the Company's field infrastructure were adequately addressed.

As part of assessing fraud mitigation efforts, the Committee reviewed the operations of the whistleblowing system to obtain assurance about its effectiveness in the organisation.

High profile risks and uncertainties

Highlighted to the right, are the high profile risks that the Company dealt with in 2016 and will continue to monitor going into 2017.

1. Niger Delta stability and geo-political risk.

Seplat core operations are located in the Niger Delta region of Nigeria and that comes with a significant risk for the Company. Historically, the Niger Delta has always been a high risk environment. Cases of crude oil theft, pipeline vandalism, environmental pollution arising from illegal bunkering activities, and other lawless activities such as kidnap for ransom, violent community protests and armed robberies are common security challenges in the region. Partly as a fallout from the country's presidential election and transfer of power from one political party to another in mid-2015, sustained militancy activities have been recorded in the region resulting in damage to several oil and gas facilities including the early-2016 damage of the Trans Forcados export terminal, Seplat's only major export route. A force majeure was declared by the operator of the facility on 21 February 2016 and was still in effect at the end of 2016. Seplat has a robust security management system in place that utilises good community relations, intelligence and monitoring to prevent attacks on its facilities. Mechanisms are also in place for quick security advisory to staff and movement restriction for high alert situations. The Company, in collaboration with other industry players in the region, continues to pressure government to find a sustainable solution to Niger Delta instability.

2. Extended production shut-in due to third-party infrastructure downtime.

Seplat's primary liquid evacuation option for its major assets (OMLs 4, 38 & 41) is the third-party operated Trans Forcados export system and this poses a significant risk to the Company. The system was out of operation for the greater part of 2016 and into 2017 due to multiple attacks at different times by militants. It remained uncertain at the end of 2016 when the line will be ready for exports as the militants continue to threaten further attacks. The Company is working to secure a second export line to complement Forcados. To mitigate the impact of the shut-in, the Company worked with relevant government agencies to enable utilisation of Warri Refining and Petrochemical Company's ('WRPC') jetty to export limited volumes of liquid through barging operations. The Company is further exploring the economics of other avenues for hydrocarbon liquids evacuation to reduce dependency on the major export routes.

3. Continued low oil price environment.

Seplat's operating results are highly dependent on the prices of crude oil and natural gas. The Company's estimated proved reserves, revenue, operating cash flows and margins, liquidity and future earnings are all impacted by the volatility of crude oil and natural gas prices. Oil price volatility continued during the year with the lowest oil price of US$26/bbl in January 2016. The highest price of US$55/bbl was reached in December 2016. Seplat's price risk management policy is to protect the Company's cash flow from downside scenarios with hedging. The Company protected about 6 million barrels at an average strike of US$42.75/bbl in 2016. Our long-term natural gas contracts have escalation clauses that protect the Company against severe price decline.

4. JV receivable and future cash call funding.

Seplat has the Nigerian government as Joint Venture ('JV') partner in significant parts of its business. Cash call funding from the government partners has historically been poor resulting in buildup of legacy cash call receivables over time. Settling these outstanding receivables and guaranteeing timely funding of future JV operations poses significant risk to Seplat. To mitigate this exposure, the Company continues to actively engage the respective government partners to settle legacy receivables and agree on a guaranteed funding arrangement for future operations.

5. Liquidity risk.

The combined effects of extended production shut-in and sustained low crude oil price poses a significant liquidity risk to the Company. Our revenue inflows have been severely impacted by the production interruption in 2016. We manage liquidity risk by ensuring that sufficient funds are available to meet commitments as they fall due, using both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Our cash flow projections take into consideration the Company's debt financing plans and covenant compliance. Surplus cash held is invested by the treasury department in interest bearing current accounts, time deposits and money market deposits.

2016 has been a challenging year for the oil and gas industry in general with the sustained low crude oil pricing, but even more challenging for companies like Seplat operating in Nigeria's Niger Delta. As such, we continued to closely monitor the risks to the business throughout 2016. Overall, the Committee is satisfied that the Company has a robust Risk Management System that serves to ensure integrity of business processes, business decisions and activities going into the future. The Company's HSSE Management System is also mature and reliable and has continued to deliver good HSSE performance year on year.

Basil Omiyi
Chairman, HSSE and Risk Management Committee

Monitoring and mitigating risks to the business

The implementation of our strategy can be hindered by various risks and uncertainties. The risks that the Board considers most significant are described here.

Key risk	Description	Mitigation
Operational risks		
Field operations and project deliverability	Failure to manage operational activities in line with planned expectations can lead to production misses, project delays and cost overruns, high production costs and earlier than expected field decommissioning.	Focus on risk management at planning phase and mitigation plans activated. Compulsory 'peer-to-peer' review for high-value projects and better project management techniques. Protracted land acquisition, preparation and rig startup have been contributory factors which have received focused attention and significant process improvements and improved communications with JV partner and approving regulators to mitigate delays. Use of smart/intelligent wells to improve recovery and improved rig performance monitoring and reporting to manage NPTs.
Third-party infrastructure downtime	An over-reliance on third-party operated transportation infrastructure can expose the Company to extended period of production being shut-in.	Exports via the alternative Warri refinery route commenced in 2016, albeit at constrained rates. Upgrades and jetty repairs will allow for a stabilised 30,000 bopd gross export capacity via this route. The Company is supporting NAPIMS on completion of the Amukpe to Escravos pipeline. Two contingency storage tanks at Amukpe provide a buffer during shorter periods of shut-in.
HSSE risks	Oil and gas activities carry significant levels of HSSE risks if not properly managed. As activity levels continue to increase there is a strong focus on preventing major environmental, health or safety incidents.	Deployment of an HSSE Management System in line with best practices. Monitoring and reporting of HSSE performance scorecards at management and Board levels. Our HSSE systems and process have been subject to independent review and identified improvement initiatives are being deployed. Continual focus on HSSE training and initiatives on incidence prevention. Emergency Response plan set for any eventuality and comprehensive Incident Review panels to identify and channel lessons learnt to improvement activities.
Sustained E&A programme failure	Exploration and appraisal activities carry significant levels of subsurface risk. Sustained E&A drilling failure will impact the Company's ability to organically replace reserves and production.	Strict compliance with reservoir management guidelines. Building internal capacity with skilled sub-surface expertise.
External risks		
Niger Delta stability and security	The Company operates in a region where security incidents such as kidnappings and criminal attacks can occur.	Continuous security monitoring and intelligence work. Quick mechanism for security advisory to staff and movement restriction for high alert situations.
Failure to manage stakeholder relationships	Failure to manage stakeholders can result in business disruptions and interference. The Company prioritises the effective management of relationships with all stakeholders including host communities, JV partners, government, regulatory bodies and shareholders.	Successful operation of the GMOU agreement with host communities, periodic engagement and feedback forums. Tailored CSR programmes, capacity building and infrastructure developments with the host communities. Organisational focus and clear strategy to deliver shareholder value pursued by the Board and management. Corporate governance and transparency in dealings with regulators and JV partners.
Geo-political risk	Nigeria has at times in its history faced political uncertainties and threats such as terrorism aimed at de-stabilising and undermining the orderly and effective rule of central government.	Scenarios and response options plan set. Crisis management team over the high alert political periods. Business continuity plans actioned in light of current geo-political situation.

Strategic pillars

- Maximise production and cash flows from operated assets
- Move up 2C resources into 2P reserves category
- Commercialise and produce gas reserves
- Pursue a focused acquisition and farm-in strategy
- Be a highly responsible corporate citizen

KPI/Performance metric	Strategic pillars	Assessment	Trend
• Net working interest production • Operating costs per boe		High	Steady. Whilst this risk still remains, there have been significant improvements in the contributory areas of land acquisition and preparation
• Net working interest production • Days downtime • EBIT		Very high	Increased. With the extended outage of Forcados export terminal.
• HSSE scorecards • LTIF • TRIR		High	Steady. Though the risk is inherent, we will continue to deploy our HSSE risk management in line with best practices and with strong emphasis on prevention.
• Reserve replacement		High	No change. Reduced E&A activities but will monitor the outcomes of further studies.
• LTIF • TRIR • Security incidents		Very high	Increased. With uptick in militancy activities in the Niger Delta. We will continue our monitoring and vigilance.
• Net working interest production • LTIF • TRIR • Host community incidences		High	No change. We continue to enjoy good working relations with all stakeholders.
• Occurrences of civil unrest and terrorism		High	No change. We will continue to monitor situations closely.

Key risk	Description	Mitigation
Financial risks		
Oil price volatility	Oil prices have exhibited a history of volatility and can fluctuate sharply in line with external factors.	Seplat implements an oil hedging strategy, with the Company benefitting from the strike price hedged in 2016. Price sensitisation on project economics and cost discipline for capital projects sanctioning. Aggressive focus on cost reduction.
Changes to tax status and legislation	If the tax regime/legislation under which the Company operates its assets were to change, profitability may be impacted.	Perform evaluation of business plan and performance metrics exclusive of tax benefits. Project economics were determined on maximum tax basis to mitigate the impact of the now expired pioneer tax status. Impact assessment of potential tax legislature monitored at the Board level.
Availability of capital	The oil and gas industry is highly capital intensive. Significant amounts of capital are required to continue development activities and fund M&A. Non funding of cashcalls by JV partners impacts activities and liquidity.	Working on alternative funding arrangement with JV partners. Board review and approval of financial strategy and debt refinancing arrangements with strong banking relationships.
Ineffective cost control	Cost reduction remains central to the Company's current operating strategy. High operating cost and ineffective capital cost control negatively impacts operating cash flows and profitability.	Comprehensive budgeting process approved by the joint venture partner and the Board. Clear cost management targets. Grading of portfolio opportunities and project ranking for capital allocation. Focus on reducing drilling costs at well design phase. Cost monitoring and periodic reporting. Focus on effective contracting strategies for cost reduction.
Liquidity	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	Manage liquidity risk by ensuring that sufficient funds are available to meet commitments as they fall due. Uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Company's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in interest bearing current accounts, time deposits and money market deposits.
Foreign exchange	The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US Dollar.	The Company has a natural hedge with the main revenues and expenditures in both US Dollars and Nigerian Naira. The Company also has options to manage its foreign exchange exposure including financial hedge instruments such as forward exchange contracts.
Strategic risks		
Portfolio concentration risk	High dependency on a concentrated portfolio of producing blocks and limited number of wells can leave the Company more susceptible to declining long-term growth and reserves depletion.	Focus on portfolio expansion strategy from the Board level to diversify current portfolio. Integrated long-term planning on crude oil and gas business.
Merger & Acquisition ('M&A') risk	Growth through M&A activities is part of Seplat's strategy to pursue a focused acquisition and farm-in. M&A deals and transactions come with significant risk including structural, commercial and integration risks. There is also the risk of non achievement of acquisition targets due to highly competitive landscape.	New business development unit always looking for the right opportunities for Seplat. Decision review board ('DRB') process in place to ensure deals are properly vetted and adequate due diligence done on new opportunities. The DRB ensures the commercial, structural, KYC and integration risks are fully considered and addressed with mitigation plan approved and in place prior to deal closing.
Bribery and corruption risk	Bribery and corruption presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company.	Extensive training on anti-bribery and corruption. Embedding corporate governance principles with key focus on areas of the business which may be more susceptible to corruption such as the contracting and procurement process. Processes exist to guide dealings with public officials.
Loss of key employees	The oil and gas industry is very specialised in certain areas and there is competition within the industry to secure talent and highly-skilled and experienced personnel in core areas.	Annual benchmark reviews to ensure competitiveness in reward and recruitment. Succession planning in place as part of business continuity. Focus on training as a key differentiating factor in the operating environment.
Fraudulent activity risk	Fraudulent activity presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company.	Extensive whistleblowing campaign. Continuous monitoring and improvement of the system of internal controls by all lines of defence with strong internal audit activity. Automation of processes where possible to reduce manual intervention.
Information security risk	Potential cyber attacks and information technology security breaches could result in loss or compromise of sensitive proprietary information, communication and business continuity disruption across operations.	We monitor and regularly upgrade the Company's information technology and security systems. The Company has a clearly defined employee user policy and control of access rights. Our information security framework and infrastructure have been externally reviewed in line with requirements of ISO27001. A business continuity plan is in place for quick deployment.

Strategic pillars

- Maximise production and cash flows from operated assets
- Move up 2C resources into 2P reserves category
- Commercialise and produce gas reserves
- Pursue a focused acquisition and farm-in strategy
- Be a highly responsible corporate citizen

KPI/Performance metric	Strategic pillars	Assessment	Trend
• Realised oil price • Operating cash flow		Very high	Increased. With the very low oil prices early in 2016. We will continue to take hedge positions and apply cost reduction strategies.
• Effective tax rate • Tax status		Very high	Steady. New government in Nigeria has resumed the review of the PIB and we will continue to monitor the situation.
• JV receivables • Capex • New M&A activities		Very high	Steady. Discussions on alternative funding continue to progress.
• Operating cost per boe • EBIT • Capex • Well costs		High	Steady. With the associated pressures from low oil price requiring greater cost discipline
• Operating cash flow • Capex		Very high	Increased. Extended crude production shut-in due to third-party export line outage. Exporting limited crude volumes via barging. Work ongoing on a second export line.
• Operating cash flow • Capex		Medium	Steady. Historically, the Company holds majority of its cash and cash equivalent in US Dollar. Gas contracts are indexed in US Dollar.
• Successful execution of new acquisition and farm-in opportunities		High	Steady. As the Company in a portfolio expansion phase.
• Successful execution of new acquisition and farm-in opportunities		High	Steady. DRB process in place to vet opportunities and deals.
• Whistleblowing reports • Number of disciplinary cases		High	Steady. As geographical location continues to be susceptible to corruption.
• Staff turnover		Low	Steady. With attendant reduction in capital spend in general response to low oil prices.
• Number of reported cases		High	Steady. Risk is still high and management continues to maintain a zero tolerance policy.
• Information security identification and containment reports		Medium	No change. While cyber security continues to hold international attention, there has been no material IT breach on our operations.

Ensuring a positive and impactful legacy

Shared value remains at the centre of our investment in Nigeria. Delivering a longstanding and positive social and economic legacy for our local stakeholders is our priority.

HSSE strategic principles

At Seplat, we are governed by the four core strategic principles of our HSSE policy:

Safety and security of stakeholders
- Implementation of safety procedure systems
- Incident reporting and investigation procedure (to track performance and share lessons learned)
- Periodic health screening/survey of staff and contractor employees
- HSSE induction and awareness programme as well as competency training

Compliance with applicable statutory regulations and industry codes of practice
- Ensure compliance with applicable laws, regulations and permits to ensure violations are avoided
- Collaborate on the development of new or revised regulatory requirements via appropriate industry bodies to ensure performance as a best practice operator

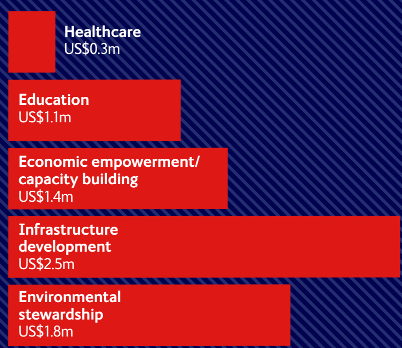
Ensuring mutual respect with host communities and local stakeholders
- Promoting proactive engagement with host communities and other stakeholders for peaceful co-existence in order to create an enabling environment for the Company's operations

Environmental safe-guarding and conservation
- Environmental stewardship through the implementation of an approved Environmental Management Plan ('EMP')
- Conduct weekly monitoring of the quality of effluents, emissions and groundwater against statutory/ international guidelines
- Implementation of rigorous waste management plan
- For projects, conduct applicable Environmental Impact Assessment ('EIA') studies and thereafter ensure periodic Environmental Evaluation Studies ('EES') to monitor impact of our operations and implement mitigation measures as appropriate

Social investment programmes:

The social investment programmes aim to target immediate impact projects at the community level, identified following the completion of all Environmental and Social Impact Assessment ('ESIA') studies. These include healthcare, education, economic empowerment/capacity building, infrastructure development and environmental stewardship initiatives as shown below.

Investment in our community



Innovating to maximise our socio-economic impact

An integral part of Seplat's operating model has been the positive and unparalleled relationships we have built amongst our host communities. It has been a critical element of our corporate social responsibility ('CSR') strategy and we are proud of the work we have achieved since our inception in 2010. Remaining industry-leading requires continued innovation and consideration and in 2016, the CSR Committee initiated a process to develop the Company's CSR strategy over the next five to ten years to guarantee industry best practice at an international level.

Legacy impact

Seplat aims to deliver legacy impact through its CSR initiatives and central to delivering this is our CSR vision that focuses on and empowers impacted communities to alleviate and end poverty. The United Nation's Sustainable Development Goals ('SDGs') are the global agenda and platform through which businesses can help advance sustainable development. In 2016, the process undertaken by the CSR Committee determined them a good basis upon which to build and measure Seplat's CSR strategy and performance going forward from 2017 onwards.

To ensure the legacy impact that the Company aspires to, the CSR strategy will aim to focus on programmes that:

1. Economically empower the communities in the Niger Delta region to alleviate poverty.
2. Reduce the dependence of the communities on the oil and gas industry.

The Company is looking forward to defining, identifying and developing, where required, those programmes that will be central in delivering on this revised CSR strategy in 2017.

Zero
fatalities

50%
reduction in volume of flared gas from 2014 to 2016

Zero
groundwater contamination

Health, Safety and Environment – 2016 Performance Review:

Seplat's commitment to upholding industry best practice in all its activities is particularly relevant to its health and safety practices as well as its environmental performance. We have a strong health and safety culture and a sustained commitment to minimising the environmental impact of our operations. Our performance in these areas is measured and evaluated year on year to ensure Seplat continues to achieve industry-high standards.

In 2016, we have continued to maintain our target of zero fatalities and remain proud of our strong safety record. We know maintaining this requires constant monitoring, innovation and vigilance. We focus on creating a working environment where safety is deeply rooted into behaviour, performance and company culture.

Health and Safety – 2016 Performance Review:

	2014	2015	2016	2017 targets
Fatalities (employee and contractor)	0	0	0	0
Lost Time Injury Frequency ('LTIF')	0.4	0	0.33	0.16

Environment – 2016 Performance Review:

	2014	2015	2016	2017 targets
Flaring – million standard cubic feet (MMscf)	9,465	7,642	4,757	4,757
Volume of oil spilled through own operations (thousand tonnes)	0.0004	0.1089	0.002	0.002
Volume of oil spilled through sabotage (thousand tonnes)	0.0014	0.0021	0.002	0.002
Groundwater contamination	Nil	Nil	Nil	Nil
Freshwater consumption (MMbbls)	1.18	1.5	0.28	0.28
Total Greenhouse Gas Emissions (MM tonnes CO_2 equivalent)	N/A	0.01	0.0001	0.0001

Corporate social responsibility continued

80 million
estimated number of people in Nigeria that lack access to electricity

During 2016, our staff retention rate was
99%

Our role in powering social and economic growth in Nigeria

The gas opportunity within Nigeria does not only make commercial sense for Seplat, but in terms of fulfilling our commitment to leaving a positive legacy behind for our communities and the country, the case for scaling up our gas production is overwhelming.

Africa is the most underpowered continent in the world. More than 95% of those 1.2 billion people in the world living without electricity are in countries in sub-Saharan Africa and developing Asia, and they are predominantly in rural areas. Whilst Nigeria has the largest GDP in Africa, electricity consumption in the country is almost one fifth lower than the sub-Saharan Africa average at 126kWh per person compared with 150 kWh. South Africa and Nigeria will remain the largest commercial and industrial consumers of electricity over the next two decades, with both countries together accounting for more than 50% of 2040 demand.

Availability of power is the key to powering prosperity in Nigeria. The economic and social benefits from a country's electrification are undeniable. By aligning ourselves with the Federal Government's Agenda and Power Sector Roadmap, the gas produced at Seplat's operated blocks was enough to underpin, at times, up to a third of on-grid power generated in the country.

Seplat recognises the importance of a multi-stakeholder cooperative approach to support consortium-led efforts to develop capacity and to continue playing a role in supporting universal electricity access in the country. As Seplat continues to invest in delivering increased production in 2017, we are looking forward to continue in our leadership role in lighting up Nigeria's future.

Top image: A best in class approach to safety remains central to Seplat's success.

Bottom left image: Seplat's annual Pearls Quiz programme, which aims to encourage learning and education amongst its host communities, awarded a further ₦35 million to winning schools in the Delta during 2016.

Bottom right image: As part of its community investment programmes, Seplat has spent over ₦33 million on its Safe Motherhood Programme during 2016.

Meet Edujie Macaulay, Process Monitoring & Control Manager, Amukpe LTF

Why is safety so important to your work at Seplat?

I am a Process Monitoring & Control Manager at Amukpe flow station. Safety is extremely important in my everyday activities because it ensures the protection of myself, my colleagues, contractors and the Company's assets that have been entrusted in my care. The nature of my job involves the daily handling of hydrocarbon fluids and other flammable substances. It is therefore important that safety takes priority in the course of carrying out my duties.

Talk us through your safety training experience at work?

I started working at Seplat in September 2012 and I have attended a number of Safety training courses. I have attended Basic and Advanced Permit To Work ('PTW') training organised by Sydney Gateway and Petrofac, where I learnt about the PTW safe system of work, importance of complementary certificates Job Hazard Analysis ('JHA'), Work method statement, Excavation permit, Isolation Certificates, Confined space and risk assessment amongst others. I also attended the First Aid training organised by the Nigerian Red Cross, where I learnt how to administer first aid in emergency situations and how to carry out CPR. I also attended an Oil Spill Management training recently, where I learnt how to manage an oil spill in order to protect the environment in which we work.

What motivates you to stay safe at work?

My motivation for staying safe at work is my desire to return to my family at the end of my shift in a healthy condition. The environment in which we work is a hazardous one and if extra special care is not taken, unsafe acts and conditions could degenerate into incidents and accidents that may involve loss of life or property. Safety cannot and should not be compromised for any reason.

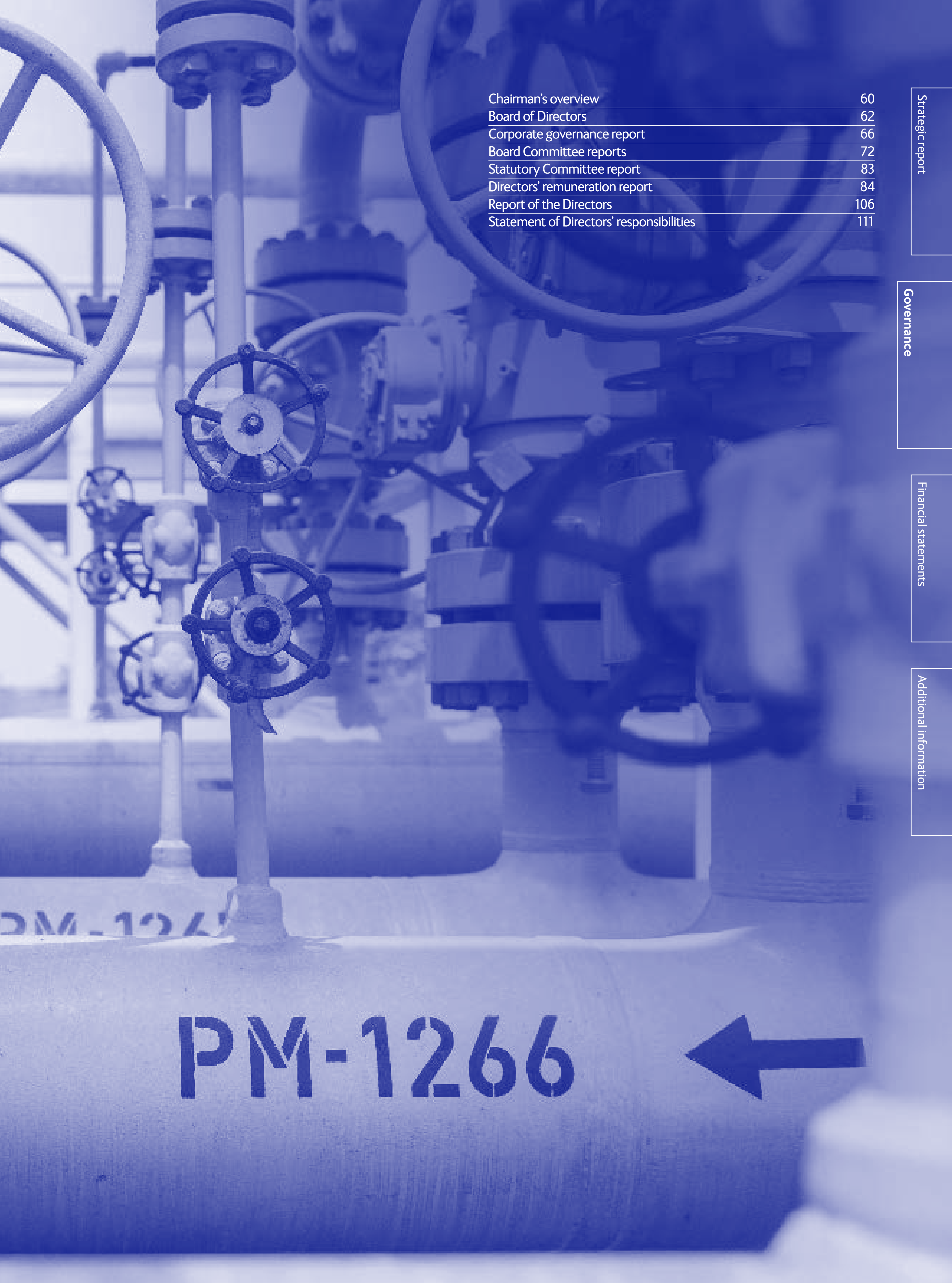
Do you support your colleagues in staying safe at work?

Yes, I support my colleagues in staying safe at work because "safety is everybody's business". My colleagues look out for me and I look out for them. If anyone is doing something unsafe I bring it to that particular individual's attention and correct the person respectfully. Similarly, if my colleague is correcting a contractor/vendor on site or enforcing our safety rules and regulations, I give the necessary support that my colleague needs to ensure that the contractor carries out the job safely.

This Strategic report has been approved by the Board and signed on its behalf by:

Austin Avuru
Chief Executive Officer
30 March 2017

Governance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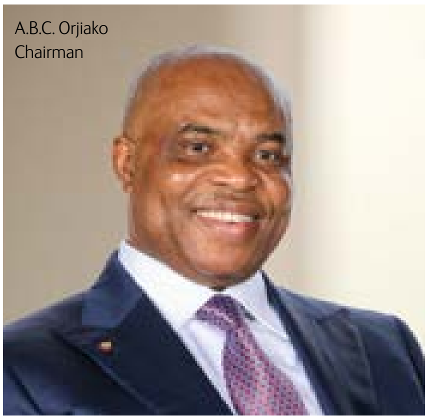
Steadfast in difficult times

A commitment to strong corporate governance and risk mitigation even in challenging times.



Dear shareholders,
It is my pleasure to introduce this section of our 2016 Annual Report and Accounts which outlines our Company's focus on corporate governance, regulatory compliance and risk mitigation during the year under review.
As you know, by virtue of Seplat's dual listing, our Company is bound by corporate governance regulatory requirements of both Nigeria and the United Kingdom, which include: the Companies and Allied Matters Act ('CAMA'), the Nigerian Stock Exchange ('NSE') Amended Listing Rules, the Securities & Exchange Commission ('SEC') Code of Corporate Governance for Public Companies in Nigeria (the 'Nigerian Code'), and the UK Corporate Governance Code (the 'UK Code').

While the global market challenges of the previous year showed some respite in 2016, our local operating environment was incredibly tough throughout the year with significant pressures on our Company's financials and medium-term investment plans. Nevertheless, I am pleased to report that we stayed steadfast to our commitment to strong corporate governance policies and practices, recognising that our adherence to a sound corporate governance system offers our Company a competitive advantage and an enhanced capacity to balance long-term sustainability with our short-term goals.

The Board continues to work with management to provide overall strategic direction and oversight, ensuring that identified risks are properly mitigated.
To this end, our Board established guidelines requiring specific matters to be subject to approval by the Board, including asset acquisitions and disposals, investments, and capital projects. In 2016, the Board undertook a detailed review of all the corporate governance policies of the Company to ensure alignment with the current regulations, operating environment, and best practice, insisting on robust business ethics and adherence to the Company's Code of Conduct across the organisation. All staff were trained on various corporate governance matters, ranging from conflicts of interest, anti-bribery & corruption to the use of external whistleblowing channels. In addition, an annual corporate governance declaration by the Board, management and employees was conducted with 100% participation.

It is important that our Board sustains its strength and effectiveness through regular training as well as independent evaluation. In July 2016, the Company held a two-day joint Board and management leadership training workshop with reputable facilitators from IMD Lausanne, Switzerland. We also worked with the Convention on Business Integrity ('CBi') to assess the level of Board and management compliance with corporate governance regulations and best practice.

Our Company has continued to enhance its engagements with regulators on corporate governance compliance, particularly in relation to disclosures. One such engagement was an Executive visit to the NSE at mid-year to present the 'facts behind the figures' on Seplat, with the privilege of Seplat's CEO ringing the Closing Bell. Furthermore, our Company successfully participated in the self-assessment phase of the Corporate Governance Rating System ('CGRS') conducted by the NSE in partnership with the CBi. I am delighted to report that all members of our Board successfully took (and passed) the Fiduciary Awareness Certification Test organised by the CBi on behalf of the NSE.

I remain proud of the calibre of the Seplat Board benchmarked against international standards. While we weather tough headwinds in the market, we will not relent on our commitment to strong corporate governance policies and practices that safeguard our operational capacity to deliver long-term sustainable value to our shareholders, employees, our host communities and other stakeholders.

Thank you for your continued confidence in Seplat.

A.B.C. Orjiako
Chairman

Board of Directors

In compliance with the Nigerian Code and the UK Code, the Board comprises a majority of Non-Executive Directors, at least half of whom are independent. Each Board member brings a wealth of business leadership experience to foster the collective strength of the Board in setting the strategic goals of the Company and overseeing the effective performance of management in achieving these goals.

Board members

As at 31 December 2016, Seplat had a Board of 12 Directors:

A.B.C. Orjiako
Non-Executive Chairman

Austin Avuru
Chief Executive Officer

Stuart Connal[1]
Chief Operating Officer

Roger Brown
Chief Financial Officer

Michael Alexander
Senior Independent Non-Executive Director

Basil Omiyi
Independent Non-Executive Director

Lord Mark Malloch-Brown
Independent Non-Executive Director

Charles Okeahalam
Independent Non-Executive Director

Ifueko Omoigui Okauru
Independent Non-Executive Director

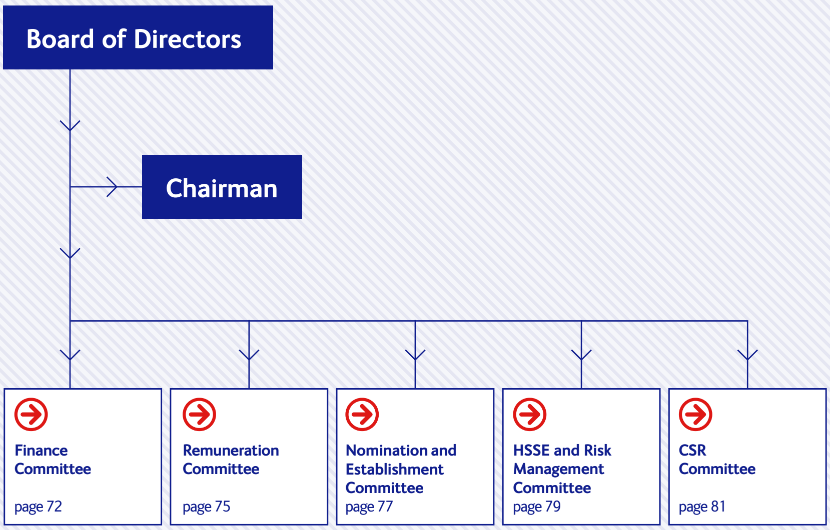
Damian Dodo
Independent Non-Executive Director

Macaulay Agbada Ofurhie
Non-Executive Director

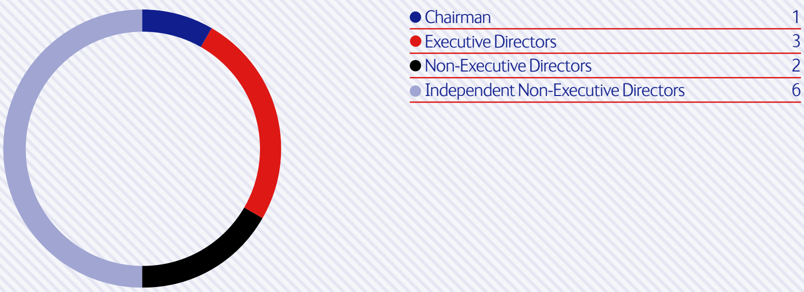
Michel Hochard[2]
Non-Executive Director

1. Retired 30 March 2017.
2. Madame Nathalie Delapalme acts as alternate to Michel Hochard.

Board structure



Board composition as at 31 December 2016



Committed to sound corporate governance

Ambrosie Bryant Chukwueloka ('A.B.C.') Orjiako
Non-Executive Chairman

Biography
Dr. A.B.C. Orjiako is the Chairman of Seplat, which he co-founded in 2009. He is qualified as an orthopaedic and trauma surgeon. Dr. Orjiako ventured into business and has developed extensive experience in the Nigerian oil and gas sector, having established and managed various companies in the upstream, downstream, and oil services sectors through companies such as: Abbeycourt Trading Company Ltd, Abbeycourt Energy Services Ltd, Zebbra Energy Ltd and Shebah Exploration and Production Company Ltd.

He is also the Chairman of Neimeth Pharmaceutical International Plc, which is listed on the Nigerian Stock Exchange ('NSE'). By invitation of the London Stock Exchange, he became a founding member of the London Stock Exchange Group's Africa Advisory Group ('LAAG'), a select group working to resolve the commercial and social issues affecting Africa.

Experience
Dr. Orjiako brings a wealth of sector experience in the Nigerian oil and gas sector having managed several companies including Abbeycourt Trading Company Ltd, Abbeycourt Energy Services Ltd, Zebbra Energy Ltd and Shebah Exploration and Production Company Ltd.

Date of appointment
- As Director on 14 December 2009
- As Executive Chairman on 1 February 2010
- As Non-Executive Chairman on 1 January 2014

Board meetings attended
- 8/8

Committee membership
- Nomination and Establishment Committee (Chairman)

Independent
- Not applicable

Ojunekwu Augustine ('Austin') Avuru
Chief Executive Officer; Executive Director

Biography
Mr. Avuru is a co-founder of Seplat and became CEO on 1 May 2010.

A geologist by background, Mr. Avuru spent 12 years at the Nigerian National Petroleum Corporation, where he held various positions including Well Site Geologist, Production Seismologist and Reservoir Engineer. In 1992, he joined Allied Energy Resources in Nigeria, a pioneer deepwater operator, where he served as Exploration Manager and Technical Manager. In 2002, Mr. Avuru established Platform Petroleum Ltd and held the role of Managing Director until 2010, when he left to take up the CEO position at Seplat.

Experience
Through his extensive experience of working in the Nigerian upstream oil and gas sector in increasingly senior technical and management roles, Mr. Avuru brings a highly relevant skill set and knowledge of operating oil and gas blocks in the Niger Delta. Through his background in geoscience Mr. Avuru has a detailed understanding of the hydrocarbon plays in the Niger Delta combined with a strong understanding of above the ground commercial, operational and safety aspects that are central to operating successfully.

Date of appointment
- 1 May 2010

Board meetings attended
- 8/8

Committee membership
- Not applicable

Independent
- Not applicable

Stuart Connal
Chief Operating Officer; Executive Director

Biography
Mr. Connal joined Seplat as Chief Operating Officer on 1 August 2010. He is a Chartered Engineer with over 30 years' experience in major oil and gas companies in the United Kingdom and Nigeria.

Prior to joining Seplat, he spent ten years at Centrica Energy where he held various positions including, between 2006 and 2010, the position of Managing Director of Centrica Resources Nigeria.

Mr. Connal formally retired as Chief Operating Officer and Executive Director on 30 March 2017.

Experience
Over the course of his career Mr. Connal has gained a wealth of experience in project managing and safely running significant and complex oil and gas operations in a number of different onshore and offshore settings, successfully leading multi-disciplinary teams, managing service providers, key stakeholder relationships and controlling significant budgets.

Date of appointment
- 1 March 2013

Date of retirement
- 30 March 2017 (see page 68 for more details)

Board meetings attended
- 7/8

Committee membership
- Not applicable

Independent
- Not applicable

Roger Thompson Brown
Chief Financial Officer; Executive Director

Biography
Mr. Brown joined Seplat as Chief Financial Officer in 2013. With a background in finance, he is a qualified Chartered Accountant with the Institute of Chartered Accountants of Scotland.

Mr. Brown has over 20 years' experience in the financial sector, primarily focused on emerging markets with extensive experience in structuring energy and infrastructure transactions on the African continent. Prior to joining the Company, he held the position of Managing Director of Oil and Gas EMEA for Standard Bank Group.

Experience
Mr. Brown brings to Seplat extensive financial, accounting, M&A, debt and equity capital markets experience in the emerging markets space, and in particular the African oil and gas sector. He has advised on some of the largest and highest profile transactions that have occurred in Nigeria in recent years.

Date of appointment
- As Chief Financial Officer and Executive Director on 22 July 2013

Board meetings attended
- 8/8

Committee membership
- Not applicable

Independent
- Not applicable

Michael Richard Alexander
Senior Independent Non-Executive Director

Biography
Mr. Alexander was appointed to the Board in 2013. He spent 25 years at BP Plc in various roles and was Chief Executive Officer of British Energy Group Plc between 2003 and 2005. Prior to that he was an Executive Director of Centrica Plc having held a number of senior positions within British Gas Plc, including Commercial Director of British Gas Exploration & Production.

Experience
Over the course of his wide-ranging career Mr. Alexander has acquired considerable experience in executive leadership roles specifically within the energy sector, and more recently he has held a number of non-executive directorships and associated committee roles allowing him to bring wide-reaching international board and corporate governance experience to Seplat.

Date of appointment
- 1 June 2013

Board meetings attended
- 8/8

Committee membership
- Remuneration Committee (Chairman)
- Finance Committee (Member)
- Nomination and Establishment Committee (Member)

Independent
- Yes

Basil Omiyi
Independent Non-Executive Director

Biography
Mr. Omiyi's career spans 40 years at Royal Dutch Shell, during which time he occupied a number of senior roles in Nigeria and Europe, including Managing Director of Shell Petroleum Development Company of Nigeria Limited and Country Chairman of Shell Companies, Nigeria.

Mr. Omiyi has held a number of board memberships and in 2011 was awarded the National Honour of Commander of the Order of the Niger by the President of Nigeria for pioneering Nigerian leadership in the oil and gas sector.

Experience
Mr. Omiyi has acquired an extensive insight into and experience in the global oil and gas industry and in particular brings a detailed knowledge and understanding of the Nigerian oil and gas sector together with senior management expertise gained in a large-scale multinational organisation.

Date of appointment
- 1 March 2013

Board meetings attended
- 8/8

Committee membership
- HSSE and Risk Management Committee (Chairman)
- Nomination and Establishment Committee (Member)
- Remuneration Committee (Member)

Independent
- Yes

Lord Mark Malloch-Brown
Independent Non-Executive Director

Biography
Lord Malloch-Brown is a former Deputy Secretary General of the United Nations as well as a previous Administrator of United Nations Development Programme. He has also served in the British Cabinet and Foreign Office. He is active both in business and in the non-profit world. He also remains deeply involved in international affairs. Lord Malloch-Brown is a former Chair of the Royal Africa Society.

Experience
Lord Malloch-Brown brings a great deal of knowledge and experience on international and external affairs, and particularly the promotion of business and commerce in African economies, including Nigeria, within a global context. He also brings extensive experience on corporate responsibility and governance systems to the Board.

Date of appointment
- 1 February 2014

Board meetings attended
- 5/8

Committee membership
- CSR Committee (Chairman)
- Finance Committee (Member)

Independent
- Yes

Charles Okeahalam
Independent Non-Executive Director

Biography
Dr. Okeahalam is a co-founder of AGH Capital Group, a private equity and diversified investment holding company based in Johannesburg, with assets in several African countries. Prior to co-founding AGH Capital Group in 2002, he was a Professor of Financial Economics and Banking at the University of the Witwatersrand in Johannesburg.

His other roles have included advising a number of African central banks and government ministries, the World Bank and the United Nations. He has held several board positions and is a former non-executive chairman of Heritage Bank Limited, Nigeria.

Experience
Dr. Okeahalam brings extensive corporate finance and capital markets expertise to the Board, and in particular detailed knowledge of African financial markets, economies and the investment industry.

Date of appointment
- 1 March 2013

Board meetings attended
- 7/8

Committee membership
- Finance Committee (Chairman)
- Remuneration Committee (Member)
- Audit Committee (Member until 1 June 2016 AGM)

Independent
- Yes

Ifueko Omoigui Okauru
Independent Non-Executive Director

Biography
Mrs. Omoigui Okauru is the Managing Partner of Compliance Professionals Plc., a strategy, change and compliance management consulting firm. She is also a Commissioner in the Independent Commission for the Reform of International Corporate Taxation ('CRIC'). Previously, she spent 12 years at Arthur Andersen & Co. where she became National Partner of the firm's strategy practice. Mrs. Omoigui Okauru has served as Executive Chairman of Nigeria's Federal Inland Revenue Service, Chairman of Nigeria's Joint Tax Board, and part-time member of the United Nations Committee of Experts on International Cooperation in Tax Matters. She is a founding member of the Board of Trustees of DAGOMO Foundation Nigeria, a family-based non-governmental organisation currently focused on facilitating ageing and dying with dignity within the community. She is Chairman of the Board of Trustees of the Lagos State Employment Trust Fund and serves as Independent Director in other Nigerian public companies.

Experience
Mrs. Omoigui Okauru brings extensive experience in finance, accounting and tax to the Board together with a great deal of experience in management consulting, strategy and change management.

Date of appointment
- 1 March 2013

Board meetings attended
- 7/8

Committee membership
- Finance Committee (Member)
- HSSE and Risk Management Committee (Member)
- CSR Committee (Member)
- Audit Committee (Member)

Independent
- Yes

Damian Dinshiya Dodo (S.A.N.)
Independent Non-Executive Director

Biography

A renowned lawyer, Mr. Dodo has acted and continues to act for a wide range of major Nigerian corporations, governmental and regulatory bodies across a number of business sectors and has served on a number of panels and commissions in Nigeria, including the NNPC Commission of Inquiry and the Governing Board of the National Agency for the Prohibition of Traffic in Persons. He currently chairs the National Lottery Regulatory Commission.

In 2001, Mr. Dodo was awarded Nigeria's highest legal practice rank of Senior Advocate of Nigeria ('S.A.N.'). In 2011, he was awarded the National Honour of Officer of the Order of the Federal Republic of Nigeria by the President of Nigeria. Mr. Dodo has also recently been awarded fellowship by the Nigerian Institute for Advanced Legal Studies. He is also an associate of the Chartered Institute of Arbitrators in London.

Experience

Mr. Dodo brings an extensive legal expertise and knowledge base to the Board together with a firm understanding of relevant regulatory regimes and corporate governance.

Date of appointment
- 30 June 2014

Board meetings attended
- 7/8

Committee membership
- Nomination and Establishment Committee (Member)
- Remuneration Committee (Member)

Independent
- Yes

Macaulay Agbada Ofurhie
Non-Executive Director

Biography

Chief Ofurhie was appointed to the Board as a nominee of Shebah Petroleum Development Company Limited. A geoscientist by background, Chief Ofurhie has worked in the Nigerian upstream oil and gas industry in a career spanning 34 years. During this time he has held various executive positions in NNPC and served as Director at the Department of Petroleum Resources ('DPR'). At NNPC, Chief Ofurhie was the Managing Director of Nigerian Petroleum Development Company ('NPDC') and Nigerian Gas Processing and Transportation Company ('NGPTC') (formerly known as Nigerian Gas Company ('NGC')).

Experience

Chief Ofurhie has over the course of his career gained extensive experience in the Nigerian upstream oil and gas industry, from both public and private sector perspectives, and has a deep understanding of the below and above ground operating environments in Nigeria.

Date of appointment
- 14 December 2009

Board meetings attended
- 7/8

Committee membership
- HSSE and Risk Management Committee (Member)
- CSR Committee (Member)
- Audit Committee (Member as of 1 June 2016 AGM)

Independent
- Not applicable

Michel Hochard
Non-Executive Director

Biography

Mr. Hochard was appointed to the Board of Seplat as a nominee of Maurel et Prom. Mr. Hochard is presently the Chief Executive Officer of Maurel et Prom.

Mr. Hochard is a Chartered Accountant whose experience includes serving as Internal Auditor for the Department of Finance of ELF Aquitaine, Head of the Finance Division for Africa and the Middle East, and Director of Finance of the SNEAP, then of ELF Aquitaine production.

Experience

Mr. Hochard brings a great deal of finance, accounting and risk management expertise to the Board and more specifically in the context of the international oil and gas industry.

Date of appointment
- 14 December 2009

Board meetings attended
- 8/8[1]

Committee membership
- Audit Committee (Member)

Independent
- Not applicable

1. One meeting attended by alternate Director Madame Nathalie Delapalme.

Madame Nathalie Delapalme
Alternate Director to Michel Hochard

Biography

Madame Delapalme is an Independent Director on the Board of Directors of Maurel et Prom, and since 30 June 2014 acts as an alternate to Maurel et Prom's nominee, Michel Hochard.

Madame Delapalme served the French Government as an Inspector of Finance at the Ministry of Economy and Finance, an advisor for the Finance and Budgetary Commission in the French Senate, and an advisor for Africa and Development in the offices of various Foreign Affairs Ministers. She remains deeply involved in governance and leadership in Africa.

The Board maintains oversight of the performance and affairs of the Company on behalf of the shareholders. It defines the Company's strategic goals and ensures that management effectively deploys the human and financial resources of the Company towards achieving those goals.

Board processes

Scope and authority

The roles and responsibilities of the Chairman and the CEO are clearly separated and are outlined under their respective appointment letters. This role separation is monitored by the Senior Independent Non-Executive Director ('S.I.D'), and is periodically assessed during Board evaluations.

The Board has adopted a Board Charter that sets out the matters that are exclusively reserved for its approval. These exclusive matters are also captured in the Authority Matrix of the Company in order to ensure strict compliance by management. Under the Board Charter, the Board has exclusive responsibility for the:

- overall strategy, objectives and management of the Company;
- corporate structure;
- capital structure;
- corporate governance;
- risk management and HSSE policy framework;
- financial reporting and controls;
- material contracts, related party transactions and conflicts of interest;
- material acquisitions or disposals;
- communication to shareholders and investors;
- appointment, induction, training and succession planning of Directors and senior management;
- remuneration of Directors and senior management;
- corporate social responsibility;
- approval of overall levels of insurance for the Company;
- major changes to the rules of any Seplat pension or other benefit scheme;
- Board Charter;
- prosecution, defence or settlement of litigation or being material to the interests of the Company;
- appointment of Seplat's banks and approval of bank mandates; and
- establishment and maintenance of the Company's system of internal control and internal audit procedures and review of its effectiveness.

During the year, the Board Charter was reviewed to ensure continued alignment with the provisions of the Nigerian Code and the UK Code as well as international best practice.

In order to carry out its responsibilities, the Board has established five Board Committees and has delegated aspects of its responsibilities to them. The Committees of the Board are as follows:

- Finance Committee (in compliance with the UK Code's requirement for an Audit Committee).
- Remuneration Committee.
- Nomination and Establishment Committee.
- HSSE and Risk Management Committee.
- Corporate Social Responsibility ('CSR') Committee.

In addition to these Board Committees, the Company formed a statutory Audit Committee at its 30 June 2014 Annual General Meeting ('AGM') in compliance with Sections 359(3) and (4) of the Companies and Allied Matters Act ('CAMA'). In compliance with CAMA, three shareholder representatives and three Non-Executive Directors are elected at every AGM to sit on the Committee.

All six Committees have terms of reference that guide their members in the execution of their duties, and these terms of reference are available for review by the public. All the Committees present a report to the Board with recommendations on the matters within their Terms of Reference. The details of these six Committees are contained in the individual Committee reports later in this governance section.

Board meetings

The Board meets at least once every quarter. Additional meetings are scheduled whenever matters arise that require the attention of the Board. Board meetings are supported by the Company Secretariat team based in Lagos, Nigeria, who in turn are supported by key members of the Management Team, when required. All Board and Board Committee papers are distributed to each Director in advance of meetings using the Diligent Board software that is designed for that purpose. This enables the Directors to contribute effectively to Board meetings and make informed decisions. Formal minutes are taken of all Board and Board Committee meetings and are approved at the following meeting of each. Each Board Committee presents a formal written report of its proceedings to the next meeting of the Board, which is reviewed and discussed by the Board. The minutes of the Board and Committee meetings aim to present a balanced report of the discussions held and decisions taken at meetings. In addition to supporting the Board and Committee meetings, the Company Secretariat team advise the Directors on the performance of their duties within the bounds of Nigerian and UK laws and regulations. Members of the Board are also given access to independent professional advisers at the Company's expense, when necessary for them to effectively discharge their duties.

During 2016, the Board held eight meetings, the dates and attendance of which are summarised to the right. During the year, the Non-Executive Directors held an exclusive meeting, without the Executive Directors. In addition, the Chairman and the S.I.D. each met with the Non-Executive Directors, in the absence of the Executive Directors, to discuss matters relating to the Remuneration Committee and the Nomination and

Establishment Committee. In compliance with the Nigerian Code and the UK Code, it is the policy and practice of Seplat that no Director is involved in any deliberation pertaining to his/her remuneration.

Dates of 2016 Board meetings:

- 29 January 2016.
- 17 March 2016.
- 21 April 2016.
- 1 June 2016.
- 21 July 2016.
- 5 August 2016.
- 31 August 2016.
- 20 October 2016.

Director	Meetings attended
A.B.C. Orjiako	8/8
Austin Avuru	8/8
Michael Alexander (S.I.D.)[1]	8/8
Stuart Connal	7/8
Roger Brown	8/8
Lord Mark Malloch-Brown[1]	5/8
Michel Hochard	8/8[2]
Macaulay Agbada Ofurhie	7/8
Charles Okeahalam[1]	7/8
Basil Omiyi[1]	8/8
Ifueko Omoigui Okauru[1]	7/8
Damian Dodo[1]	7/8

1. Independent Non-Executive Directors.
2. One meeting attended by alternate Director Madame Nathalie Delapalme.

During 2016, highlights of the Board's activities included:

- review and approval of the 2015 Annual Report and Accounts;
- review and approval of revisions to the 2016 budget and work programme in response to the low oil price environment and industry challenges;
- review and approval of quarterly and full-year financial results announcements;
- approval of dividend payments;
- review and approval of the Company's strategy for key asset acquisitions and managing litigation/dispute resolution of certain assets;
- review of updates on current reserves positions and production trends;
- review of corporate risk framework, high-level risks, and risk response actions;
- review of prior year and quarterly corporate performance;
- review of the business strategy in response to the year's challenging operational and financial environment;
- review and approval of updated and new corporate governance policies, including regular evaluations of compliance with Nigerian and UK corporate governance regulations on the part of each Director;
- review and approval of process documents for the 2016 AGM;
- nomination of Board representatives to the Audit Committee and nomination of Directors scheduled for retirement at the 2016 AGM;
- joint Board and management strategy session primarily to review the Company's five-year Business Plan;
- joint Board and management workshop with facilitators from the IMD Global Board Center, Lausanne, Switzerland;
- review of proposals for development of the gas business;
- review and approval of strategy to recover debt owed to the Company;
- review and approval of re-financing strategies; and
- review and adoption of reports received from Board Committees.

Board policies and insurance cover

In addition to the Board Charter earlier discussed, the Board has adopted a Code of Conduct and other corporate governance policies covering anti-bribery and corruption, related party transactions, conflicts of interest, share dealing, whistleblowing, community relations, risk management, electronic information and communication systems etc., details of which are discussed later in this governance section.

The Board has also decided to adopt the Model Code for Directors' dealings contained in the UKLA Listing Rules (the 'Model Code').

The Board is responsible for taking appropriate steps to ensure observance of the Model Code by the Directors. As observance of the Model Code is being undertaken on a voluntary basis, the UK Financial Conduct Authority does not have the authority to monitor the Company's observance of the Model Code or to impose sanctions in respect of any breaches. The Company nevertheless is committed to observing the Model Code in order to demonstrate its commitment to good corporate governance practices.

The Company has arranged appropriate insurance cover for legal action against its Directors. This insurance covers losses and actions arising from matters involving a Director's failure to act in good faith and in the Company's best interest, failure to exercise his/her powers for a proper purpose, failure to use his/her skills reasonably, failure to comply with the law, etc. The Company regularly reviews this insurance coverage to ensure adequate protection of its Directors.

Appointment, development and evaluation of Directors

The Board has adopted a Board Appointment Process to guide the appointment of its Directors in accordance with corporate laws, corporate governance regulations and international best practice. The Nomination and Establishment Committee, chaired by A.B.C. Orjiako, has overall responsibility for the appointment, induction, training and evaluation processes, as well as changes to the Company Secretary, all of which are subject to approval by the Board.

The fundamental principles of the appointment process include: evaluation of the balance of skills, knowledge and experience on the Board, leadership needs of the Company and ability of the candidate to fulfil his/her duties and obligations as a Director. New Directors are required to attend an induction programme on the Company's business, their legal duties and responsibilities as well as other information that would assist them in effectively discharging their duties. During the year, the Company Secretariat team conducted an induction programme for the new Directors of Seplat's subsidiary companies.

During the year, the Company participated in the NSE Corporate Governance Rating System under the management of the Convention on Business Integrity, and all our Directors undertook and passed the Fiduciary Awareness Certification Test.

The Company believes in and provides continuous training and development opportunities for its Directors. During the year, the Board and management jointly participated in an interactive two day workshop with reputable facilitators from the IMD Global Board Center, Lausanne, Switzerland. The purpose of the workshop was to strengthen the effective performance of the Board and management as well as the dynamics between the two groups. Recommendations from the workshop were discussed with the Board (led by the Chairman) and with management (led by the CEO). Other opportunities for Board development came through executive memos issued by the Company Secretariat team and other management teams, informing the Board of critical changes to regulatory and operational frameworks and their implications to the Company.

Rotation of Directors

Seplat stated at the time of the IPO that it would comply with the provisions of section 259 of CAMA, regarding the re-election of applicable Directors at each AGM, which would not follow provision B.7.1 of the UK Code. During the 2017 AGM, the following two Independent Non-Executive Directors, who have stayed longest in office will retire, and stand for re-election: (1) Basil Omiyi; and (2) Charles Okeahalam.

Notice of Retirement

Stuart Connal retired as Chief Operating Officer and Executive Director of the Company with effect from 30 March 2017. The Board and management extend their gratitude to Mr. Connal for seven years of his dedication and invaluable contributions to the growth and development of the Company.

Accountability

Details of the Directors' responsibility for preparing the Company's financial statements and accounts, and a statement that they consider the financial statements and accounts, taken as a whole, to be fair, balanced and understandable and to contain the information necessary for shareholders to assess the Company's position and performance, business model and strategy, are given on page 111 of this report. Seplat's business model and strategy for delivering the objectives of the Company and the assumptions underlying the Directors' assessment of the business as a going concern are given on pages 24 to 29 and page 111 of this report, respectively.

The Board has assessed the Company's risk management and internal controls systems, including financial, operational and compliance controls, and has carried out a review of their effectiveness, details of which are given on pages 46 to 53 of this report.

In compliance with CAMA, the Company has established a statutory Audit Committee (mentioned earlier), and in compliance with the UK Code's requirement for an Audit Committee, the Board has established a Finance Committee comprising four Independent Non-Executive Directors. Details of the Finance and Audit Committees' membership and activities are given in their respective reports, on pages 72 and 83. The Board has also established the HSSE and Risk Management Committee, which is responsible for reviewing on behalf of the Board, operational risk, health and safety, and environment matters. Details of the Committee's membership and activities are given in its report on page 79.

Remuneration

In compliance with the Nigerian Code and UK Code, the Board has established a Remuneration Committee solely comprising Independent Non-Executive Directors, under the chairmanship of Michael Alexander (S.I.D.). Details of the Committee's membership and activities are given in its report on page 75. Details of how Seplat's remuneration policy links remuneration to the achievement of the Company's strategy and the level of remuneration paid to each of the Directors during the year are outlined on pages 88 to 97.

Seplat stated at the time of the IPO that remuneration for certain Non-Executive Directors may include performance-related elements and certain Executive Directors' service contracts may include an initial fixed term of more than one year. Thus, this practice would not be in compliance with provisions D.1.3 and D.1.5, respectively, of the UK Code. In compliance with both the Nigerian Code and the UK Code, no Executive Director is a member of the Remuneration Committee and no Director is involved in any deliberation of his/her remuneration. The Company's remuneration policy and practices are outlined on pages 84 to 105 of this report.

Protection of shareholder rights

The Board ensures that the statutory and general rights of shareholders are protected at all times. It further ensures that all shareholders are treated equally. On 25 March 2014, the Company entered into a Relationship Agreement with its founding shareholders (who are represented on the Board) to regulate their degree of control over the Company so that the rights of minority shareholders and the independence of the Board are protected. All other shareholders are given equal access to information and no shareholder is given preferential treatment

Communication with shareholders

Seplat values effective communication with its shareholders. The Company reports formally to shareholders four times a year with the announcement of quarterly and full-year results as well as providing disclosure on material changes to the business as and when required. Shareholders are issued with the full-year Annual Report and Accounts. These reports are posted on the Company's website. Results presentations are also made available on the Company's website together with replays of webcasts.

Seplat's third AGM was held on 1 June 2016 in Lagos, Nigeria, and was attended by some 496 shareholders. The business transacted at the meeting was based on CAMA requirements and as such diverged in some respects from that common to UK companies. The Company's AGM affords attending shareholders the opportunity to discuss matters regarding the business with the Chairman, the Committee Chairmen and individual Directors, and also for shareholder and Board representatives to be elected to sit on the Audit Committee, as required by CAMA.

The notice of the 2017 AGM is being sent to shareholders with this Annual Report and Accounts and it is intended that the best practice for AGMs as detailed in the Nigerian Code and the UK Code will be followed.

The Board maintains a dialogue with investors outside the AGM with the intention of ensuring a mutual understanding of objectives to gain a balanced view of key issues and concerns of shareholders. The primary contact is through the Executive Directors.

The Non-Executive Directors, and in particular the Chairman and the S.I.D., are available to attend meetings if requested specifically by shareholders.

Engagement with existing and potential shareholders regarding business strategy and performance is coordinated by the Investor Relations function. The Head of Investor Relations reports directly to the CFO. Matters regarding the general administration of shareholdings are coordinated by the Company Secretary.

The Company conducts an active investor relations programme with institutional investors and analysts. This includes participation at conferences, both in Nigeria and internationally, where a number of one-on-one meetings and group presentations are made, and the undertaking of investor roadshows in key financial centres. In 2016, the Company held over 260 meetings with institutional investors and expanded its analyst coverage.

Regular analysis of Seplat's shareholder register and major movements, together with market feedback, trading analysis and peer performance, are communicated to the Board via the CFO and the Head of Investor Relations.

The Board welcomes enquiries from shareholders and encourages attendance at the Company's AGM and participation in its results presentations and webcasts. The Board further encourages shareholders to subscribe to receive news alerts via the subscription service on the Company's website.

Disclosure of information

Seplat aims to comply with the highest standards of disclosure. The Company simultaneously releases announcements through the relevant regulatory channels in both Nigeria and the UK, and ensures that all announcements are available on the Company's website together with copies of its latest results presentations, financial reports and other relevant information. The Company has controls and processes in place for the management of inside information. The Executive Directors are ultimately responsible for the approval of Company announcements and ensuring that such documents comply with relevant legal and regulatory requirements.

Corporate governance framework and compliance initiatives

The Board recognises the importance of good corporate governance in the success of the Company and the integrity of its operations. The Board has overall responsibility for developing and embedding the corporate governance framework of the Company, and does so with "tone from the top" compliance. The Board regularly subjects itself to evaluations of its level of corporate governance compliance, and took remedial actions to resolve any areas of potential or perceived non-compliance. One such evaluation was the Fiduciary Awareness Certification Test mentioned earlier in this governance section.

A dedicated Corporate Governance Unit works in partnership with the Business Integrity Unit, external consultants and the Company's regulators (when necessary) to maintain a robust corporate governance framework in the Company. Members of the Corporate Governance Unit and the Company Secretariat Unit frequently attend engagement sessions with the Nigerian regulators, particularly the NSE. They also facilitated the Company's participation in the Nigerian Corporate Governance Rating System that was launched during the year.

Under the directive of the Board, the Executive Management Team established a multi-disciplinary Corporate Governance Embedding Team ('CG-ET') to focus on strengthening the corporate governance compliance awareness and culture of the Company's Directors, employees, contract staff and business partners. During the year, the CG-ET implemented a comprehensive corporate governance embedding plan that was approved by the Board in 2016. During the year, the embedding activities were advanced to online platforms, such as:

- the launch of a dedicated intranet site for addressing corporate governance matters as well as completing, submitting, and storing disclosure forms,
- the launch of a periodic eNewsletter to spotlight specific policies and compliance initiatives, and
- the use of screensavers to interchangeably showcase key policy requirements as well as the whistleblowing channels.

During 2016, the Company conducted another round of corporate governance training for those employees and contract staff who were unable to attend the 2015 training. In 2017, it is expected that a corporate governance re-certification programme will be implemented for all employees and contract staff.

As of the date of this Annual Report and Accounts, the Board has adopted the following internal corporate governance policies and practices:

- Board Charter.
- Code of Conduct.
- Anti-Bribery and Corruption Policy.
- Conflicts of Interest for Employees Policy.
- Conflicts of Interest for Directors Policy.
- Related Party Transactions Policy and Guidelines.
- Share Dealing Policy.
- Inside Information Policy.
- Risk Management Policy.
- Electronic Information & Communication Systems Policy.
- Corporate Communications Policy.
- Political and Charitable Contributions Policy.
- Community Relations Policy.
- Whistleblowing Policy.
- Complaint Management Policy.

During the year, the Board mandated an extensive review of all corporate governance policies to ensure their continued relevance and compliance with the current Nigerian and UK corporate governance regulations as well as international best practice.

1) Board Charter

The Board Charter was adopted by the Board on 22 March 2013. As earlier mentioned, the Board Charter sets out the responsibilities of the Board, the establishment of the Board Committees with clear delegated responsibilities, the matters reserved for the exclusive approval of the Board, and the conduct of Board proceedings.

2) Code of Conduct

The Code of Conduct was adopted by the Board on 13 December 2012. It outlines the ethical framework under which Seplat conducts business; that is, with the highest standards of ethics, accountability and transparency. The Code of Conduct was fashioned into an easy-to-read aesthetic handbook with memorable slogans, such as "Integrity ... Do more, Go further". This handbook was circulated Company-wide, together with a statement of acknowledgement for recipients to sign. We believe that the Code of Conduct is a social contract between the Company and its employees, contract staff and business partners to conduct business with the highest ethical standards.

3) Anti-Bribery and Corruption Policy

The Anti-Bribery and Corruption Policy was adopted by the Board on 13 December 2012. The Policy demonstrates Seplat's zero tolerance commitment to the eradication of bribery and corruption. It prohibits facilitation payments, misappropriation, 'kickbacks' and blackmail/extortion, and sets the parameters under which Directors and employees may give or receive gifts and hospitality, deal with public officials, and make political and charitable donations. The Policy includes reporting, documentation and whistleblowing provisions as well as provisions regarding zero tolerance disciplinary action for any breach.

Due diligence process

Seplat is committed to doing business with reputable, honest and qualified business partners. In line with our commitment in our Code of Conduct to "Do More" and "Go Further" in business ethics, our employees are encouraged to conduct due diligence exercises and take reasonable precautionary measures before entering into major transactions. These exercises and measures are geared towards evaluating each business partner's tendency toward corruption and other violations of law. The Company's due diligence exercises are sometimes performed by external specialist firms engaged to identify potential risks to the Company associated with doing business with new or existing business partners and counter parties.

4) Conflicts of Interest for Employees Policy

Following a mandate from the Board, the initial version of the Policy that conjunctively addressed Conflicts of Interest and Related Party Transactions was revised and separated into distinct policy documents. The emergent Conflicts of Interest for Employees Policy was adopted by the Board on 24 March 2015, and applies to both employees and contract staff. The Policy outlines Seplat's commitment to avoiding and managing conflicts of interest in order to preserve the integrity of its business decisions and operations. It also sets a clear disclosure, approval, documentation and monitoring process for conflicts of interest within the Company, beginning with a mandatory annual conflict of interest declaration to the Company, for the consideration of a conflict of interest review panel that subsequently recommends control measures for approval by the CEO. During the year, 100% of employees participated in the annual declaration of conflicts of interest.

5) Conflicts of Interest for Directors Policy

Following the revision to the initial Conflict of Interest and Related Party Transactions Policy (stated earlier), a stand-alone Policy addressing conflicts of interest for Directors was formally adopted by the Board on 29 January 2016, although the Board began incorporating its provisions in 2015. This Policy applies to Seplat Directors and the shareholder representatives on our statutory Audit Committee. The Policy clearly sets out the legally imposed duties of the Board and its members, along with some ethical requirements adopted by the Company. Particular attention is given to conflicts involving Independent Directors to ensure compliance with both the letter and spirit of corporate governance regulations on such Directors. The Policy outlines a clear disclosure, review and documentation process for all conflicts of interest involving a Director, beginning with a yearly declaration to the Company, for the consideration of a dedicated conflict of interest review panel. During the year, all members of the Board participated in the annual declaration of conflicts of interest.

6) Related Party Transactions Policy and Guidelines

Aligning with the increasing attention to related party transactions, the Company developed a stand-alone document for such transactions as well as transfer pricing guidelines. The Related Party Transactions Policy and Guidelines is a live document that is revised in real-time with changes to the Nigerian and the UK transfer pricing regulations. For example, the Board recently revised the Policy to incorporate the requirements of the NSE rules governing transactions with interested persons or related parties that were issued at the end of 2014. The Policy was mostly recently reaffirmed by the Board on 29 January 2016. It outlines a stringent process for disclosing, reviewing/approving and recording all related party transactions as well as business relevant guidelines for ensuring the arm's length conduct of approved transactions.

The list of Seplat's related party transactions is outlined in note 34 to the financial statements of the Annual Report and Accounts. Seplat is committed to conducting all related party transactions in accordance with arm's length principles and good corporate governance practices.

Directors' interest in contracts

The Chairman and the CEO have disclosable indirect interest in contracts with which the Company was involved as at 31 December 2016 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria. These have been disclosed in note 34.

Change: Last year, we reported that Director, Damian Dodo was a Partner at D.D. Dodo & Co, a law firm that was representing Seplat in the Brittania-U litigation. We also reported that the Board had taken the decision that after the conclusion of the Brittania-U Supreme Court hearing, D.D. Dodo & Co. would no longer act as legal counsel to Seplat for as long as Mr. Dodo remained an Independent Non-Executive Director of the Company. The Board wishes to report that following the Brittania-U Supreme Court ruling on 29 January 2016, D.D. Dodo & Co. ceased its legal representation of Seplat and has since not provided any services to the Company.

7) Share Dealing Policy

The Share Dealing Policy was adopted by the Board on 22 March 2013. The Policy demonstrates Seplat's commitment to trading securities in compliance with the requirements of the NSE Amended Listing Rules ('ALR'), the Nigerian Code and the UK Listing Authority. The Share Dealing Policy acknowledges the Company's dual participation in the Nigerian and UK Stock Exchanges, and its conjunctive obligations under both Nigerian and UK listing regulations. The Policy therefore sets the parameters under which Directors and employees of Seplat and its subsidiaries, and their connected persons, must deal with the Company's shares, securities and inside information. During the year, the Policy was reviewed in line with the European Union Market Abuse Regulations that took effect from 3 July 2016.

Declaration of Compliance

In compliance with Section 14.4(b) of the NSE ALR, following specific enquiry, all Directors acted in compliance with the NSE ALR and Seplat's Share Dealing Policy in respect of their securities transactions during the financial year ending 31 December 2016.

8) Inside Information Policy

Stemming from the Share Dealing Policy, the Inside Information Policy was adopted by the Board on 29 January 2016. The Policy clearly defines what constitutes 'inside information' and sets a clear process for the confidential preservation of such information. It also prohibits Seplat Directors, employees, contract staff, business partners and their connected persons from using inside information to deal in Seplat shares or securities or those of another public company.

9) Risk Management Policy

The Risk Management Policy was adopted by the Board on 29 August 2013. It demonstrates Seplat's commitment to the enterprise risk management and reporting system that ensures efficient identification of operational, financial, health, safety and environmental risks, and risk eradication and management.

10) Electronic Information & Communications Systems Policy

The Electronic Information & Communications Systems Policy was adopted by the Board on 22 March 2013. The Policy demonstrates Seplat's commitment to responsible, secure and efficient use of communication systems, such as the internet, electronic mail, social media, intellectual property, etc.

11) Corporate Communications Policy

The Corporate Communications Policy was approved on 13 August 2013 by the CEO and, after some updates, was adopted by the Board on 29 January 2016. The Policy sets out the process for communicating, interacting with, and disseminating information regarding the operations and management of the Company to shareholders, other stakeholders and the general public.

12) Political and Charitable Contributions Policy

The Political and Charitable Contributions Policy was adopted by the Board on 29 January 2016. The Policy prohibits Directors, employees, contract staff and business partners from making political donations or engaging in other political activities on behalf of Seplat. It also sets the standard and processes for making charitable donations to lawfully constituted charitable organisations, in line with the CSR initiatives of the Company.

13) Community Relations Policy

The Community Relations Policy was adopted by the Board on 13 December 2012. The Policy demonstrates Seplat's value for the communities in which it operates, and the Company's commitment to developing the communities through capacity building, business opportunities, employment, academic scholarships, charitable donations, awareness creation, etc.

The details of Seplat's CSR activities are contained in the CSR section of this report.

14) Whistleblowing Policy

The Whistleblowing Policy was adopted on 22 March 2013. In addition to this Policy, whistleblowing provisions are entrenched in all Seplat corporate governance policies.

The Company has a dedicated whistleblowing hotline for employees and other stakeholders to confidentially report unlawful and unethical conduct involving the Company, its Directors or employees. The Company's whistleblowing system comprises an internal and an external channel, which are operated concurrently. The internal whistleblowing channel is managed by the Company's Business Integrity Unit, reporting directly to the CEO, while the external whistleblowing channel is managed by KPMG. The Business Integrity Unit and KPMG ensure that all reports are kept confidential and appropriately investigated and resolved.

15) Complaint Management Policy

The Company established a Complaint Management Policy pursuant to the Rules of the Nigerian SEC released on 16 February 2015 and the subsequent directive of the NSE to all listed companies in Nigeria. The Policy outlines the procedures established by Seplat to address the complaints and other communications received by its shareholders and the public in relation to specific matters. The Policy is available on the "Corporate governance policies" page of the Company's website.

Directors' declarations

None of the Directors have:

- ever been convicted of an offence resulting from dishonesty, fraud or embezzlement;
- ever been declared bankrupt or sequestrated in any jurisdiction;
- at any time been a party to a scheme of arrangement or made any other form of compromise with their creditors;
- ever been found guilty in disciplinary proceedings by an employer or regulatory body, due to dishonest activities;
- ever been involved in any receiverships, compulsory liquidations or creditors' voluntary liquidations;
- ever been barred from entry into a profession or occupation; or
- ever been convicted in any jurisdiction of any criminal offence or an offence under any Nigerian or UK legislation.

Finance Committee report

2016 Members	Attendance
Charles Okeahalam[1], Chairman	6/6
Michael Alexander[1], Member	6/6
Lord Mark Malloch-Brown[1], Member	5/6
Ifueko Omoigui Okauru[1], Member	4/6

1. Independent Non-Executive Director.

Charles Okeahalam and Ifueko Omoigui Okauru have recent and relevant financial experience, as highlighted in the profile of Directors on page 64.

In the financial year ended 31 December 2016, the Finance Committee held six meetings on the following dates:

- 21 January 2016.
- 16 March 2016.
- 20 April 2016.
- 20 July 2016.
- 19 October 2016.
- 16 December 2016.

The meeting attendance record of the Committee members can be seen in the table above.

I am pleased to make this report to Seplat shareholders on the activities of the Finance Committee, which I trust you will find to be of interest.

The Finance Committee was constituted in 2013 in compliance with the UK Code's requirement for an audit committee, and consists wholly of Independent Non-Executive Directors as listed in this report. You will see below the details of the terms of reference for the Finance Committee. During the year, the Committee focused on strategies to bolster the Company's financial performance amidst volatile oil prices and an extremely challenging operating and financial environment. We remained steadfast in our resolve to explore and execute viable solutions to each operational and financial challenge. The details of our activities are contained below.

I shall be available at the AGM of the Company to be held on 1 June 2017 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Dr. Charles Okeahalam[1]
Chairman of the Finance Committee

1. Independent Non-Executive Director.

The Finance Committee consists of four members, all of whom are Independent Non-Executive Directors. The Committee meets at least four times a year, and its meetings are attended by appropriate senior management of the Company, including the Chief Financial Officer, the Head of Internal Audit and the Head of Internal Controls.

The Finance Committee assists the Board in:

- monitoring the integrity of financial statements and any formal announcements relating to its financial performance, reviewing any significant financial reporting judgements contained in them;
- reviewing the Company's internal financial controls and financial risk management systems;
- overseeing financial strategy, policy and treasury matters;
- reviewing and approving major capital expenditures;
- making recommendations to the Board for presentation to the shareholders for approval at the AGM in relation to the appointment, re-appointment and removal of the external auditor; and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- monitoring and reviewing the effectiveness of the Company's internal audit function and its activities;
- providing advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and

- overseeing and evaluating the effectiveness of (and compliance with) the Company's corporate governance policies (including without limitation conflicts of interest, related-party transactions and whistleblowing).

The Committee's activities during 2016

The Committee met six times during 2016. In compliance with the Committee's terms of reference, it considered the following:

- Financial statements: the Committee reviewed the report from the external auditors and management on the interim and annual financial statements and the accompanying public releases. In doing so, it considered the following:
  - the oil and gas reserve estimates;
  - revenue recognition;
  - impact of the significant Trans Forcados downtime, leveraged against the growing gas business;
  - impact of the Naira devaluation;
  - impact of the fair value adjustments on oil hedges;
  - accounting for major acquisitions (OMLs 53 and 55);
  - areas that required significant estimation, judgement or uncertainty;
  - compliance with financial reporting and governance standards;
  - the basis for the going concern assessment; and
  - related party transactions as well as fraud and management override.
- Survival strategy: the Committee considered various strategies for bolstering the Company's performance in the challenging operating environment, ranging from commercialising gas reserves and production, to strengthening the Company's balance sheet.
- Alternative export routes: in response to the prolonged Trans Forcados downtime, the Committee considered various options for immediate and long-term alternative export routes. Following relevant government approvals, management successfully executed barging operations from Warri refinery as an immediate solution to the Trans Forcados shut-in.
- Strengthening the balance sheet: the Committee worked closely with management to explore the immediate and long-term strategies for improving the Company's balance sheet. Management successfully re-profiled the principal debt repayments under the Company's existing Nigerian term facility which resulted in valuable savings to the Company.
- Cash flow analyses and action plan: the Committee worked closely with management to regularly monitor the Company's liquidity projections over periods ranging from 12 months to 18 months in order to assess the impact of operational challenges on key cash flow sources. From these analyses, an action plan was developed for increasing funds inflow and controlling funds outflow in response to specific operational and financial activities.
- A separate liquidity sub-committee was formed to meet outside of Finance Committee meetings, analysing in depth the Company's liquidity. The sub-committee comprises the Chairman of the Finance Committee, the Senior Independent Non-Executive Director, the CEO and the CFO. The sub-committee has met twice since being formed in Q3 2016.
- Debt recovery: the Committee reviewed various strategies to recover debts owed to the Company in order to buttress the Company's financial performance.
- Cost management: the Committee reviewed the continuous efforts by management to efficiently manage costs in response to the low oil price environment. These efforts resulted in the trending down of general and administrative costs during the year.
- Oil hedging: the Committee reviewed and recommended the implementation of an appropriate oil hedging strategy to protect against volatile oil prices, after ensuring that appropriate levels of revenue protection were considered at the same time as ensuring that the risk and costs of hedging were manageable.
- Budgets: the Committee reviewed revisions to the annual budget in detail to ensure the assumptions were consistent with the business environment and appropriate growth targets. Oil price sensitivities, Trans Forcados downtime, cost reductions and impact of major acquisitions and impact of Naira devaluation were considered as a part of the process.
- Pioneer tax extension: the Committee monitored the efforts of management to progress the Company's application for an extension of its pioneer tax status, and considered the impact of recognising tax in the Company's accounts in the absence of such extension.
- Major acquisitions and litigations: the Committee reviewed the efforts of management to resolve issues around ongoing major acquisitions impacting the liquidity of the Company and recommended strategic ways to control funds from those transactions.
- Internal and external audit: the Committee reviewed and made recommendations on the internal and external audit plans and the underlying activities, and monitored the extent and timing of remediation by management.
- Internal controls and risk management: the Committee reviewed the business risks including the management and mitigation of financial risks and the timeline for remediation.
- Corporate governance compliance: the Committee reviewed the corporate governance framework to determine and make recommendations on its alignment with current Nigerian and UK regulations as well as the levels of compliance in the Company. The Committee also reviewed the effectiveness of the Business Integrity Unit, as well as reports made through the whistleblowing system and efforts to resolve them.
- Final dividend: the Committee considered the impact of declaring a final dividend in view of the low oil prices and challenging operating environment, and the expectations of shareholders under these conditions.

The significant issues considered by the Committee in relation to the financial statements were:

- Impact of the volatile oil price: the Committee considered and made recommendations on strategies to manage risks around low oil prices. Following its recommendation, management executed strategies ranging from oil price hedging to improved cost management (particularly around capex).
- Impact of the Naira devaluation: the Committee considered the impact of the devaluation on the balance of the Company's Naira-Dollar liquidity, the continuous efforts of management to re-balance the Naira inflow and outflow, as well as the possibility of executing a derivative hedge to protect against the Naira-Dollar conversion risk.
- Payment of dividends in foreign currency: the Committee considered the implication of the Central Bank of Nigeria foreign exchange directive on the ability of the Company to pay dividends and contracts in foreign exchange.
- Related party transactions: the Committee undertook a thorough review as to the number and extent of related party transactions. It was decided that the Committee would continue to monitor these closely with a goal of reducing the number and value of related party transactions through the introduction of other service providers.
- Impairment: the Committee reviewed the impairment tests performed by management which was also an area of focus for the external auditor. In assessing the impact of impairment, oil price assumptions were compared with a number of external reference points and compared to ensure that the management estimates were appropriate.

Internal audit

During 2016, the Finance Committee on behalf of the Board reviewed the audit plan and received quarterly reports on the internal audit activities. The Internal Audit department was formed in 2014. Prior to 2014, the internal audit activities were outsourced to PwC. PwC continues to support the Internal Audit team under a manpower call-off to provide resources as required in delivering the Internal Audit plan.

The Head of Internal Audit reports directly to the Board through the Chairman of the Finance Committee with an administrative reporting line to the CFO. The Internal Audit function therefore has direct access to the Finance Committee and its main responsibilities include:

- evaluating the adequacy, reliability and effectiveness of governance, risk management and internal controls systems;
- setting the internal audit strategy and plan and delivering risk-based assurance and compliance monitoring;
- evaluating the integrity of information and the means to identify and report on such information;
- evaluating the means of safeguarding assets and verifying the existence of such assets, as appropriate; and
- performing consulting and advisory services on new initiatives as appropriate for the Company.

In 2016, internal audit focused on risk areas in performing both process audits and detailed testing of inventory stock as well as transactions related to contracting and procurement procedures, financial accounting processes, drilling and mud engineering contracts, legal and regulatory compliance and embedding of corporate governance. The results of the internal audit findings were considered by the Committee at the majority of the meetings and the remedial plan was discussed with management. Control findings led to further testing on contract performance and corporate services to address specific control gaps and assertions. Internal audit also conducted checkpoint remediation reviews to ensure that management was effectively closing out identified control gaps from prior audit findings.

External audit

The objectiveness and independence of the external auditor are taken seriously by the Company and this is reviewed each year prior to commencement of the audit process. The Committee has a policy of ensuring that the external auditor's independence is maintained by minimising the provision of non-audit services. This is monitored closely throughout the year and the non-audit services are generally limited to services related to the audit such as review of the quarterly financial statements which the Company is required to publish. This practice was followed in 2016.

An analysis of the fees earned by the external auditors for the audit and non-audit services can be found in note 8 to the financial statements.

Prior to commencement of the audit, the Finance Committee meets with the external auditor to review the audit plan and reports. This is to ensure that the Committee has a thorough understanding of the higher risk areas designed to ensure that there are no material misstatements in the financial statements.

The Committee has reviewed the external auditor's performance and independence taking into account input from management as well as interaction with the external auditor without management present. In making its assessment, the Committee focused on the robustness of the audit, the extent of investigation into the business and the quality and objectiveness of the audit team. Based on this information, the Committee concluded that the audit process is operating effectively and has thus recommended to the Board that the current auditors, Ernst & Young ('E&Y'), be reappointed as external auditors. E&Y was first appointed on 20 December 2010. The Company complies with the Nigerian corporate governance regulations, while observing those in the UK by strategically adopting the most stringent conditions under both sets of regulations. This results in the audit partner being rotated every five years and the audit being put out to tender at least every ten years.

Remuneration Committee report

2016 Members	Attendance
Michael Alexander ('S.I.D.')[1], Chairman	5/5
Charles Okeahalam[1], Member	5/5
Basil Omiyi[1], Member	4/5
Damian Dodo[1], Member	5/5

1. Independent Non-Executive Director.

In the financial year ended 31 December 2016, the Remuneration Committee held five meetings on the following dates:

- 29 January 2016.
- 16 March 2016.
- 20 April 2016.
- 20 July 2016.
- 19 October 2016.

The meeting attendance record of the Committee members can be seen in the table above.

The Remuneration Committee is a standing committee of the Board, and is comprised wholly of Independent Non-Executive Directors under the chairmanship of the Senior Independent Director, in compliance with the Nigerian Code and the UK Code. You will see below details of the terms of reference for the Remuneration Committee and a summary of the activities carried out during the year.

The Remuneration Committee is established to ensure that remuneration arrangements for Seplat's Chairman, Executive Directors, Non-Executive Directors, and senior management support the strategic aims of the business and enable the recruitment, motivation and retention of relevant skilled personnel while satisfying the expectations of shareholders. Details of the Company's remuneration policy are outlined on pages 86 to 105 of this Annual Report and Accounts. In the interest of transparency, no Director by reason of being a member of the Committee is involved in any decisions relating to his/her own remuneration.

The Committee will continue to be mindful of the concerns of shareholders and other stakeholders, and welcomes shareholder feedback on any issue related to executive remuneration. In the first instance, please contact our General Manager, Human Resources.

Michael Alexander ('S.I.D.')[1]
Chairman of the Remuneration Committee

1. Independent Non-Executive Director.

All members of the Remuneration Committee are Independent Non-Executive Directors in order to preserve the transparency and integrity of remuneration processes. The Remuneration Committee meets at least four times a year, and when required, the meetings are attended by appropriate senior management of the Company (such as the Chief Executive Officer and General Manager of Human Resources), and external advisers upon invitation.

When proposing remuneration to the Board, the Committee ensures that:

- the remuneration for Executive Directors is appropriately balanced between fixed and variable pay elements, which may include annual bonus and equity-based awards;
- Executive Directors do not receive any sitting allowances or fees that may be payable to Non-Executive Directors;
- the remuneration of Non-Executive Directors is determined by the Chairman and the Executive Directors; and
- no Director or manager is involved in any decisions as to his/her own remuneration.

The Remuneration Committee assists the Board in:

- Determining the framework for the remuneration of the Chairman, Chief Executive Officer, Executive Directors, Non-Executive Directors, and members of senior management, including without limitation, the schemes of performance-based incentives (including share incentive plans), awards, and pension arrangements and benefits for the Executive Directors and senior management.
- Ensuring that contractual terms and payments in respect of dismissal, loss of office or termination (whether for misconduct or otherwise) are fair and not excessive to the individual.
- Providing appropriate input on Directors' remuneration for the Company's Annual Report and Accounts.
- Preparing necessary remuneration procedures and policies in compliance with the Nigerian Code, UK Code and other applicable laws, and in consideration of remuneration trends in the oil and gas industry in the area where Seplat operates.
- Reviewing up-to-date information about remuneration in other companies in the oil and gas sector with the aid of qualified consultants.
- Overseeing any major changes in employee benefits structures throughout Seplat.
- Designing the policy for authorising claims for expenses from Executive and Non-Executive Directors.
- Regularly reviewing the ongoing appropriateness and relevance of the Company's remuneration policy.

Highlights of business carried out by the Remuneration Committee during the year include:

- Monitoring the implementation of the Company's remuneration policy and practice.
- Ensuring the appropriate cascade of the remuneration policy to the senior management grades.
- Determining the 2017 fee and salary levels for the Chairman, Non-Executive Directors, Executive Directors, and senior management.
- Determining the level of bonus payments in respect of the current financial year.
- Granting awards under the Company's LTIP as well as monitoring performance progress of outstanding awards and determining the vesting of the 2014 LTIP awards.
- Drafting the Company's Directors' Remuneration Report.

Nomination and Establishment Committee report

2016 Members	Attendance
A.B.C. Orjiako, Chairman	3/3
Michael Alexander[1], Member	3/3
Basil Omiyi[1], Member	3/3
Damian Dodo[1], Member	2/3

1. Independent Non-Executive Director.

In the financial year ended 31 December 2016, the Nomination and Establishment Committee held three meetings on the following dates:

- 16 March 2016
- 20 July 2016
- 19 October 2016

The meeting attendance record of the Committee members can be seen in the table above.

The Nomination and Establishment Committee was active during the year. Following the review of a new organisational structure for the Company, strategic steps were taken to leverage this new structure against the Company's business priorities. For example, a succession plan, talent review and re-structuring were conducted for the senior management team with a view to formulate specific development plans that would close any gaps that were identified at that level. In addition, a competency development training plan was developed and implemented to help senior management to build and sustain long-term leadership skills.

The 2016 activities of the Committee are outlined below. For further clarification, I shall be available at the AGM of the Company to be held on 1 June 2017 in Lagos, Nigeria to speak with shareholders. If you are not able to meet me at this year's AGM, I can be contacted via the Company Secretary.

A.B.C. Orjiako
Chairman of the Nomination and Establishment Committee

All four members of the Nomination and Establishment Committee are Non-Executive Directors, three of whom are Independent. The Nomination and Establishment Committee meets at least three times a year. When required, the meetings of the Committee are attended by appropriate senior management of the Company (such as the Chief Executive Officer, Chief Finance Officer, General Manager of Human Resources and Company Secretary, General Manager Business Improvement and Board Assurance) and external advisers upon invitation.

In accordance with the provisions of the SEC Code of Corporate Governance, the Nomination and Establishment Committee assists the Board in:

- reviewing and making recommendations on the size, composition and balance of the Board and its Committees;
- evaluating the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment and ascertaining that nominees are fit and proper to carry out the duties of a Director;
- establishing the criteria for Board and Board Committee memberships, reviewing candidates' qualifications and any potential conflict of interest, assessing the contribution of current Directors in connection with their re-nomination and making recommendations to the Board;
- ensuring that a succession policy and plan exist for the positions of Chairman, CEO, Executive Directors and managing directors for the subsidiary companies;
- reviewing the performance and effectiveness of the subsidiary company boards on an annual basis where applicable;
- preparing a job specification for the Chairman's position, including an assessment of time commitment required of the candidate;
- evaluating the performance of Directors and making recommendations on the addition or replacement of Executive and Non-Executive Directors and the Chairman of the Board;

- overseeing management's implementation of the Company's human capital development policies and procedures;
- recruiting, promoting, developing, succession planning or disciplinary measures affecting Executive Directors and senior management; and
- overseeing the implementation of Seplat's Code of Conduct as it relates to the functions undertaken or overseen by the Committee and reporting any lapses and recommending remedial action to the Board.

Highlights of the business carried out by the Nomination and Establishment Committee during the year include:

- reviewed and made recommendations to the Board on the Company's new organisational structure;
- ensured a succession policy and plan for the positions of CEO, Executive Directors, members of boards of subsidiary companies and senior management staff;
- ensured the execution of a joint Board/Management Training by the Institute of Management Development ('IMD');
- made proposals to the Board on the change of Directors of Seplat subsidiary companies;
- set the target and timeline for the next Board evaluation;
- broadened the talent identification process Company-wide;
- reviewed and approved promotion for some members of the top management team;
- strategic recruitment of senior management roles;
- review of changes to the job description of the Executive Directors in line with their performance appraisals;
- implementation of cross-functional movements of functional heads to improve job performance and effectiveness as well as the overall deliverables; and
- consideration and implementation of a Company-wide leadership development programme.

The Board appointment process

The Nomination and Establishment Committee leads the process for identifying and recommending the appointment of new Directors. This process involves engaging an external search company, which conducts an external search for prospective candidates with appropriate skills and qualifications for the specified directorship.

Following an external search, the Nomination and Establishment Committee interviews the short-listed candidates and recommends the selected candidate to the Board for appointment after it has determined that the selected candidate has the balance of skills, knowledge and experience that meets the leadership needs of the Company and that the selected candidate is able to fulfil his/her duties and obligations as a Director.

In the event that the candidate is to be appointed as an Independent Non-Executive Director, the Board will determine whether the candidate is independent in character and judgement, and whether there are circumstances which are likely to affect, or appear to affect, the candidate's judgement as a Director.

Diversity at Seplat

The Board recognises that people are Seplat's stakeholders and one of the Company's greatest assets. Diversity among the Company's Directors and employees adds immeasurable value to the Company. The Board further recognises that having a wide range of identities and perspectives represented at Board meetings and at all levels of the business is critical to effective corporate governance and the continued success of the Company. Full consideration is therefore given to diversity matters such as socio-economic background, culture and creed, nationality, age, gender etc.

The current Board consists of nationals from a variety of cultures within Nigeria and internationally, who have diverse expertise in the local and international oil and gas industry and different business sectors. The Nomination and Establishment Committee's consideration of candidates for directorship includes a review of diversity matters. Diversity among Directors provides a strong mix of views and experiences to leverage the Board's decision-making processes and leadership activities. There is currently one female Director on the Board, being Mrs. Ifueko Omoigui Okauru.

The Board also promotes diversity throughout the business. Seplat's senior management team consists of men and women from different cultures in Nigeria and internationally, who have varying skills and experience in the different sub-sectors of the oil and gas industry. The Board is proud of the increasing number of women within the senior management team. Overall, the Company's full-time workforce comprises 26% women and four different nationalities.

The Board is committed to continuous investment in diversity among its Directors and employees.

HSSE and Risk Management Committee report

2016 Members	Attendance
Basil Omiyi[1], Chairman	4/4
Macaulay Agbada Ofurhie, Member	4/4
Ifueko Omoigui Okauru[1], Member	4/4

1. Independent Non-Executive Director.

In the financial year ended 31 December 2016, the HSSE and Risk Management Committee held four meetings on the following dates:

- 19 January 2016.
- 10 March 2016.
- 14 July 2016.
- 10 October 2016.

The meeting attendance record of the Committee members can be seen in the table above.

The role of the HSSE and Risk Management Committee in compliance with the provisions of the SEC Code of Corporate Governance is to assist the Board in overseeing the Company's risk management processes, key business risks including the risk appetite, risk profile and risk-reward strategies for the Company. It also reviews the adequacy and effectiveness of risk management and controls, has the oversight of the Company's process for identification of significant risks across its business operations and the adequacy of prevention, detection and reporting mechanisms. The Committee also carries out a periodic review of changes in the economic and business environment, including trends and other factors relevant to the Company's risk profile.

There is a regular review of the risk factors in the business, the health, safety, security and environmental matters in the Company and proposals made on risk mitigation and value-protecting strategies to the Board. The HSSE and Risk Management Committee also reviews the Corporate Risk Register and Risk Dashboard and receives reports from operational and support management as well as internal auditors.

The activities of the HSSE and Risk Management Committee are summarised below with highlights on certain key activities carried out in 2016.

I shall be available at the AGM of the Company to be held on 1 June 2017 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Basil Omiyi[1]
Chairman of the HSSE and Risk Management Committee

1. Independent Non-Executive Director.

The HSSE and Risk Management Committee consists of three members: two Independent Non-Executive Directors (one of whom is the Committee Chairman), and one Non-Executive Director. The HSSE and Risk Management Committee meets at least three times a year, and when required, the meetings are attended by appropriate senior management of the Company, such as the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Technical Director, Company Secretary, General Manager Operations Support, General Manager Internal Audit and Head of Internal Controls and Risk, and specialists with appropriate technical expertise are invited to attend and present to meetings of the Committee.

The HSSE and Risk Management Committee assists the Board to:

- Review the risk management policy and framework.
- Set risk management strategies taking into account credit, market, operational and certain other risks, including without limitation: health, safety, security and environmental risks, capital risk framework and risk-reward strategy.
- At least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems (including financial, operational and compliance), which is then used to update the risk management framework of the Company.
- Ensure compliance with all applicable health, safety, security and environmental laws in providing a safe and healthy workplace. The Committee also reviews management's processes in getting contractors and sub-contractors to comply with the Company's safety requirements and standards.
- Conduct periodic audits and assessments of safety risks and establishment of appropriate controls to minimise risks and monitor Seplat's environmental performance, in partnership with government agencies, contractors and communities.

- Ensure appropriate response to security incidents that could affect Seplat's personnel or assets giving consideration to inputs from local law enforcement authorities and security advisers.
- Oversee the mechanism for monitoring and reporting risk factors or risk-related issues for and to the Board.
- Receive and evaluate information from the CFO, COO, Technical Director, Internal Controls & Risk unit, Company Secretary, other members of senior management, and Seplat's independent auditors, regulators and outside experts as appropriate regarding matters related to risk management.
- Evaluate the effectiveness of Seplat's policies and systems for identifying and managing environmental, health and safety risks within its operations.
- Review the results of any independent audits of Seplat's performance in regard to environmental, health, safety and community relations matters, reviewing any strategies; and action plans developed by management in response to issues raised and, where appropriate, making recommendations to the Board concerning the same.

In the financial year ended 31 December 2016, the HSSE and Risk Management Committee held four meetings, the dates of which are listed on page 79 in this report.

Highlights of business carried out by the Committee during the year include:

- Quarterly review of the high risks on the risk dashboard and associated risk mitigations put in place.
- Quarterly review of the risk register.
- Highlights of high-level technical, operational and financial business activities including ongoing capital projects.
- Quarterly review of report on HSSE performance activities and community relations operations.
- Review of 2016 HSSE and community relations programme, targets and critical activities.
- Quarterly review of report on risk framework and policy deployment in the Company.
- Quarterly review of report on security within the Niger Delta region.
- Review of risk papers on the operations of the business and certain assets of the Company.

CSR Committee report

2016 Members	Attendance
Lord Mark Malloch-Brown[1], Chairman	3/3
Macaulay Agbada Ofurhie, Member	3/3
Ifueko Omoigui Okauru[1], Member	3/3

1. Independent Non-Executive Director.

In the financial year ended 31 December 2016, the CSR Committee held three meetings on the following dates:

- 16 March 2016.
- 20 July 2016.
- 18 October 2016.

The meeting attendance record of the Committee members can be seen in the table above.

Seplat is committed to contributing to economic development while improving the quality of life of our workforce, their families and the community at large. The Company recognises the community as one of its key stakeholders and conducts its business with future generations in mind so as to create and sustain an environment that enables a better standard of living.

The CSR Committee has oversight of Seplat's Community Relations Policy and practices and procedures, its corporate social responsibility initiatives and review of key issues which impact community relations. It also advises the Board on broader societal-related matters in addition to key issues which may impact Seplat's reputation, brand management and successful business operations.

Although the Company's CSR activities began when the Company commenced operations in 2010, the CSR Committee was constituted in 2014 to strengthen the Company's CSR commitment and initiatives. You will see below details of the activities carried out during the year. Further details of the Company's CSR activities during 2016 are also contained on pages 54 to 57.

I shall be available at the AGM of the Company to be held on 1 June 2017 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Lord Mark Malloch-Brown[1]
Chairman of the CSR Committee

1. Independent Non-Executive Director.

The CSR Committee comprises three Non-Executive Directors, two of whom are Independent. The Committee meets at least three times a year. The meetings are regularly attended by the Seplat Chairman and Madame Nathalie Delapalme (who is a consultant to the Committee and contributes her expertise in corporate responsibility and Africa development initiatives). Upon invitation, the meetings are also attended by the appropriate Senior Management of the Company (such as the Chief Executive Officer, the General Manager of Operations Support and the General Manager of External Affairs & Communication) and external advisers.

The CSR Committee assists the Board to:

- Oversee the development of strategy and implementation of Seplat's Community Relations Policy, Corporate Social Responsibility ('CSR') programmes, Corporate Branding efforts and policies on all key areas of CSR including standards of business conduct, ethics, charitable activities and community initiatives, while ensuring that Seplat maintains a cooperative relationship with relevant environmental, health and safety agencies (public and private) as well as with community representatives.
- Review, agree and establish Seplat's corporate strategy to ensure that CSR is and remains an integral part of the strategy and its implementation in practice and that the Group's social, environmental and economic activities are aligned.
- Ensure that there is recognition by all within the Group of the impact of its activities upon all stakeholders including shareholders, customers, suppliers, employees and the wider community and environment and that those activities are regulated such that, consistent with sustainable business and development, they are conducted in a socially responsible manner and have a positive impact on communities.
- Develop and support the activities necessary to convert CSR policies into an effective plan for implementation across the Group and to agree a programme of specific CSR activities and focus for each financial year, supported by appropriate targets and key performance indicators.

- Develop comprehensive environmental sustainability policy/strategy and monitor its total compliance by all parties with respect to protecting the sanctity of the environment.
- Oversee and ensure compliance with the CSR policies and review performance against agreed targets.
- Have full responsibility for all environmental matters in relation to the activities and operations of Seplat.
- Oversee and monitor implementation of the newly executed Global Memorandum of Understanding ('GMoU') between Seplat and its host communities towards ensuring that equity and fairness is promoted in the distribution of CSR-related initiatives amongst the various communities and that the programmes/activities impact the lives of all host community indigenes positively.
- Ensure that other communities who are impacted by Seplat's operations though not necessarily designated "host communities" are given due regard in allocation of CSR initiatives as may be necessary.
- Assess the performance of Seplat with regard to the impact of CSR decisions and actions upon employees, communities and other third parties. It shall also assess the impact of such decisions and actions on the reputation of the Group.
- Evaluate and oversee on an ongoing basis, the quality and integrity of any reporting to shareholders and external stakeholders concerning community relations issues and approve the annual CSR report for submission to the Board for ratification and publication in the Annual Report and Accounts.
- Ensure that Seplat has a system to identify and evaluate the interest of all stakeholders (both internal and external) and review Seplat Stakeholder Map and Matrix on a regular basis in order to be aware of charges and initiatives required to address stakeholders' interests.
- Review the results of any independent audits of the Group's performance in regard to community relations matters, review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning the same.
- Ensure appropriate monitoring tools are put in place to measure the impact of programmes under the CSR Policy.
- Review and oversee other related matters and topics in relation to CSR as may be assigned to it by the Board from time to time.
- Lay down policy guidelines for charitable donations and corporate social responsibility of Seplat, in line with Seplat's corporate social strategy and as allowed by the Memorandum of Incorporation and Articles of Association, having considered the recommendations of the CSR Committee.

Highlights of business carried out by the CSR Committee during the year include:

- Visited the Seplat facilities and sighted some of the executed and ongoing CSR projects.
- Reviewed and evaluated Seplat's CSR projects/activities for the year which included the Safe Motherhood Programme, Seplat Pearls Quiz Competition, Seplat JV National Scholarship etc.
- Updated the new Company website for upload of more insightful information on Seplat's CSR activities.
- Successfully executed the revised GMoU with the host oil and gas producing communities.
- Successfully organised a CSR strategy workshop through an external CSR Consultant.
- Concluded the review and evaluation of the Company's CSR activities which was benchmarked against industry peers.

Audit Committee report

2016 Members	Attendance
Chief Anthony Idigbe S.A.N., Chairman and shareholder member	5/5
Dr. Faruk Umar, Shareholder member	5/5
Sir Sunday N. Nwosu, KSS Shareholder member	5/5
Charles Okeahalam[1], Director member[2]	1/2
Macaulay Agbada Ofurhie, Director member[2]	2/3
Ifueko Omoigui Okauru[1], Director member	3/5
Michel Hochard, Director member	2/5

1. Independent Non-Executive Director.
2. Following a proposal made by the Board of Directors, Macaulay Agbada Ofurhie was elected at the 1 June 2016 AGM as a Director member on the Audit Committee in the place of Charles Okeahalam.

In the financial year ended 31 December 2016, the Audit Committee held five meetings on the following dates:

- 16 March 2016.
- 20 April 2016.
- 20 July 2016.
- 19 October 2016.
- 25 November 2016.

The meeting attendance record of the Committee members can be seen in the table above.

In compliance with Section 359(6) of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004 ('CAMA'), we the members of the Audit Committee have reviewed the financial statements of the Company for the year ended 31 December 2016 and reports thereon, and confirm as follows:

- the accounting and reporting policies of the Company are in compliance with legal requirements and agreed ethical practices;
- the scope and planning of audit requirement were, in our opinion, compliant with legal requirements and best practice;
- we have reviewed the findings on management matters, in conjunction with the external auditor, and we are satisfied with the response of management in dealing with such matters;
- the Company's systems of accounting and internal controls are in compliance with legal requirements and best practice; and
- we have, in response to these matters, made the required recommendations to the auditors of the Company.

In addition to the foregoing, we the members of the Audit Committee conducted the following business during the year:

- review of the implementation of the Company's corporate governance framework;
- review of the 2017 internal and external audit plans, including an assessment of the external auditor's independence; and
- review of the proposed 2017 budget and work programme.

Chief Anthony Idigbe, S.A.N.
Chairman of the Audit Committee

Remuneration Committee Chairman's Annual Statement

Michael Alexander
Chairman, Remuneration Committee

"2016 has been an exceptionally challenging year for the oil & gas industry as a whole as well as for Seplat. The Company has faced significant external challenges outside management's control which have impacted our performance.

Nevertheless, the Company performed better than could have been expected due to the management's response.

This is reflected in 2016 remuneration outcomes: Board salaries and fees were frozen for a second consecutive year and annual bonus outcomes were reduced compared to previous years."

Dear shareholder,

As the Chairman of the Remuneration Committee, I am pleased to present the report of the Board covering our remuneration policy and its implementation for the year ended 31 December 2016.

Company highlights for the 2016 financial year

2016 has been an exceptionally challenging year for the oil & gas industry as a whole as well as for Seplat. During 2016, the Company has faced significant external challenges outside management's control which have impacted the Company's financial and operational performance. These included the suspension of oil exports at the Forcados terminal from mid-February to the end of the year, and the relatively low oil price. Nevertheless, the Company performed better than could have been expected due to the management's response in developing alternate operational plans, cutting costs and continuing to deliver the Company's key strategic goals.

Management's success in dealing with these exceptional circumstances can be seen in how Seplat has continued to generate near upper quartile levels of total shareholder returns over the past three years, despite having experienced perhaps greater adversity than many of our listed competitors.

However, absolute shareholder returns have reduced, and to reflect this all Executive and Non-Executive Directors as well as the vast majority of the senior management team have had their fees/salaries frozen for 2017. It is worth noting that for the Board this will be a second consecutive year with no pay increase. Additionally, the lower performance outcomes have driven all bonuses significantly below the target opportunity.

The Committee assessed the corporate scorecard bonus outcome and determined that it did not fully reflect management's success in dealing with the exceptional circumstances of over 300 days of pipeline downtime in 2016. In particular, the Committee noted that when the pipeline was operational, 99% of the planned oil production and 107% of the planned gas production and sales were achieved. Consistent with these performance levels, the Committee agreed it would apply judgement to determine that target performance (60% of maximum) was achieved under the oil and gas production elements of the scorecard. However, no further adjustments were made to the achievement of financial targets, which were also missed in large part due to external factors causing the extensive pipeline outage. As a result, there is no bonus payout for the financial measures in the corporate scorecard.

The key areas of FY16 performance and FY15 comparative performance are set out below:

Metric	2016	2015
Profit after tax (US$ million)	(166.0)	65.6
Oil production volume (MMbbls)	3.4	9.7
Gas sales (MMboe)	5.7	5.2
Reserves replacement ('RRR')	300%	198%
Lost time incident frequency rate ('LTIF rate')	0.33	0

Remuneration outcomes for the 2016 financial year

The Company's pay structure is simple, consistent with the market and aims to align the interests of the Executive Directors, senior managers and employees with those of shareholders. In line with this commitment to link executive remuneration to annual corporate performance and long-term shareholder returns, the performance levels and application of judgement outlined above have driven down 2016 pay outcomes. This ensured that the 2016 remuneration outcomes fairly reflect our corporate performance and the wider business and industry environment.

The main remuneration outcomes are given below:

- Base salaries and fees were frozen again for 2017 for the Executive and Non-Executive Directors. This is the second year running the Remuneration Committee has determined that no increases are appropriate despite significant inflationary pressures in Nigeria.
- 2016 annual bonus outcomes were 35.4% of maximum for the CEO, 35.2% for the COO and 35.1% for the CFO. These payouts reflect the Committee's decision to determine that the oil production and gas sales scorecard measures achieved target performance. The bonus levels represent a reduction on the 2015 bonus reflecting the significant challenges faced by the Company in 2016 and are broadly in line with "threshold" performance.
- 2014 LTIP awards, made at the time of our admission, for which the performance period ended on 31 December 2016, will vest in April 2017. I am delighted to announce that the Company was placed just below the upper quartile of its TSR comparator group and achieved reserves growth in excess of 10% over the performance period which resulted in 96.7% vesting. Two thirds of these awards will vest immediately, with the remaining one third being released in equal instalments after a one and two-year holding period.
- Finally, after careful consideration of the fall in our share price since IPO, the Remuneration Committee concluded it is appropriate to introduce a cap on LTIP share awards to ensure the number of shares awarded is more reflective of the shareholder experience. As a result, starting from 2017, the number of share awards to be granted under the LTIP scheme will be calculated based on the higher of the average share price over the first quarter of the year of grant or £1. The Committee believes that this cap will ensure that excessive share awards will not be received when the share price is unusually low, and increase alignment between executives and shareholders.

In our assessment, overall remuneration for 2016 represents a balanced outcome.

Summary

The existing remuneration policy has appropriately recognised the challenges faced by the Company and is fully reflected in the 2016 pay outcomes. In 2017, the Remuneration Committee will continue to monitor the Company's pay programmes and the evolving market practice and trends to guide the development of our remuneration policy for submission to and approval at the 2018 AGM.

I hope that you find the information in this report helpful and I look forward to your support at the Company's AGM. I am always happy to hear from the Company's shareholders and you can contact me via the GM Human Resources, Alero Onosode, if you have any questions on this report or more generally in relation to the Company's remuneration.

Michael Alexander ('S.I.D.')[1]
Chairman of the Remuneration Committee

1. Independent Non-Executive Director.

Notes

This report has been prepared taking into account the principles of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (the 'Code') and the Listing Rules.

As Seplat is a Nigerian registered company, this report has also been prepared taking into account the disclosure requirements under Nigerian law, and specifically the Companies and Allied Matters Act ('CAMA'). These rules, consistent with the UK regulations, require the remuneration of all Directors, other than the Chief Executive Officer, to be approved by shareholders at the AGM.

The report consists of three sections:

- the Annual Statement by the Remuneration Committee Chairman;
- the Remuneration Policy report which sets out the Company's remuneration policy for Directors and the key factors that were taken into account in setting the policy. This policy applies for three years from 2 June 2015, the date of our 2015 AGM; and
- the Annual Report on Remuneration which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2016 financial year.

At a glance

Introduction

In this section, we highlight the performance and remuneration outcomes for the 2016 financial year.

2016 single total figure of remuneration

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2016 financial year.

Executive Directors	Period	Salary[1] US$'000	Taxable benefits US$'000	Bonus US$'000	LTIP[2] US$'000	Pension US$'000	Other US$'000	Total US$'000
Austin Avuru (CEO)	**2016**	**1,097**	**569**	**582**	**557**	**187**	**0**	**2,992**
	2015	1,097	510	755	0	187	455	3,004
Stuart Connal (COO)	**2016**	**663**	**223**	**233**	**318**	**146**	**0**	**1,582**
	2015	749	229	346	0	165	381	1,870
Roger Brown (CFO)	**2016**	**663**	**78**	**233**	**318**	**99**	**197**	**1,588**
	2015	749	75	339	0	112	612	1,887

Notes:

1. For the CEO, the July 2014 USD:GBP exchange rate has been used to calculate 2015 and 2016 remuneration. For the CFO and COO the average 2016 USD:GBP exchange rate of 1.35 has been used where applicable.
2. The value of the 2014 LTIP awards vesting in April 2017 is shown in 2016 as the performance period ended on 31 December 2016. The estimated value of these awards uses a 2016 Q4 average share price; the actual value will be updated in the 2017 Directors' Remuneration Report when the awards vest on 9 April 2017.

Further detail regarding the disclosures in the table above is presented in the Annual Report on Remuneration on page 98.

Variable pay outcomes for 2016

The Remuneration Committee determined both the 2016 annual bonus outcome and the vesting level of the 2014 LTIP awards (where the performance ended on 31 December 2016). To provide context for these pay decisions, we set out below a summary of the 2016 corporate metrics scorecard used for calculation of the annual bonus payments, together with details of the determination of the 2014 LTIP vesting level. As set out in the Chairman's statement, the Committee applied judgement to determine that the oil production and gas sales measures achieved target performance levels to recognise strong operational performance during the periods when the pipeline was online. Further details are set out in the Annual Report on Remuneration.

2016 Corporate metrics scorecard outcomes

		Performance achieved				Resulting level of award for element
Performance measure	Specific	Below Threshold	Threshold to Target	Target to Maximum	Maximum	(% of maximum opportunity)
Production and operational efficiency	Oil production volume		✓			60%
	Gas sales		✓			60%
	Reserves replacement				✓	100%
Asset optimisation		✓				26%
Financial	FY16 Net profit	✓				0%
	Outstanding JV cash call at y/e	✓				0%
Health and safety	LTIF rate		✓			45%
Strategy	Strategic objectives (set for each Director individually)		✓			42%-43%

2014 LTIP awards vesting

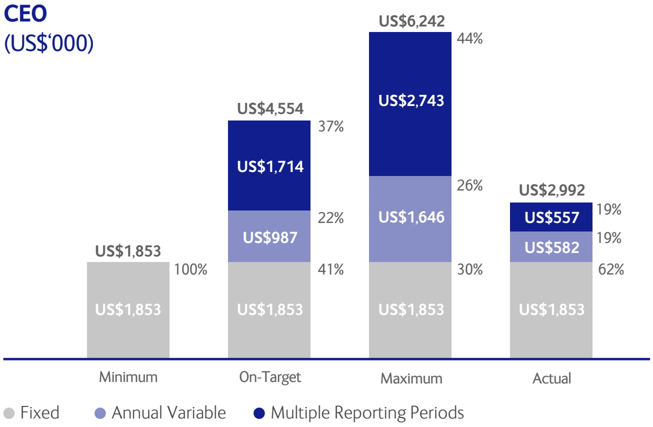
The 2014 LTIP awards vest on 9 April 2017. However, the performance period for these awards ended on 31 December 2016 and as a result the value of these awards is included in the single figure table above. 96.7% of the awards vested after testing the relative TSR and reserves growth performance conditions as set out below:

TSR performance vs comparator group				2P Reserves growth underpin			
Seplat TSR growth	Median TSR growth (25% vesting)	Upper quartile TSR growth (100% vesting)	Vesting under TSR condition	Seplat reserves growth between FY13 and FY16	Reserves growth required to fully satisfy underpin	Reduction in vesting based on the underpin	Final vesting level
-59.8%	-75.1%	-59.1%	96.7%	104%	10%	Nil	96.7%

Actual pay versus opportunity

The chart opposite illustrates how the 2016 total single figure of remuneration for the CEO compares to minimum, on-target and maximum opportunity in accordance with the Directors' remuneration policy. 2016 remuneration is significantly below the on-target opportunity as the corporate scorecard assessment resulted in a relatively low annual bonus payout and although the 2014 LTIP award resulted in 96.7% vesting, its value was significantly reduced by the decrease in the Company's share price since IPO.

CEO (US$'000)

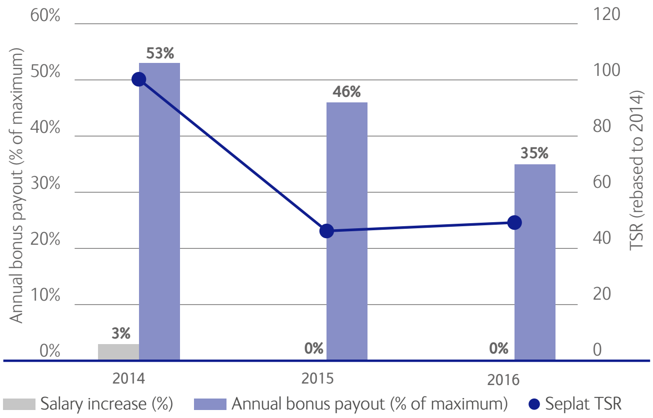


Actual CEO pay versus total shareholder return ('TSR')

As set out in the Chairman's statement, the Company feels it is critical that CEO pay reflects the returns delivered to shareholders, where TSR is the core performance measure chosen to reflect shareholder experience.

Although the relative TSR result obtained, close to upper quartile performance, is a measure of our management's success in restraining the deterioration in our shareholder value compared to that experienced elsewhere, we are not complacent that there has been a deterioration in the absolute levels of return as shown opposite. We note that over the same period since IPO, the CEO's base salary has only increased by 3% in total and has been frozen since 2015. Annual bonus payouts, reflecting annual corporate and individual performance, have decreased from 53% of maximum in 2014 to 35% of maximum in 2016 reflecting the shareholder experience.

CEO pay vs. TSR performance



Note
IPO awards have been excluded from the above chart due to them being one-off in nature, whereas the LTIP has been excluded due to it vesting for the first time in 2017.

The share ownership and wealth of our Executives is impacted by changes in our share price as illustrated in the table below. The value of shares held by the Executives considerably reduced over the last year, which provides further alignment to the shareholder experience in challenging times for the oil and gas industry.

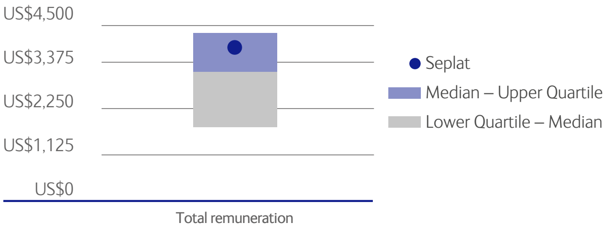
	Shares owned	Unvested shares from DBP and LTIP	Total shares	Value at 31 December 2015	Value at 31 December 2016[1]	Difference
CEO	74,064,823	3,570,310	77,635,133	US$84,622,295	US$69,871,620	**US$(14,750,675)**
COO	657,289	2,124,390	2,781,679	US$3,032,030	US$2,503,511	**US$(528,519)**
CFO	535,715	2,115,771	2,651,486	US$2,890,120	US$2,386,337	**US$(503,782)**

1. Fall in the value at 31 December 2016 is primarily driven by the change in the USD:GBP exchange rate.

CEO remuneration versus market benchmark

The Committee uses an external benchmark to determine pay structure and quantum for the Executives. The chart opposite shows total remuneration (excluding benefits) quartiles for the CEOs in Seplat's benchmarking peer group. The Committee is comfortable that the pay levels are in line with the Company's remuneration policy.

CEO remuneration vs. market benchmark



Directors' remuneration policy

Introduction

The Directors' Remuneration Policy (the 'Policy') as set out below became formally effective at the Annual General Meeting on 2 June 2015 and will apply for the period of three years from the date of approval.

Policy summary

The Company's aim is to attract, retain and motivate the best talent to help execute the business strategy successfully and ensure long-term value creation for shareholders in the current challenging environment of the oil and gas industry.

Overall remuneration levels have been set at a level that is considered by the Committee to be appropriate for the size, nature and aspirations of the business, having taken specialist, independent advice where necessary, in order to ensure that the policies and remuneration structure are appropriate for the listed company environment.

Our principles of remuneration

The remuneration policy aims to align the interests of the Executive Directors, senior managers and employees to the long-term interests of shareholders and aims to support a high performance culture with appropriate reward for superior performance without creating incentives that will encourage excessive risk taking or unsustainable Company performance.

The guiding principles behind the setting and implementation of our remuneration policy are as follows:

Principle	Explanation
Balanced	There should be an appropriate balance between fixed and performance-related elements of the remuneration package.
Competitive	Remuneration packages should be competitive taking into account the level of remuneration paid in respect of comparable positions in similar companies within the industry.
Equitable	There should be an appropriate level of gearing in the package to ensure that Executive Directors receive an appropriate proportion of the value created for shareholders whilst taking into account pay and conditions throughout the remainder of the Group, where the Company operates and where it is listed.
Risk-weighted	Remuneration should not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, the overall remuneration policy should not encourage inappropriate operational risk.
Aligned	There should be suitable provision of equity awards over the longer term, focusing the Executive Directors on delivering the business strategy, allowing them to build a meaningful holding in the Company to further align their interests with those of shareholders.

How our remuneration principles support the business strategy

In line with our remuneration principles, the Remuneration Committee will manage incentive plans for the Executive Directors such that they are closely linked to the business success, as outlined below:

Remuneration element	Objective	Link to remuneration
Annual bonus	Guidance to deliver the strategy over the short term	To ensure we act as a team, the Remuneration Committee, on behalf of the Board, sets management a challenging annual bonus performance scorecard. Whilst many scorecard elements are financial and operational at the Executive Director level, they do contain a number of quality targets (for example, around health and safety and corporate governance) designed to ensure we deliver the longer-term goals as a responsible and sustainable company. This scorecard is devolved down into the management line with an increasing emphasis on the quality and technical component elements needed to sustain corporate progress. The content of this annual scorecard will change to mitigate short-term pressures and exploit short-term opportunities – all aligned to deliver the longer-term strategic objectives.
LTIP	Rewarding sustained shareholder value creation	Our overall strategic goal is to be a high performing oil & gas company – a shareholder stock of choice, within our sector and region. To achieve this, we align Executive Director share awards with the fortunes of the shareholder through a relative TSR measure – based on performance against comparable oil & gas companies – seeking to attain regular upper quartile results. If we achieve median positioning or above over a three-year cycle, management are well rewarded in that year; if we fall below the median position, management share the financial disappointment. Success will deliver growing management share-ownership with extended retention periods, clawback in case of mis-statement, and sizable personal retained shareholdings. This is all working towards aligning the Company's executive leadership with the interests of shareholders. This strategic three to five-year reward structure is further underpinned by the need to grow the key E&P long-term core assets – recoverable reserves – at an acceptable rate.

Remuneration policy in practice

In order to deliver upper quartile performance against our oil and gas contemporaries, making Seplat the investor's sector choice, we need to attract and retain quality individuals. This applies not just at the executive level, but also within the management line. This is a recruitment and selection function led by the Nomination and Establishment Committee at the highest level, through the CEO, and into management levels. To attract and retain the top talent within the industry, we will be paying median to upper quartile packages. We accept that this requires strong performance delivery and hence expect to set challenging performance targets and personnel quality controls.

Our Executive Director remuneration policy that applies for three years starting from 2 June 2015 is outlined below.

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity	Performance metrics
Base salary	Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Group's strategy.	An Executive Director's base salary is set on appointment and is aimed to provide a competitive base salary relative to an appropriate benchmark. When determining an appropriate level of salary, the Committee considers: • remuneration practices within the Group; • the general performance of the Group; • salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking[1]; and • the economic environment. It is reviewed annually or when there is a change in position or responsibility. Any subsequent salary increases will take into account factors such as: • the performance of the individual; • pay and conditions throughout the Company; • inflation/cost of living in jurisdictions where Executive Directors reside; and • the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity in the UK and North American E&P sector.	Over the policy period, base salaries for current Executive Directors will be set at a highly competitive level within the comparator group and will increase in line with the increase for the general workforce in the Company other than in exceptional circumstances or when there is a change in role or responsibility. Base salary increases will be capped at 10% p.a. New promotes or recruits to the Board may on occasion have their salaries set below the targeted policy level while they become established in their role. In such cases salary increases may be higher than the increase for the general workforce of the Company until the target market positioning is achieved. The Company will set out in the section headed implementation of remuneration policy in the following financial year the salaries for that year for each of the Executive Directors (see page 103).	N/A
Benefits	Provides a level of benefits consistent with local market practice to support individuals in carrying out their roles.	Benefits provided to the Executive Directors are dependent on their working location – the CEO and COO are based in Nigeria, whereas the CFO is based in the UK.[2] Benefits can be provided either in the form of a cash allowance or as the actual benefit itself. The Committee recognises the need to maintain suitable flexibility in the determination of benefits that ensures it is able to support the objective of attracting and retaining personnel.	The maximum opportunity for benefits is defined by the nature of the benefit itself and the cost of providing it. As the cost of providing such benefits is dependent on market rates and other factors, there is no formal maximum monetary value.	N/A

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity	Performance metrics
Pensions	Provides a competitive level of retirement benefit.	Employer retirement funding is determined as a percentage of gross basic salary, up to a maximum limit of 22%. This may be provided either as a contribution into a personal pension fund or as a cash supplement.	A maximum pension contribution of 22% of salary. The Company will set out in the section headed implementation of remuneration policy in the following financial year the pension contributions for that year for each of the Executive Directors (see page 103).	N/A
Annual bonus	Provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company's strategy (by including performance conditions around both financial and quality targets) and the creation of value for shareholders. In particular, it supports the Company's objectives allowing the setting of annual targets based on the Company's' strategic objectives at that time, meaning that performance conditions will change to mitigate short-term pressures and exploit short-term opportunities – all aligned to deliver the longer-term objective.	The Committee will determine the maximum annual participation in the annual bonus for each year, which will not exceed 200% of salary. 75% of any bonus earned will be paid in cash at the end of year 1. The remaining 25% of any bonus earned will be deferred into shares (under the rules of the LTIP) and paid at the end of year 3. The Company operates an annual bonus scorecard of performance metrics, incorporating the Company's KPIs as well as individual performance targets. Details of the performance conditions and their level of satisfaction for the year being reported on will be set out in the Annual Report on Remuneration.	Maximum bonus opportunity of 200% of salary. Percentage of bonus maximum earned for levels of performance: • Threshold – 30% • Target – 60% • Maximum – 100%	The Company operates an annual bonus scorecard of performance metrics, incorporating the Company's KPIs around financial, strategic and operational conditions as well as individual performance targets. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the bonus plan in advance would not be in shareholder interests. The performance measures, achievement against targets and the value of awards made will be published at the end of the performance periods so shareholders can assess the basis for any pay-outs under the annual bonus. Although there are no specific plan rules for the annual bonus, the Committee has decided to adopt malus and clawback provisions. The deferred bonus shares are awarded under the LTIP and so will be subject to the malus and clawback provisions contained within the LTIP rules.

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity	Performance metrics
Long-Term Incentive Plan	Awards are designed to incentivise the Executive Directors to maximise total shareholder returns by successfully delivering the Company's objectives and to share in the resulting increase in total shareholder value. If targets are reached, Executive Directors are well rewarded in that year – however if we fail, management share the financial disappointment. The use of relative TSR measures the success of the implementation of the Company's strategy in delivering an above market level of return. The use of reserves growth ensures that vesting is further underpinned by the need to grow the key E&P long-term core assets (recoverable reserves) at an acceptable rate on a sustainable basis.	Awards are made annually to Executive Directors. These will vest at the end of a three-year period subject to: • the Executive Director's continued employment at the date of vesting; and • satisfaction of the performance conditions. The Committee may award dividend equivalents on awards to the extent that these vest. To the extent that awards vest: • 60% of the awards will be exercisable on vesting, three years after award; • 20% of the awards will be exercisable four years after award; and • 20% of the awards will be exercisable five years after award.	Maximum value of 250% of salary p.a. based on the market value at the date of award set in accordance with the rules of the Plan. There is no requirement to make this level of award every year.	100% of the award will vest based on relative TSR performance as assessed against a bespoke comparator group of E&P companies. Further details of the 2016 comparator group are provided in the Annual Report on Remuneration on page 101. 25% of the award will vest for median performance. 100% of the award will vest for upper quartile performance. There will be straight line vesting between these points. 50% of the award will also be subject to a reserves growth underpin, which will operate as follows: • 100% of the award subject to the underpin will lapse if reserves fall by 10% or more over the performance period; • None of the award will lapse if reserves grow by 10% or more over the performance period; and • There will be a straight line reduction in vesting between these points. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. Details of the performance conditions for awards made in the year will be set out in the Annual Report on Remuneration and for future awards in the statement of implementation of remuneration policy in the future financial year. The LTIP contains malus and clawback provisions.
Non-Executive Director Fees	Provides a level of fees to support recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors. Non-Executive Directors are paid a base fee and additional fees for chairmanship/membership of committees/senior independent directorship. Fees are reviewed annually based on equivalent roles in UK listed companies taking account of the Company's location and sector. Non-Executive Directors do not participate in any variable remuneration arrangements.	In general the level of fee increase for the Non-Executive Directors will be set taking account of any change in responsibility and will take into account the general rise in salaries across the workforce. The Company will pay reasonable expenses incurred by the Chairman and Non-Executive Directors.	N/A

1. Salaries are set compared to a peer group of international natural resources companies including: Amerisur, Bonanza, Cairn Energy, Delek US Holding, Enquest, Exillon, Genel Energy, Gran Tierra Energy, Matador Resources, Nostrum Oil & Gas, Ophir Energy, PDC Energy, Premier Oil, Sanchez Energy, Soco International and Stone Energy.
2. All Executive Directors receive medical insurance, club membership and car allowance. The CFO also receives life assurance and critical illness cover. The CEO and COO also receive allowances in line with local Nigerian market practice – these allowances include home security, rest and recreation, company accommodation, furniture and fittings, generator and diesel, utilities, petrol/diesel, child education support, 13th month allowance and, for the COO only, an in-country allowance. These allowances have been part of the remuneration policy pre and post IPO.

The Committee is satisfied that its approach to the Directors' remuneration is designed to promote the long-term success of the Company.

UK Corporate Governance Code

The Committee is comfortable that the Policy is in line with the UK Corporate Governance Code. The following table sets out the key elements of the revised Code and how the Company's remuneration policy for Executive Directors is in line with the Code:

Code provision	Company remuneration policy
Executive directors' remuneration should be designed to promote the long-term success of the company.	The Company operates an LTIP with a three-year performance period, with a four or five-year total holding period applying to 40% of awards. The policy incorporates bonus arrangements where part of the annual bonus is deferred in shares payable over three years with the facility for the Committee to add holding periods post vesting. It is the Committee's view that these arrangements provide a holistic approach to ensuring Executive Directors are focused on the long-term success of the Company.
Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.	The LTIP rules include malus and clawback provisions. Although there are no specific plan rules for the annual bonus, the Committee has decided to adopt best practice malus and clawback provisions. The deferred bonus shares are awarded under the LTIP and so will be subject to the malus and clawback provisions contained within the LTIP rules.
For share-based remuneration, the Remuneration Committee should consider requiring directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise, including for a period after leaving the company, subject to the need to finance any costs of acquisition and associated tax liabilities.	40% of the annual awards under the LTIP incorporate post-vesting holding periods, with final release of awards only occurring five years after award. In addition, 25% of the bonus earned will be deferred into shares payable over three years. The following shareholding requirements are operated for the Executive Directors: • CEO: 150% of annual base salary • COO/CFO: 100% of annual base salary Executive Directors will be given five years from the date of the policy implementation to satisfy their individual shareholding requirements. The Committee believes that the introduction of these guidelines will promote strong long-term alignment between the interests of management and shareholders.

Discretion

The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of the Annual Bonus and LTIP (the LTIP being operated in general terms according to the rules). These include, but are not limited to, the following:

- the participants;
- the timing of an award;
- the size of an award;
- the determination of vesting and/or payout;
- discretion required when dealing with a change of control or restructuring of the Group;
- determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures and weighting for the Annual Bonus and LTIP.

These discretions, which in certain circumstances can be operated in both an upward and downward manner, are consistent with market practice and are necessary for the proper and fair operation of the plans so that they achieve their original purpose. However, it is the Committee's policy that there should be no element of reward for failure and any upward discretion will only be applied in exceptional circumstances.

It is the Committee's intention that commitments made in line with its policies prior to Admission will be honoured if in line with the approved remuneration policy. Those areas that differ are being addressed to bring them into line with the approved policy, where appropriate.

Differences in policy from the wider employee population

The Group aims to provide a remuneration package for all employees that is market competitive and operates the same core structure as for the Executive Directors. The Executive Directors' annual scorecard is devolved down into the management line with an increasing emphasis on the quality and technical component elements needed to sustain corporate progress.

The Company continues to cascade the LTIP to management grades below Executive Directors, ensuring a consistent reward framework. The Group also operates variable pay plans on a discretionary basis, with pension provision offered to all Executives and employees.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the Executive Directors, as set out in the remuneration policy table above. The Committee is mindful that it wishes to avoid paying more than it considers necessary to attract candidates of the appropriate calibre and experience needed for the role from the market in which the Company competes. As a result, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments made on recruitment and the appropriateness of any performance measures associated with an award.

The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below:

Remuneration element	Recruitment policy
Salary	Salary will be set in line with the policy for existing Executive Directors.
Benefits	The standard benefits package (depending on the local market) will apply.
Pension	The maximum employer contribution will be set in line with the Company's policy for existing Executive Directors.
Annual bonus	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 200% of salary.
LTIP	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 250% of salary.
Maximum variable pay (incentive opportunity)	In the year of recruitment the maximum variable pay will be 450% of salary. For the avoidance of doubt this excludes the value of any "Buy Out" of incentives forfeited on cessation of previous employment.
Sign-on compensation	The Committee's policy is not to provide sign-on compensation.
"Buy Out" of incentives forfeited on cessation of employment	The Committee's policy is not to provide buy outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justified the provision of a Buy Out, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value ('lapsed value'). The Committee may then award up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the Buy Out within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Relocation	In instances where the new Executive Director is relocated from one work-base to another, the Company will provide ongoing compensation to reflect the cost of relocation for the executive in cases where they are expected to spend significant time away from their country of domicile. The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences and/or any other benefits/allowances which are standard market practice in the host location.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned. These would be disclosed to shareholders in the remuneration report for the relevant financial year.

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors.

Service agreements and letters of appointment

Executive Directors

Name	Date of service contract	Nature of contract	Notice period from Company	Notice period from Director	Compensation provisions for early termination
Austin Avuru	27 March 2014	Rolling	12 months	12 months	Payment in lieu of notice equal to 12 months' salary and benefits, including any payments accrued at the date of termination.
Stuart Connal	11 September 2014	Rolling	12 months	12 months	
Roger Brown	20 May 2013	Rolling	12 months	12 months	

Non-Executive Directors

Name	Date of appointment/ re-appointment	Nature of contract	Notice period from Company	Notice period from Director	Compensation provisions for early termination
A.B.C. Orjiako	1 January 2014	Fixed term to 2017 AGM	12 months	12 months	None.
Michael Alexander	30 June 2014	Fixed term to 2018 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Michel Hochard	14 December 2009	Rolling	6 months	6 months	None.
Macaulay Agbada Ofurhie	14 December 2009	Rolling	6 months	6 months	None.
Basil Omiyi	30 June 2014	Fixed term to 2017 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Ifueko Omoigui Okauru	30 June 2014	Fixed term to 2019 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Charles Okeahalam	30 June 2014	Fixed term to 2017 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Lord Mark Malloch-Brown	2 June 2015	Fixed term to 2018 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Damian Dodo	30 June 2014	Fixed term to 2019 AGM	6 months	6 months	6 months' fees if not re-elected or retired.

The Committee's policy for setting notice periods is that a 12 month period will apply for Executive Directors unless the Committee determines otherwise.

The Non-Executive Directors of the Company do not have service contracts. The Non-Executive Directors are appointed by letters of appointment, which are kept at Seplat's registered office along with Executive Director service contracts. As required by Nigerian law, the Company follows the provisions set out in its Memorandum and Articles of Association and annually places one-third of its Non-Executive Directors for re-election.

Illustrations of the application of the remuneration policy

The charts opposite illustrate the remuneration that would be paid to each of the Executive Directors, based on salaries at the start of financial year 2017, under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum. The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual Variable; and (iii) Multiple Reporting Periods.

Element	Description	Minimum	On-target	Maximum
Fixed	Salary, benefits and pension	Included	Included	Included
Annual Variable	Annual bonus (including deferred shares)	No annual variable	60% of maximum bonus	100% of maximum bonus
Multiple Reporting Periods	Award under the Long-Term Incentive Plan	No multiple year variable	62.5%[1] of the maximum award	100% of the maximum award

1 On-target % pay-out is calculated as the mid-point between threshold vesting of 25% (for median performance) and the maximum vesting of 100% (for upper quartile performance).

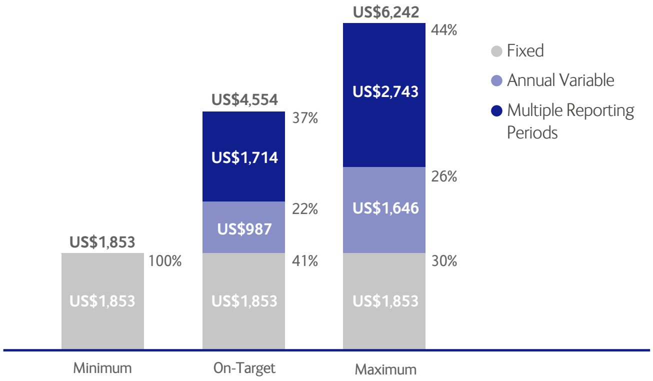
The following table sets out the key aspects of policy used to populate the charts opposite.

Role	2017 salary (US$'000)	Annual Bonus (% salary)	LTIP[1] (% salary)	Pension (% salary)
CEO	1,097	150%	250%	17%
COO	663	100%	200%	22%
CFO	663	100%	200%	15%

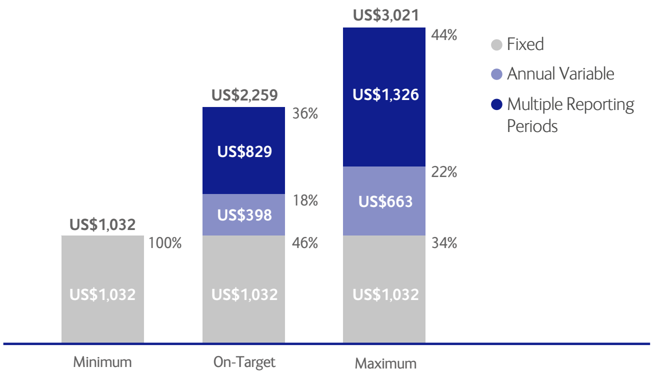
1 The Committee introduced a minimum share price of £1 that would be used to determine the number of shares awarded under the LTIP from 2017. For the purpose of this calculation the policy award of 250% for CEO and 200% for CFO and COO was used. However, the actual 2017 LTIP award may be lower as a percentage of base salary if the Q1 2017 average share price is lower than £1.

In accordance with the regulations, share price growth has not been included. In addition, dividend equivalents have not been added to deferred share bonus and LTIP share awards.

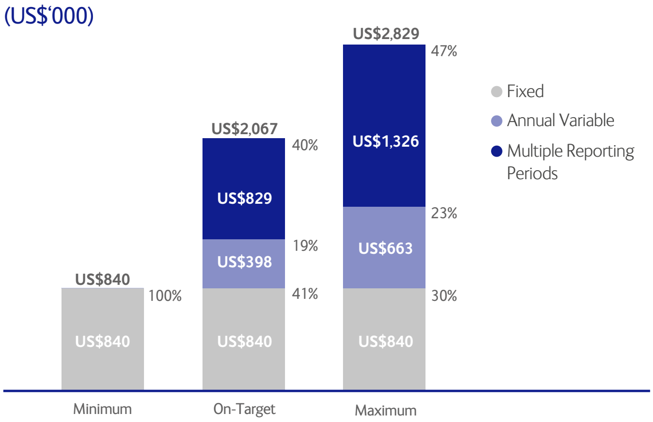
Austin Avuru
(US$'000)



Stuart Connal
(US$'000)



Roger Brown
(US$'000)



Payment for loss of office

When determining any loss of office payment for a departing individual the Committee will always seek to minimise the cost to the Company whilst seeking to reflect the circumstances in place at the time. The Committee retains overriding discretion to make loss of office payments appropriate to the circumstances and applying the overriding principle that there should be no element of reward for failure.

Under Nigerian law, any payment for loss of office to Directors must be approved by shareholders at the AGM. The table below sets out, for each element of total remuneration, the Company's policy on payment for loss of office in respect of the Executive Directors and any discretion available to the Committee. In any year where a Director has received payment for loss of office the Company will ask shareholders to vote on that payment on a retrospective basis.

<table>
<tr><th>Remuneration element</th><th colspan="3">Treatment on cessation of employment</th></tr>
<tr><td>Salary</td><td colspan="3">Salary will be paid over the notice period. The Company has discretion to make a lump sum payment on termination of the salary payable during the notice period. In all cases the Company will seek to mitigate any payments due.</td></tr>
<tr><td>Benefits</td><td colspan="3">Benefits will normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. In all cases the Company will seek to mitigate any payments due.</td></tr>
<tr><td>Pension</td><td colspan="3">Company pension contributions will normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the Company pension contributions, or equivalents, during the notice period. In all cases the Company will seek to mitigate any payments due.</td></tr>
<tr><td>Annual Bonus (cash)</td><td colspan="2">Good leaver reason
Pro-rated to time and performance for year of cessation.</td><td>Other reason
No bonus payable for year of cessation.</td></tr>
<tr><td>Annual Bonus (deferred shares)</td><td>Good leaver reason
All subsisting deferred share awards will vest in full on cessation of employment.</td><td>Other reason
Lapse of any unvested deferred share awards.</td><td>Discretion
The Committee has the following elements of discretion:
• to determine that an executive is a good leaver;
• whether to pro-rate the maximum number of shares to the time from the date of award to the date of cessation. The Committee's policy is generally to not pro-rate to time. The Committee will determine whether to pro-rate based on the circumstances of the Executive Director's departure;
• whether to deliver awards at the time of cessation or at the normal vesting date. The Committee's policy is to deliver awards at the normal vesting date.</td></tr>
<tr><td>LTIP</td><td>Good leaver reason
Pro-rated to time and performance in respect of each subsisting LTIP award.</td><td>Other reason
Lapse of any unvested LTIP awards.</td><td>Discretion
The Committee has the following elements of discretion:
• to determine that an executive is a good leaver;
• to measure performance (or any other condition) over the original performance period or at the date of cessation;
• whether to pro-rate the maximum number of shares to the time from the date of award to the date of cessation. The Committee's policy is generally to pro-rate to time;
• whether to deliver awards at the time of cessation or at the normal vesting date. The Committee's policy is to deliver awards at the normal vesting date.</td></tr>
<tr><td>Other contractual obligations</td><td colspan="3">Roger Brown's fixed cash payment relating to the value of share awards foregone from his previous employer will be forfeited if he resigns, is dismissed or is terminated for cause in specific circumstances.</td></tr>
</table>

A good leaver reason is defined as cessation in the following circumstances:

- death;
- ill-health;
- redundancy;
- injury or disability;
- retirement;
- employing company ceasing to be a Group company;
- transfer of employment to a company which is not a Group company; and
- at the discretion of the Committee (as described above).

Cessation of employment in circumstances other than for 'good leaver' reasons is classified as cessation for 'other reasons' as set out in the table above.

Change of control

The Committee's policy on the vesting of incentives on a change of control is summarised below:

Name of incentive plan	Change of control	Discretion
Annual Bonus (cash)	Pro-rated to time and performance to the date of the change of control.	The Committee retains discretion to continue the operation to the end of the bonus year. The Committee will only waive pro-rating in exceptional circumstances where it views the change of control as an event which has provided a material enhanced value to shareholders which will be fully explained to shareholders. In all cases the performance conditions must be satisfied.
Annual Bonus (deferred shares)	Subsisting deferred share awards will vest on a change of control.	The Committee retains the discretion to pro-rate to time.
LTIP	The number of shares subject to subsisting LTIP awards on a change of control will be pro-rated to time and performance.	There is a presumption that the Committee will pro-rate to time. The Committee will only waive pro-rating in exceptional circumstances where it views the change of control as an event which has provided a material enhanced value to shareholders which will be fully explained to shareholders. In all cases the performance conditions must be satisfied.

Statement of conditions elsewhere in the Company

The Committee, along with setting the remuneration packages of the Executive Directors, also has purview over the reward arrangements of the Senior Management Team, which consists of 30 additional employees.

When considering the salary movements on a year-on-year basis for the Senior Management Team, the Committee will take account of salary increases across the general employee base. Executive Director annual bonus targets are also devolved down into the management line with an increasing emphasis on the quality and technical component elements needed to sustain corporate progress. In addition, the Company continues to cascade the LTIP to management grades below Executive Directors, ensuring a consistent reward framework, as shown below.

		Employee level – % of salary			
Number of participants	**Element of pay**	**CEO**	**Board**	**Senior management (grades 1-4)**	**Other key employees**
Executive Directors, senior management, other key employees	**LTIP**	250%	200%	50-100%	25-35%
Executive Directors	**Annual bonus – Deferred shares**	37.5%	25%	n/a	n/a
All employees	**Annual bonus – Cash**	112.5%	75%	40-75%	Up to 30%
All employees	**Pension**	17%	15-22%	17%	17%
All employees	**Benefits**	All employees			
All employees	**Salary**	All employees			

Consideration of shareholder views

The Committee takes the views of shareholders seriously and these views are taken into account in shaping remuneration policy and practice. Shareholder views are considered when evaluating and setting remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its remuneration policy.

At the 2015 AGM we received 86% shareholder support for our remuneration policy and practice through the acceptance of our 2014 Annual Report and Accounts. At the 2016 AGM we received a strong support of 100% for our 2015 Remuneration Report.

Annual report on remuneration

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2016 financial year, on a receivable basis in accordance with the policy as approved by shareholders. Comparative figures for the 2015 financial year have also been provided.

Executive Directors	Period	Salary[1] US$'000	Taxable benefits[2] US$'000	Bonus[3] US$'000	LTIP[4] US$'000	Pension[5] US$'000	Other[6] US$'000	Total US$'000
Austin Avuru (CEO)[7]	**2016**	**1,097**	**569**	**582**	**557**	**187**	**0**	**2,992**
	2015	1,097	510	755	0	187	455	3,004
Stuart Connal (COO)[7]	**2016**	**663**	**223**	**233**	**318**	**146**	**0**	**1,582**
	2015	749	229	346	0	165	381	1,870
Roger Brown (CFO)	**2016**	**663**	**78**	**233**	**318**	**99**	**197**	**1,588**
	2015	749	75	339	0	112	612	1,887

Notes:

1. Salaries for Executive Directors are set in GBP – 2015 and 2016 salaries were £643,750 for the CEO and £489,250 for the CFO and COO. For the CEO, the July 2014 USD:GBP exchange rate has been used to calculate 2015 and 2016 remuneration. For the CFO and COO the average 2016 USD:GBP exchange rate of 1.35 has been used where applicable.
2. The taxable benefits for each Executive Director comprise those which are quantifiable.
3. Bonus payments planned for 2017 relate to 2016. This has not been recognised in the financial statements.
4. The value of the 2014 LTIP awards vesting in April 2017 is shown in 2016 as the performance period ended on 31 December 2016. The estimated value of these awards uses a 2016 Q4 average share price; the actual value will be updated in the 2017 Directors' Remuneration Report when the awards vest on 9 April 2017 and will include dividend equivalents.
5. Pension contributions are provided as a cash supplement/contribution into a personal pension fund and equal 17% of salary for the CEO, 15% for the CFO and 22% for the COO.
6. For 2015, this column includes the remaining 50% of Global Offer Bonus Awards which effectively vested on 4 November 2015 following approval by the Nigerian Stock Exchange. Roger Brown's 2015 and 2016 figures also include a fixed cash payment relating to the value of share awards foregone from his previous employer, US$294,766 for 2015, and a final payment of US$197,118 made on 7 September 2016. The value of the total payment made was US$1,072,084.
7. For the CEO and COO (who are located in Nigeria), income tax credits of 20% have been partly paid by the Company as a carry-over of historical practice. This practice is in the process of being phased out by 2019, so that in 2016 only 75% of income tax was paid by the Company. It is intended that in 2017 only 50% will be paid. This is not included in the salary, taxable benefits, bonus or pension figures above.

Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director for 2016, on a receivable basis in accordance with the policy as approved by shareholders.

Name	2016 Fees[1] (US$'000)	2015 Fees (US$'000)	Role
A.B.C. Orjiako[2]	1,011	1,011	Non-Executive Chairman and Nomination and Establishment Committee Chairman
Michael Alexander	438	494	Senior Independent Director, Remuneration Committee Chairman, Finance, and Nomination and Establishment Committee member
Michel Hochard	140	190	Audit Committee member
Macaulay Agbada Ofurhie	194	219	HSSE and Risk Management, CSR, and Audit Committee member
Basil Omiyi	234	308	HSSE and Risk Management Committee Chairman, Remuneration, and Nomination and Establishment Committee member
Ifueko Omoigui Okauru	228	257	Finance, Audit, CSR, and HSSE and Risk Management Committee member
Charles Okeahalam	221	249	Finance Committee Chairman and Remuneration Committee member
Lord Mark Malloch-Brown	207	234	CSR Committee Chairman and Finance Committee member
Damian Dodo	194	219	Remuneration, and Nomination and Establishment Committee member

Notes:

1. Fees shown are those receivable in GBP, converted at the average exchange rate for the relevant year. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD:GBP exchange rate as disclosed in the 2015 Directors' Remuneration Report. Although the NED base fee remained unchanged for 2016, many of the NED fees expressed in USD have decreased from 2015, reflecting the 11% decrease in the average USD:GBP exchange rate for 2016 compared to 2015.
2. For the Chairman (who is located in Nigeria), income tax credits of 20% have been partly paid by the Company as a carry-over of historical practice. This practice is in the process of being phased out by 2019, so that in 2016 only 75% of income tax was paid by the Company. The tax credits are not included in the table above.
3. 2015 figures include fees paid for duties performed for 100% wholly owned subsidiaries of the Company. The Committee determined in 2015 that in line with UK corporate governance guidelines, such fees would not be paid from 2016 onwards.
4. The Company has settled, on behalf of each Non-Executive Director, the local Nigerian withholding tax on Directors' fees.

Annual fees

Position	2016 Annual Fee[1] (US$'000)	2015 Annual Fee (US$'000)
Chairman	960	960
Board	140	158
Senior Independent Director	203	230
Committee Chairmanship	41	46
Finance Committee Chairmanship[2]	54	61
Committee Membership	27	31
Finance Committee Membership[2]	34	38

Notes:

1. Fees shown are those receivable in GBP, converted at the average exchange rate for the relevant year. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD:GBP exchange rate as disclosed in the 2015 Directors' Remuneration Report. Although the NED base fee remained unchanged for 2016, many of the NED fees expressed in USD have decreased from 2015, reflecting the 11% decrease in the average USD:GBP exchange rate for 2016 compared to 2015.
2. Only applicable to those Directors who have additional responsibilities.

Additional information regarding single figure table

The Committee considers that performance conditions for all incentives are suitably demanding, having regard to the business strategy, shareholder expectations, the cyclical nature of the markets in which the Group operates and external advice. To the extent that any performance condition is not met, the relevant part of the award will lapse. There is no retesting of performance.

Annual Bonus

Seplat promotes a culture of high performance and uses a scorecard to assess the annual bonus outcome. The bonus scorecard is reviewed annually to ensure strong alignment with Company strategic priorities, prevailing market practice and the operating environment.

In respect of the 2016 financial year, the bonus awards payable to Executive Directors were agreed by the Committee having reviewed the Company's results. Details of the achievement of the measures used to determine bonuses in respect of the 2016 financial year and the extent to which they were satisfied are shown in the table below. These resulting bonus figures are included in the single figure table.

Achievement of corporate performance conditions

The Executive Directors' bonus scorecard is weighted in favour of corporate measures, with 92.5% of the maximum opportunity depending on the KPIs set out below. The remaining 7.5% of the bonus opportunity is measured against individual objectives. Individual performance goals are set annually for each Executive Director based on the Company's strategic priorities for the respective year. These measures would typically fall under one of the following categories: development of strategic focus, corporate governance, team development and succession planning, technical and operational excellence. It is the Committee's view that the specific individual performance conditions are commercially sensitive and therefore details cannot be fully disclosed.

The Committee assessed the corporate scorecard bonus outcome and determined that it did not fully reflect management's success in dealing with the exceptional circumstances of over 300 days of pipeline downtime in 2016. In particular the Committee noted that when the pipeline was operational, 99% of the planned oil production and 107% of the planned gas production and sales were achieved. Consistent with these performance levels, the Committee agreed it would apply judgement to determine that target performance (60% of maximum) was achieved under the oil and gas production elements of the scorecard. However, no further adjustments were made to the achievement of financial targets, which were also missed in large part due to external factors causing the extensive pipeline outage. As a result, there is no bonus payout for the financial measures in the corporate scorecard. The corporate scorecard is set out below:

		Performance achieved				
Performance measure	**Specific**	**Below Threshold**	**Threshold to Target**	**Target to Maximum**	**Maximum**	**Resulting level of award for element (% of maximum opportunity)**
Production and operational efficiency	Oil production volume		✓			60%
	Gas sales		✓			60%
	Reserves replacement				✓	100%
Asset optimisation		✓				26%
Financial	FY16 Net profit	✓				0%
	Outstanding JV cash call at y/e	✓				0%
Health and safety	LTIF rate		✓			45%
Strategy	Strategic objectives (set for each Director individually)		✓			42%-43%

Annual Bonus pay-out

The table below sets out the annual bonus earned for the year:

	CEO		COO		CFO	
Performance measures	Achieved (% of max)	Bonus earned (US$'000)	Achieved (% of max)	Bonus earned (US$'000)	Achieved (% of max)	Bonus earned (US$'000)
Corporate measures	32.1% out of 92.5%	529	32.0% out of 92.5%	212	31.9% out of 92.5%	212
Individual performance	3.3% out of 7.5%	53	3.2% out of 7.5%	21	3.2% out of 7.5%	21
Total	**35.4% out of 100%**	**582**	**35.2% out of 100%**	**233**	**35.1% out of 100%**	**233**

25% of each Executive Director's bonus has been deferred into shares and will be released at the end of year 3 subject to continued employment.

Long-term incentives vesting in 2017

The 2014 LTIP awards were made to the CEO, COO and CFO on the day of Admission to the London Stock Exchange on 9 April 2014 (conditional on approval by the Nigerian Stock Exchange, which was subsequently received on 4 November 2015). The awards vest on 9 April 2017; however the performance period for these awards ended on 31 December 2016. The performance conditions for these awards are set out in the Remuneration Policy table on page 91. 96.7% of the awards vested after testing the relative TSR and reserves growth performance conditions as set out below:

TSR performance vs comparator group				2P Reserves growth underpin			
Seplat TSR growth	Median TSR growth (25% vesting)	Upper quartile TSR growth (100% vesting)	Vesting under TSR condition	Seplat reserves growth between FY13 and FY16	Reserves growth required to fully satisfy underpin	Reduction in vesting based on the underpin	Final vesting level
-59.8%	-75.1%	-59.1%	96.7%	104%	10%	Nil	96.7%

The following table presents the number of 2014 LTIP awards that will vest in April 2017 based on the assessment of the performance conditions and the resulting value of awards on vesting for each Executive Director.

Role	Number of 2014 LTIP awards granted	Number of 2014 LTIP awards vesting in April 2017	Value of vested awards[1]
CEO	595,238	575,595	US$557,353
COO	339,285	328,089	US$317,691
CFO	339,285	328,089	US$317,691

1 Based on Q4 2016 average share price and excludes dividend equivalents.

Long-term incentives awarded in 2016

The table below sets out the details of the long-term incentive awards made in the 2016 financial year where vesting will be determined (conditional on approval by the Nigerian Stock Exchange) according to the achievement of performance conditions that will be tested in future reporting periods.

Name	Basis on which award made	Face value of award (US$'000)	Percentage of award vesting at threshold performance	Maximum percentage of face value that could vest	Performance conditions
Austin Avuru	Annual	2,286	25%	100%	100% Relative TSR and reserves growth underpin – see policy table on page 91 for further details.
Stuart Connal	Annual	1,390	25%	100%	
Roger Brown	Annual	1,390	25%	100%	

Note:

The share price used to calculate the face value of awards was that at the date of award, being 24 March 2016 (conditional on approval by the Nigerian Stock Exchange) of £0.99.

The comparator group used for assessing relative TSR consists of the following companies:

- Africa Oil
- Amerisur Resources
- Cairn Energy
- Cobalt Int. Energy
- Enquest
- Erin Energy (formerly Camac Energy)
- Exillon Energy
- Genel Energy
- Gulf Keystone Petroleum
- Kosmos Energy
- Nostrum Oil & Gas
- Oando Plc
- Ophir Energy
- Premier Oil
- Rockhopper Exploration
- Soco International
- Tullow Oil

Payments to past Directors/payments for loss of office

There were no payments in the financial year.

Fees retained for external non-executive directorships

Executive Directors may hold positions in other companies as non-executive directors and retain the fees.

Statement of Directors' shareholdings

The table below sets out the number of shares of the Company in which current Directors had a beneficial interest and details of long-term incentive interests as at 31 December 2016.

	Shareholding					
Director	Shares required to be held % of salary	Beneficially owned	Shareholding requirement met (only required to be met in April 2019)	Interests subject to performance conditions[1]	Interests not subject to performance conditions	Total interests held as at 31/12/2016
Austin Avuru	150%	74,064,823	Yes	3,337,274	233,036	77,635,133
Stuart Connal	100%	657,289	Yes	2,006,443	117,947	2,781,679
Roger Brown	100%	535,715	No	2,006,443	109,328	2,651,486

1. Includes 2014 LTIP awards which vest in April 2017.

Details of the Non-Executive Directors' interests in shares are set out below:

Director	Shares held as at 31/12/2016[1]
A.B.C. Orjiako	77,962,680
Michael Alexander	95,238
Michel Hochard	95,238
Macaulay Agbada Ofurhie	4,901,611
Basil Omiyi	495,238
Ifueko Omoigui Okauru	95,238
Charles Okeahalam	597,238
Lord Mark Malloch-Brown	31,746
Damian Dodo	0

1. Beneficial interests include shares held directly or indirectly by connected persons and include shares held by Stanbic IBTC Trustee Limited/Seplat LTIP in relation to vested awards made on Admission.

There have been no changes in the shareholdings of the Executive Directors between 31 December 2016 and the finalisation of this Annual Report and Accounts.

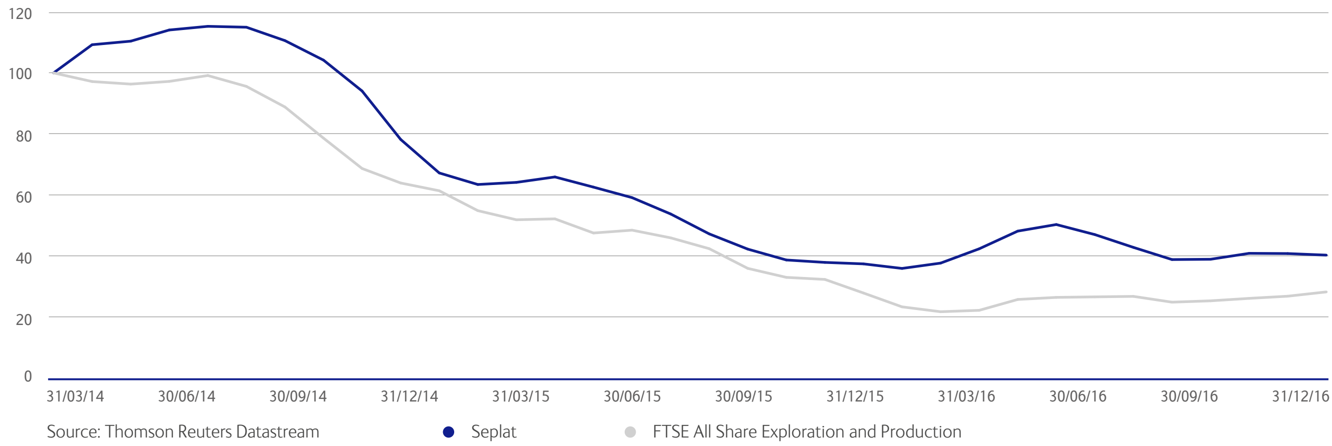
There have been no changes in the shareholdings of the Non-Executive Directors between 31 December 2016 and the finalisation of this Annual Report and Accounts except for the Chairman whose shareholding has reduced to 67,099,592.

Comparison of overall performance and pay

The graph below shows the value of US$100 invested in the Company's shares since listing compared to the median of the FTSE All Share Exploration & Production companies. The graph shows the Total Shareholder Return generated by both the movement in share value and the reinvestment over the same period of dividend income.

The Committee considers that the FTSE All Share Exploration & Production is an appropriate comparator group as it contains a large number of companies that are constituents of Seplat's TSR comparator group. This graph has been calculated in accordance with the Regulations. It should be noted that the Company began trading conditionally on the London Stock Exchange on 9 April 2014 and therefore only has a listed share price for the period of 9 April 2014 to 31 December 2016.

TSR (rebased to 100 at 9 April 2014)[1]



1 In line with the methodology used for LTIP performance assessment, TSR was calculated using a three-month average.

CEO historical remuneration

The table below sets out the total remuneration delivered to the CEO between 2014 and 2016 valued using the methodology applied to the single total figure of remuneration. The Committee does not believe that the remuneration payable in its earlier years as a private company bears any comparative value to that paid in its later years and therefore the Remuneration Committee has chosen to disclose remuneration only from 2014:

CEO (Austin Avuru)	2016	2015	2014
Total single figure (US$'000s)[1]	2,992	3,004	2,866
Annual bonus payment level achieved (% of maximum opportunity)	35%	46%	53%
LTIP vesting level achieved (% of maximum opportunity)	97%	N/A[2]	N/A[2]

1. Includes vesting in relation to the one-off Global Offer Bonus award in 2014 and 2015.
2. No LTIP awards vested in 2014 and 2015 – vesting of the first LTIP awards (awarded in 2014) will occur in April 2017 (however the performance period for these awards ended on 31 December 2016 so it is included in the 2016 column). There were no equity based arrangements operating prior to listing.

Change in the CEO's remuneration compared with employees

Year-on-year change	Chief Executive Officer[1] (%) (US$)	Average employee pay in comparator group[2] (%) (Naira)
Base salary	0%	9%
Taxable benefits	11%	21%
Annual bonus	-23%	-24%

1. CEO year-on-year change has been expressed in USD to reflect the currency in which he is paid (for his base salary and taxable benefits). The annual bonus change for the CEO reflects the change in maximum bonus opportunity achieved.
2. Average employee pay year-on-year change is expressed in Naira as a significant majority of employees are paid in Naira.

Relative importance of the spend on pay

The table below sets out the overall spend on pay for all employees compared with the dividends distributed to shareholders:

Significant contributions	2016 ($m)	2015 ($m)	% change
Overall spend on pay[1]	40.8	63.2	-35%
Distributions to shareholders (dividends)	0	44.4	-100%

1. Calculated by converting 2015 and 2016 figures (from Naira) at the relevant year's average NGN:USD exchange rate.

Implementation of remuneration policy in financial year 2017

The Committee proposes to implement the policy for the 2017 financial year as set out below.

Salary

There will be no salary increase for Executive Directors in the financial year ending 31 December 2017.

Name	Salary 2017 (US$'000)
Austin Avuru	1,097
Stuart Connal	663
Roger Brown	663

Benefits and Pension

There are no proposed changes for the financial year ending 31 December 2017.

The value of pension contribution/salary supplement for the financial year is as follows:

Name	Pension/Salary supplement 2017 (US$'000)
Austin Avuru	187
Stuart Connal	146
Roger Brown	99

Annual Bonus

Operation and potential value	Performance metrics used, weightings and time period applicable
Maximum bonus opportunity as a percentage of salary: • CEO – 150% • CFO – 100% • COO – 100% 75% of any bonus earned will be paid in cash at the end of year 1. The remaining 25% of any bonus earned will be deferred into shares and paid at the end of year 3. Annual bonus will be subject to clawback and malus.	The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the bonus plan in advance would not be in the best interests of shareholders. The performance measures, achievement against targets and the value of awards made will be published at the end of the performance periods, so shareholders can assess the basis for any pay-outs under the annual bonus.

Long-Term Incentive Plan

Potential value	Performance metrics used, weightings and time period applicable
Maximum value of 250% of salary p.a. based on the market value at the date of award set in accordance with the rules of the LTIP. The intended awards for the Executive Directors as a percentage of salary are: • CEO – Maximum 250% • CFO – Maximum 200% • COO – Maximum 200% In line with the Chairman's Annual Statement, after careful consideration of the fall in our share price since IPO, the Remuneration Committee concluded that starting from 2017 the number of share awards to be granted under the 2014 LTIP will be calculated based on the higher of the average share price over Q1 2017 or £1. This may result in a reduction in the number of shares awarded in 2017. The actual number of awards granted will be confirmed in our 2017 remuneration report. The LTIP vests after three years, subject to performance conditions, but holding periods will be applied such that awards can only be exercised as follows: • 60% after year 3 • 20% after year 4 • 20% after year 5	The performance metrics will be the same as those employed for the previous award. 100% of the award will vest based on relative TSR performance as assessed against a bespoke comparator group of listed E&P companies. 25% of the award will vest for median performance. 100% of the award will vest for upper quartile performance. There will be straight line vesting between these points. 50% of the award will also be subject to a reserves growth underpin, which will operate as follows: • 50% of the award will lapse if FY19 reserves fall by 10% or more from FY16 reserves; • None of the award will lapse if FY19 reserves grow by 10% or more from FY16 reserves; and • There will be a straight line reduction in vesting between these points.

Non-Executive Director fees

All NED fees have remained unchanged in comparison to the year 2016. The table below shows the total fees to be paid for NED roles in respect of the financial year 2017:

Position	Fees (US$'000)
Chairman	960
Board	140
Senior Independent Director	203
Committee Chairmanship	41
Finance Committee Chairmanship[1]	54
Committee Membership	27
Finance Committee Membership[1]	34

1. Only applicable to those Directors who have additional responsibilities.
2. Fees shown are those receivable in GBP, converted at the average exchange rate for 2016. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD:GBP exchange rate as disclosed in the 2015 Directors' Remuneration Report.

Composition and terms of reference of the Remuneration Committee

The members of Seplat's Remuneration Committee are as follows:

- Michael Alexander (Chairman)
- Basil Omiyi
- Charles Okeahalam
- Damian Dodo

The Board has delegated to the Committee, under agreed terms of reference, responsibility for the remuneration policy and for determining specific packages for the Executive Directors, the Chairman, Non-Executive Directors and other members of the Executive Team. The terms of reference for the Committee are available on the Company's website, www.seplatpetroleum.com, and from the Company Secretary at the registered office.

The Committee receives assistance from the GM Human Resources, who attends meetings by invitation. The Executive Directors attend by invitation on occasions, except when issues relating to their own remuneration are being discussed. The Committee met five times during the financial year.

Advisers to the Remuneration Committee

The Committee continues to engage the services of PricewaterhouseCoopers LLP ('PwC') as independent remuneration adviser. Other services received by the Company from PwC during the financial year included those in relation to payroll, personal/ corporate tax advice and internal audit.

During the financial year, PwC advised the Committee on all aspects of remuneration policy for Executive Directors, Non-Executive Directors and members of the Executive Team. The Committee is satisfied that advice received from PwC during the year was objective and independent.

PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

Shareholder voting at general meeting

At the previous AGM held on 1 June 2016, the Company received a vote of 100% in favour of its remuneration report.

Michael Alexander ('S.I.D.')[1]
Chairman of the Remuneration Committee

1. Independent Non-Executive Director.

Report of the Directors

For the year ended 31 December 2016

The Directors are pleased to present to the shareholders of the Company their report with the audited financial statements for the year ended 31 December 2016.

Principal activity

The Company is principally engaged in oil and gas exploration and production.

Corporate structure and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Company and Allied Matters Act 2004. The Company commenced operations on 1 August 2010.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US$340 million paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US$33 million was payable 30 days after the second anniversary, 31 July 2012, as the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeded US$80 per barrel.

US$358.6 million was allocated to the producing assets including US$18.6 million as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US$33 million was paid on 22 October 2012.

In 2013, Newton Energy Limited ('Newton Energy'), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2013, Newton Energy acquired from Pillar Oil Limited ('Pillar Oil') a 40% participant interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields').

Seplat Petroleum Development Company Plc was successfully listed on the Nigerian Stock Exchange and the main market of the London Stock Exchange on 14 April 2014.

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd. for US$259.4 million. It also concluded negotiations to buy 56.25% of BelemaOil Producing Ltd., a Nigerian special purpose vehicle that bought a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta. NNPC holds the remaining 60.00% interest in OML 55, and Seplat's effective participating interest in OML 55 as a result of the acquisition was 22.50%.

Based on the above, Seplat consolidated BelemaOil in its 31 December 2015 consolidated financial statements.

During the year, the minority shareholders of BelemaOil began to dispute Seplat's majority shareholding in the entity. In July 2016, Seplat instituted legal action in a bid to secure its investment in OML 55.

Subsequent to the year end, the Asset Management Team of OML 55 has been formally inaugurated, and first lifting has taken place, the proceeds of which have been deposited into the escrow account as prescribed in the agreements.

Subsequently, and in a bid to resolve 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, as at the reporting date fair valued at US$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held 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 relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

As a result of the foregoing, Seplat no longer exercises control and has now deconsolidated BelemaOil in the financial statements in accordance with IFRS 10 (par B97). Seplat has recorded its rights to receive the discharge sum from the crude oil reserves of OML 55 as other asset.

The Company together with its subsidiary, Newton Energy, and four wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014; Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014; Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014; and Seplat Gas Company Limited ('Seplat Gas'), which was incorporated on 12 December 2014, are referred to as the Group.

Operating results:

	Nigerian ₦ million				US$ '000			
	The Group		The Company		The Group		The Company	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenue	63,384	112,972	51,995	98,593	254,217	570,477	202,446	497,867
Operating (loss)/profit	(44,949)	31,261	(38,793)	28,863	(157,883)	157,865	(164,299)	145,754
(Loss)/profit before taxation	(47,419)	17,243	(29,261)	15,159	(172,766)	87,079	(138,911)	76,549
(Loss)/profit after taxation	(45,384)	12,991	(24,840)	11,914	(166,094)	65,607	(124,412)	60,165

Proposed dividend

Owing to the exceptional circumstances as a direct result of force majeure events at the Forcados terminal experienced during the year, no dividend is recommended by the Directors (2015: US$0.08 per 50kobo share). During a period in which Seplat is focusing on preservation of liquidity and selective capital allocation and in order to ensure the Company maintains a necessary level of financial flexibility, the Board believes that the Company and its shareholders are better served at this point in time by selectively deploying available capital (on a discretionary basis) into the portfolio of production opportunities and preserving a liquidity buffer.

Unclaimed dividend

The total amount of dividend outstanding is US$302,054.10 and ₦45,384,042.83. A list of shareholders and corresponding unclaimed dividend is available on the Company's website: www.seplatpetroleum.com.

Changes in property, plant and equipment

Movements in property, plant and equipment and significant additions thereto are shown in note 15 to the financial statements.

Rotation of Directors

In accordance with the provisions of Section 259 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria ('LFN') 2004, one third of the Directors of the Company shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last election. Apart from the Executive Directors and Founding Directors (who are referred to as the Non-Executive Directors), all other Directors are appointed for a fixed term. Upon expiration of the terms, they become eligible for re-appointment. The Directors who are eligible for re-appointment this year are Basil Omiyi and Charles Okeahalam.

Corporate governance

The Board of Directors of the Company is committed to sound corporate governance, and ensures that the Company complies with Nigerian and UK corporate governance regulations as well as international best practice.

The Board is aware of the Code of Corporate Governance issued by the Securities and Exchange Commission in the administration of the Company and is ensuring that the Company complies with it. The Board is responsible for keeping proper accounting records with reasonable accuracy. It is also responsible for safeguarding the assets of the Company through prevention and detection of fraud and other irregularities.

The governance section details compliance with relevant legislation and relations with shareholders on pages 58 to 111, and forms part of the Directors' report.

In order to carry out its responsibilities, the Board has established five Board Committees and has delegated aspects of its responsibilities to them. The Committees of the Board and members are as follows:

1. Finance Committee

Dr. Charles Okeahalam	Committee Chairman
Michael Alexander	Member
Ifueko Omoigui Okauru	Member
Lord Mark Malloch-Brown	Member

2. Nomination and Establishment Committee

A.B.C. Orjiako	Committee Chairman
Basil Omiyi	Member
Michael Alexander	Member
Damian Dodo	Member

3. Remuneration Committee

Michael Alexander	Committee Chairman
Basil Omiyi	Member
Charles Okeahalam	Member
Damian Dodo	Member

4. HSSE and Risk Management Committee

Basil Omiyi	Committee Chairman
Macaulay Agbada Ofurhie	Member
Ifueko Omoigui Okauru	Member

5. Corporate Social Responsibility Committee

Lord Mark Malloch-Brown	Committee Chairman
Macaulay Agbada Ofurhie	Member
Ifueko Omoigui Okauru	Member

In addition to these Board Committees, the Company formed a statutory Audit Committee at its 30 June 2014 Annual General Meeting ('AGM') in compliance with Sections 359(3) and (4) of the Companies and Allied Matters Act ('CAMA'). In compliance with CAMA, three shareholder representatives and three Non-Executive Directors are elected at every AGM to sit on the Committee.

1. Statutory Audit Committee

Chief Anthony Idigbe, S.A.N.	Committee Chairman
Ifueko Omoigui Okauru	Member
Dr. Charles Okeahalam	Member (until 1 June 2016 AGM)
Macaulay Agbada Ofurhie	Member (after 1 June 2016 AGM)
Michel Hochard	Member
Dr. Faruk Umar	Member
Sir Sunday N. Nwosu, KSS	Member

Following a proposal made by the Board of Directors, Mr. Macaulay Agbada Ofurhie was elected at the 1 June 2016 AGM as a Director member on the Audit Committee in the place of Dr. Charles Okeahalam.

All six Committees have terms of reference that guide their members in the execution of their duties, and these terms of reference are available for review by the public. All the Committees present a report to the Board with recommendations on the matters within their purview.

Record of attendance of Board and Committee meetings

The record of attendance of Directors at Board meetings and that of its Committees in the year under review is published herewith:

Board of Directors

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	A.B.C. Orjiako	Chairman	8	8
2.	Austin Avuru		8	8
3.	Stuart Connal		8	7
4.	Roger Brown		8	8
5.	Michel Hochard[1]		8	8
6.	Macaulay Agbada Ofurhie		8	7
7.	Michael Alexander		8	8
8.	Charles Okeahalam		8	7
9.	Basil Omiyi		8	8
10.	Ifueko Omoigui Okauru		8	7
11.	Lord Mark Malloch-Brown		8	5
12.	Damian Dodo		8	7

1. One meeting attended by alternate Director Madame Nathalie Delapalme.

Finance Committee

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	Charles Okeahalam	Chairman	6	6
2.	Michael Alexander		6	6
3.	Ifueko Omoigui Okauru		6	4
4.	Lord Mark Malloch-Brown		6	5

Nomination and Establishment Committee

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	A.B.C. Orjiako	Chairman	3	3
2.	Basil Omiyi		3	3
3.	Michael Alexander		3	3
4.	Damian Dodo		3	2

Remuneration Committee

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	Michael Alexander	Chairman	5	5
2.	Basil Omiyi		5	4
3.	Charles Okeahalam		5	5
4.	Damian Dodo		5	5

HSSE and Risk Management Committee

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	Basil Omiyi	Chairman	4	4
2.	Macaulay Agbada Ofurhie		4	4
3.	Ifueko Omoigui Okauru		4	4

Corporate Social Responsibility Committee

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	Lord Mark Malloch-Brown	Chairman	3	3
2.	Macaulay Agbada Ofurhie		3	3
3.	Ifueko Omoigui Okauru		3	3

Statutory Audit Committee

S/N	Name		No. of meetings in the year	No. of times in attendance
1.	Chief Anthony Idigbe, SAN	Chairman	5	5
2.	Ifueko Omoigui Okauru		5	3
3.	Charles Okeahalam[1]		2	1
4.	Macaulay Agbada Ofurhie		3	2
5.	Michel Hochard		5	2
6.	Dr. Faruk Umar		5	5
7.	Sir Sunday N. Nwosu, KSS		5	5

1. Following a proposal made by the Board of Directors, Macaulay Agbada Ofurhie was elected at the 1 June 2016 AGM as a Director member on the Audit Committee in the place of Charles Okeahalam. Two of the Audit Committee meetings held in 2016 took place before this 1 June 2016 change.

Directors' interest in shares

The interests of the Directors (and of persons connected with them) in the share capital of the Company (all of which are beneficial unless otherwise stated) as at 31 December 2016, are as follows:

	31 Dec 15	31 Dec 16	24 Mar 17	
	No. of ordinary shares	No. of ordinary shares	No. of ordinary shares	As a percentage of ordinary shares in issue
A.B.C. Orjiako[1]	84,736,913	77,962,680	67,099,592	11.91%
Austin Avuru[2]	73,297,011	74,064,823	74,064,823	13.15%
Stuart Connal	14,433	657,289	657,289	0.12%
Roger Brown	1	535,715	535,715	0.10%
Michel Hochard	0	95,238	95,238	0.02%
Macaulay Agbada Ofurhie	4,806,373	4,901,611	4,901,611	0.87%
Michael Alexander	0	95,238	95,238	0.02%
Charles Okeahalam	502,000	597,238	597,238	0.11%
Basil Omiyi	400,000	495,238	495,238	0.09%
Ifueko Omoigui Okauru	0	95,238	95,238	0.02%
Lord Mark Malloch-Brown	0	31,746	31,746	0.01%
Damian Dodo	0	0	0	0.00%
Total	**163,756,731**	**159,532,054**	**148,668,966**	**26.39%**

1. 16,151,325 ordinary shares are held directly by A.B.C. Orjiako and Shebah Petroleum Development Company Limited; 18,500,000 ordinary shares are held by Vitol Energy Limited and 19,848,267 held by Zenith Bank, each for the benefit of Shebah Petroleum Development Company Limited, which is an entity controlled by A.B.C. Orjiako and members of his family; and 12,600,000 ordinary shares are held directly by A.B.C. Orjiako's siblings.
2. 27,217,010 ordinary shares are held by Professional Support Limited and 1,920,000 ordinary shares are held by Abtrust Integrated Services Limited, each of which is an entity controlled by Austin Avuru. 44,160,000 ordinary shares, are held by Platform Petroleum Limited, which is an entity in which Austin Avuru has a 23% equity interest and 767,813 ordinary shares are held by Austin Avuru.

Directors' interest in contracts
The Chairman and the Chief Executive Officer have disclosable indirect interests in contracts with which the Company was involved as at 31 December 2016 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, LFN, 2004. These have been disclosed in note 34.

Substantial interest in shares
According to the register of members at 31 December 2016 and also the date of this report, the following shareholders held more than 5.0% of the issued share capital of the Company:

Shareholder	Number	%
CIS PLC – MAIN	353,415,535	62.72
Platform Petroleum Limited	44,160,000	7.84

At 27 March 2017, CIS PLC – MAIN registered holding was 359,287,209 (63.77%). Platform Petroleum Limited remained unchanged.

Free float
The Company's free float at 31 December 2016 was 47.99%

Acquisition of own shares
The Company did not acquire any of its shares during the year.

Shareholding analysis
The shareholding pattern as at 31 December 2016 is as stated below:

Share Range	Number of shareholders	% of shareholders	Number of holdings	% Shareholding
1-10,000	1,574	83.63	1,577,442	0.28
10,001-50,000	163	8.66	4,239,526	0.75
50,001-100,000	41	2.18	2,828,884	0.50
100,001-500,000	67	3.56	14,918,813	2.65
500,001-1,000,000	11	0.58	7,630,767	1.35
1,000,001-5,000,000	18	0.96	45,796,731	8.13
5,000,001-10,000,000	3	0.16	20,336,351	3.61
10,000,001-50,000,000	4	0.21	112,700,512	20.00
100,000,001-500,000,000	1	0.05	353,415,535	62.72
Total	**1,882**	**100.00**	**563,444,561**	**100.00**

Share capital history

Year	Authorised increase	Cumulative	Issued increase	Cumulative	Consideration
June 2009	–	100,000,000	100,000,000	100,000,000	Cash
March 2013	100,000,000	200,000,000	100,000,000	200,000,000	Stock split from ₦1.00 to 50k
July 2013	200,000,000	400,000,000	200,000,000	400,000,000	Bonus (1 for 2)
August 2013	600,000,000	1,000,000,000	153,310,313	553,310,313	Cash
December 2014	–	1,000,000,000	–	553,310,313	No change
December 2015	–	1,000,000,000	10,134,248	563,444,561	Staff share scheme
December 2016	–	1,000,000,000	–	563,444,561	No change

Donations

The following donations were made by the Group during the year (2015: US$169,495, ₦41,000,000).

Name of beneficiary	₦'000	US$
University of Lagos – Faculty of Clinical Science Research Fund	5,364	23,488
Society of Petroleum Engineers	4,501	19,708
Nigerian Association of Petroleum Engineers	3,299	14,446
Petroleum Technology Association	3,214	14,076
University of Port Harcourt – Institute of Petroleum Studies	2,682	11,744
Milken Institute	2,671	11,695
Raitas Communications	2,659	11,646
The Nigerian Stock Exchange	1,786	7,819
Nigerian Society of Chemical Engineering	1,751	7,669
London School of Economics & Political Science	1,508	6,604
Delta State Economic Summit	1,132	4,959
Congress of Medical Womens Association	1,072	4,693
The Nigeria 2015 Cup	805	3,524
Urhobo Progress Union	538	2,357
National Judical Institute	536	2,349
Centre for Petroleum Information	536	2,346
Nigerian Gas Association	527	2,308
The Petroleum Club	525	2,299
Eye Can See	520	2,276
Nigeria & Enterpreneurship, Summit & Honors ('NESH')	350	1,533
Police Community Relations Committee	269	1,179
Centre for Petroleum Information	255	1,115
The Athletics Federation of Nigeria	189	827
Nigerian American Chamber of Commerce	175	768
National Associaton of Energy Correspondents	173	757
University of Ibadan Technical Conference	128	560
Women in Successful Careers ('WISCAR')	88	385
World Environment Day	80	352
Total	**37,333**	**163,482**

Employment and employees

a) Employees' involvement and training:

The Company continues to observe industrial relations practices such as joint Consultative Committees and briefing employees on the developments in the Company during the year under review.

Various incentive schemes for staff were maintained during the year while regular training courses were carried out for employees.

Educational assistance is provided to members of staff. Different cadres of staff were also assisted with payment of subscriptions to various professional bodies during the year.

The Company provides appropriate HSSE training to all staff, and Personal Protective Equipment ('PPE') to the appropriate staff.

b) Health, safety and welfare of employees:

The Company continues to enforce strict health and safety rules and practices at the work environment which are reviewed and tested regularly. The Company provides free medical care for its employees and their families through designated hospitals and clinics. Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises. The Company operates Group life insurance cover for the benefit of its employees. It also complies with the requirements of the Pension Reform Act, 2004 regarding its employees.

c) Employment of disabled or physically challenged persons:

The Company has a policy of fair consideration of job applications by disabled persons having regard to their abilities and aptitude. The Company's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees.

Auditor

The auditor, Ernst & Young, has indicated its willingness to continue in office in accordance with Section 357(2) of the Companies and Allied Matters Act, LFN, 2004. A resolution will be proposed for the re-appointment of Ernst & Young as the Company's auditor and for authorisation to the Board of Directors to fix auditor's remuneration.

By Order of the Board

Dr. Mirian Kene Kachikwu
FRC/2015/NBA/00000010739
Company Secretary
Seplat Petroleum Development Company Plc
25a Lugard Avenue
Ikoyi
Lagos
Nigeria

30 March 2017

Statement of Directors' responsibilities

For the year ended 31 December 2016

The Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004, requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and of its profit or loss. The responsibilities include ensuring that the Company:

a. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004;

b. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

c. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, and are consistently applied.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards ('IFRS'), the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and Financial Reporting Council of Nigeria Act, No 6, 2011.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its financial performance for the year. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least 12 months from the date of this statement.

Signed on behalf of the Directors by

A.B.C. Orjiako
Chairman
FRC/2013/IODN/00000003161
30 March 2017

Austin Avuru
Chief Executive Officer
FRC/2013/IODN/00000003100
30 March 2017

Financial statements

Expressed in Nigerian Naira

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Independent auditor's report to the members of Seplat Petroleum Development Company Plc

For the year ended 31 December 2016

Opinion

We have audited the consolidated and separate financial statements of Seplat Petroleum Development Company Plc (the 'Company') and its subsidiaries (together the 'Group') which comprise:

Group	Company
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016	Company statement of profit or loss and other comprehensive income for the year ended 31 December 2016
Consolidated statement of financial position as at 31 December 2016	Company statement of financial position as at 31 December 2016
Consolidated statement of changes in equity for the year then ended 31 December 2016	Company statement of changes in equity for the year then ended 31 December 2016
Consolidated statement of cash flows for the year then ended 31 December 2016	Company statement of cash flows for the year then ended 31 December 2016
Related notes to the consolidated financial statements	Related notes to the Company financial statements

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the Group and of the Company as at 31 December 2016, and of the Group and Company financial performance and cash flows for the year then ended;
- the financial statements of the Group and Company have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'); and
- the financial statements of the Group and Company have been prepared in accordance with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code') and other independence requirements applicable to performing audits of Seplat Petroleum Development Company Plc. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Seplat Petroleum Development Company Plc. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment. As at 31 December 2016, Seplat reported 461.7 MMboe of proved plus probable reserves. The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&A, impairments and decommissioning provisions. There is technical uncertainty in assessing reserve quantities.	We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures: • ensured that significant movements in reserves are compliant with guidelines and policy; • ensured that additions to oil assets during the year were properly recognised and accounted for; • performed analytical review procedures on reserve revisions; • confirmed that the reserve information at year end is supported by underlying documentation and data; • performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and • reviewed disclosures in the Annual Report and Accounts to ensure consistency with the reserves data that we have reviewed.

Independent auditor's report to the members of Seplat Petroleum Development Company Plc continued

For the year ended 31 December 2016

Key audit matter	How the matter was addressed in the audit
The assessment of the recoverable amount of exploration and production assets As at 31 December 2016, Seplat recognised US$1.224 billion of oil and gas properties. A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties. In view of the generally long-lived nature of Seplat's assets, the most critical assumption in forecasting future cash flows is management's view on the long-term oil and gas price outlook beyond the next three to four years. Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures.	Accounting standards require management to assess at each reporting date whether indicators of impairment exist. Seplat carried out an impairment test. Our audit procedures on the impairment test included: • assessed whether or not reserve movements represented an impairment trigger; • considered oil and gas forward curves and long-term commodity price assumptions and whether these are indicators of impairment; • discussed with management the operational status of key assets; • separately from management, we assessed whether or not indicators of impairment exist; and • challenged management's assumptions in estimating future cash flows from assets.
Deconsolidation of subsidiary During 2016, following the restructuring of the arrangement with BelemaOil, Seplat deconsolidated BelemaOil as it no longer exercised control over the entity. Seplat has recorded its rights to receive the discharge sum of US$330 million from the crude oil reserves of OML 55 as a right to receive oil to the tune of the discharge sum. The fair value of the discharge sum on the date of deconsolidation is US$250 million.	We carried out the following audit procedures: • reviewed the terms of the agreements relating to BelemaOil, including the Asset Management Team agreement, Deed of Settlement and Release and other Deeds of Settlement; • reviewed management's assessment and accounting of the transaction to ensure that the appropriate accounting treatment is reflected in the financial statements; and • assessed the appropriateness of the estimated fair value of the discharge sum and management's assessment for recoverability.
Recoverability of the Nigerian Petroleum Development Company ('NPDC') receivables As at 31 December 2016, the undiscounted/discounted value of the receivable balance is US$239/US$229 million respectively. Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's past experiences with NPDC, current discussions with NPDC and financial capacity of NPDC.	We carried out the following procedures: • validated the receipts during the year and post year-end; • obtained confirmation from NNPC of amounts owed to Seplat; • recalculated the US Dollar equivalent of amounts owed in Nigerian Naira; • discussed and challenged management's expectations in relation to the in-flow of funds; and • ensured that amounts due are discounted to reflect the time value of money in line with expected timing of receipts.

Other information

The Directors are responsible for the other information. The other information comprises the Report of the Directors, Audit Committee's Report, Statement of Directors' Responsibilities and Other National Disclosures, which we obtained prior to the date of this report, and the Annual Report and Accounts, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report and Accounts, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting processes.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004, we confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;

iii) the statements of financial position and profit or loss and other comprehensive income are in agreement with the books of account;

iv) and in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.

Yemi Odutola FCA
FRC/2012/ICAN/00000000141

Partner
For: Ernst & Young
Lagos, Nigeria
30 March 2017

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

		The Group		The Company	
	Notes	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Revenue	5	63,384	112,972	51,995	98,593
Cost of sales	6	(47,076)	(63,708)	(36,048)	(53,569)
Gross profit		16,308	49,264	15,947	45,024
Other operating income	7	–	459	–	459
General and administrative expenses	8	(30,001)	(24,054)	(23,017)	(21,012)
(Losses)/gains on foreign exchange (net)	9	(28,684)	1,534	(29,537)	1,779
Gain on deconsolidation of subsidiary	17c	210	–	–	–
Fair value (loss)/gain	10	(2,782)	4,058	(2,186)	2,613
Operating (loss)/ profit		(44,949)	31,261	(38,793)	28,863
Finance income	11	15,800	2,535	26,846	1,611
Finance costs	11	(18,270)	(16,553)	(17,314)	(15,315)
(Loss)/profit before taxation		(47,419)	17,243	(29,261)	15,159
Taxation	12	2,035	(4,252)	4,421	(3,245)
(Loss)/profit for the year		(45,384)	12,991	(24,840)	11,914
(Loss)/profit attributable to equity holders of parent		(44,921)	13,418	(24,840)	11,914
(Loss)/profit attributable to non-controlling interest		(463)	(427)	–	–
		(45,384)	12,991	(24,840)	11,914
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Foreign currency translation difference		144,248	20,540	147,881	9,532
Items that will not be reclassified to profit or loss					
Remeasurement of post-employment benefit obligations	30b	172	–	172	–
Other comprehensive income for the year		144,420	20,540	148,053	9,532
Total comprehensive income for the year		99,036	33,531	123,213	21,446
Total comprehensive income attributable to equity holders of parent		99,572	33,958	123,213	21,446
Total comprehensive income attributable to non-controlling interest		(536)	(427)	–	–
		99,036	33,531	123,213	21,446
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:					
Basic (loss)/earnings per share (₦)	32	(79.73)	23.94	(44.09)	21.25
Diluted (loss)/ earnings per share (₦)	32	(79.51)	23.93	(43.97)	21.25

Statement of financial position
For the year ended 31 December 2016

	Notes	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
ASSETS					
Non-current assets					
Oil & gas properties	15a	373,442	285,722	264,626	157,779
Other property, plant and equipment	15b	2,430	2,307	2,414	2,218
Other asset	17b	76,277	–	–	–
Goodwill	16	–	398	–	–
Prepayments	18	10,253	7,308	10,253	7,308
Investment in subsidiaries	19	–	–	325	212
Total non-current assets		**462,402**	**295,735**	**277,618**	**167,517**
Current assets					
Inventories	20	32,395	16,398	31,295	15,681
Trade and other receivables	21	119,160	161,309	326,046	262,874
Prepayments	18	2,035	2,315	1,983	2,124
Cash & cash equivalents	22	48,684	64,828	44,950	62,908
Derivatives	23	–	4,612	–	4,612
Total current assets		202,274	249,462	404,274	348,199
Total assets		**664,676**	**545,197**	**681,892**	**515,716**
EQUITY AND LIABILITIES					
Equity					
Issued share capital	24	283	282	283	282
Share premium	24c	82,080	82,080	82,080	82,080
Share-based payment reserve	24b	2,597	1,729	2,597	1,729
Capital contribution	25	5,932	5,932	5,932	5,932
Retained earnings		85,052	134,919	106,670	136,456
Foreign currency translation reserve		200,429	56,182	193,499	45,618
Non-controlling interest		–	(148)	–	–
Total shareholders' equity		**376,373**	**280,976**	**391,061**	**272,097**
Non-current liabilities					
Interest bearing loans and borrowings	27	136,060	121,063	136,060	110,624
Deferred tax liabilities	13	–	4,222	–	3,258
Contingent consideration	28	3,672	4,355	–	–
Provision for decommissioning obligation	29	182	769	103	591
Defined benefit plan	30	1,559	1,377	1,559	1,377
Total non-current liabilities		**141,473**	**131,786**	**137,722**	**115,850**
Current liabilities					
Interest bearing loans and borrowings	27	66,489	57,817	66,489	57,817
Trade and other payables	31	79,766	74,571	86,045	69,952
Current taxation	12	575	47	575	–
Total current liabilities		**146,830**	**132,435**	**153,109**	**127,769**
Total liabilities		**288,303**	**264,221**	**290,831**	**243,619**
Total shareholders' equity and liabilities		**664,676**	**545,197**	**681,892**	**515,716**

Notes 1 to 37 are an integral part of the financial statements.

The financial statements of Seplat Development Company Plc for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 23 March 2017 and were signed on its behalf by:

A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
30 March 2017

Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
30 March 2017

Roger Brown
FRC/2014/IODN/00000007983
Chief Financial Officer
30 March 2017

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Statement of changes in equity
For the year ended 31 December 2016

The Group

	Notes	Issued share capital ₦'m	Share premium ₦'m	Capital contribution ₦'m	Share-based payment reserve ₦'m	Retained earnings ₦'m	Foreign currency translation reserve ₦'m	Total ₦'m	Non-controlling interest ₦'m	Total equity ₦'m
At 1 January 2015		277	82,080	5,932	–	135,727	35,642	259,658	–	259,658
Profit /(loss) for the year		–	–	–	–	13,418	–	13,418	(427)	12,991
Other comprehensive income		–	–	–	–	–	20,540	20,540	–	20,540
Total comprehensive income/ (loss) for the year		–	–	–	–	**13,418**	**20,540**	**33,958**	**(427)**	**33,531**
Transactions with owners in their capacity as owners:										
Dividends	33	–	–	–	–	(14,226)	–	(14,226)	–	(14,226)
Employee share schemes	24b	–	–	–	1,734	–	–	1,734	–	1,734
NCI on acquisition of subsidiary		–	–	–	–	–	–	–	279	279
Issue of shares	24b	5	–	–	(5)	–	–	–	–	–
Total		5	–	–	1,729	(14,226)	–	(12,492)	279	(12,213)
At 31 December 2015		**282**	**82,080**	**5,932**	**1,729**	**134,919**	**56,182**	**281,124**	**(148)**	**280,976**
At 1 January 2016		282	82,080	5,932	1,729	134,919	56,182	281,124	(148)	280,976
Loss for the year		–	–	–	–	(44,921)	–	(44,921)	(463)	(45,384)
Other comprehensive income		–	–	–	–	172	144,247	144,419	(73)	144,346
Total comprehensive income/ (loss) for the year		–	–	–	–	**(44,749)**	**144,247**	**99,498**	**(536)**	**98,962**
Transactions with owners in their capacity as owners:										
Dividends	33	–	–	–	–	(5,118)	–	(5,118)	–	(5,118)
Employee share schemes	24b	–	–	–	869	–	–	869	–	869
Loss of control		–	–	–	–	–	–	–	684	684
Issue of shares	24b	1	–	–	(1)	–	–	–	–	–
Total		**1**	–	–	**868**	**(5,118)**	–	**(4,249)**	**684**	**(3,565)**
At 31 December 2016		**283**	**82,080**	**5,932**	**2,597**	**85,052**	**200,429**	**376,373**	–	**376,373**

								The Company
	Notes	Issued share capital ₦'m	Share premium ₦'m	Capital contribution ₦'m	Share-based payment reserve ₦'m	Retained earnings ₦'m	Foreign currency translation reserve ₦'m	Total equity ₦'m
At 1 January 2015		277	82,080	5,932	–	138,768	36,086	263,143
Profit for the year		–	–	–	–	11,914	–	11,914
Other comprehensive income		–	–	–	–	–	9,532	9,532
Total comprehensive income for the year		–	–	–	–	**11,914**	**9,532**	**21,446**
Transactions with owners in their capacity as owners:								
Dividends	33	–	–	–	–	(14,226)	–	(14,226)
Employee share schemes	24b	–	–	–	1,734	–	–	1,734
Issue of shares	24b	5	–	–	(5)	–	–	–
Total		**5**	–	–	**1,729**	**(14,226)**	–	**(12,492)**
At 31 December 2015		**282**	**82,080**	**5,932**	**1,729**	**136,456**	**45,618**	**272,097**
At 1 January 2016		282	82,080	5,932	1,729	136,456	45,618	272,097
Loss for the year		–	–	–	–	(24,840)	–	(24,840)
Other comprehensive income		–	–	–	–	172	147,881	148,053
Total comprehensive income/(loss) for the year		–	–	–	–	**(24,668)**	**147,881**	**123,213**
Transactions with owners in their capacity as owners:								
Dividends	33	–	–	–	–	(5,118)	–	(5,118)
Employee share schemes	24b	–	–	–	869	–	–	869
Issue of shares	24b	1	–	–	(1)	–	–	–
Total		**1**	–	–	**868**	**(5,118)**	–	**(4,249)**
At 31 December 2016		**283**	**82,080**	**5,932**	**2,597**	**106,670**	**193,499**	**391,061**

Statement of cash flows
For the year ended 31 December 2016

	Notes	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Cash flows from operating activities					
Cash generated from operations	14	62,587	7,533	37,184	19,132
Receipts from derivatives		3,275	–	3,275	–
Net cash inflows from operating activities		65,862	7,533	40,459	19,132
Cash flows from investing activities					
Investment in oil and gas properties		(15,805)	(72,653)	(15,805)	(27,721)
Acquisition of other property, plant and equipment		(992)	(914)	(992)	(922)
Disposal of other property, plant and equipment		151	–	151	–
Acquisition of subsidiary		–	(15,725)	–	–
Proceeds from sale of assets		–	41	–	41
Interest received		15,800	642	26,846	642
Refunds from advances on investment		–	72,907	–	–
Net cash (outflows)/inflows from investing activities		(846)	(15,702)	10,200	(27,960)
Cash flows from financing activities					
Proceeds from bank financing		–	191,515	–	191,515
Repayments of bank financing		(44,835)	(145,738)	(43,774)	(145,738)
Dividends paid		(5,118)	(14,226)	(5,118)	(14,226)
Interest paid		(18,165)	(15,315)	(17,227)	(15,315)
Net cash (outflows)/inflows from financing activities		(68,118)	16,236	(66,119)	16,236
Net (decrease)/increase in cash and cash equivalents		(3,102)	8,067	(15,460)	7,408
Cash and cash equivalents at beginning of year		64,828	52,571	62,908	51,348
Effects of exchange rate changes on cash and cash equivalent		(13,042)	4,190	(2,498)	4,152
Cash and cash equivalents at end of year	22	**48,684**	**64,828**	**44,950**	**62,908**

Notes to the financial statements

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Company and Allied Matters Act 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

The Company's registered address is: 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US$340 million paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US$33 million payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US$80 per barrel. US$358.6 million was allocated to the producing assets including US$18.6 million as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US$33 million was paid on 22 October 2012.

In 2013, Newton Energy Limited ('Newton Energy'), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2013, Newton Energy acquired from Pillar Oil Limited ('Pillar Oil') a 40% participant interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields').

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd. for US$259.4 million. It also concluded negotiations to buy 56.25% of BelemaOil Producing Ltd., a Nigerian special purpose vehicle that bought a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta. NNPC holds the remaining 60.00% interest in OML 55, and Seplat's effective participating interest in OML 55 as a result of the acquisition was 22.50%.

Based on the above, Seplat consolidated BelemaOil in its 31 December 2015 consolidated financial statements.

During the current reporting period, the minority shareholders of BelemaOil began to dispute Seplat's majority shareholding in the entity. In July 2016, Seplat instituted legal action in a bid to secure its investment in OML 55.

Subsequently, and in a bid to resolve 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, as at the reporting date fair valued at US$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held 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 relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

Subsequent to year end, the Asset Management Team of OML 55 has been formally inaugurated, and first lifting has taken place, the proceeds of which have been deposited into the escrow account as prescribed in the agreements.

As a result of the foregoing, Seplat no longer exercises control and has now deconsolidated BelemaOil in the financial statements in accordance with IFRS 10 (par B97). Seplat has recorded its rights to receive the discharge sum from the crude oil reserves of OML 55 as investment in other.

The Company together with its subsidiary, Newton Energy, and four wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014, and Seplat Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014, are referred to as the Group.

Subsidiary	Country of incorporation and place of business	Shareholding %	Principal activities
Newton Energy Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Petroleum Development UK	United Kingdom	100%	Oil & gas exploration and production
Seplat East Onshore Limited	Nigeria	100%	Oil & gas exploration and production
Seplat East Swamp Company Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Gas Company	Nigeria	100%	Oil & gas exploration and production

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated and separate financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Seplat and its subsidiaries.

2.2 Basis of preparation

i) Compliance with IFRS

The consolidated and separate financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC') applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board ('IASB'). Additional information required by national regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

ii) Historical cost convention

The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, borrowings on initial recognition and financial instruments – derivatives that have been measured at fair value. The historical financial information is presented in Nigeria Naira and all values are rounded to the nearest million (₦'m), except when otherwise indicated. The accounting policies are applicable to both the Company and Group.

iii) Going concern

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least 12 months from the date of this statement.

iv) New and amended standards adopted by the Group

There were a number of new standards and interpretations, effective from 1 January 2016, that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future is described below. Several other amendments apply for the first time in 2016; however, they do not impact the annual financial statements of the Group.

Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

a) Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator account for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, using the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity. BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. As required by this amendment, the application of IFRS 3 principles in accounting for this transaction had no material impact in the financial statements as the transfer of assets between parties was in settlement of a pre-existing relationship and Seplat has no other interests in the jointly managed OML 55 except for the discharge sum which has been recognised at fair value and the resulting gain on the transaction recognised in the profit or loss account.

b) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

c) Annual Improvements to IFRS 2012-2014. These improvements are effective for annual periods beginning on or after 1 January 2016.

They include:

- IAS 34 Interim Financial Reporting
- Amendments to IAS 1: Disclosure Initiative
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts
- Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

As these amendments merely clarify the existing requirements, they do not materially affect the Group's accounting policies or any of the disclosures.

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v) New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

i) IFRS 9 Financial Instruments

IFRS 9 Financial instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect accounting for own credit risk of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles based approach. The Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 – Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group is yet to assess the full impact of IFRS 9.

ii) IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the Group is yet to estimate the effect of the new principles on the Group's financial statements. The Group will make more detailed assessments of the effect over the next 12 months. The Group does not expect to adopt the new standard before 1 January 2018.

iii) IFRS 16 Leases

This standard eliminates the classification of leases as either operating or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases under IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, the Group also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 does not require a lessee to recognise assets and liabilities for (a) short-term leases, or (b) leases of low-value assets. The Group is yet to assess the full impact of IFRS 16 and intends to adopt IFRS 16 no later than 1 January 2019 as required by the standard.

At this stage, the Group is yet to estimate the effect of the new rules on its financial statements. The Group will make more detailed assessments of the effect over the next 12 months. The Group does not expect to adopt the new standard before 1 January 2019.

iv) Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

This amendment is effective 1 January 2017.

2. Summary of significant accounting policies continued

2.3 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date control ceases.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

ii) Change in the ownership interest of subsidiary

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

iv) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. As at the reporting date, the Group has only joint operations.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

The Group recognises in its own accounting records as follows:

a) Its share of the mineral properties is shown within property, plant and equipment.

b) Any liabilities that it has incurred including those incurred to finance its share of the asset.

c) Its share of any liabilities incurred jointly with other venturers, including the decommissioning liability of production and field facilities.

d) Any income from its sale or use of its share of the output.

e) Any expenses that it has incurred in respect of its interest in the venture, together with its share of any expenses incurred by the joint operation.

In addition to joint costs, the Group also incurs exclusive costs, which are fully borne by the Group.

2.4 Functional and presentation currency

Items included in the financial statements of the Company and each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US Dollar. The consolidated and separate financial statements are presented in Nigerian Naira.

i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

ii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.5 Oil and gas accounting

i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

ii) Exploration licence cost

Exploration licence costs are capitalised within oil and gas properties. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss.

iii) Acquisition of producing assets

Upon acquisition of producing assets which do not constitute a business combination, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) Exploration and evaluation expenditures

Geological and geophysical exploration costs are charged to profit or loss as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised. Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves; and
- active and significant operations in, or in relation to, the area of interest are continuing.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) Development expenditures

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

2.6 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the participant's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the income statement as revenue or cost of sales.

2.7 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

Leasehold improvements	Over the unexpired portion of the lease
Plant and machinery	20%
Office furniture and equipment	33.33%
Motor vehicles	25%
Computer equipment	33.33%

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level no higher than an operating segment.

If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Group's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash-generating unit to it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment once commercial reserves are found before they are transferred to oil and gas assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment – proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2.11 Inventories

Inventories represent the value of tubulars, casings and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.12 Other asset

The Group's interest in the oil and gas reserves of OML 55 has been classified as other asset. On initial recognition, it is measured at the fair value of future recoverable oil and gas reserves.

Subsequently, the other asset is stated at the amount initially recognised, less accumulated impairment losses.

The carrying value of the other asset is reviewed for impairment whenever events or circumstances indicate the carrying value may not be recoverable.

2.13 Segment reporting

Segment reporting has not been prepared as the Group operates one segment, being the exploration, development and production of oil and gas related products located in Nigeria. Operations in the different OMLs are integrated due to geographic proximity, the use of shared infrastructure and common operational management.

2.14 Financial instruments

2.14.1 Financial assets

i) Financial assets initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through the statement of profit or loss which do not include transaction costs. The Group's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives and loan and other receivables.

2. Summary of significant accounting policies continued

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Group's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

iii) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial asset is transferred, the transfer qualifies for derecognition if the Group transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

2.14.2 Financial liabilities

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

i) Financial liabilities initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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iii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.14.3 Derivative financial instruments

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 4 Financial risk management.

2.14.4 Fair value of financial instruments

The Group measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2.15 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

2. Summary of significant accounting policies continued

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ('CGU') and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.16 Share capital

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

2.17 Earnings and dividends per share

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent (after adjusting for outstanding share options arising from the share-based payment scheme) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

2.18 Post-employment benefits

Defined contribution scheme

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Group operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Defined benefit scheme

The Group operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses:

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

2.19 Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money are considered to be material;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events, such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

2.20 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

2.21 Income taxation

i) Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Summary of significant accounting policies continued

iii) New tax regime

Effective 1 January 2014, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Newton Energy was also granted pioneer tax status on the same basis. The Company has completed its first three years of the pioneer tax period and is no longer exempted from paying petroleum profits tax on crude oil profits, corporate income tax on natural gas profits and education tax of 2%.

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for these entities in the financial statements.

2.22 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.23 Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

i) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated historical financial information:

i) OMLs 4, 38 and 41

OMLs 4, 38 and 41 are grouped together as a cash-generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

ii) Advances on investment (note 21)

The Group considers that the advances on investment of ₦20 billion in relation to the acquisition of additional assets are fully recoverable in accordance with the terms of the deposit.

iii) New tax regime

As at the end of the year, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group and Company's current and deferred taxation in the financial statements. There were no deferred tax liabilities recognised during the year. In 2015, deferred tax liabilities recognised in the period would have been reduced by ₦3 billion for Group and Company, if assumed that the tax incentives were renewed.

iv) Deconsolidation of subsidiary (note 17)

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity.

BelemaOil's 40% stake in OML 55 will be jointly managed 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 consent of all parties is required for decision making. Asset Management Team guidelines and other agreements that will govern the operations of the AMT have been approved. The Group has recognised this as other assets.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i) Other asset (note 17b)

Seplat has recorded its rights to receive the discharge sum of ₦100 billion (US$330 million) from the crude oil reserves of OML 55 as other asset.. The fair value of the discharge sum on the date of deconsolidation is ₦76 billion (US$250 million) and has been determined using the income approach in line with IFRS 13 (Discounted Cash Flow). The gain on deconsolidation recognised amounted to ₦210 million (US$680,000) and has been recognised in the income statement.

ii) NPDC receivables (note 21)

NPDC receivables were impaired during this year (2015: not materially impaired). The impairment assessment was carried out using the future estimated cash flow expected to be recoverable from NPDC over the next two years. The estimated future cash payments and receipts recoverable over the expected life of the receivable were discounted using Seplat's average borrowing cost of 8%. The resulting adjustment has been recognised under general and administrative expenses in the statement of comprehensive income. As at 31 December 2016, the total amount owed by NPDC is ₦72 billion (2015: ₦97 billion). This is the undiscounted amount; see note 21 for the impairment loss and discounted value.

iii) Contingent consideration (note 28)

During the year, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The Group continued to recognise the contingent consideration of ₦5.6 billion for OML 53 at the fair value of ₦3.6 billion; it is contingent on the oil price rising above US$90/bbl over the next three years.

3. Significant accounting judgements, estimates and assumptions continued

iv) Defined benefit plans (pension benefits) (note 30)

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

v) Oil and gas reserves

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

vi) Share-based payment reserve (note 24b)

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, and uses a Monte-Carlo model for the global offer, non-executive and long-term incentive scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 24b.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

vii) Provision for decommissioning obligations (note 29)

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

viii) Property, plant and equipment (note 15)

The Group assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

In 2016, in response to the force majeure on OMLs 4, 38 and 41, the Group executed an impairment assessment. The Group used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US$55 in 2017, US$60 in 2018 and US$70 per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital.

Management has considered whether a reasonably possible change in one of the main assumptions will cause an impairment and believes otherwise.

ix) Useful life of other property, plant and equipment

The Group recognises depreciation on other property, plant and equipment on a straight line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Group may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

x) Contingencies (note 36)

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

xi) Income taxes (note 12)

The Group is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

4. Financial risk management
4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	• Future commercial transactions • Recognised financial assets and liabilities not denominated in US Dollars	• Cash flow forecasting • Sensitivity analysis	• Match and settle foreign denominated cash inflows with foreign denominated cash outflows
Market risk – interest rate	• Long-term borrowings at variable rate	• Sensitivity analysis	• None
Market risk – commodity prices	• Future sales transactions	• Sensitivity analysis	• Oil price hedges
Credit risk	• Cash and cash equivalents, trade receivables and derivative financial instruments	• Ageing analysis • Credit ratings	• Diversification of bank deposits
Liquidity risk	• Borrowings and other liabilities	• Rolling cash flow forecasts	• Availability of committed credit lines and borrowing facilities

4.1.1 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) Commodity price risk

The Group is exposed to the risk of fluctuations on crude oil prices. The Group currently hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the off-take agreement.

The following table summarises the impact on the Group's (loss)/profit before tax of a 10% change in crude oil prices, with all other variables held constant:

Increase/decrease in commodity price – the Group	Effect on (loss) profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	4,537	–	9,812	–
-10%	(4,537)	–	(9,812)	–

Increase/decrease in commodity price – the Company	Effect on (loss) profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	2,958	–	8,369	–
-10%	(2,958)	–	(8,369)	–

The following table summarises the impact on the Group's (loss)/profit before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in commodity price – the Group	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	3,217	–	1,531	–
-10%	(3,217)	–	(1,531)	–

Increase/decrease in commodity price – the Company	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	3,217	–	1,531	–
-10%	(3,217)	–	(1,531)	–

Notes to the financial statements continued

4. Financial risk management continued

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Borrowings issued at fixed rates do not expose the Group to market interest rate risk. Most of the Group's borrowings are denominated in US Dollars.

The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Group.

The following table demonstrates the sensitivity of the Group and Company's (loss)/profit before tax to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate – the Group	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+1%	2,025	–	1,789	–
-1%	(2,025)	–	(1,789)	–

Increase/decrease in interest rate – the Company	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+1%	2,025	–	1,684	–
-1%	(2,025)	–	(1,684)	–

iii) Foreign exchange risk

The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US Dollar.

The Group holds the majority of its cash and cash equivalents in US Dollar. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activity and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables and trade and other payables.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group and Company's (loss)/ profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Financial assets				
Cash and cash equivalents	9,972	3,224	8,358	3,179
Trade and other receivables	20,604	27,342	20,604	27,342
	30,576	30,566	28,962	30,521
Financial liabilities				
Trade and other payables	(2,869)	(7,945)	(2,793)	(7,951)
Net exposure to foreign exchange risk	**27,707**	**22,621**	**26,169**	**22,570**

Sensitivity to foreign exchange risk is based on the Group and Company's net exposure to foreign exchange risk due to Naira denominated balances.

Increase/decrease in foreign exchange risk – the Group	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+5%	(1,319)	–	(1,077)	–
-5%	1,458	–	1,191	–

Increase/decrease in foreign exchange risk – the Company	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+5%	(1,246)	–	(1,075)	–
-5%	1,377	–	1,188	–

4.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers and Joint venture partners, i.e. NPDC with outstanding receivables.

i) Risk management

The Company's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria is also to run for five years until 31 July 2020 with a 30 day payment term. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the year. The Company monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which have now been impaired during this reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Company's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The accounts receivable balance includes the following related party receivables:

		The Group		The Company	
		Percentage of total receivables			
Related party	Payment terms	2016	2015	2016	2015
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%	1%	1%

The maximum exposure to credit risk as at the reporting date is:

	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Trade and other receivables (gross)	119,431	159,057	326,572	260,641
Cash and cash equivalents	48,684	64,828	44,950	62,908
Derivatives	–	4,612	–	4,612
Gross amount	168,115	228,497	371,522	328,161
Impairment of NPDC receivables	(3,129)	–	(3,129)	–
Net amount	164,986	228,497	368,393	328,161

Trade and other payables (excluding non-financial liabilities such as provisions, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts in the financial statements approximate their fair values.

Notes to the financial statements continued

4. Financial risk management continued

31 Dec 2016	Trade receivables ₦'m	NPDC/ NAPIMS receivables ₦'m	Other receivables ₦'m	Cash & cash equivalents ₦'m	Derivatives ₦'m	Total ₦'m
						The Group
Neither past due nor impaired	334	–	1,579	48,684	–	50,597
Past due but not impaired	22,061	2,512	20,040	–	–	44,613
Impaired	–	72,905	–	–	–	72,905
Gross amount	22,395	75,417	21,619	48,684	–	168,115
Impairment loss	–	(3,129)	–	–	–	(3,129)
Net amount	22,395	72,288	21,619	48,684	–	164,986
31 Dec 2015						
Neither past due nor impaired	15,848	54,574	34,608	64,828	4,612	174,470
Past due but not impaired	10,777	43,250	–	–	–	54,027
Impaired	–	–	–	–	–	–
Gross amount	26,625	97,824	34,608	64,828	4,612	228,497
Impairment loss	–	–	–	–	–	–
Net amount	26,625	97,824	34,608	64,828	4,612	228,497

31 Dec 2016	Trade receivables & intercompany receivables ₦'m	NPDC receivables ₦'m	Other receivables ₦'m	Cash & cash equivalents ₦'m	Derivatives ₦'m	Total ₦'m
						The Company
Neither past due nor impaired	232,398	–	8	44,950	–	277,356
Past due but not impaired	21,261	–	–	–	–	21,261
Impaired	–	72,905	–	–	–	72,905
Gross amount	253,659	72,905	8	44,950	–	371,522
Impairment loss	–	(3,129)	–	–	–	(3,129)
Net amount	253,659	69,776	8	44,950	–	368,393
31 Dec 2015						
Neither past due nor impaired	11,630	54,574	143,861	62,908	4,612	277,585
Past due but not impaired	7,326	43,250	–	–	–	50,576
Impaired	–	–	–	–	–	–
Gross amount	18,956	97,824	143,861	62,908	4,612	328,161
Impairment loss	–	–	–	–	–	–
Net amount	18,956	97,824	143,861	62,908	4,612	328,161

ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Counterparties with external credit rating (Fitch's)	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Cash and cash equivalents				
Non rated	26,434	14,469	24,457	14,087
B -	587	5,210	587	5,210
B	7,786	6,052	6,446	4,517
B +	2,863	473	2,447	472
A +	11,014	38,624	11,013	38,622
	48,684	**64,828**	**44,950**	**62,908**

Counterparties without external credit rating	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Trade and other receivables[1]				
Group 1	–	3,381	–	3,381
Group 2	1,914	89,418	232,405	194,453
Group 3	–	12,231	–	12,231
	1,914	**105,030**	**232,405**	**210,065**

1. Includes trade receivables, intercompany receivables, NPDC receivables and other receivables.

Counterparties without external credit rating	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Derivatives				
Group 1	–	4,612	–	4,612
Group 2	–	–	–	–
Group 3	–	4,612	–	4,612
Total that are neither past due nor impaired	**50,598**	**174,470**	**277,355**	**277,585**

Group 1 – new customers (less than 1 year).
Group 2 – existing customers (more than 1 year) with some defaults in the past. All defaults were fully recovered.
Group 3 – Government entities.

iii) Ageing analysis for financial assets that are past due but not impaired

The ageing analysis of the trade receivables and amounts due from NPDC/NAPIMS is as follows:

The Group:	Total ₦'m	Past due but not impaired <30 days ₦'m	30-60 days ₦'m	60-90 days ₦'m	90-120 days ₦'m	>120 days ₦'m
Trade receivables						
31 December 2016	22,061	13,925	–	1,513	–	6,623
31 December 2015	10,777	1,046	1,981	1,339	1,797	4,614
NPDC/NAPIMS receivables						
31 December 2016	2,510	–	179	1,075	183	1,073
31 December 2015	43,250	5,411	11,311	1,993	8,320	16,215

The Company:	Total ₦'m	Past due but not impaired <30 days ₦'m	30-60 days ₦'m	60-90 days ₦'m	90-120 days ₦'m	>120 days ₦'m
Trade receivables						
31 December 2016	21,261	13,925	–	1,513	–	5,823
31 December 2015	7,326	1,046	1,425	1,620	1,797	1,438
NPDC receivables						
31 December 2016	–	–	–	–	–	–
31 December 2015	43,250	5,411	11,311	1,993	8,320	16,215

4. Financial risk management continued

iv) Impaired receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses. See note 2.14.1(iii) for information about how impairment losses are calculated.

Individually impaired trade receivables relate to NPDC receivables that have been outstanding over the years (2015 – Nil). The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	The Group and Company	
	2016 ₦'m	2015 ₦'m
At 1 January	–	–
Allowance for impairment recognised during the year	2,273	–
Exchange differences	856	–
At 31 December	3,129	–

4.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

The Group

31 December 2016	Effective interest rate %	Less than 1 year ₦'m	1 – 2 year ₦'m	2 – 3 years ₦'m	3 – 5 years ₦'m	After 5 years ₦'m	Total ₦'m
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	11,409	23,182	21,383	22,715	–	78,689
First Bank of Nigeria Limited	8.5% + LIBOR	7,131	14,489	13,364	14,197	–	49,181
United Bank for Africa Plc	8.5% + LIBOR	7,131	14,489	13,364	14,197	–	49,181
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,069	2,171	2,003	2,128	–	7,371
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,069	2,171	2,003	2,128	–	7,371
Standard Chartered Bank	6.0% + LIBOR	8,452	–	–	–	–	8,452
Natixis	6.0% + LIBOR	8,452	–	–	–	–	8,452
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	8,452	–	–	–	–	8,452
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	5,635	–	–	–	–	5,635
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	5,635	–	–	–	–	5,635
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	5,635	–	–	–	–	5,635
NedBank Ltd, London Branch	6.0% + LIBOR	5,635	–	–	–	–	5,635
Stanbic IBTC Bank Plc	6.0% + LIBOR	4,225	–	–	–	–	4,225
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,225	–	–	–	–	4,225
Other non-derivatives							
Trade and other payables	–	49,341	–	–	–	–	49,341
Contingent consideration	–	–	–	–	5,643	–	5,643
		133,496	**56,502**	**52,117**	**61,008**	–	**303,123**

The Group

31 December 2015	Effective interest rate %	Less than 1 year ₦'m	1 – 2 year ₦'m	2 – 3 years ₦'m	3 – 5 years ₦'m	After 5 years ₦'m	Total ₦'m
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	16,300	14,002	10,181	14,864	4,763	60,110
First Bank of Nigeria Limited	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588
United Bank for Africa Plc	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634
Standard Chartered Bank	6.0% + LIBOR	3,486	5,510	–	–	–	8,996
Natixis	6.0% + LIBOR	3,486	5,510	–	–	–	8,996
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	3,486	5,510	–	–	–	8,996
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
NedBank Ltd, London Branch	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
Stanbic IBTC Bank Plc	6.0% + LIBOR	1,743	2,755	–	–	–	4,498
The Standard Bank of South Africa Ltd	6.0% + LIBOR	1,743	2,755	–	–	–	4,498
Sterling bank	–	10,439	–	–	–	–	10,439
Other non-derivatives							
Trade and other payables	–	60,144	–	–	–	–	60,144
Contingent consideration	–	–	–	–	7,834	–	7,834
		133,553	**70,860**	**24,815**	**44,062**	**11,653**	**284,943**

4. Financial risk management continued

The Company

31 December 2016	Effective interest rate %	Less than 1 year ₦'m	1 – 2 year ₦'m	2 – 3 years ₦'m	3 – 5 years ₦'m	After 5 years ₦'m	Total ₦'m
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	11,409	23,182	21,383	22,715	–	78,689
First Bank of Nigeria Limited	8.5% + LIBOR	7,131	14,489	13,364	14,197	–	49,181
United Bank for Africa Plc	8.5% + LIBOR	7,131	14,489	13,364	14,197	–	49,181
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,069	2,171	2,003	2,128	–	7,371
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,069	2,171	2,003	2,128	–	7,371
Standard Chartered Bank	6.0% + LIBOR	8,452	–	–	–	–	8,452
Natixis	6.0% + LIBOR	8,452	–	–	–	–	8,452
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	8,452	–	–	–	–	8,452
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	5,635	–	–	–	–	5,635
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	5,635	–	–	–	–	5,635
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	5,635	–	–	–	–	5,635
NedBank Ltd, London Branch	6.0% + LIBOR	5,635	–	–	–	–	5,635
Stanbic IBTC Bank Plc	6.0% + LIBOR	4,225	–	–	–	–	4,225
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,225	–	–	–	–	4,225
Other non-derivatives							
Trade and other payables	–	58,226	–	–	–	–	58,226
		142,381	**56,502**	**52,117**	**55,365**	–	**306,365**

The Company

31 December 2015	Effective interest rate %	Less than 1 year ₦'m	1 – 2 year ₦'m	2 – 3 years ₦'m	3 – 5 years ₦'m	After 5 years ₦'m	Total ₦'m
Non-derivative							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	16,300	14,002	10,181	14,864	4,793	60,140
First Bank of Nigeria Limited	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588
United Bank for Africa Plc	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634
Standard Chartered Bank	6.0% + LIBOR	3,486	5,510	–	–	–	8,996
Natixis	6.0% + LIBOR	3,486	5,510	–	–	–	8,996
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	3,486	5,510	–	–	–	8,996
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
NedBank Ltd, London Branch	6.0% + LIBOR	2,324	3,673	–	–	–	5,997
Stanbic IBTC Bank Plc	6.0% + LIBOR	1,743	2,755	–	–	–	4,498
The Standard Bank of South Africa Ltd	6.0% + LIBOR	1,743	2,755	–	–	–	4,498
Other non-derivative							
Trade and other payables	–	57,250	–	–	–	–	57,250
		120,220	**70,860**	**24,815**	**36,228**	**11,653**	**263,806**

4.2 Fair value

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

				The Group
	Carrying amount		Fair value	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Financial assets				
Trade and other receivables	116,302	159,057	116,302	159,057
Cash and cash equivalents	48,684	64,828	48,684	64,828
Derivatives	–	4,612	–	4,612
	164,986	228,497	164,986	228,497
Financial liabilities				
Borrowings – Bank loans	202,549	178,880	202,549	178,880
Contingent consideration	3,672	4,355	3,672	4,355
Trade and other payables	49,341	60,144	49,341	60,144
	255,562	243,379	255,562	243,379

				The Company
	Carrying amount		Fair value	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Financial assets				
Trade and other receivables	323,443	260,641	323,443	260,641
Cash and cash equivalents	44,950	62,908	44,950	62,908
Derivatives	–	4,612	–	4,612
	368,393	328,161	368,393	328,161
Financial liabilities				
Borrowings – Bank loans	202,549	168,441	248,139	168,441
Contingent consideration	–	–	–	–
Trade and other payables	58,226	57,250	58,226	57,250
	260,775	225,691	306,365	225,691

In determining the fair value of the borrowings, non-performance risks of Seplat as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, taxes and pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short-term nature. Derivatives and contingent consideration are measured and recognised at fair value.

4.2.1 Fair value hierarchy

The Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. These are all recurring fair value measurements.

			The Group			The Company
31 Dec 2016	Level 1 ₦'m	Level 2 ₦'m	Level 3 ₦'m	Level 1 ₦'m	Level 2 ₦'m	Level 3 ₦'m
Financial assets:						
Derivatives	–	–	–	–	–	–
Financial liabilities:						
Borrowings – Bank loans	–	202,549	–	–	202,549	–
Contingent consideration	–	–	3,672	–	–	–
	–	**202,549**	**3,672**	–	**202,549**	–
31 Dec 2015						
Financial assets:						
Derivatives	–	4,612	–	–	4,612	–
Financial liabilities:						
Borrowings – Bank loans	–	178,880	–	–	168,441	–
Contingent consideration	–	–	4,355	–	–	–
	–	178,880	4,355	–	168,441	–

4. Financial risk management continued

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between fair value levels during the year.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the reporting period.
- The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flow was determined based on probable future oil prices. The estimated future cash flow was discounted to present value using a discount rate of 15.45% which is based on the applicable FGN Bond rates.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity option contracts. The most frequently applied valuation techniques include option pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2016, there were no open derivative financial instruments (2015: the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value).
The fair values of derivative financial instruments are disclosed in note 23.

4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

	The Group
Contingent consideration	₦'m
At 1 January 2015	1,728
Additions	3,817
Write-off	(1,988)
Fair value movement	661
Exchange difference	137
At 31 December 2015	**4,355**
At 1 January 2016	4,355
Fair value movement	596
Deconsolidation of subsidiary	(3,805)
Exchange difference	2,526
At 31 December 2016	**3,672**

4.2.3 Contingent consideration sensitivity

The following table demonstrates the sensitivity to changes in the discount rate of the contingent consideration, with all other variables held constant, of the Group's (loss)/ profit before tax.

Increase/decrease in discount rate – The Group	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/ profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	1,338	–	216	–
-10%	(2,602)	–	(216)	–

The Company has no contingent consideration.

4.3 Capital management

4.3.1 Risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Borrowings:	202,549	178,880	202,549	168,441
Less: cash and cash equivalents	(48,684)	(64,828)	(44,950)	(62,908)
Net debt	153,865	114,052	157,599	105,533
Total equity	376,374	280,976	391,061	272,097
Total capital	530,239	395,028	548,660	377,630
Net debt (net debt/total capital) ratio	29%	29%	29%	28%

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain a gearing ratio of less than 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

4.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants every six months:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- Six-month Debt Service Reserve Account ('DSCR') not to be lower than 1.25x on a forward looking basis,
- Satisfactory 12-month Group liquidity test.

The Group has complied with these covenants throughout the reporting period (2015: The Group complied with the applicable covenants) with the exception of the financial indebtedness to EBITDA covenant, which was waived by a majority lender consent.

Notes to the financial statements continued

5. Revenue

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Crude oil sale	34,575	90,973	26,111	80,008
Underlift/(overlift)	1,346	6,751	(1,579)	3,337
	35,921	97,724	24,532	83,345
Gas sales	27,463	15,248	27,463	15,248
	63,384	**112,972**	**51,995**	**98,593**

The major off-takers for crude oil are Mercuria (2016: ₦26.1 billion, 2015: ₦18.8 billion) and Shell Western Supply and Trading Limited (2016: Nil, 2015: ₦73 billion). The major off-taker of gas is the Nigerian Gas Company (2016: ₦27 billion, 2015: ₦15 billion).

6. Cost of sales

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Royalties	12,308	20,247	10,534	17,631
Depletion, depreciation and amortisation (note 15a)	13,683	13,485	6,909	11,704
Crude handling fee	1,202	12,773	618	11,618
NESS fee	35	131	30	103
Barging costs	5,484	–	5,484	–
Niger Delta Development Commission Levy	–	1,538	–	1,496
Rig-related costs	2,584	1,711	2,609	1,694
Operational & maintenance expenses	11,780	13,823	9,864	9,323
	47,076	**63,708**	**36,048**	**53,569**

7. Other operating income

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Long stop date income	–	446	–	446
Profit on disposal of plant & equipment	–	13	–	13
	–	**459**	–	**459**

7a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015. There was no long stop date income during the current reporting period.

8. General and administrative expenses

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Depreciation (note 15b)	1,418	1,090	1,336	1,016
Auditor's remuneration	150	198	53	198
Professional and consulting fees	7,559	8,473	7,358	7,901
Directors' emoluments (Executive)	680	1,277	434	905
Directors' emoluments (Non-Executive)	1,075	1,194	1,056	1,041
Donations	42	42	41	41
Employee benefits (note 8a)	5,340	5,399	4,978	4,529
Business development expenses	3,362	33	6	33
Flights and other travel costs	1,647	1,500	1,395	1,373
Rentals	1,380	680	1,235	553
Impact of receivables discounting (note 21)	2,273	–	2,273	–
Other general expenses	5,075	4,168	2,852	3,422
	30,001	**24,054**	**23,017**	**21,012**

Directors' emoluments have been split between Executive and Non-Executive Directors and include share-based benefits recognised, the basis of which has been further highlighted in note 35.

There were no non-audit services rendered by the Group's auditors during the year.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company ('NPDC') in note 21.

8a. Salaries and employee related costs include the following:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Short-term employee benefits:				
Basic salary	2,097	1,629	2,108	757
Housing allowance	816	662	821	662
Other allowances	887	1,308	578	1,310
Post employment benefits:				
Defined contribution expenses	428	299	354	299
Defined benefit expenses (note 30)	240	617	241	617
Share-based payment benefits	872	884	876	884
Total salaries and employee-related costs	**5,340**	**5,399**	**4,978**	**4,529**

Notes to the financial statements continued

9. (Losses)/gains on foreign exchange (net)

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Exchange (losses)/gains	(28,684)	1,534	(29,537)	1,779
Total	**(28,684)**	**1,534**	**(29,537)**	**1,779**

Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria during the year. These losses were majorly attributed to outstanding balances due from NPDC. See also note 11 for income related to these outstanding receivables and recognised in the period and reported in accordance with provisions of the Joint Operating Agreement.

10. Fair value (loss)/gain

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Fair value (loss)/gain on option derivatives	(2,186)	2,613	(2,186)	2,613
Fair value (loss)/gain on contingent consideration (note 28)	(596)	1,445	–	–
Total	**(2,782)**	**4,058**	**(2,186)**	**2,613**

Fair value loss on commodity derivatives represents the losses on crude oil price options charged to profit or loss. Fair value loss on contingent consideration arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OMLs. The contingency criteria are the achievement of certain production milestones.

11. Finance (cost)/income

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Finance income:				
Interest income	15,800	2,535	26,846	1,611
Finance cost:				
Interest on bank loans and other bank charges	18,165	16,553	17,227	15,315
Unwinding of discount on provision for decommissioning (note 29)	105	–	87	–
	18,270	16,553	17,314	15,315
Finance (cost)/income (net)	**(2,470)**	**(14,018)**	**9,532**	**(13,704)**

Finance income represents interest on fixed deposits for the Group and Company. Included in finance income are interests of (₦14.6 billion calculated on outstanding NPDC receivables in accordance with provisions of the Joint Operating Agreement. Discussions will continue with our government partners on the recovery of all outstanding receivables.

12. Taxation

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

12a. Income tax expenses

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Current tax:				
Current tax on profit for the year	–	47	–	–
Education tax	574	–	575	–
Prior period over provision	(38)	–	–	–
Total current tax	536	47	575	–
Deferred tax:				
Net deferred tax in profit or loss	–	4,205	–	3,245
Deferred tax credit	(2,571)	–	(4,996)	–
Total tax (credit)/charge in statement of profit or loss	(2,035)	4,252	(4,421)	3,245
Effective tax rate	4%	25%	15%	21%

12b. Reconciliation of effective tax rate

The applicable tax rate for 2016 was 65.75% (2015: 65.75%) for both Group and Company.

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development ('Income Tax Relief') Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56.

Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for the Company, and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if both companies meet certain conditions included in the NIPC pioneer status award document.

Seplat East Onshore and Seplat Swamp are exempt from the tax incentives as they had no activities at the time the incentives were granted to Seplat and Newton.

As at the end of the reporting period, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group and Company's current and deferred taxation in the financial statements.

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
(Loss)/ profit before taxation	(47,419)	17,243	(29,261)	15,159
Tax rate of 65.75% (2015: 65.75%)	(31,178)	11,337	(19,239)	9,967
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenses not deductible for tax purposes	10,324	–	11,488	–
Impact of deferred tax not recognised	18,283	–	2,755	–
Impact of tax incentive on deferred tax balances	–	(7,085)	–	(6,722)
Education tax	574	–	575	–
Prior period over provision	(38)	–	–	–
Total tax (credit)/charge in statement of profit or loss	**(2,035)**	**4,252**	**(4,421)**	**3,245**

The movement in the current tax liability is as follows:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
As at 1 January	47	–	–	–
Tax charge	574	47	575	–
Deconsolidation of subsidiary	(34)	–	–	–
Prior period over provision	(38)	–	–	–
Exchange Difference	26	–	–	–
As 31 December	**575**	**47**	**575**	–

Notes to the financial statements continued

13. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Deferred tax asset to be recovered in less than 12 months	–	–	–	–
Deferred tax asset to be recovered after more than 12 months	–	–	–	–
	–	–	–	–

Deferred tax liabilities	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Deferred tax liabilities to be recovered in less than 12 months	–	–	–	–
Deferred tax liability to be recovered after more than 12 months	–	(4,222)	–	(3,258)
	–	(4,222)	–	(3,258)
Net deferred tax asset/(liability)	–	**(4,222)**	–	**(3,258)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group and Company did not recognise deferred income tax assets of ₦54 billion and ₦44 billion (2015: Nil for both Group and Company) in respect of losses amounting to ₦82 billion and ₦67 billion (2015: Nil) that can be carried forward against future taxable income. There are no expiration dates for the tax losses.

13a. Deferred tax asset/(liability)

The Group

	Property, plant and equipment ₦'m	Decommissioning provision ₦'m	Defined benefit expenses ₦'m	Underlift/ overlift ₦'m	Unrealised foreign exchange (gain)/ loss ₦'m	Tax losses ₦'m	Contingent liability ₦'m	Total ₦'m
At 1 January 2015								
Credited/(charged) to profit or loss	(2,069)	504	902	(3,524)	(18)	–	–	(4,205)
Exchange difference	(9)	2	4	(14)	–	–	–	(17)
At 31 December 2015	**(2,078)**	**506**	**906**	**(3,538)**	**(18)**	–	–	**(4,222)**
At 1 January 2016	**(2,078)**	**506**	**906**	**(3,538)**	**(18)**	–	–	**(4,222)**
Deconsolidation of subsidiary	(506)	(38)	–	8,980	–	(2,231)	(2,300)	3,905
Deferred tax credit	3,692	(738)	(1,389)	(3,552)	27	2,231	2,300	2,571
Exchange difference	(1,108)	270	483	(1,890)	(9)	–	–	(2,254)
At 31 December 2016	–	–	–	–	–	–	–	–

13b. Deferred tax asset/(liability)

	The Company							
	Property, plant and equipment ₦'m	Decommissioning provision ₦'m	Defined benefit expenses ₦'m	Underlift/ overlift ₦'m	Unrealised foreign exchange (gain)/ loss ₦'m	Tax losses ₦'m	Contingent liability ₦'m	Total ₦'m
At 1 January 2015								
Credited/(charged) to profit or loss	(3,599)	387	902	(917)	(18)	–	–	(3,245)
Exchange difference	(15)	1	4	(3)	–	–	–	(13)
At 31 December 2015	**(3,614)**	**388**	**906**	**(920)**	**(18)**	–	–	**(3,258)**
At 1 January 2016	**(3,614)**	**388**	**906**	**(920)**	**(18)**	–	–	**(3,258)**
Deferred tax credit	5,542	(596)	(1,389)	1,412	27	–	–	4,996
Exchange difference	(1,928)	208	483	(492)	(9)	–	–	(1,738)
At 31 December 2016	–	–	–	–	–	–	–	–

14. Computation of cash generated from operations

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
(Loss)/ profit before tax	(47,419)	17,243	(29,261)	15,159
Adjusted for:				
Depreciation and amortisation	15,101	14,575	8,245	12,720
Impairment loss	2,273		2,273	
Finance income (note 11)	(15,800)	(2,535)	(26,846)	(1,611)
Interest on bank loans (note 11)	18,165	16,553	17,227	15,316
Accretion discount (note 11)	105	–	87	–
Fair value movement on contingent consideration (including gains on derecognition) (note 10)	596	(1,445)	–	–
Gain on disposal of property, plant and equipment	–	(13)	–	(13)
Fair value movement on derivatives (note 10)	2,186	(3,517)	2,186	(3,516)
Loss/(gains) on unrealised foreign exchange	28,684	(1,593)	29,537	(1,779)
Share-based payment expenses	869	(1,734)	869	(1,733)
Defined benefit expenses (note 30)	213	–	213	–
Gain on deconsolidation (note 17)	(210)	–	–	–
Loss on disposal	307	–	307	–
Changes in working capital (excluding the effects of exchange differences and deconsolidation):				
Trade and other receivables	67,136	(20,662)	58,958	(15,463)
Prepayments	4,690	(1,613)	3,759	522
Trade and other payables	(9,470)	(2,171)	(25,602)	5,154
Inventories	(4,839)	(5,555)	(4,768)	(5,624)
Net cash from operating activities	62,587	7,533	37,184	19,132

Notes to the financial statements continued

15. Property, plant and equipment

15a. Oil and gas properties

	The Group			The Company		
Costs	Production and field facilities ₦'m	Assets under construction ₦'m	Total ₦'m	Production and field facilities ₦'m	Assets under construction ₦'m	Total ₦'m
At 1 January 2015	108,818	79,710	188,528	97,655	76,715	174,370
Additions	84,401	–	84,401	29,081	–	29,081
Additions from business combination	48,332	–	48,332	–	–	–
Changes decommissioning	(1,747)	–	(1,747)	(1,360)	–	(1,360)
Transfer from asset under construction	22,528	(22,528)	–	22,790	(22,790)	–
Exchange differences	9,233	6,212	15,445	–	–	–
At 31 December 2015	271,565	63,394	334,959	148,166	53,925	202,091
Depreciation						
At 1 January 2015	33,080	–	33,080	32,608	–	32,608
Charged for the year	13,485	–	13,485	11,704	–	11,704
Exchange differences	2,672	–	2,672	–	–	–
At 31 December 2015	49,237	–	49,237	44,312	–	44,312
NBV						
At 31 December 2015	**222,328**	**63,394**	**285,722**	**103,854**	**53,925**	**157,779**
Cost						
At 1 January 2016	271,565	63,394	334,959	148,166	53,925	202,091
Additions	–	25,275	25,275	–	21,492	21,492
Changes in decommissioning	(1,134)	–	(1,134)	(903)	–	(903)
Transfer from asset under construction	50,596	(50,596)	–	50,596	(50,596)	–
Deconsolidation of subsidiary	(74,439)	–	(74,439)	–	–	–
Disposal	–	(307)	(307)	–	(307)	(307)
Exchange differences	170,132	8,557	178,689	116,411	12,664	129,075
At 31 December 2016	416,720	46,323	463,043	314,270	37,178	351,448
Depreciation						
At 1 January 2016	49,237	–	49,237	44,312	–	44,312
Charged for the year	13,683	–	13,683	6,909	–	6,909
Deconsolidation of subsidiary	(2,493)	–	(2,493)	–	–	–
Exchange differences	29,174	–	29,174	35,601	–	35,601
At 31 December 2016	89,601	–	89,601	86,822	–	86,822
NBV						
At 31 December 2016	**327,119**	**46,323**	**373,442**	**227,448**	**37,178**	**264,626**

The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 27).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

15b. Other property, plant and equipment

The Group	Plant & machinery ₦'m	Motor vehicles ₦'m	Office furniture & IT equipment ₦'m	Leasehold improvements ₦'m	Total ₦'m
Cost					
At 1 January 2015	869	987	2,113	453	4,422
Additions	–	329	425	136	890
Reclassification to assets under construction	(140)	–	–	–	(140)
Disposals	–	(49)	–	–	(49)
Exchange differences	68	79	169	37	353
At 31 December 2015	797	1,346	2,707	626	5,476
Depreciation					
At 1 January 2015	201	400	1,186	155	1,942
Disposals	–	(21)	–	–	(21)
Charged for the year	123	286	569	112	1,090
Exchange differences	16	33	96	13	158
At 31 December 2015	340	698	1,851	280	3,169
NBV					
At 31 December 2015	**457**	**648**	**856**	**346**	**2,307**
Cost					
At 1 January 2016	797	1,346	2,707	626	5,476
Additions	163	118	711	–	992
Disposals	–	(28)	–	(137)	(165)
Transfer	3	35	(43)	5	–
Exchange differences	502	761	974	376	2,613
At 31 December 2016	1,465	2,232	4,349	870	8,916
Depreciation					
At 1 January 2016	340	698	1,851	280	3,169
Disposal	–	(14)	–	–	(14)
Charge for the year	215	337	721	145	1,418
Exchange differences	223	430	1,081	179	1,913
At 31 December 2016	778	1,451	3,653	604	6,486
NBV					
At 31 December 2016	**687**	**781**	**696**	**266**	**2,430**

15. Property, plant and equipment continued

The Company

Cost	Plant & machinery ₦'m	Motor vehicles ₦'m	Office furniture & IT equipment ₦'m	Leasehold improvements ₦'m	Total ₦'m
At 1 January 2015	612	987	1,942	454	3,995
Additions	136	329	370	136	971
Reclassification to assets under construction	–	–	–	–	–
Disposals	–	(49)	–	–	(49)
Exchange differences	49	79	155	36	319
At 31 December 2015	797	1,346	2,467	626	5,236
Depreciation					
At 1 January 2015	181	400	1,134	156	1,871
Disposals	–	(21)	–	–	(21)
Charge for the year	143	267	495	111	1,016
Exchange differences	15	33	92	12	152
At 31 December 2015	339	679	1,721	279	3,018
NBV					
At 31 December 2015	**458**	**667**	**746**	**347**	**2,218**

Cost	Plant & machinery ₦'m	Motor vehicles ₦'m	Office furniture & IT equipment ₦'m	Leasehold improvements ₦'m	Total ₦'m
At 1 January 2016	797	1,346	2,467	626	5,236
Addition	163	118	711	–	992
Disposal	–	(28)	–	(137)	(165)
Exchange differences	502	744	928	375	2,549
At 31 December 2016	1,462	2,180	4,106	864	8,612
Depreciation					
At 1 January 2016	339	679	1,721	279	3,018
Disposal	–	(14)	–	–	(14)
Charge for the year	216	327	649	144	1,336
Exchange differences	222	417	1,042	177	1,858
At 31 December 2016	777	1,409	3,412	600	6,198
NBV					
At 31 December 2016	**685**	**771**	**694**	**264**	**2,414**

16. Goodwill

Seplat, via a wholly owned subsidiary, entered into a share purchase agreement with First Act, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and BelemaOil (the four shareholders of BelemaOil) to acquire 56.25% of BelemaOil. This sale and purchase agreement was consummated on 5 February 2015 upon acquisition of Chevron Nigeria Limited's 40% interest in OML 55. This resulted in Seplat having an indirect interest of 22.5% in OML 55.

The fair value of the purchase consideration and the assets acquired were ₦42 billion (US$139 million) and ₦41.7 billion (US$137 million) respectively, giving rise to a goodwill on acquisition of ₦398 million (US$2 million).

As at the reporting date, goodwill recognised on consolidation of BelemaOil has now been derecognised due to the loss of control of the subsidiary. See further details in note 17.

Impairment test for goodwill

Management reviews the business performance of BelemaOil based on the reserve and production forecast. Goodwill is monitored by management at the level of one operating segment. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash-generating unit ('CGU') is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on reserve, production and financial forecasts approved by management. As at the year end, goodwill arising from BelemaOil has been derecognised.

The Group

	2016 ₦'m	2015 ₦'m
At 1 January	398	–
Acquisition of subsidiary	–	398
Deconsolidation of subsidiary	(610)	–
Exchange difference	212	–
As at 31 December	–	**398**

17. Deconsolidation of subsidiary

The details of the deconsolidation of subsidiary have been disclosed in note 1 – Corporate information and business and note 3 – Significant accounting judgements, estimates and assumptions. A summary of assets and liabilities derecognised and the resulting gain on deconsolidation are shown below.

17a. Summary of assets and liabilities derecognised

	The Group 2016 ₦'m
Non-current assets:	
Producing assets	71,946
Goodwill	610
Current assets:	
Trade and other receivables	26,334
Underlift	11,759
Total assets	110,649
Equity:	
Non-controlling interest	(684)
Non-current liabilities:	
Deferred tax liability	3,905
Contingent consideration	3,805
Provision for decommissioning obligation	10
Current liabilities:	
Interest bearing loans and borrowings	16,013
Trade and other payables	11,499
Current tax	34
Total liabilities	**35,266**
Total equity and liabilities	**34,582**
Net asset derecognised	**76,067**

17b. Summary of assets recognised

	The Group 2016 ₦'m
Other asset:	
Investment in OML 55	76,277
Net assets recognised	**76,277**

17c. Gain on deconsolidation of subsidiary

	The Group 2016 ₦'m
Summary of assets and liabilities derecognised (note 17a)	(76,067)
Summary of assets and liabilities recognised (note 17b)	76,277
Gain on deconsolidation of BelemaOil	**210**

18. Prepayments

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Non-current:				
Tax paid in advance	9,645	6,288	9,645	6,288
Rent	608	549	608	549
Drilling services	–	471	–	471
	10,253	**7,308**	**10,253**	**7,308**
Current:				
Rent	803	2,315	793	2,124
Others	1,232	–	1,190	–
	2,035	2,315	1,983	2,124
Total prepayments	**12,288**	**9,623**	**12,236**	**9,432**

Included in non-current prepayments are the following:

18a. Tax paid in advance

In 2013 and 2014 Petroleum Profit Tax payments (2013: ₦8.6 billion (US$28.7 million) and 2014: ₦0.88 billion (US$2.9 million)) were made by the Company prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayment until a future date when the Company will be expected to offset it against its tax liability.

18b. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies, two in Lagos and one in Delta State. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The rent on the building in Delta State has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2016 is ₦0.6 billion (2015: ₦0.5 billion).

The Group has no future minimum lease payments to be disclosed for the rental lease because the total lease payment has been prepaid at inception of the lease.

18c. Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a ₦6 billion (US$20 million) advance in relation to the exclusive use of these rigs. This amount has been recognised as a prepayment and amortised over the life of the agreement (five years). The long-term portion as at 31 December 2016 is Nil (2015: ₦0.5 billion).

The Group has no future minimum lease payments to be disclosed for the drilling services agreement because the total payment had been prepaid at inception of the contract.

19. Investment in subsidiaries

	The Company	
	2016 ₦'m	2015 ₦'m
Newton Energy Limited	290	188
Seplat Petroleum Development UK	15	10
Seplat East Onshore Ltd	10	7
Seplat East Swamp Ltd	10	7
	325	**212**

20. Inventories

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Tubulars, casings and wellheads	32,395	16,398	31,295	15,681

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is US$0.1 million (2015: US$0.19 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2016.

21. Trade and other receivables

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Trade receivables	22,395	26,626	21,061	18,956
Nigerian Petroleum Development Company ('NPDC') receivables	72,049	97,824	72,049	97,824
National Petroleum Investment Management Services	2,511	–	–	–
Intercompany receivables	–	–	218,266	140,946
Advances on investments	20,040	16,948	–	–
Advances	–	10,573	14,132	1,716
Underlift	1,372	5,381	–	1,400
Advances to suppliers	2,720	516	2,467	497
Hedging receivables	–	1,508	–	1,508
Interest receivable from shareholders of BelemaOil	–	1,898	–	–
Other receivables	346	35	344	27
Impairment loss on NPDC receivables	(2,273)	–	(2,273)	–
	119,160	**161,309**	**326,046**	**262,874**

21a. Trade receivables

Included in trade receivables are receivables from sale of crude oil and gas due from NGC of ₦20 billion (2015: ₦12 billion) for both Group and Company.

21b. NPDC receivables

NPDC receivables represent the outstanding cash calls due to Seplat. Receivables have been discounted to reflect the impact of time value of money. This has been recognised in the statement of comprehensive income. As at 31 December 2016, the undiscounted value of this receivable for Group and Company is ₦72 billion (2015: ₦97 billion for Group and Company).

21c. Advances on investment

This comprises an advance of ₦13.7 billion (US$45 million) on a potential investment in OML 25 and ₦6 billion (US$20.5 million) currently held in an escrow account. Proceedings commenced against Newton Energy Limited, a wholly owned subsidiary of Seplat Plc, by Crestar Natural Resources relating to the ₦6 billion (US$20.5 million) currently held in an escrow account. The escrow monies relate to the potential acquisition of OML 25 by Crestar which Newton Energy 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.

22. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Cash on hand	2	10	2	10
Restricted cash	19,887	13,711	19,887	13,711
Cash at bank	28,795	51,107	25,061	49,187
Cash and cash equivalents	48,684	64,828	44,950	62,908

At 31 December 2016, cash at bank includes the debt service reserve of ₦19.9 billion (2015: ₦13.7 billion) for both Group and Company deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest which is on a quarterly basis.

23. Derivatives

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Derivatives	–	4,612	–	4,612

In November 2015, management completed a crude oil price hedge of US$45/bbl. for 3.3 million barrels at a cost of US$10 million (US$3.03/bbl.). A fair value loss of ₦2.1 billion (gain – 2015: ₦2.6 billion) was recognised in the reporting period for both Group and Company.

24. Share capital

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	500	500	500	500
Issued and fully paid				
563,444,561 (2015: 560,576,101) issued shares denominated in Naira of 50 kobo per share	283	282	283	282

24a. Employee share-based payment scheme

In 2016, the Company gave share awards of 25,448,071 shares (2015: 14,939,102 shares) to certain employees and senior executives in line with its share-based incentive scheme. During the year ended 31 December 2016, 2,868,460 shares were vested. In 2015, 7,265,788 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company sub-divided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve. In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

24b. Share-based payment reserve

The Group has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014 deferred bonus awards and 2014/2015 Long-Term Incentive plan ('LTIP') awards, 2015 deferred bonus awards and 2015/2016 Long-Term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015 and 2016 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

Description of the awards valued

Global Offer Bonus awards

Shares were conditionally awarded, subject to NSE approval, to selected executives to recognise their historic contribution to the Company in the lead up to Admission on the London Stock Exchange on 9 April 2014. The awards operated as follows:

50% of the share bonus was awarded on IPO, there were no performance conditions attached to it, and it fully vested in 2015. The second 50% of the award vested on the first anniversary of the IPO (9 April 2015). The award fully met the performance condition, as follows:

- The Company outperformed the median TSR performance level within the 2014 LTIP E&P comparator group, over the one-year period from Admission (i.e. to 9 April 2015).
- The reserves growth underpin in FY2014 was met.

The valuation of the Global Offer Bonus awards ignores these conditions because as at the deemed date of grant the conditions were fully met. As a result, the fair value of these awards is the share price at the date of grant.

Non-Executive Directors' nominal value shares

Non-Executive Directors were provided with the opportunity to subscribe for shares at nominal value on IPO i.e. at a discount to their market value. These awards were vested immediately. There was no vesting criteria for these awards. As a result the fair value of these awards is the share price at the deemed date of grant.

Seplat 2014 and 2015 Deferred Bonus Award

25% of each Executive Director's 2014 and 2015 bonus (paid in 2015 and 2016 respectively) has been deferred into shares and is released on 1 June 2017 and 1 June 2018 respectively subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant

Long-Term Incentive Plan ('LTIP') awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after three years) based on the following conditions:

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The 2014 and 2015 LTIP awards have been approved by the NSE, however, 2016 LTIP awards are still subject to approval.

The expense recognised for employee services received during the year is shown in the following table:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Expense arising from equity-settled share-based payment transactions	869	1,734	869	1,734

There were no cancellations or modifications to the awards in 2016 or 2015. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of service period	End of service period	Number of awards
Global Offer Bonus	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non-Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long-Term incentive Plan	14 December 2015	14 December 2015	9 April 2017	2,173,259
2015 Long-Term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	214,669
2016 Long-Term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
				25,448,071

Share awards used in the calculation of diluted earnings per share are based on the outstanding shares as at 31 December 2016.

	The Group and Company			
Share award scheme (all awards)	2016 Number '000	2016 WAEP ₦	2015 Number '000	2015 WAEP ₦
Outstanding at 1 January	4,249	298.26	–	–
Granted during the year	159	356.35	11,515	192.09
Forfeited during the year	–	–	–	–
Exercised during the year	(2,868)	–	(7,266)	–
Outstanding at 31 December	1,540	205.87	4,249	298.26
Exercisable at 31 December	–	–	**7,266**	**234.63**

Notes to the financial statements continued

24. Share capital continued

Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in share options during the year for each available scheme.

Global Offer Bonus	The Group and Company 2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
Outstanding at 1 January	–	–	–	–
Granted during the year	–	–	6,472,138	233.6
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	(6,472,138)	–
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

Non-Executive Directors' Shares	The Group and Company 2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
Outstanding at 1 January	–	–	–	–
Granted during the year	–	–	793,650	233.6
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	(793,650)	–
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

Deferred Bonus Scheme	The Group and Company 2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
Outstanding at 1 January	212,701	224.6	–	–
Granted during the year	214,669	380.2	212,701	223.7
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at 31 December	427,370	399.6	212,701	224.6
Exercisable at 31 December	–	–	–	–

Long-Term incentive Plan ('LTIP')	The Group and Company 2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
Outstanding at 1 January	7,460,613	151.1	–	–
Granted during the year	10,294,300	227.1	7,460,613	150.5
Forfeited during the year	–	–	–	–
Exercised during the year	(2,868,460)	–	–	–
Outstanding at 31 December	14,886,453	253.2	7,460,613	151.1
Exercisable at 31 December	–	–	–	–

The shares are granted to the employees at no cost.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2016 range from 0.80 to 1.52 years.

The weighted average fair value of awards granted during the year range from ₦227.1 to ₦380.2.

The exercise prices for options outstanding at the end of the year range from ₦253.2 to ₦399.6.

The following table lists the inputs to the models used for the four plans for the year ended 31 December 2016:

	The Group and Company				
	2015 Global Offer Bonus	2015 Non-Executive Shares Bonus	2015 Deferred Bonus	2015 LTIP	2016 LTIP
Weighted average fair values at the measurement date					
Dividend yield (%)	n/a	n/a	n/a	0.00%	0.00%
Expected volatility (%)	n/a	n/a	n/a	56%	56%
Risk-free interest rate (%)	n/a	n/a	n/a	0.63%	0.63%
Expected life of share options	nil	nil	1.46	2.35	2.35
Weighted average share price ($)	1.5386	1.5386	1.512	1.497	1.497

24c. Share premium

	The Group and Company	
	2016 ₦'m	2015 ₦'m
Share premium	82,080	82,080

Section 120.2 of Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 requires that where a Company issues shares at premium (i.e. above the par value), the value of the premium should be transferred to share premium.

25. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations.

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Capital contribution	5,932	5,932	5,932	5,932

26. Foreign currency translation reserve

Cumulative exchange difference arising from translation from functional currency to presentation currency is taken to foreign currency translation reserve through other comprehensive income.

27. Interest bearing loans and borrowings

	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Non-current:				
Bank borrowings	136,060	121,063	136,060	110,624
Current:				
Bank borrowings	66,489	57,817	66,489	57,817
Total borrowings	**202,549**	**178,880**	**202,549**	**168,441**

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a ₦518 billion (US$1.7 billion) debt refinancing package, made up of the following facilities:

- ₦214 billion (US$700 million) seven-year term loan with an ability to stretch it to ₦427 billion (US$1.4 billion) contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven-year maturity period.
- ₦91 billion (US$300 million) three-year corporate revolver primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three-year maturity period.

As at 31 December 2016, there were no further draw downs (2015: ₦427 billion; US$1.4 billion) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. Principal repayments in 2016 were made, and the outstanding balance as at 31 December 2016 is ₦206 billion (2015: ₦172 million).

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end.

31 December 2016 Term loan	Interest	The Group Current ₦'m	The Group Non-current ₦'m	The Group Total ₦'m	The Company Current ₦'m	The Company Non-current ₦'m	The Company Total ₦'m
SBSA	8.5% + LIBOR	504	5,368	5,872	504	5,368	5,872
Stanbic	8.5% + LIBOR	504	5,368	5,872	504	5,368	5,872
FBN	8.5% + LIBOR	3,363	35,821	39,184	3,363	35,821	39,184
UBA	8.5% + LIBOR	3,363	35,821	39,184	3,363	35,821	39,184
Zenith Bank	8.5% + LIBOR	5,381	57,313	62,694	5,381	57,313	62,694
		13,115	**139,691**	**152,806**	**13,115**	**139,691**	**152,806**

31 December 2016 Corporate loan	Interest	The Group Current ₦'m	The Group Non-current ₦'m	The Group Total ₦'m	The Company Current ₦'m	The Company Non-current ₦'m	The Company Total ₦'m
Citibank Nigeria Limited	6% + LIBOR	8,006	–	8,006	8,006	–	8,006
FirstRand Bank Limited	6% + LIBOR	5,338	–	5,338	5,338	–	5,338
JP Morgan Chase Bank N A London	6% + LIBOR	5,338	–	5,338	5,338	–	5,338
Nedbank Limited, London Branch	6% + LIBOR	5,338	–	5,338	5,338	–	5,338
Bank Of America Merrill Lynch	6% + LIBOR	5,338	–	5,338	5,338	–	5,338
Standard Chartered Bank	6% + LIBOR	8,006	–	8,006	8,006	–	8,006
Natixis	6% + LIBOR	8,006	–	8,006	8,006	–	8,006
Stanbic Ibtc Bank Plc	6% + LIBOR	4,002	–	4,002	4,002	–	4,002
The Standard Bank Of South Africa	6% + LIBOR	4,002	–	4,002	4,002	–	4,002
		53,374	–	**53,374**	**53,374**	–	**53,374**

31 December 2015 Term loan	Interest	The Group Current ₦'m	The Group Non-current ₦'m	The Group Total ₦'m	The Company Current ₦'m	The Company Non-current ₦'m	The Company Total ₦'m
SBSA	8.5% + LIBOR	1,123	3,370	4,493	1,123	3,370	4,493
Stanbic	8.5% + LIBOR	1,123	3,370	4,493	1,123	3,370	4,493
FBN	8.5% + LIBOR	7,495	22,486	29,981	7,495	22,486	29,981
UBA	8.5% + LIBOR	7,495	22,486	29,981	7,495	22,486	29,981
Zenith Bank	8.5% + LIBOR	11,992	35,977	47,969	11,992	35,977	47,969
		29,228	**87,689**	**116,917**	**29,228**	**87,689**	**116,917**

31 December 2015 Corporate loan	Interest	The Group Current ₦'m	The Group Non-current ₦'m	The Group Total ₦'m	The Company Current ₦'m	The Company Non-current ₦'m	The Company Total ₦'m
Citibank Nigeria Limited	6% + LIBOR	1,657	2,900	4,557	1,657	2,900	4,557
FirstRand Bank Limited	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
JP Morgan Chase Bank N A London	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
Nedbank Limited, London Branch	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
Bank Of America Merrill Lynch	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
Standard Chartered Bank	6% + LIBOR	2,983	5,220	8,203	2,983	5,220	8,203
Citibank N.A.	6% + LIBOR	1,326	2,320	3,646	1,326	2,320	3,646
Natixis	6% + LIBOR	2,983	5,220	8,203	2,983	5,220	8,203
Stanbic Ibtc Bank Plc	6% + LIBOR	1,490	2,610	4,100	1,490	2,610	4,100
The Standard Bank Of South Africa	6% + LIBOR	1,490	2,610	4,100	1,490	2,610	4,100
		19,881	**34,800**	**54,681**	**19,881**	**34,800**	**54,681**

Loans	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Term loan	152,806	116,917	152,806	116,917
Corporate loan	53,374	54,681	53,374	54,681
Sterling bank loan (business combination)	–	10,439	–	–
Less: Capitalised loan transaction costs	(3,631)	(3,157)	(3,631)	(3,157)
	202,549	**178,880**	**202,549**	**168,441**

Notes to the financial statements continued

28. Contingent consideration

	The Group ₦'m
At 1 January 2015	1,728
Fair value movement	661
Additions	3,817
Write-off	(1,988)
Exchange difference	137
At 31 December 2015	**4,355**
At 1 January 2016	4,355
Fair value movement	596
Additions	–
Deconsolidation of subsidiary	(3,805)
Exchange difference	2,526
At 31 December 2016	**3,672**

In 2014, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the 'Umuseti/Igbuku Fields'). The contingency criteria are the achievement of certain production milestones. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability was carried at fair value through profit or loss. These milestones were not achieved as at mid-2015 and as such the liability was derecognised during the year.

During the year, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of ₦56 million (US$18.5 million) for OML 53 is being recognised at the fair value of ₦3.7 billion. This is still contingent on oil price rising above US$90/bbl. over the next three years.

29. Provision for decommissioning obligation

	The Group ₦'m	The Company ₦'m
At 1 January 2015	2,338	1,813
Unwinding of discount due to passage of time	–	–
Change in estimate	(1,754)	(1,365)
Exchange difference	185	143
At 31 December 2015	769	591
At 1 January 2016	769	591
Unwinding of discount due to passage of time	105	87
Deconsolidation of subsidiary	10	–
Change in estimate	(1,135)	(903)
Exchange difference	433	328
At 31 December 2016	**182**	**103**

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2045 to 2066 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2045 to 2066. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

The change in estimate in the current year for Group and Company is ₦1.1 billion and ₦0.9 billion respectively (2015: ₦1.8 billion and ₦1.4 billion) and is due to the increase in the expected cessation of operations.

	Current estimated life span of reserves	
	2016	2015
Seplat Petroleum Development Company:	2045	2052
OML 4	2056	2052
OML 38	2052	2052
OML 41	2066	2052
Newton Energy Limited (OPL 283)	2045	2052
Seplat East Onshore Ltd (OML 53)	2054	2052

The discount rate used in the calculation of unwinding of the provision for both Group and Company for 2016 was within the range of 11.1% to 14.82% (2015: 11.1%). As of 31 December 2016, management has estimated decommissioning expenditure to occur from 2045 to 2066 for Group and Company (2015: 2052 for Group and Company).

30. Employee benefit obligation

30a. Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2016 was ₦127 million (2015: ₦78 million).

30b. Defined benefit plan

The Company commenced its unfunded defined benefit plan (gratuity) in July 2015. The Company makes provisions for gratuity for employees from day one of employment in the Company. The employee qualifies to receive the gratuity on resignation or retirement from the Company after five years of continuous service. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted to inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit method.

The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

i) Liability recognised in the financial position

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Defined benefit obligation	1,559	1,377	1,559	1,377

ii) Amount recognised in profit or loss

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Current service cost	474	1,377	474	1,377
Interest cost on benefit obligation	162	–	162	–
	636	**1,377**	**636**	**1,377**

The Group recognises a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners; this is recognised as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Charged to receivables	350	760	350	760
Charged to profit or loss	240	617	241	617
	590	**1,377**	**591**	**1,377**

Notes to the financial statements continued

30. Employee benefit obligation continued

iii) Re-measurement (gains)/losses in other comprehensive income

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Remeasurement (gains)/losses due to changes in financial and demographic assumptions	(558)	–	(558)	–
Remeasurement (gains)/losses due to experience adjustment	176	–	176	–
	(382)	–	**(382)**	–

The Group recognises a part of the remeasurement gains/losses in other comprehensive income and recharges/credits the other part to its joint operations partners; this is recognised as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Credited to receivables	(210)	–	(210)	–
Credited to other comprehensive income	(172)	–	(172)	–
	(382)	–	**(382)**	–

iv) Changes in the present value of the defined benefit obligation are as follows:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Defined benefit obligation as at 1 January	1,377	–	1,377	–
Current service cost	474	1,377	474	1,377
Interest cost	162	–	162	–
Remeasurement (gains)/losses	(381)	–	(381)	–
Benefits paid by the employer	(74)	–	(74)	–
Exchange differences	1	–	1	–
Defined benefit obligation at 31 December	**1,559**	**1,377**	**1,559**	**1,377**

For the purpose of presentation in the statement of cash flows, defined benefit expenses is as follows:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Movement in defined benefit expense during the year	182	–	182	–
Adjustment for non-cash movements:				
Remeasurement gains/(losses)	381	–	381	–
Current service and interest cost charged to receivables	(350)	–	(350)	–
Defined benefit expenses in the cash flow	**213**	–	**213**	–

v) The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:

	The Group and Company	
	2016 %	2015 %
Discount rate	16	12
Average future pay increase	13	12
Average future rate of inflation	12	9

a) Mortality in service

	The Group and Company	
	Number of deaths in year out of 10,000 lives	
Sample age	2016	2015
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

	The Group and Company	
	Rates	
Age band	2016	2015
Less than or equal to 30	1.0%	1.0%
31 – 39	1.5%	1.5%
40 – 44	1.5%	1.5%
45 – 55	1.0%	1.0%
56 – 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

		The Group and Company					
		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase ₦'m	1% decrease ₦'m	1% increase ₦'m	1% decrease ₦'m	1% increase ₦'m	1% decrease ₦'m
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2016	1,559	145	(170)	(180)	156	9	(9)
31 December 2015	1,377	161	(196)	(201)	8	(11)	168

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Within the next 12 months (next annual reporting period)	111	59	111	59
Between 2 and 5 years	887	469	887	469
Between 5 and 10 years	2,413	1,864	2,413	1,864
	3,412	**2,392**	**3,412**	**2,392**

The weighted average liability duration for the Plan is 11.53 years. The longest weighted duration for Nigerian Government bond as at 31 December 2016 was about 5.85 years with a gross redemption yield of about 15.32%.

d) Risk exposure

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks. The most significant of these are detailed below:

i) Liquidity risk

The plan liabilities are unfunded and as a result there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long-term asset values and a rise in liability values.

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

31. Trade and other payables

Goodwill acquired through business combinations is allocated to OML 55 for impairment testing. The carrying amount of goodwill is stated below.

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Trade payable	32,983	24,936	29,342	24,888
Accruals and other payables	35,868	43,002	30,813	33,635
NDDC levy	6	1,247	6	1,247
Deferred revenue	433	282	433	282
Royalties	10,476	5,104	8,469	5,013
Intercompany payable	–	–	16,982	4,887
	79,766	**74,571**	**86,045**	**69,952**

The accruals balance is mainly composed of other field-related accruals – ₦10.7 billion and ₦7.6 billion for Group and Company (2015: ₦29.9 billion). Royalties include accruals for unpaid gas revenues during the period.

32. Earnings per share ('EPS')

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the period.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share-based payment scheme) into ordinary shares.

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Loss)/profit for the year attributable to equity holders of the parent	(44,921)	13,418	(24,840)	11,914
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	560,576	563,445	560,576
Share awards	1,540	189	1,540	189
Weighted average number of ordinary shares adjusted for the effect of dilution	564,985	560,765	564,985	560,765
	₦	₦	₦	₦
Basic (loss)/earnings per share	(79.73)	23.94	(44.09)	21.25
Diluted (loss)/earnings per share	(79.11)	23.93	(43.74)	21.25
	₦'m	₦'m	₦'m	₦'m
(Loss)/profit attributable to equity holders of the parent	(44,921)	13,418	(24,840)	11,914
(Loss)/profit used in determining diluted earnings per share	**(44,921)**	**13,418**	**(24,840)**	**11,914**

33. Dividends paid and proposed

As at 31 December 2016, the dividend for the year was Nil for both Group and Company (2015: ₦9.8 billion).

	The Group and Company	
	2016 ₦'m	2015 ₦'m
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2016: ₦9.13 per share, 563,445,561 shares in issue (2015: ₦7.82 per share, 560,576,101 shares in issue)	5,118	4,384
Final dividend for 2016: ₦Nil per share, 563,445,561 shares in issue (2015: ₦17.56 per share, 560,576,101 shares in issue)	–	9,842
Total	**5,118**	**14,226**
Proposed dividends on ordinary shares:		
Final cash dividend for 2016: ₦Nil per share (2015: ₦7.92 per share, 560,576,101 shares in issue)	5,118	4,460

34. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the 'parent Company'). The parent Company is owned 13.84% either directly or by entities controlled by A.B.C. Orjiako ('SEPCOL') and members of his family and 13.15% either directly or by entities controlled by Austin Avuru ('Professional Support Limited' and 'Platform Petroleum Limited'). The remaining shares in the parent Company are widely held.

34a. Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: The Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Berwick Nigeria Limited: The Chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent Company. The company provides drilling rigs and drilling services to Seplat.

Helko Nigeria Limited: The Chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The Chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Ndosumili Ventures Limited: Is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The Chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent Company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

Platform Petroleum Limited: The Chief Executive Officer of Seplat is a director and shareholder of this company. The company seconded support staff to Seplat.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Exploration and Production Company Limited ('SEPCOL'): The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provided consulting services to Seplat.

Notes to the financial statements continued

34. Related party relationships and transactions continued

The following transactions were carried by Seplat with related parties:

34b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	The Group 2016 ₦'m	The Group 2015 ₦'m	The Company 2016 ₦'m	The Company 2015 ₦'m
Shareholders of the parent company				
SEPCOL	358	302	358	302
Platform Petroleum Limited	–	7	–	7
	358	**309**	**358**	**309**
Entities controlled by key management personnel:				
Contracts > ₦1billion in 2016				
Nerine Support Services Limited[1]	3,948	4,179	3,948	4,179
Montego Upstream Services Limited	2,937	1,879	2,937	1,879
Cardinal Drilling Services Limited	1,543	3,429	1,543	3,429
	8,428	**9,487**	**8,428**	**9,487**
Contracts < ₦1billion in 2016				
Helko Nigeria Limited	560	113	560	113
Ndosumili Ventures Limited	422	268	422	268
Abbeycourt Trading Company Limited	164	470	164	470
Oriental Catering Services Limited	148	187	148	187
Keco Nigeria Enterprises	77	377	77	377
ResourcePro Inter Solutions Limited	17	366	17	366
Nabila Resources & Investment Ltd	17	45	17	45
Berwick Nigeria Limited	6	5	6	5
Neimeth International Pharmaceutical Plc	3	–	3	–
	1,414	**1,831**	**1,414**	**1,831**
	9,842	**11,318**	**9,842**	**11,318**

1. Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e include salaries and Nerine's mark-up. Total costs for agency and contracts during 2016 are ₦2.4 billion.

34c. Balances:

Year-end balances arising from related party transactions:

i) Prepayments / receivables

	The Group and Company 2016 ₦'m	The Group and Company 2015 ₦'m
Entities controlled by key management personnel		
Cardinal Drilling Services Limited – current portion	1,894	1,716
Cardinal Drilling Services Limited – non-current portion	–	1,060
	1,894	2,776

ii) Payables

	The Group and Company 2016 ₦'m	The Group and Company 2015 ₦'m
Entities controlled by key management personnel		
Montego Upstream Services Limited	3,520	–
Nerine Support Services Limited	3,480	–
Cardinal Drilling Services Limited	308	–
	7,308	–

35. Information relating to employees

35a. Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Salaries and other short-term employee benefits	1,252	763	1,252	763
Post-employment benefits	214	346	214	346
Share-based payment expenses	88	750	88	750
	1,554	**1,859**	**1,554**	**1,859**

35b. Chairman and Directors' emoluments

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Chairman (Non-executive)	279	223	279	223
Chief Executive Officer	405	326	405	326
Executive Directors	458	578	458	578
Non-Executive Directors	662	536	662	487
Bonus	–	329	–	329
JV Partner Share	(587)	(437)	(587)	(437)
Total	**1,217**	**1,555**	**1,217**	**1,506**

35c. Highest paid Director

	The Group and Company	
	2016 ₦'m	2015 ₦'m
Highest paid Director	405	326

Emoluments are inclusive of income taxes.

35d. The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	The Group and Company	
	2016 Number	2015 Number
Zero – ₦16,743,000	–	–
₦16,743,001 – ₦97,367,000	7	7
₦97,367,001 – ₦132,913,000	1	–
Above ₦132,913,000	3	4
	11	**11**

35e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,000,000, received remuneration (excluding pension contributions) in the following ranges:

	The Group and Company	
	2016 Number	2015 Number
₦1,674,000 – ₦4,121,000	1	4
₦4,121,001 – ₦8,243,000	33	6
₦8,243,001 – ₦12,364,000	136	76
Above ₦12,364,000	220	303
	390	**389**

Notes to the financial statements continued

35. Information relating to employees continued

35f. The average number of persons (excluding Directors) in employment during the year was as follows:

	The Group and Company	
	2016 Number	2015 Number
Senior management	15	19
Managers	78	68
Senior staff	110	111
Junior staff	187	191
	390	**389**

35g. Employee cost

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	The Group and Company	
	2016 ₦'m	2015 ₦'m
Salaries and wages	9,330	3,774
	9,330	**3,774**

36. Commitments and contingencies

36a. Operating lease commitments – Group as lessee

The Group has entered into operating leases for the use of drilling rigs and rentals. The Group has no minimum lease payments to be disclosed because the total lease payment has been prepaid at inception of the lease.

36b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2016 is ₦4.7 billion (31 December 2015: ₦59.6 billion). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

37. Events after the reporting period

The Group confirmed that proceedings have begun in the English High Court against its wholly owned subsidiary, Newton Energy Limited, by Crestar Natural Resources Limited, relating to the deposit of ₦6.2 billion (US$20.5 million) currently held in an escrow account.

The potential acquisition of an interest in OML 25 was initially identified in 2014 at which time the Group placed a sum of ₦138 billion (US$453 million) as a deposit towards the potential investment. However, after material delays, ₦112 billion (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 paid ₦3.4 billion (US$11 million) to Crestar for past costs and a ₦13.7 billion (US$45 million) deposit remains with the potential vendor of the asset. Crestar alleges bad faith conduct by Seplat's subsidiary, Newton Energy Limited, with regards to the Group's request for the escrow monies to be released to Seplat. Seplat has emphasised that it intends to defend the claim vigorously and further announcement, if appropriate, will be made in due course.

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2016 and on the profit or loss for the year ended on that date, which has not been adequately provided for or disclosed in these financial statements.

Other national disclosures

For the year ended 31 December 2016

Statement of value added
For the year ended 31 December 2016

	The Group				The Company			
	2016 ₦'m	%	2015 ₦'m	%	2016 ₦'m	%	2015 ₦'m	%
Revenue	63,384		112,972		51,995		98,593	
Other income	–		459		–		459	
Finance income	15,800		2,535		26,846		1,611	
Cost of goods and other services:								
Local	(83,822)		(57,891)		(68,723)		(44,728)	
Foreign	–		(12,809)		–		(14,702)	
Valued (eroded)/added	**(4,638)**	**100%**	**45,266**	**100%**	**10,118**	**100%**	**41,233**	**100%**

Applied as follows:

	The Group				The Company			
	2016 ₦'m	%	2015 ₦'m	%	2016 ₦'m	%	2015 ₦'m	%
To employees:								
– as salaries and labour-related expenses	5,340	-115%	5,399	12%	4,978	49%	4,529	11%
To external providers of capital:								
– as interest	18,270	-394%	16,553	37%	17,314	171%	15,315	37%
To Government:								
– as Company taxes	(536)	12%	(47)	–	(575)	-6%	–	–
Retained for the Company's future:								
– For asset replacement, depreciation, depletion & amortisation	15,101	-326%	14,575	32%	8,245	81%	12,720	31%
Deferred tax	2,571	-55%	(4,205)	-9%	4,996	49%	(3,245)	-8%
Loss for the year	(45,384)	979%	12,991	29%	(24,840)	-246%	11,914	29%
Valued (eroded)/added	**(4,638)**	**100%**	**45,266**	**100%**	**10,118**	**100%**	**41,233**	**100%**

The value (eroded)/added represents the additional wealth which the Company has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the future creation of more wealth.

Five year financial summary
As at 31 December 2016

	2016 ₦'m	2015 ₦'m	2014 ₦'m	2013 ₦'m	The Group 2012 ₦'m
Revenue	63,384	112,972	124,377	136,658	–
(Loss)/profit before taxation	(47,419)	17,243	40,481	71,032	–
Income tax expense	2,035	(4,252)	–	14,399	–
(Loss)/profit for the year	(45,384)	12,991	40,481	85,431	–

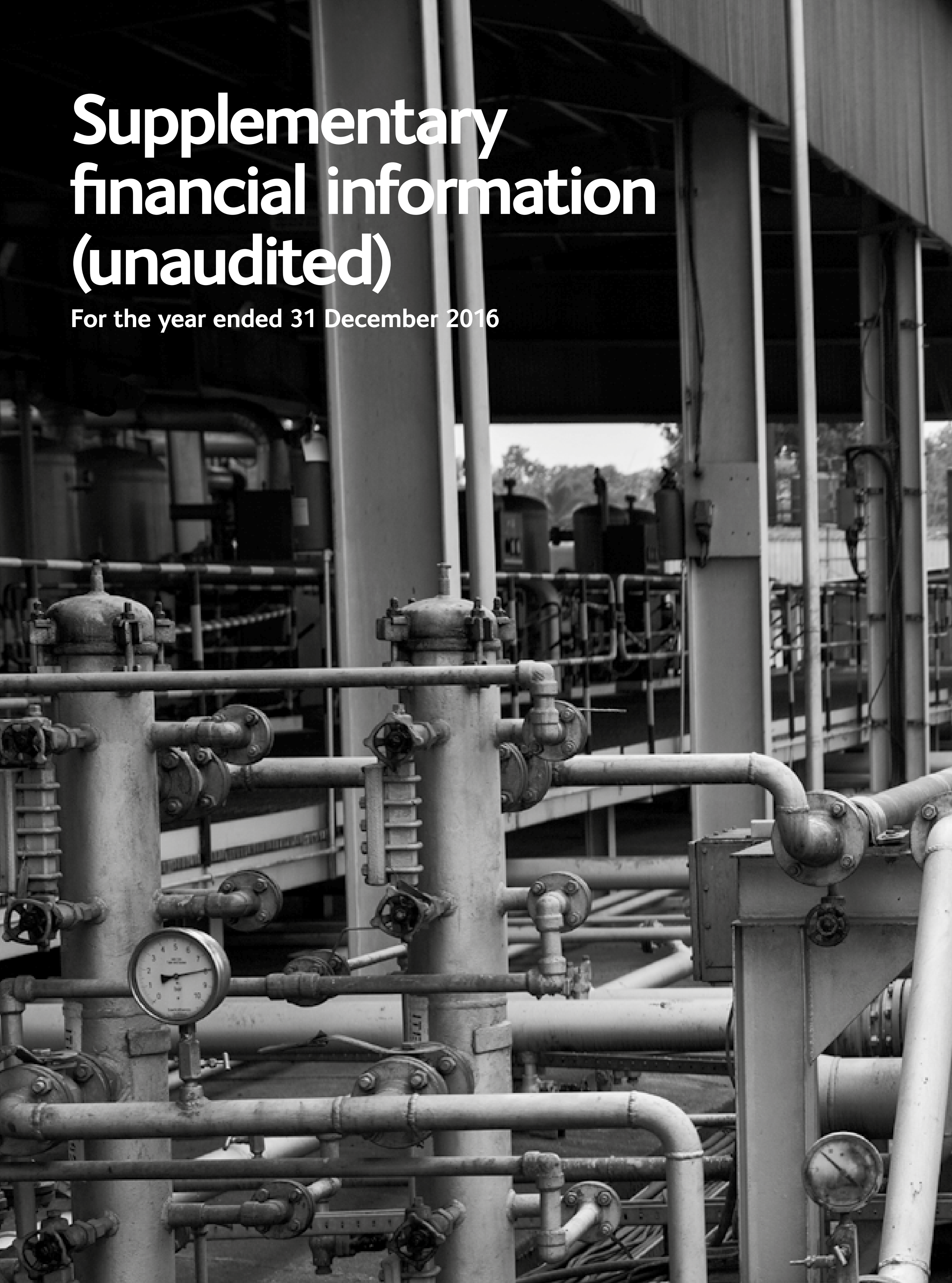
	2016 ₦'m	2015 ₦'m	2014 ₦'m	2013 ₦'m	The Group 2012 ₦'m
Capital employed:					
Issued share capital	283	282	277	200	–
Share premium	82,080	82,080	82,080	–	–
Share-based payment reserve	2,597	1,729	–	–	–
Capital contribution	5,932	5,932	5,932	5,932	–
Retained earnings	85,052	134,919	135,727	106,992	–
Foreign currency translation reserve	200,429	56,182	35,642	591	–
Non-controlling interest	–	(148)	–	–	–
Total equity	**376,373**	**280,976**	**259,658**	**113,715**	–
Represented by:					
Non-current assets	462,402	295,735	182,162	107,852	–
Current assets	202,274	249,462	261,864	96,712	–
Non-current liabilities	(141,473)	(131,786)	(48,247)	(22,391)	–
Current liabilities	(146,830)	(132,435)	(136,121)	(68,458)	–
Net assets	**376,373**	**280,976**	**259,658**	**113,715**	–

	2016 ₦'m	2015 ₦'m	2014 ₦'m	2013 ₦'m	The Company 2012 ₦'m
Revenue	51,995	98,593	121,246	135,068	97,078
(Loss)/profit before taxation	(29,261)	15,159	43,529	71,025	45,956
Income tax expense	4,421	(3,245)	–	14,399	(28,998)
Loss/profit for the year	(24,840)	11,914	43,529	85,424	16,958

	2016 ₦'m	2015 ₦'m	2014 ₦'m	2013 ₦'m	The Company 2012 ₦'m
Capital employed:					
Issued share capital	283	282	277	200	107
Share premium	82,080	82,080	82,080	–	–
Share-based payment reserve	2,597	1,729	–	–	–
Capital contribution	5,932	5,932	5,932	5,947	6,211
Foreign translation reserve	193,499	45,618	36,086	580	–
Retained earnings	106,670	136,456	138,768	106,886	21,921
Total equity	**391,061**	**272,097**	**263,143**	**113,613**	**28,239**
Represented by:					
Non-current assets	277,618	167,517	152,396	97,740	66,238
Current assets	404,274	348,199	293,558	102,681	73,533
Non-current liabilities	(137,722)	(115,850)	(45,994)	(21,019)	(43,707)
Current liabilities	(153,109)	(127,769)	(136,817)	(65,789)	(67,825)
Net assets	**391,061**	**272,097**	**263,143**	**113,613**	**28,239**

Supplementary financial information (unaudited)

For the year ended 31 December 2016



1. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 December 2015	208.9	1,573.2	480.2
Revisions	(9.8)	5.6	(8.8)
Discoveries and extensions	–	–	–
Acquisitions	–	–	–
Production	(3.7)	(34.7)	(9.7)
At 31 December 2016	**195.4**	**1,544.1**	**461.7**

Reserves are those quantities of crude oil, natural gas and natural gas liquid that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions.

As additional information becomes available or conditions change, estimates are revised.

2. Capitalised costs related to oil producing activities

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Capitalised costs:				
Unproved properties	–	–	–	–
Proved properties	463,043	334,959	351,448	202,091
Total capitalised costs	463,043	334,959	351,448	202,091
Accumulated depreciation	89,601	49,237	86,822	44,312
Net capitalised costs	**373,442**	**285,722**	**264,626**	**157,779**

Capitalised costs include the cost of equipment and facilities for oil producing activities. Unproved properties include capitalised costs for oil leaseholds under exploration, and uncompleted exploratory well costs, including exploratory wells under evaluation. Proved properties include capitalised costs for oil leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted development well costs) and support equipment.

3. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2016 are:

		Original	Term in years expired	Unexpired
Seplat	OMLs 4, 38 & 41	10	7	3
Newton	OML 56	10	7	3
Seplat East Swamp	OML 53	30	19	11
Seplat Swamp	OML 55	30	19	11

4. Results of operations for oil producing activities

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Revenue	63,384	112,972	51,995	98,593
Other income	–	459	–	459
Production and administrative expenses	(97,120)	(82,703)	(74,347)	(72,189)
Depreciation & amortisation	(13,683)	(13,485)	(6,909)	(11,704)
(Loss)/ profit before taxation	(47,419)	17,243	(29,261)	15,159
Taxation	2,035	(4,252)	4,421	(3,245)
Profit after taxation	**(45,384)**	**12,991**	**(24,840)**	**11,914**

Supplementary financial information (unaudited) continued
For the year ended 31 December 2016

5. Exchange rates used in translating accounts to Naira
The table below shows the exchange rates used in translating the accounts into Naira.

	Basis	₦/$
Fixed assets – opening balances	Historical rate	Historical
Fixed assets – additions	Average rate	308.00
Fixed assets – closing balances	Closing rate	305.00
Current assets	Closing rate	305.00
Current liabilities	Closing rate	305.00
Equity	Historical rate	On the date of issue
Income and expenses:		
January – May	Average rate	199.17
June	Average rate for June	227.00
July – September	Average rate	308.00
September – December	Average rate	305.00
January – December	**Overall average rate**	**255.00**

6. Compliance with FRC Rule 1
i) In compliance with the regulatory requirement in Nigeria that the CFO, who signs the Annual Report and Accounts, must be a member of a professional accountancy body recognised by an Act of the National Assembly in Nigeria, the CFO of Seplat, Roger Brown, has been granted a waiver by the Financial Reporting Council of Nigeria to sign the 2016 Annual Report and Accounts without indicating any FRC registration number with the certification.

ii) In compliance with the regulatory requirement in Nigeria that the Chairman of the Statutory Audit Committee, who signs the Statutory Audit Committee report, must be a member of a professional accountancy body recognised by an Act of the National Assembly in Nigeria, the Chairman of the Statutory Audit Committee, Chief Anthony Idigbe, has been granted a waiver by the Financial Reporting Council of Nigeria to sign the 2016 Statutory Audit Committee report without indicating any FRC registration number with the certification.

Financial statements

Expressed in US Dollars

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Independent auditor's report to the members of Seplat Petroleum Development Company Plc

For the year ended 31 December 2016

Opinion

We have audited the consolidated and separate financial statements of Seplat Petroleum Development Company Plc (the 'Company') and its subsidiaries (together the 'Group') which comprise:

Group	Company
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016	Company statement of profit or loss and other comprehensive income for the year ended 31 December 2016
Consolidated statement of financial position as at 31 December 2016	Company statement of financial position as at 31 December 2016
Consolidated statement of changes in equity for the year then ended 31 December 2016	Company statement of changes in equity for the year then ended 31 December 2016
Consolidated statement of cash flows for the year then ended 31 December 2016	Company statement of cash flows for the year then ended 31 December 2016
Related notes to the consolidated financial statements	Related notes to the Company financial statements

In our opinion:

- the financial statements present fairly, in all material respects, the financial position of the Group and of the Company as at 31 December 2016, and of the Group and Company financial performance and cash flows for the year then ended;
- the financial statements of the Group and Company have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'); and
- the financial statements of the Group and Company have been prepared in accordance with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code') and other independence requirements applicable to performing audits of Seplat Petroleum Development Company Plc. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Seplat Petroleum Development Company Plc. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How the matter was addressed in the audit
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment. As at 31 December 2016, Seplat reported 461.7 MMboe of proved plus probable reserves. The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&A, impairments and decommissioning provisions. There is technical uncertainty in assessing reserve quantities.	We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures: • ensured that significant movements in reserves are compliant with guidelines and policy; • ensured that additions to oil assets during the year were properly recognised and accounted for; • performed analytical review procedures on reserve revisions; • confirmed that the reserve information at year end is supported by underlying documentation and data; • performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and • reviewed disclosures in the Annual Report and Accounts to ensure consistency with the reserves data that we have reviewed.

Key audit matter	How the matter was addressed in the audit
The assessment of the recoverable amount of exploration and production assets As at 31 December 2016, Seplat recognised US$1.224 billion of oil and gas properties. A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties. In view of the generally long-lived nature of Seplat's assets, the most critical assumption in forecasting future cash flows is management's view on the long-term oil and gas price outlook beyond the next three to four years. Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures.	Accounting standards require management to assess at each reporting date whether indicators of impairment exist. Seplat carried out an impairment test. Our audit procedures on the impairment test included: • assessed whether or not reserve movements represented an impairment trigger; • considered oil and gas forward curves and long-term commodity price assumptions and whether these are indicators of impairment; • discussed with management the operational status of key assets; • separately from management, we assessed whether or not indicators of impairment exist; and • challenged management's assumptions in estimating future cash flows from assets.
Deconsolidation of subsidiary During 2016, following the restructuring of the arrangement with BelemaOil, Seplat deconsolidated BelemaOil as it no longer exercised control over the entity. Seplat has recorded its rights to receive the discharge sum of US$330 million from the crude oil reserves of OML 55 as a right to receive oil to the tune of the discharge sum. The fair value of the discharge sum on the date of deconsolidation is US$250 million.	We carried out the following audit procedures: • reviewed the terms of the agreements relating to BelemaOil, including the Asset Management Team agreement, Deed of Settlement and Release and other Deeds of Settlement; • reviewed management's assessment and accounting of the transaction to ensure that the appropriate accounting treatment is reflected in the financial statements; and • assessed the appropriateness of the estimated fair value of the discharge sum and management's assessment for recoverability.
Recoverability of the Nigerian Petroleum Development Company ('NPDC') receivables As at 31 December 2016, the undiscounted/discounted value of the receivable balance is US$239/US$229 million respectively. Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's past experiences with NPDC, current discussions with NPDC and financial capacity of NPDC.	We carried out the following procedures: • validated the receipts during the year and post year-end; • obtained confirmation from NNPC of amounts owed to Seplat; • recalculated the US Dollar equivalent of amounts owed in Nigerian Naira; • discussed and challenged management's expectations in relation to the in-flow of funds; and • ensured that amounts due are discounted to reflect the time value of money in line with expected timing of receipts.

Other information

The Directors are responsible for the other information. The other information comprises of the Report of the Directors, Audit Committee's Report, Statement of Directors' Responsibilities and Other National Disclosures, which we obtained prior to the date of this report, and the Annual Report and Accounts, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report and Accounts, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting processes.

Independent auditor's report to the members of Seplat Petroleum Development Company Plc continued

For the year ended 31 December 2016

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirement of Schedule 6 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004, we confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;

iii) the statements of financial position and profit or loss and other comprehensive income are in agreement with the books of account;

iv) and in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.

Odutola

Yemi Odutola FCA
FRC/2012/ICAN/00000000141

Partner
For: Ernst & Young
Lagos, Nigeria
30 March 2017

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

	Notes	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
Revenue	5	254,217	570,477	202,446	497,867
Cost of sales	6	(182,424)	(321,694)	(157,333)	(270,505)
Gross profit		71,793	248,783	45,113	227,362
Other operating income	7	–	2,316	–	2,316
General and administrative expenses	8	(113,832)	(121,474)	(92,629)	(106,104)
(Losses)/gains on foreign exchange (net)	9	(101,455)	7,747	(104,328)	8,985
Gain on deconsolidation of subsidiary	17c	680	–	–	–
Fair value (loss)/gain	10	(15,069)	20,493	(12,455)	13,195
Operating (loss)/profit		(157,883)	157,865	(164,299)	145,754
Finance income	11	59,017	12,802	94,139	8,133
Finance costs	11	(73,900)	(83,588)	(68,751)	(77,338)
(Loss)/profit before taxation		(172,766)	87,079	(138,911)	76,549
Taxation	12	6,672	(21,472)	14,499	(16,384)
(Loss)/profit for the year		(166,094)	65,607	(124,412)	60,165
(Loss)/profit attributable to equity holders of parent		(164,590)	67,761	(124,412)	60,165
(Loss) attributable to non-controlling interest		(1,504)	(2,154)	–	–
		(166,094)	65,607	(124,412)	60,165
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		3,350	(299)	–	–
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	30b	563	–	563	–
Other comprehensive income/(loss) for the year		3,913	(299)	563	–
Total comprehensive (loss)/income for the year		(162,181)	65,308	(123,849)	60,165
Total comprehensive (loss)/income attributable to equity holders of parent		(160,677)	67,462	(123,849)	60,165
Total comprehensive (loss) attributable to non-controlling interest		(1,504)	(2,154)	–	–
		(162,181)	65,308	(123,849)	60,165
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:					
Basic (loss)/earnings per share (US$)	32	(0.29)	0.12	(0.22)	0.11
Diluted (loss)/ earnings per share (US$)	32	(0.29)	0.12	(0.22)	0.11

Statement of financial position
For the year ended 31 December 2016

	Notes	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
ASSETS					
Non-current assets					
Oil & gas properties	15a	1,224,400	1,436,950	867,627	850,214
Other property, plant and equipment	15b	7,967	11,603	7,914	11,154
Other asset	17	250,090	–	–	–
Goodwill	16	–	2,000	–	–
Prepayments	18	33,616	36,754	33,616	36,754
Investment in subsidiaries	19	–	–	1,064	1,064
Total non-current assets		**1,516,073**	**1,487,307**	**910,221**	**899,186**
Current assets					
Inventories	20	106,213	82,466	102,608	78,865
Trade and other receivables	21	390,694	811,255	1,069,003	1,322,039
Prepayments	18	6,672	11,639	6,500	10,679
Cash & cash equivalents	22	159,621	326,029	147,377	316,374
Derivatives	23	–	23,194	–	23,194
Total current assets		663,200	1,254,583	1,325,488	1,751,151
Total assets		**2,179,273**	**2,741,890**	**2,235,709**	**2,650,337**
EQUITY AND LIABILITIES					
Equity					
Issued share capital	24	1,826	1,821	1,826	1,821
Share premium	24c	497,457	497,457	497,457	497,457
Share-based payment reserve	24b	12,135	8,734	12,135	8,734
Capital contribution	25	40,000	40,000	40,000	40,000
Retained earnings		678,922	865,483	730,740	877,123
Foreign currency translation reserve		3,675	325	–	–
Non-controlling interest		–	(745)	–	–
Total shareholders' equity		**1,234,015**	**1,413,075**	**1,282,158**	**1,425,135**
Non-current liabilities					
Interest bearing loans and borrowings	27	446,098	608,846	446,098	556,346
Deferred tax liabilities	13	–	21,233	–	16,384
Contingent consideration	28	12,040	21,900	–	–
Provision for decommissioning obligation	29	597	3,869	339	2,971
Defined benefit plan	30	5,112	6,926	5,112	6,926
Total non-current liabilities		**463,847**	**662,774**	**451,549**	**582,627**
Current liabilities					
Interest bearing loans and borrowings	27	217,998	290,769	217,998	290,769
Trade and other payables	31	261,528	375,033	282,119	351,806
Current taxation	12	1,885	239	1,885	–
Total current liabilities		**481,411**	**666,041**	**502,002**	**642,575**
Total liabilities		**945,258**	**1,328,815**	**953,551**	**1,225,202**
Total shareholders' equity and liabilities		**2,179,273**	**2,741,890**	**2,235,709**	**2,650,337**

Notes 1 to 37 are an integral part of the financial statements.

The financial statements of Seplat Development Company Plc for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 23 March 2017 and were signed on its behalf by:

A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
30 March 2017

Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
30 March 2017

Roger Brown
FRC/2014/IODN/00000007983
Chief Financial Officer
30 March 2017

Statement of changes in equity
For the year ended 31 December 2016

The Group

	Notes	Issued share capital US$ '000	Share premium US$ '000	Capital contribution US$ '000	Share-based payment reserve US$ '000	Retained earnings US$ '000	Foreign currency translation reserve US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total equity US$ '000
At 1 January 2015		1,798	497,457	40,000	–	869,861	26	1,409,142	–	1,409,142
Profit/(loss) for the year		–	–	–	–	67,462	–	67,462	(2,154)	65,308
Other comprehensive income		–	–	–	–	–	299	299	–	299
Total comprehensive income/ (loss) for the year		–	–	–	–	**67,462**	**299**	**67,761**	**(2,154)**	**65,607**
Transactions with owners in their capacity as owners:										
Dividends	33	–	–	–	–	(71,840)	–	(71,840)	–	(71,840)
Employee share schemes	24b	–	–	–	8,757			8,757	–	8,757
NCI on acquisition of subsidiary		–	–	–	–	–	–	–	1,409	1,409
Issue of shares	24b	23	–	–	(23)	–	–	–	–	
Total		23	–	–	8,734	(71,840)	–	(63,083)	1,409	(61,674)
At 31 December 2015		**1,821**	**497,457**	**40,000**	**8,734**	**865,483**	**325**	**1,413,820**	**(745)**	**1,413,075**
At 1 January 2016		1,821	497,457	40,000	8,734	865,483	325	1,413,820	(745)	1,413,075
Loss for the year		–	–	–	–	(164,590)	–	(164,590)	(1,504)	(166,094)
Other comprehensive income		–	–	–	–	563	3,350	3,913	–	3,913
Total comprehensive (loss)/ income for the year		–	–	–	–	**(164,027)**	**3,350**	**(160,677)**	**(1,504)**	**(162,181)**
Transactions with owners in their capacity as owners:										
Dividends	33	–	–	–	–	(22,534)	–	(22,534)	–	(22,534)
Employee share schemes	24b	–	–	–	3,406	–	–	3,406	–	3,406
Loss of control		–	–	–	–	–	–	–	2,249	2,249
Issue of shares	24b	5	–	–	(5)	–	–	–	–	–
Total		**5**	–	–	**3,401**	**(22,534)**	–	**(19,128)**	**2,249**	**(16,879)**
At 31 December 2016		**1,826**	**497,457**	**40,000**	**12,135**	**678,922**	**3,675**	**1,234,015**	–	**1,234,015**

Statement of changes in equity continued
For the year ended 31 December 2016

							The Company
	Notes	Issued share capital US$ '000	Share premium US$ '000	Capital contribution US$ '000	Share-based payment reserve US$ '000	Retained earnings US$ '000	Total equity US$ '000
At 1 January 2015		1,798	497,457	40,000		888,798	1,428,053
Profit for the year		–	–	–		60,165	60,165
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	**60,165**	**60,165**
Transactions with owners in their capacity as owners:							
Dividends	33	–	–	–	–	(71,840)	(71,840)
Employee share schemes	24b	–	–	–	8,757	–	8,757
Issue of shares	24b	23	–	–	(23)	–	–
Total		**23**	–	–	**8,734**	**(71,840)**	**(63,083)**
At 31 December 2015		**1,821**	**497,457**	**40,000**	**8,734**	**877,123**	**1,425,135**
At 1 January 2016		1,821	497,457	40,000	8,734	877,123	1,425,135
Loss for the year		–	–	–	–	(124,412)	(124,412)
Other comprehensive income		–	–	–	–	563	563
Total comprehensive (loss)/income for the year		–	–	–	–	**(123,849)**	**(123,849)**
Transactions with owners in their capacity as owners:							
Dividends	33	–	–	–	–	(22,534)	(22,534)
Employee share schemes	24b	–	–	–	3,406	–	3,406
Issue of shares	24b	5	–	–	(5)	–	–
Total		**5**	–	–	**3,401**	**(22,534)**	**(19,128)**
At 31 December 2016		**1,826**	**497,457**	**40,000**	**12,135**	**730,740**	**1,282,158**

Statement of cash flows
For the year ended 31 December 2016

	Notes	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
Cash flows from operating activities					
Cash generated from operations	14	160,856	38,039	156,665	96,918
Receipts from derivatives		10,739	–	10,739	–
Net cash inflows from operating activities		171,595	38,039	167,404	96,918
Cash flows from investing activities					
Investment in oil and gas properties		(51,834)	(366,878)	(51,834)	(139,985)
Acquisition of other property, plant and equipment		(2,349)	(4,615)	(2,352)	(4,656)
Disposal of other property plant and equipment		385	–	385	–
Acquisition of subsidiary		–	(79,409)	–	–
Proceeds from sale of assets		–	208	–	208
Interest received		1,664	3,243	1,644	3,243
Refunds from advances on investment		–	368,160	–	–
Net cash (outflows) from investing activities		(52,134)	(79,291)	(52,157)	(141,190)
Cash flows from financing activities					
Proceeds from bank financing		–	967,101	–	967,101
Repayments of bank financing		(187,000)	(735,940)	(187,000)	(735,940)
Dividends paid		(22,534)	(71,840)	(22,534)	(71,840)
Interest paid		(73,420)	(77,338)	(68,421)	(77,338)
Net cash (outflows)/ inflows from financing activities		(282,954)	81,983	(277,955)	81,983
Net (decrease)/increase in cash and cash equivalents		(163,493)	40,731	(162,708)	37,711
Cash and cash equivalents at beginning of year		326,029	285,298	316,374	278,663
Effects of exchange rate changes on cash and cash equivalent		(2,915)	–	(6,289)	–
Cash and cash equivalents at end of year	22	**159,621**	**326,029**	**147,377**	**316,374**

Notes to the financial statements

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

The Company's registered address is: 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, SPDC, TOTAL and AGIP, a 45% participating interest in the following producing assets:

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US$340 million paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US$33 million payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US$80 per barrel. US$358.6 million was allocated to the producing assets including US$18.6 million as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US$33 million was paid on 22 October 2012.

In 2013, Newton Energy Limited ('Newton Energy'), an entity previously beneficially owned by the same shareholders as Seplat, became a subsidiary of the Company. On 1 June 2013, Newton Energy acquired from Pillar Oil Limited ('Pillar Oil') a 40% participant interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields').

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd. for US$259.4 million. It also concluded negotiations to buy 56.25% of BelemaOil Producing Ltd., a Nigerian special purpose vehicle that bought a 40% interest in the producing OML 55, located in the swamp to coastal zone of south eastern Niger Delta. NNPC holds the remaining 60.00% interest in OML 55, and Seplat's effective participating interest in OML 55 as a result of the acquisition was 22.50%.

Based on the above, Seplat consolidated BelemaOil in its 31 December 2015 consolidated financial statements.

During the year, the minority shareholders of BelemaOil began to dispute Seplat's majority shareholding in the entity. In July 2016, Seplat instituted legal action in a bid to secure its investment in OML 55.

Subsequently, and in a bid to resolve 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, as at the reporting date fair valued at US$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held 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 relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

Subsequent to year end, the Asset Management Team of OML 55 has been formally inaugurated, and first lifting has taken place, the proceeds of which have been deposited into the escrow account as prescribed in the agreements.

As a result of the foregoing, Seplat no longer exercises control and has now deconsolidated BelemaOil in the financial statements in accordance with IFRS 10 (par B97). Seplat has recorded its rights to receive the discharge sum from the crude oil reserves of OML 55 as other asset.

The Company together with its subsidiary, Newton Energy, and four wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014, and Seplat Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014, are referred to as the Group.

Subsidiary	Country of incorporation and place of business	Shareholding %	Principal activities
Newton Energy Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Petroleum Development UK	United Kingdom	100%	Oil & gas exploration and production
Seplat East Onshore Limited	Nigeria	100%	Oil & gas exploration and production
Seplat East Swamp Company Limited	Nigeria	100%	Oil & gas exploration and production
Seplat Gas Company	Nigeria	100%	Oil & gas exploration and production

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated and separate financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Seplat and its subsidiaries.

2.2 Basis of preparation

i) Compliance with IFRS

The consolidated and separate financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the IFRS Interpretations Committee ('IFRS IC') applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board ('IASB'). Additional information required by national regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

ii) Historical cost convention

The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, borrowings on initial recognition and financial instruments – derivatives that have been measured at fair value. The historical financial information is presented in US Dollars and all values are rounded to the nearest thousand (US$'000), except when otherwise indicated. The accounting policies are applicable to both the Company and Group.

iii) Going concern

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least 12 months from the date of this statement.

iv) New and amended standards adopted by the Group

There were a number of new standards and interpretations, effective from 1 January 2016, that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future is described below. Several other amendments apply for the first time in 2016; however, they do not impact the annual financial statements of the Group.

Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

a) Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator account for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, using the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity. BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. As required by this amendment, the application of IFRS 3 principles in accounting for this transaction had no material impact in the financial statements as the transfer of assets between parties was in settlement of a pre-existing relationship and Seplat has no other interests in the jointly managed OML 55 except for the discharge sum which has been recognised at fair value and the resulting gain on the transaction recognised in the profit or loss account.

b) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

c) Annual Improvements to IFRS 2012-2014. These improvements are effective for annual periods beginning on or after 1 January 2016.

They include:

- IAS 34 Interim Financial Reporting
- Amendments to IAS 1: Disclosure Initiative
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts
- Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

As these amendments merely clarify the existing requirements, they do not materially affect the Group's accounting policies or any of the disclosures.

2. Summary of significant accounting policies continued

v) New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

i) IFRS 9 Financial Instruments

IFRS 9 Financial instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect accounting for own credit risk of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles based approach. The Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 – Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group is yet to assess the full impact of IFRS 9.

ii) IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the Group is yet to estimate the effect of the new principles on the Group's financial statements. The Group will make more detailed assessments of the effect over the next 12 months. The Group does not expect to adopt the new standard before 1 January 2018.

iii) IFRS 16 Leases

This standard eliminates the classification of leases as either operating or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases under IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, the Group also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 does not require a lessee to recognise assets and liabilities for (a) short-term leases, or (b) leases of low-value assets. The Group is yet to assess the full impact of IFRS 16 and intends to adopt IFRS 16 no later than 1 January 2019 as required by the standard.

At this stage, the Group is yet to estimate the effect of the new rules on its financial statements. The Group will make more detailed assessments of the effect over the next 12 months. The Group does not expect to adopt the new standard before 1 January 2019.

iv) Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

This amendment is effective 1 January 2017.

2.3 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date control ceases.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

ii) Change in the ownership interest of subsidiary

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

iv) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. As at the reporting date, the Group has only joint operations.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

The Group recognises in its own accounting records as follows:

a) Its share of the mineral properties is shown within property, plant and equipment.

b) Any liabilities that it has incurred including those incurred to finance its share of the asset.

c) Its share of any liabilities incurred jointly with other venturers, including the decommissioning liability of production and field facilities.

d) Any income from its sale or use of its share of the output.

e) Any expenses that it has incurred in respect of its interest in the venture, together with its share of any expenses incurred by the joint operation.

In addition to joint costs, the Group also incurs exclusive costs, which are fully borne by the Group.

2. Summary of significant accounting policies continued

2.4 Functional and presentation currency

Items included in the financial statements of the Company and each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US Dollar. The consolidated and separate financial statements are presented in US Dollars.

i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

ii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.5 Oil and gas accounting

i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

ii) Exploration licence cost

Exploration licence costs are capitalised within oil and gas properties. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss.

iii) Acquisition of producing assets

Upon acquisition of producing assets which do not constitute a business combination, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) Exploration and evaluation expenditures

Geological and geophysical exploration costs are charged to profit or loss as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised. Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves; and
- active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) Development expenditures

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

2.6 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the participant's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the income statement as revenue or cost of sales.

2.7 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

Leasehold improvements	Over the unexpired portion of the lease
Plant and machinery	20%
Office furniture and equipment	33.33%
Motor vehicles	25%
Computer equipment	33.33%

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Summary of significant accounting policies continued

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level no higher than an operating segment.

If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Group's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash-generating unit to it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment once commercial reserves are found before they are transferred to oil and gas assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment – proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2.11 Inventories

Inventories represent the value of tubulars, casings and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.12 Other asset

The Group's interest in the oil and gas reserves of OML 55 has been classified as other asset. On initial recognition, it is measured at the fair value of future recoverable oil and gas reserves.

Subsequently, the other asset is stated at the amount initially recognised, less accumulated impairment losses.

The carrying value of the other asset is reviewed for impairment whenever events or circumstances indicate the carrying value may not be recoverable.

2.13 Segment reporting

Segment reporting has not been prepared as the Group operates one segment, being the exploration, development and production of oil and gas related products located in Nigeria. Operations in the different OMLs are integrated due to geographic proximity, the use of shared infrastructure and common operational management.

2.14 Financial instruments

2.14.1 Financial assets

i) Financial assets initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through the statement of profit or loss which do not include transaction costs. The Group's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives and loan and other receivables.

ii) Subsequent measurement
The subsequent measurement of financial assets depends on their classification, as follows:

Trade receivables, loans and other receivables
Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Group's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

iii) Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) Derecognition of financial assets
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial asset is transferred, the transfer qualifies for derecognition if the Group transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

2.14.2 Financial liabilities
Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

i) Financial liabilities initial recognition and measurement
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

ii) Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2. Summary of significant accounting policies continued

iii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.14.3 Derivative financial instruments

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income, and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 4 Financial risk management.

2.14.4 Fair value of financial instruments

The Group measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each balance sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2.15 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ('CGU') and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.16 Share capital

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

2.17 Earnings and dividends per share

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent (after adjusting for outstanding share options arising from the share-based payment scheme) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

2.18 Post-employment benefits

Defined contribution scheme

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Group operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Defined benefit scheme

The Group operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses:

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

2. Summary of significant accounting policies continued

2.19 Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money are considered to be material;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events, such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

2.20 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

2.21 Income taxation

i) Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

iii) New tax regime
Effective 1 January 2014, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Newton Energy was also granted pioneer tax status on the same basis. The Company has completed its first three years of the pioneer tax period and is no longer exempted from paying petroleum profits tax on crude oil profits, corporate income tax on natural gas profits and education tax of 2%.

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for these entities in the financial statements.

2.22 Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.23 Share-based payments
Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

i) Equity-settled transactions
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated historical financial information:

i) OMLs 4, 38 and 41

OMLs 4, 38 and 41 are grouped together as a cash-generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

ii) Advances on investment (note 21)

The Group considers that the advances on investment of US$65.7 million in relation to the acquisition of additional assets are fully recoverable in accordance with the terms of the deposit.

iii) New tax regime

As at the end of the year, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group and Company's current and deferred taxation in the financial statements. There were no deferred tax liabilities recognised during the year. In 2015, deferred tax liabilities recognised in the period would have been reduced by US$16 million for Group and Company, if assumed that the tax incentives were renewed.

iv) Deconsolidation of subsidiary (note 17)

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity.

BelemaOil's 40% stake in OML 55 will be jointly managed 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 consent of all parties is required for decision making. Asset Management Team guidelines and other agreements that will govern the operations of the AMT have been approved. The Group has recognised this as other assets.

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i) Other asset (note 17b)

Seplat has recorded its rights to receive the discharge sum of US$330 million from the crude oil reserves of OML 55 as other asset. The fair value of the discharge sum on the date of deconsolidation is US$250 million and has been determined using the income approach in line with IFRS 13 (Discounted Cash Flow). The gain on deconsolidation recognised amounted to US$680,000 and has been recognised in the income statement.

ii) NPDC receivables (note 21)

NPDC receivables were impaired during this year (2015: not materially impaired). The impairment assessment was carried out using the future estimated cash flow expected to be recoverable from NPDC over the next 18 months. The estimated future cash payments and receipts recoverable over the expected life of the receivable are discounted using Seplat's average borrowing cost of 8%. The resulting adjustment has been recognised under general and administrative expenses in the statement of comprehensive income. As at 31 December 2016, the total amount owed by NPDC is US$239 million (2015: US$492 million). This is the undiscounted amount; see note 21 for the impairment loss and discounted value.

iii) Contingent consideration (note 28)

During the year, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The Group continued to recognise the contingent consideration of US$18.5 million for OML 53 at the fair value of US$12 million; it is contingent on the oil price rising above US$90/bbl over the next three years.

iv) Defined benefit plans (pension benefits) (note 30)

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

v) Oil and gas reserves

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

vi) Share-based payment reserve (note 24b)

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, and uses a Monte-Carlo model for the global offer, non-executive and long-term incentive scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 24b.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

vii) Provision for decommissioning obligations (note 29)

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

viii) Property, plant and equipment (note 15)

The Group assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

In 2016, in response to the force majeure on OMLs 4, 38 and 41, the Group executed an impairment assessment. The Group used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US$55 in 2017, US$60 in 2018 and US$70 per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital.

Management has considered whether a reasonably possible change in one of the main assumptions will cause an impairment and believes otherwise.

ix) Useful life of other property, plant and equipment

The Group recognises depreciation on other property, plant and equipment on a straight line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Group may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

x) Contingencies (note 36)

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

xi) Income taxes (note 12)

The Group is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

Notes to the financial statements continued

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	• Future commercial transactions • Recognised financial assets and liabilities not denominated in US Dollars	• Cash flow forecasting • Sensitivity analysis	• Match and settle foreign denominated cash inflows with foreign denominated cash outflows
Market risk – interest rate	• Long-term borrowings at variable rate	• Sensitivity analysis	• None
Market risk – commodity prices	• Future sales transactions	• Sensitivity analysis	• Oil price hedges
Credit risk	• Cash and cash equivalents, trade receivables and derivative financial instruments	• Ageing analysis • Credit ratings	• Diversification of bank deposits
Liquidity risk	• Borrowings and other liabilities	• Rolling cash flow forecasts	• Availability of committed credit lines and borrowing facilities

4.1.1 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) Commodity price risk

The Group is exposed to the risk of fluctuations on crude oil prices. The Group currently hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the off-take agreement.

The following table summarises the impact on the Group's (loss)/profit before tax of a 10% change in crude oil prices, with all other variables held constant:

Increase/decrease in commodity price – the Group	Effect on (loss) profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+10%	14,876	–	49,348	–
-10%	(14,876)	–	(49,348)	–

Increase/decrease in commodity price – the Company	Effect on (loss) profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+10%	9,699	–	42,087	–
-10%	(9,699)	–	(42,087)	–

The following table summarises the impact on the Group's (loss)/profit before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in commodity price – the Group	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+10%	10,546	–	7,700	–
-10%	(10,546)	–	(7,700)	–

Increase/decrease in commodity price – the Company	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+10%	10,546	–	7,700	–
-10%	(10,546)	–	(7,700)	–

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Borrowings issued at fixed rates do not expose the Group to market interest rate risk. Most of the Group's borrowings are denominated in US Dollars.

The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Group.

The following table demonstrates the sensitivity of the Group and Company's (loss)/profit before tax to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate – the Group	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+1%	6,641	–	8,996	–
-1%	(6,641)	–	(8,996)	–

Increase/decrease in interest rate – the Company	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+1%	6,641	–	8,471	–
-1%	(6,641)	–	(8,471)	–

iii) Foreign exchange risk

The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US Dollar.

The Group holds the majority of its cash and cash equivalents in US Dollar. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activity and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables and trade and other payables.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group and Company's (loss)/ profit before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Financial assets				
Cash and cash equivalents	32,695	16,214	27,402	15,990
Trade and other receivables	67,555	137,507	67,555	137,507
	100,250	153,721	94,957	153,497
Financial liabilities				
Trade and other payables	(9,406)	(39,958)	(9,159)	(39,989)
Net exposure to foreign exchange risk	**90,844**	**113,763**	**85,798**	**113,508**

Notes to the financial statements continued

4. Financial risk management continued

Sensitivity to foreign exchange risk is based on the Group and Company's net exposure to foreign exchange risk due to Naira denominated balances.

Increase/decrease in foreign exchange risk – the Group	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+5%	(4,326)	–	(5,417)	–
-5%	4,781	–	5,988	–

Increase/decrease in foreign exchange risk – the Company	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+5%	(4,086)	–	(5,405)	–
-5%	4,516	–	5,974	–

4.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers and Joint venture partners, i.e. NPDC with outstanding receivables.

i) Risk management

The Company's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria is also to run for five years until 31 July 2020 with a 30 day payment term. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the year. The Company monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which have now been impaired during this reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Company's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The accounts receivable balance includes the following related party receivables:

		The Group		The Company	
		Percentage of total receivables			
Related party	Payment terms	2016	2015	2016	2015
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%	1%	1%

The maximum exposure to credit risk as at the reporting date is:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Trade and other receivables (gross)	391,579	799,923	1,070,728	1,310,806
Cash and cash equivalents	159,621	326,029	147,377	316,374
Derivative not designated as hedges	–	23,194	–	23,194
Gross amount	551,200	1,149,146	1,218,105	1,650,374
Impairment of NPDC receivables	(10,260)	–	(10,260)	–
Net amount	540,940	1,149,146	1,207,845	1,650,374

Trade and other payables (excluding non-financial liabilities such as provisions, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts in the financial statements approximate their fair values.

The Group

31 Dec 2016	Trade receivables US$ '000	NPDC/ NAPIMS receivables US$ '000	Other receivables US$ '000	Cash & cash equivalents US$ '000	Derivative not designated as hedges US$ '000	Total US$ '000
Neither past due nor impaired	1,096	–	5,180	159,621	–	165,897
Past due but not impaired	72,331	8,233	65,705	–	–	146,269
Impaired	–	239,034	–	–	–	239,034
Gross amount	73,427	247,267	70,885	159,621	–	551,200
Impairment loss	–	(10,260)	–	–	–	(10,260)
Net amount	73,427	237,007	70,885	159,621	–	540,940
31 Dec 2015						
Neither past due nor impaired	79,704	274,465	174,044	326,029	23,194	877,436
Past due but not impaired	54,201	217,509	–	–	–	271,710
Impaired	–	–	–	–	–	–
Gross amount	133,905	491,974	174,044	326,029	23,194	1,149,146
Impairment loss	–	–	–	–	–	–
Net amount	133,905	491,974	174,044	326,029	23,194	1,149,146

The Company

31 Dec 2016	Trade receivables & intercompany receivables US$ '000	NPDC receivables US$ '000	Other receivables US$ '000	Cash & cash equivalents US$ '000	Derivative not designated as hedges US$ '000	Total US$ '000
Neither past due nor impaired	761,960	–	25	147,377	–	909,362
Past due but not impaired	69,708	–	1	–	–	69,709
Impaired	–	239,034	–	–	–	239,034
Gross amount	831,668	239,034	26	147,377	–	1,218,105
Impairment loss	–	(10,260)	–	–	–	(10,260)
Net amount	831,668	228,774	26	147,377	–	1,207,845
31 Dec 2015						
Neither past due nor impaired	58,490	274,465	723,500	316,374	23,194	1,396,023
Past due but not impaired	36,842	217,509	–	–	–	254,351
Impaired	–	–	–	–	–	–
Gross amount	95,332	491,974	723,500	316,374	23,194	1,650,374
Impairment loss	–	–	–	–	–	–
Net amount	95,332	491,974	723,500	316,374	23,194	1,650,374

ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Counterparties with external credit rating (Fitch's)	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
Cash and cash equivalents				
Non rated	86,669	72,767	80,188	70,846
B -	1,924	26,200	1,924	26,200
B	25,527	30,437	21,134	22,716
B +	9,388	2,379	8,024	2,374
A +	36,113	194,246	36,107	194,238
	159,621	**326,029**	**147,377**	**316,374**

Notes to the financial statements continued

4. Financial risk management continued

Counterparties without external credit rating	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
Trade and other receivables[1]				
Group 1	–	17,002	–	17,002
Group 2	6,276	449,700	761,985	977,942
Group 3	–	61,511	–	61,511
	6,276	**528,213**	**761,985**	**1,056,455**

1. Includes trade receivables, intercompany receivables, NPDC receivables and other receivables.

Counterparties without external credit rating	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
Derivatives				
Group 1	–	23,194	–	23,194
Group 2	–	–	–	–
Group 3	–	23,194	–	23,194
Total that are neither past due nor impaired	**165,897**	**877,436**	**909,362**	**1,396,023**

Group 1 – new customers (less than 1 year).
Group 2 – existing customers (more than 1 year) with some defaults in the past. All defaults were fully recovered.
Group 3 – Government entities.

iii) Ageing analysis for financial assets that are past due but not impaired

The ageing analysis of the trade receivables and amounts due from NPDC/NAPIMS is as follows:

	Total	Past due but not impaired				
The Group:	US$ '000	<30 days US$ '000	30-60 days US$ '000	60-90 days US$ '000	90-120 days US$ '000	>120 days US$ '000
Trade receivables						
31 December 2016	72,331	45,656	–	4,961	–	21,714
31 December 2015	54,201	5,261	9,965	6,732	9,039	23,204
NPDC/NAPIMS receivables						
31 December 2016	8,233	–	588	3,526	600	3,519
31 December 2015	217,509	27,213	56,886	10,021	41,842	81,547

	Total	Past due but not impaired				
The Company:	US$ '000	<30 days US$ '000	30-60 days US$ '000	60-90 days US$ '000	90-120 days US$ '000	>120 days US$ '000
Trade receivables						
31 December 2016	69,708	45,656	–	4,961	–	19,091
31 December 2015	36,842	5,261	7,165	8,145	9,039	7,232
NPDC receivables						
31 December 2016	–	–	–	–	–	–
31 December 2015	217,509	27,213	56,886	10,021	41,842	81,547

iv) Impaired receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate allowance for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment allowance was recognised are written off against the allowance when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses. See note 2.14.1(iii) for information about how impairment losses are calculated.

Individually impaired trade receivables relate to NPDC receivables that have been outstanding over the years (2015 – Nil). The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	The Group and Company	
	2016 US$ '000	2015 US$ '000
At 1 January	–	–
Allowance for impairment recognised during the year	10,260	–
At 31 December	10,260	–

4.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

4. Financial risk management continued

The Group

31 December 2016	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	After 5 years US$ '000	Total US$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	–	257,998
First Bank of Nigeria Limited	8.5% + LIBOR	23,379	47,504	43,818	46,548	–	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	–	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	–	24,166
The Standard Bank of South Africa Limited	8.5% + LIBOR	3,504	7,119	6,567	6,976	–	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	–	–	–	–	27,711
Natixis	6.0% + LIBOR	27,711	–	–	–	–	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	–	–	–	–	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	–	–	–	–	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	–	–	–	–	18,474
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	18,474	–	–	–	–	18,474
NedBank Ltd, London Branch	6.0% + LIBOR	18,474	–	–	–	–	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	–	–	–	–	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	–	–	–	–	13,856
Other non-derivatives							
Trade and other payables	–	161,773	–	–	–	–	161,773
Contingent consideration	–	–	–	–	18,500	–	18,500
		437,686	**185,252**	**170,879**	**200,025**	–	**993,842**

The Group

31 December 2015	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	After 5 years US$ '000	Total US$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.0% + LIBOR	17,534	27,711	–	–	–	45,245
Natixis	6.0% + LIBOR	17,534	27,711	–	–	–	45,245
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	17,534	27,711	–	–	–	45,245
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
NedBank Ltd, London Branch	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
Stanbic IBTC Bank Plc	6.0% + LIBOR	8,767	13,856	–	–	–	22,623
The Standard Bank of South Africa Ltd	6.0% + LIBOR	8,767	13,856	–	–	–	22,623
Sterling bank	–	52,500	–	–	–	–	52,500
Other non-derivatives							
Trade and other payables	–	302,475	–	–	–	–	302,475
Contingent consideration	–	–	–	–	39,400	–	39,400
		671,669	**356,375**	**124,792**	**221,599**	**58,750**	**1,433,185**

The Company

31 December 2016	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	After 5 years US$ '000	Total US$ '000
Non-derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	–	257,998
First Bank of Nigeria Limited	8.5% + LIBOR	23,379	47,504	43,818	46,548	–	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	–	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	–	24,166
The Standard Bank of South Africa Limited	8.5% + LIBOR	3,504	7,119	6,567	6,976	–	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	–	–	–	–	27,711
Natixis	6.0% + LIBOR	27,711	–	–	–	–	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	–	–	–	–	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	–	–	–	–	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	–	–	–	–	18,474
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	18,474	–	–	–	–	18,474
NedBank Ltd, London Branch	6.0% + LIBOR	18,474	–	–	–	–	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	–	–	–	–	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	–	–	–	–	13,856
Other non-derivatives							
Trade and other payables	–	190,905	–	–	–	–	190,905
		466,818	**185,252**	**170,879**	**181,525**	–	**1,004,474**

The Company

31 December 2015	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	After 5 years US$ '000	Total US$ '000
Non-derivative							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.0% + LIBOR	17,534	27,711	–	–	–	45,245
Natixis	6.0% + LIBOR	17,534	27,711	–	–	–	45,245
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	17,534	27,711	–	–	–	45,245
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
NedBank Ltd, London Branch	6.0% + LIBOR	11,689	18,474	–	–	–	30,163
Stanbic IBTC Bank Plc	6.0% + LIBOR	8,767	13,856	–	–	–	22,623
The Standard Bank of South Africa Ltd	6.0% + LIBOR	8,767	13,856	–	–	–	22,623
Other non-derivatives							
Trade and other payables	–	287,921	–	–	–	–	287,921
		604,615	**356,375**	**124,792**	**182,199**	**58,750**	**1,326,731**

Notes to the financial statements continued

4. Financial risk management continued

4.2 Fair value

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

				The Group
	Carrying amount		Fair value	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Financial assets				
Trade and other receivables	381,319	799,923	381,319	799,923
Cash and cash equivalents	159,621	326,029	159,621	326,029
Derivatives	–	23,194	–	23,194
	540,940	1,149,146	540,940	1,149,146
Financial liabilities				
Borrowings – Bank loans	664,096	899,615	664,096	899,615
Contingent consideration	12,040	21,900	12,040	21,900
Trade and other payables	161,773	302,475	161,773	302,475
	837,909	1,223,990	837,909	1,223,990

				The Company
	Carrying amount		Fair value	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Financial assets				
Trade and other receivables	1,060,468	1,310,806	1,060,468	1,310,806
Cash and cash equivalents	147,377	316,374	147,377	316,374
Derivatives	–	23,194	–	23,194
	1,207,845	1,650,374	1,207,845	1,650,374
Financial liabilities				
Borrowings – Bank loans	664,096	847,115	813,569	847,115
Contingent consideration	–	–	–	–
Trade and other payables	190,905	287,921	190,905	287,921
	855,001	1,135,036	1,004,474	1,135,036

In determining the fair value of the borrowings, non-performance risks of Seplat as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, taxes and pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short-term nature. Derivatives and contingent consideration are measured and recognised at fair value.

4.2.1 Fair value hierarchy

The Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. These are all recurring fair value measurements.

			The Group			The Company
31 Dec 2016	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial assets:						
Derivatives	–	–	–	–	–	–
Financial liabilities:						
Borrowings – Bank loans	–	664,096	–	–	664,096	–
Contingent consideration	–	–	12,040	–	–	–
	–	**664,096**	**12,040**	–	**664,096**	–
31 Dec 2015						
Financial assets:						
Derivatives	–	23,194	–	–	1,751,151	–
Financial liabilities:						
Borrowings – Bank loans	–	899,615	–	–	847,115	–
Contingent consideration	–	–	21,900	–	–	–
	–	899,615	21,900	–	847,115	–

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between fair value levels during the year.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the year.
- The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flow determined based on probable future oil prices. The estimated future cash flow was discounted to present value using a discount rate of 15.45% which is based on the applicable FGN Bond rates.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity option contracts. The most frequently applied valuation techniques include option pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2016, there were no open derivative financial instruments (2015: the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value). The fair values of derivative financial instruments are disclosed in note 23.

4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

Contingent consideration	The Group US$ '000
At 1 January 2015	9,377
Additions	19,198
Write-off	(10,000)
Fair value movement	3,325
At 31 December 2015	**21,900**
At 1 January 2016	21,900
Fair value movement	2,614
Deconsolidation of subsidiary	(12,474)
At 31 December 2016	**12,040**

Notes to the financial statements continued

4. Financial risk management continued

4.2.3 Contingent consideration sensitivity

The following table demonstrates the sensitivity to changes in the discount rate of the contingent consideration, with all other variables held constant, of the Group's (loss)/ profit before tax.

Increase/decrease in discount rate – The Group	Effect on (loss)/profit before tax 2016 US$ '000	Effect on other components of equity before tax 2016 US$ '000	Effect on (loss)/ profit before tax 2015 US$ '000	Effect on other components of equity before tax 2015 US$ '000
+10%	5,868	–	1,093	–
-10%	(8,535)	–	(1,093)	–

The Company has no contingent consideration.

4.3 Capital management

4.3.1 Risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Borrowings:	664,096	899,615	664,096	847,115
Less: cash and cash equivalents	(159,621)	(326,029)	(147,377)	(316,374)
Net debt	504,475	573,586	516,719	530,741
Total equity	1,234,015	1,413,075	1,282,158	1,425,135
Total capital	1,738,490	1,986,661	1,798,877	1,955,876
Net debt (net debt/total capital) ratio	29%	29%	29%	27%

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain a gearing ratio between 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

4.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants every six months:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- Six-month Debt Service Reserve Account ('DSCR') not to be lower than 1.25x on a forward looking basis,
- Satisfactory 12-month Group liquidity test.

The Group has complied with these covenants throughout the reporting period (2015: The Group complied with the applicable covenants) with the exception of the financial indebtedness/EBITDA covenant which was waived by a majority lender consent.

5. Revenue

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Crude oil sale	132,975	459,389	104,235	404,018
Underlift/(overlift)	15,782	34,091	(7,249)	16,852
	148,757	493,480	96,986	420,870
Gas sales	105,460	76,997	105,460	76,997
	254,217	**570,477**	**202,446**	**497,867**

The major off-takers for crude oil are Mercuria (2016: US$104 million, 2015: US$94.5 million) and Shell Western Supply and Trading Limited (2016: Nil, 2015: US$368.8 million). The major off-taker of gas is the Nigerian Gas Company (2016: US$105 million, 2015: US$76 million).

6. Cost of sales

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Royalties	44,796	102,243	37,043	89,033
Depletion, depreciation and amortisation (note 15a)	54,326	68,097	48,600	59,102
Crude handling fee	7,804	64,499	5,351	58,670
NESS fee	142	663	109	521
Barging costs	17,885	–	17,885	–
Niger Delta Development Commission Levy	–	7,766	–	7,552
Rig-related costs	9,067	8,640	9,154	8,553
Operational & maintenance expenses	48,404	69,786	39,191	47,074
	182,424	**321,694**	**157,333**	**270,505**

7. Other operating income

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Long stop date income	–	2,250	–	2,250
Profit on disposal of plant & equipment	–	66	–	66
	–	**2,316**	–	**2,316**

7a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015. There was no long stop date income during the current reporting period.

Notes to the financial statements continued

8. General and administrative expenses

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Depreciation (note 15b)	5,544	5,502	5,207	5,133
Auditor's remuneration`	505	1,000	245	1,000
Professional and consulting fees	28,424	42,788	27,683	39,898
Directors' emoluments (Executive)	2,758	6,446	1,641	4,568
Directors' emoluments (Non-Executive)	4,309	6,028	4,244	5,257
Donations	184	210	178	206
Employee benefits (note 8a)	20,869	26,042	19,354	21,639
Business development expenses	11,023	165	20	165
Flights and other travel costs	6,176	7,580	5,248	6,934
Rentals	4,855	3,435	4,325	2,793
Impact of receivables discounting (note 21)	10,260	–	10,260	–
Other general expenses	18,925	22,278	14,224	18,511
	113,832	**121,474**	**92,629**	**106,104**

Directors' emoluments have been split between Executive and Non-Executive Directors and include share-based benefits recognised, the basis of which has been further highlighted in note 35.

There were no non-audit services rendered by the Group's auditors during the year.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company ('NPDC') in note 21.

8a. Salaries and employee related costs include the following:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Short-term employee benefits:				
Basic salary	8,194	8,226	8,194	3,823
Housing allowance	3,190	3,345	3,190	3,345
Other allowances	3,468	5,380	2,249	5,380
Post employment benefits:				
Defined contribution expenses	1,673	1,511	1,377	1,511
Defined benefit expenses (note 30)	938	3,117	938	3,117
Share-based payment benefits	3,406	4,463	3,406	4,463
Total salaries and employee-related costs	**20,869**	**26,042**	**19,354**	**21,639**

9. (Losses)/gains on foreign exchange (net)

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Exchange (losses)/gains	(101,455)	7,747	(104,328)	8,985
Total	**(101,455)**	**7,747**	**(104,328)**	**8,985**

Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria during the year. These losses were majorly attributed to outstanding balances due from NPDC. See also note 11 for income related to these outstanding receivables and recognised in the period and reported in accordance with provisions of the Joint Operating Agreement.

10. Fair value (loss)/gain

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Fair value (loss)/gain on option derivatives	(12,455)	13,195	(12,455)	13,195
Fair value (loss)/gain on contingent consideration (note 28)	(2,614)	7,298	–	–
Total	**(15,069)**	**20,493**	**(12,455)**	**13,195**

Fair value loss on commodity derivatives represents the losses on crude oil price options charged to profit or loss. Fair value loss on contingent consideration loss arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OMLs. The contingency criteria are the achievement of certain production milestones.

11. Finance (cost)/income

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Finance income:				
Interest income	59,017	12,802	94,139	8,133
Finance cost:				
Interest on bank loans and other bank charges	73,420	83,588	68,421	77,338
Unwinding of discount on provision for decommissioning (note 29)	480	–	330	–
	73,900	83,588	68,751	77,338
Finance (cost)/income (net)	**(14,883)**	**(70,786)**	**25,388**	**(69,205)**

Finance income represents interest on fixed deposits for the Group and Company. Included in other income are interests of US$48 million calculated on outstanding NPDC receivables in accordance with provisions of the Joint Operating Agreement. Discussions will continue with our government partners on the recovery of all outstanding receivables.

Notes to the financial statements continued

12. Taxation

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

12a. Income tax expenses

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Current tax:				
Current tax on profit for the year	–	239	–	–
Education tax	1,885	–	1,885	–
Prior period over provision	(126)	–	–	–
Total current tax	1,759	239	1,885	–
Deferred tax:				
Net deferred tax in profit or loss	–	21,233	–	16,384
Deferred tax credit	(8,431)	–	(16,384)	–
Total tax (credit)/charge in statement of profit or loss	(6,672)	21,472	(14,499)	16,384
Effective tax rate	4%	25%	10%	21%

12b. Reconciliation of effective tax rate

The applicable tax rate for 2016 was 65.75% (2015: 65.75%) for both Group and Company.

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56.

Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for the Company, and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if both companies meet certain conditions included in the NIPC pioneer status award document.

Seplat East Onshore and Seplat Swamp are exempt from the tax incentives as they had no activities at the time the incentives were granted to Seplat and Newton.

As at the end of the reporting period, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group and Company's current and deferred taxation in the financial statements.

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
(Loss)/ profit before taxation	(172,766)	87,079	(138,911)	76,549
Tax rate of 65.75% (2015: 65.75%)	(113,594)	57,254	(91,334)	50,331
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenses not deductible for tax purposes	33,856	–	37,672	–
Impact of deferred tax not recognised	71,307	–	37,278	–
Impact of tax incentive on deferred tax balances	–	(35,782)	–	(33,947)
Education tax	1,885	–	1,885	–
Prior period over provision	(126)	–	–	–
Total tax (credit)/charge in statement of profit or loss	**(6,672)**	**21,472**	**(14,499)**	**16,384**

The movement in the current tax liability is as follows:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
As at 1 January	239	–	–	–
Tax charge	1,885	239	1,885	–
Deconsolidation of subsidiary	(113)	–	–	–
Prior period over provision	(126)	–	–	–
As 31 December	**1,885**	**239**	**1,885**	–

13. Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	The Group		The Company	
Deferred tax assets	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Deferred tax asset to be recovered in less than 12 months	–	–	–	–
Deferred tax asset to be recovered after more than 12 months	–	–	–	–
	–	–	–	–

	The Group		The Company	
Deferred tax liabilities	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Deferred tax liabilities to be recovered in less than 12 months	–	–	–	–
Deferred tax liability to be recovered after more than 12 months	–	(21,233)	–	(16,384)
	–	(21,233)	–	(16,384)
Net deferred tax asset/(liability)	–	**(21,233)**	–	**(16,384)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group and Company did not recognise deferred income tax assets of US$178 million and US$145 million (2015: Nil for both Group and Company) in respect of losses of the Group and Company amounting to US$271 million and US$221 million (2015: Nil) that can be carried forward against future taxable income. There are no expiration dates for the tax losses.

13a. Deferred tax asset/(liability)

The Group

	Property, plant and equipment US$ '000	Decommissioning provision US$ '000	Defined benefit expenses US$ '000	Underlift/ overlift US$ '000	Unrealised foreign exchange (gain)/ loss US$ '000	Tax losses US$ '000	Contingent liability US$ '000	Total US$ '000
At 1 January 2015								
Credited/(charged) to profit or loss	(10,448)	2,544	4,554	(17,794)	(89)	–	–	(21,233)
At 31 December 2015	**(10,448)**	**2,544**	**4,554**	**(17,794)**	**(89)**	–	–	**(21,233)**
At 1 January 2016	**(10,448)**	**2,544**	**4,554**	**(17,794)**	**(89)**	–	–	**(21,233)**
Deconsolidation of subsidiary	(1,659)	(125)	–	29,443	–	(7,315)	(7,542)	12,802
Deferred tax credit	12,107	(2,419)	(4,554)	(11,649)	89	7,315	7,542	8,431
At 31 December 2016	–	–	–	–	–	–	–	–

13b. Deferred tax asset/(liability)

The Company

	Property, plant and equipment US$ '000	Decommissioning provision US$ '000	Defined benefit expenses US$ '000	Underlift/ overlift US$ '000	Unrealised foreign exchange (gain)/ loss US$ '000	Tax losses US$ '000	Contingent liability US$ '000	Total US$ '000
At 1 January 2015								
Credited/(charged) to profit or loss	(18,173)	1,953	4,554	(4,629)	(89)	–	–	(16,384)
At 31 December 2015	**(18,173)**	**1,953**	**4,554**	**(4,629)**	**(89)**	–	–	**(16,384)**
At 1 January 2016	**(18,173)**	**1,953**	**4,554**	**(4,629)**	**(89)**	–	–	**(16,384)**
Credited/(charged) to profit or loss	–	–	–	–	–	–	–	–
Deferred tax credit	18,173	(1,953)	(4,554)	4,629	89	–	–	16,384
At 31 December 2016	–	–	–	–	–	–	–	–

Notes to the financial statements continued

14. Computation of cash generated from operations

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
(Loss)/profit before tax	(172,766)	87,079	(138,911)	76,549
Adjusted for:				
Depreciation and amortisation	59,870	73,599	53,807	64,235
Impairment loss	10,260	–	10,260	
Finance income (note 11)	(59,017)	(12,802)	(94,139)	(8,133)
Interest on bank loans (note 11)	73,420	83,588	68,421	77,338
Accretion discount (note 11)	480	–	330	–
Fair value movement on contingent consideration (including gains on derecognition) (note 10)	2,614	(7,298)	–	–
Gain on disposal of property, plant and equipment	–	(66)		(66)
Fair value movements on derivatives (note 10)	12,455	(17,762)	12,455	(17,762)
Loss/(gains) on unrealised foreign exchange	101,455	(8,046)	104,328	(8,985)
Share-based payment expenses	3,406	(8,757)	3,406	(8,757)
Defined benefit expenses (note 30)	(1,709)	–	(1,709)	–
Gain on deconsolidation (note 17)	(680)	–	–	–
Loss on disposal	1,509	–	1,509	–
Changes in working capital (excluding the effects of exchange differences and deconsolidation):				
Trade and other receivables	244,102	(104,338)	233,741	(77,765)
Prepayments	16,035	(8,145)	15,247	2,625
Trade and other payables	(106,831)	(10,961)	(88,337)	25,921
Inventories	(23,747)	(28,052)	(23,743)	(28,282)
Net cash from operating activities	160,856	38,039	156,665	96,918

15. Property, plant and equipment
15a. Oil and gas properties

Costs	The Group Production and field facilities US$ '000	The Group Assets under construction US$ '000	The Group Total US$ '000	The Company Production and field facilities US$ '000	The Company Assets under construction US$ '000	The Company Total US$ '000
At 1 January 2015	590,548	432,580	1,023,128	529,965	416,327	946,292
Additions	426,203	–	426,203	146,852	–	146,852
Additions from business combination	244,062	–	244,062	–	–	–
Changes in decommissioning	(8,821)	–	(8,821)	(6,867)	–	(6,867)
Transfer from asset under construction	113,760	(113,760)	–	115,083	(115,083)	–
At 31 December 2015	1,365,752	318,820	1,684,572	785,033	301,244	1,086,277
Depreciation						
At 1 January 2015	179,525	–	179,525	176,961	–	176,961
Charged for the year	68,097	–	68,097	59,102	–	59,102
At 31 December 2015	247,622	–	247,622	236,063	–	236,063
NBV						
At 31 December 2015	**1,118,130**	**318,820**	**1,436,950**	**548,970**	**301,244**	**850,214**
Cost						
At 1 January 2016	1,365,752	318,820	1,684,572	785,033	301,244	1,086,277
Additions	–	82,893	82,893	–	70,484	70,484
Changes in decommissioning	(3,720)	–	(3,720)	(2,962)	–	(2,962)
Transfer from asset under construction	248,324	(248,324)	–	248,324	(248,324)	–
Deconsolidation of subsidiary	(244,062)	–	(244,062)	–	–	–
Disposal	–	(1,509)	(1,509)	–	(1,509)	(1,509)
At 31 December 2016	1,366,294	151,880	1,518,174	1,030,395	121,895	1,152,290
Depreciation						
At 1 January 2016	247,622	–	247,622	236,063	–	236,063
Charged for the year	54,326	–	54,326	48,600	–	48,600
Deconsolidation of subsidiary	(8,174)	–	(8,174)	–	–	–
At 31 December 2016	293,774	–	293,774	284,663	–	284,663
NBV						
At 31 December 2016	**1,072,520**	**151,880**	**1,224,400**	**745,732**	**121,895**	**867,627**

The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 27).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

15. Property, plant and equipment continued

15b. Other property, plant and equipment

					The Group
Cost	Plant & machinery US$ '000	Motor vehicles US$ '000	Office furniture & IT equipment US$ '000	Leasehold improvements US$ '000	Total US$ '000
At 1 January 2015	4,714	5,356	11,469	2,463	24,002
Additions	–	1,663	2,146	687	4,496
Reclassification to assets under construction	(707)	–	–	–	(707)
Disposals	–	(246)	–	–	(246)
At 31 December 2015	4,007	6,773	13,615	3,150	27,545
Depreciation					
At 1 January 2015	1,091	2,171	6,436	845	10,543
Disposals	–	(103)	–	–	(103)
Charged for the year	619	1,442	2,873	568	5,502
At 31 December 2015	1,710	3,510	9,309	1,413	15,942
NBV					
At 31 December 2015	**2,297**	**3,263**	**4,306**	**1,737**	**11,603**
Cost					
At 1 January 2016	4,007	6,773	13,615	3,150	27,545
Additions	785	508	1,056	–	2,349
Disposals	–	(136)	–	(317)	(453)
Transfer	12	173	(205)	20	–
Exchange differences	–	–	(206)	–	(206)
At 31 December 2016	4,804	7,318	14,260	2,853	29,235
Depreciation					
At 1 January 2016	1,710	3,510	9,309	1,413	15,942
Disposal	–	(68)	–	–	(68)
Charge for the year	842	1,316	2,819	567	5,544
Exchange differences	–	–	(150)	–	(150)
At 31 December 2016	2,552	4,758	11,978	1,980	21,268
NBV					
At 31 December 2016	**2,252**	**2,560**	**2,282**	**873**	**7,967**

Cost	Plant & machinery US$ '000	Motor vehicles US$ '000	Office furniture & IT equipment US$ '000	Leasehold improvements US$ '000	The Company Total US$ '000
At 1 January 2015	3,322	5,357	10,539	2,462	21,680
Additions	685	1,662	1,867	688	4,902
Reclassification to assets under construction	–	–	–	–	–
Disposals	–	(246)	–	–	(246)
At 31 December 2015	4,007	6,773	12,406	3,150	26,336
Depreciation					
At 1 January 2015	982	2,171	6,155	845	10,153
Disposals	–	(104)	–	–	(104)
Charge for the year	724	1,349	2,501	559	5,133
At 31 December 2015	1,706	3,416	8,656	1,404	15,182
NBV					
At 31 December 2015	**2,301**	**3,357**	**3,750**	**1,746**	**11,154**
Cost					
At 1 January 2016	4,007	6,773	12,406	3,150	26,336
Addition	786	509	1,057	–	2,352
Disposal	–	(136)	–	(317)	(453)
At 31 December 2016	4,793	7,146	13,463	2,833	28,235
Depreciation					
At 1 January 2016	1,706	3,416	8,656	1,404	15,182
Disposal	–	(68)	–	–	(68)
Charge for the year	840	1,273	2,531	563	5,207
At 31 December 2016	2,546	4,621	11,187	1,967	20,321
NBV					
At 31 December 2016	**2,247**	**2,525**	**2,276**	**866**	**7,914**

16. Goodwill

Seplat, via a wholly owned subsidiary, entered into a share purchase agreement with First Act, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and BelemaOil (the four shareholders of BelemaOil) to acquire 56.25% of BelemaOil. This sale and purchase agreement was consummated on 5 February 2015 upon acquisition of Chevron Nigeria Limited's 40% interest in OML 55. This resulted in Seplat having an indirect interest of 22.5% in OML 55.

The fair value of the purchase consideration and the assets acquired were US$139 million and US$137 million respectively, giving rise to a goodwill on acquisition of US$2 million.

As at the year end, goodwill recognised on consolidation of BelemaOil has now been derecognised due to the loss of control of the subsidiary. See further details in note 17.

Impairment test for goodwill

Management reviews the business performance of BelemaOil based on the reserve and production forecast. Goodwill is monitored by management at the level of one operating segment. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash-generating unit ('CGU') is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on reserve, production and financial forecasts approved by management. As at the year end, goodwill arising from BelemaOil has been derecognised.

	2016 US$ '000	The Group 2015 US$ '000
At 1 January	2,000	–
Acquisition of subsidiary	–	2,000
Deconsolidation of subsidiary	(2,000)	–
As at 31 December	–	**2,000**

17. Deconsolidation of subsidiary

The details of the deconsolidation of subsidiary have been disclosed in note 1 – Corporate information and business and note 3 – Significant accounting judgements, estimates and assumptions. A summary of assets and liabilities derecognised and the resulting gain on deconsolidation are shown below.

17a. Summary of assets and liabilities derecognised

	The Group 2016 US$ '000
Non-current assets	
Producing assets	235,888
Goodwill	2,000
Current assets	
Trade and other receivables	86,340
Underlift	38,555
Total assets	362,783
Equity	
Non-controlling interest	(2,249)
Non-current liabilities	
Deferred tax liability	12,802
Contingent consideration	12,474
Provision for decommissioning obligation	32
Current liabilities	
Interest bearing loans and borrowings	52,500
Trade and other payables	37,701
Current tax	113
Total liabilities	**115,622**
Total equity and liabilities	**113,373**
Net asset derecognised	**249,410**

17b. Summary of assets recognised

	The Group 2016 US$ '000
Other asset:	
Investment in OML 55	250,090
Net asset recognised	**250,090**

17c. Gain on deconsolidation of subsidiary

	The Group 2016 US$ '000
Summary of assets and liabilities derecognised (note 17a)	(249,410)
Summary of assets and liabilities recognised (note 17b)	250,090
Gain on deconsolidation of BelemaOil	**680**

18. Prepayments

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Non-current:				
Tax paid in advance	31,623	31,623	31,623	31,623
Rent	1,993	2,760	1,993	2,760
Drilling services	–	2,371	–	2,371
	33,616	**36,754**	**33,616**	**36,754**
Current:				
Rent	2,632	11,639	2,600	10,679
Others	4,040	–	3,900	–
	6,672	11,639	6,500	10,679
Total prepayments	**40,288**	**48,393**	**40,116**	**47,433**

Included in non-current prepayments are the following:

18a. Tax paid in advance

In 2013 and 2014 Petroleum Profit Tax payments (2013: US$28.7 million and 2014: US$2.9 million) were made by the Company prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Company will be expected to offset it against its tax liability.

18b. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies, two in Lagos and one in Delta State. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The rent on the building in Delta State has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2016 is US$1.9 million (2015: US$2.7 million).

The Group has no future minimum lease payments to be disclosed for the rental lease because the total lease payment has been prepaid at inception of the lease.

18c. Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a US$20 million advance in relation to the exclusive use of these rigs. This amount has been recognised as a prepayment and amortised over the life of the agreement (five years). The long-term portion as at 31 December 2016 is Nil (2015: US$2.4 million).

The Group has no future minimum lease payments to be disclosed for the drilling services agreement because the total payment had been prepaid at inception of the contract.

19. Investment in subsidiaries

	The Company	
	2016 US$ '000	2015 US$ '000
Newton Energy Limited	950	950
Seplat Petroleum Development UK	50	50
Seplat East Onshore Ltd	32	32
Seplat East Swamp Ltd	32	32
	1,064	**1,064**

Notes to the financial statements continued

20. Inventories

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Tubulars, casings and wellheads	106,213	82,466	102,608	78,865

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is US$0.1 million (2015: US$0.19 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2016.

21. Trade and other receivables

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Trade receivables	73,427	133,905	69,052	95,332
Nigerian Petroleum Development Company ('NPDC') receivables	239,034	491,974	239,034	491,974
National Petroleum Investment Management Services	8,233	–	–	–
Intercompany receivables	–	–	715,625	708,843
Advances on investments	65,705	85,236	1	–
Advances	–	53,175	46,335	8,632
Underlift	4,498	27,063	–	7,041
Advances to suppliers	8,921	2,597	8,087	2,498
Hedging receivables	–	7,585	–	7,585
Interest receivable from shareholders of BelemaOil	–	9,546	–	–
Other receivables	1,136	174	1,129	134
Impairment loss on NPDC receivables	(10,260)	–	(10,260)	–
	390,694	**811,255**	**1,069,003**	**1,322,039**

21a. Trade receivables

Included in trade receivables are receivables from sale of crude oil and gas due from NGC of US$67 million (2015: US$62 million) for both Group and Company.

21b. NPDC receivables

NPDC receivables represent the outstanding cash calls due to Seplat. Receivables have been discounted to reflect the impact of time value of money. This has been recognised in the statement of comprehensive income. As at 31 December 2016, the undiscounted value of this receivable for Group and Company is US$239 million (2015: US$492 million for Group and Company).

21c. Advances on investment

This comprises an advance of US$45 million on a potential investment in OML 25 and US$20.5 million currently held in an escrow account. Proceedings commenced against Newton Energy Limited, a wholly owned subsidiary of Seplat Plc, by Crestar Natural Resources relating to the US$20.5 million currently held in an escrow account. The escrow monies relate to the potential acquisition of OML 25 by Crestar which Newton Energy 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.

22. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Cash on hand	7	50	7	50
Restricted cash	65,203	68,957	65,203	68,957
Cash at bank	94,411	257,022	82,167	247,367
Cash and cash equivalents	159,621	326,029	147,377	316,374

At 31 December 2016, cash at bank includes the debt service reserve of US$65 million (2015: US$68.9 million) for both Group and Company deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest which is on a quarterly basis.

23. Derivatives

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Derivatives	–	23,194	–	23,194

In November 2015, management completed a crude oil price hedge of US$45/bbl. for 3.3 million barrels at a cost of US$10 million (US$3.03/bbl.). A fair value loss of US$12.4 million (gain – 2015: US$13.2 million) was recognised in the reporting period for both Group and Company.

24. Share capital

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	3,335	3,335	3,335	3,335
Issued and fully paid				
563,444,561 (2015: 560,576,101) issued shares denominated in Naira of 50 kobo per share	1,826	1,821	1,826	1,821

24a. Employee share-based payment scheme

In 2016, the Company gave share awards of 25,448,071 shares (2015: 14,939,102 shares) to certain employees and senior executives in line with its share-based incentive scheme. During the year ended 31 December 2016, 2,868,460 shares were vested. In 2015, 7,265,788 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company sub-divided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve. In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

24b. Share-based payment reserve

The Group has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014 deferred bonus awards and 2014/2015 Long-Term Incentive plan ('LTIP') awards, 2015 deferred bonus awards and 2015/2016 Long-Term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015 and 2016 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

Description of the awards valued

Global Offer Bonus awards

Shares were conditionally awarded, subject to NSE approval, to selected executives to recognise their historic contribution to the Company in the lead up to Admission on the London Stock Exchange on 9 April 2014. The awards operated as follows:

50% of the share bonus was awarded on IPO, there were no performance conditions attached to it, and it fully vested in 2015. The second 50% of the award vested on the first anniversary of the IPO (9 April 2015). The award fully met the performance condition, as follows:

- The Company outperformed the median TSR performance level within the 2014 LTIP E&P comparator group, over the one-year period from Admission (i.e. to 9 April 2015).
- The reserves growth underpin in FY2014 was met.

24. Share capital continued

The valuation of the Global Offer Bonus awards ignores these conditions because as at the deemed date of grant the conditions were fully met. As a result, the fair value of these awards is the share price at the date of grant.

Non-Executive Directors' nominal value shares

Non-Executive Directors were provided with the opportunity to subscribe for shares at nominal value on IPO i.e. at a discount to their market value. These awards were vested immediately. There was no vesting criteria for these awards. As a result the fair value of these awards is the share price at the deemed date of grant.

Seplat 2014 and 2015 Deferred Bonus Award

25% of each Executive Director's 2014 and 2015 bonus (paid in 2015 and 2016 respectively) has been deferred into shares and is released on 1 June 2017 and 1 June 2018 respectively subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

Long-Term Incentive Plan ('LTIP') awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after three years) based on the following conditions:

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The 2014 and 2015 LTIP awards have been approved by the NSE, however, 2016 LTIP awards are still subject to approval.

The expense recognised for employee services received during the year is shown in the following table:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Expense arising from equity-settled share-based payment transactions	3,406	8,757	3,406	8,757

There were no cancellations or modifications to the awards in 2016 or 2015. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of service period	End of service period	Number of awards
Global Offer Bonus	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non-Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long-Term incentive Plan	14 December 2015	14 December 2015	9 April 2017	2,173,259
2015 Long-Term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	214,669
2016 Long-Term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
				25,448,071

Share awards used in the calculation of diluted earnings per share are based on the outstanding shares as at 31 December 2016.

	The Group and Company			
Share award scheme (all awards)	2016 Number '000	2016 WAEP US$	2015 Number '000	2015 WAEP US$
Outstanding at 1 January	4,249	1.50	–	–
Granted during the year	159	1.17	11,515	0.97
Forfeited during the year	–	–	–	–
Exercised during the year	(2,868)	–	(7,266)	1.18
Outstanding at 31 December	1,540	0.67	4,249	1.50
Exercisable at 31 December	–	–	**7,266**	**1.18**

Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in share awards during the year for each available scheme.

	The Group and Company			
Global Offer Bonus	2016 Number	2016 WAEP US$	2015 Number	2015 WAEP US$
Outstanding at 1 January	–	–	–	–
Granted during the year	–	–	6,472,138	1.18
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	(6,472,138)	1.18
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

	The Group and Company			
Non-Executive Directors' Shares	2016 Number	2016 WAEP US$	2015 Number	2015 WAEP US$
Outstanding at 1 January	–	–	–	–
Granted during the year	–	–	793,650	1.18
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	(793,650)	1.18
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

	The Group and Company			
Deferred Bonus Scheme	2016 Number	2016 WAEP US$	2015 Number	2015 WAEP US$
Outstanding at 1 January	212,701	1.13	–	–
Granted during the year	214,669	1.49	212,701	1.13
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Outstanding at 31 December	427,370	1.31	212,701	1.13
Exercisable at 31 December	–	–	–	–

	The Group and Company			
Long-Term incentive Plan ('LTIP')	2016 Number	2016 WAEP US$	2015 Number	2015 WAEP US$
Outstanding at 1 January	7,460,613	0.76	–	–
Granted during the year	10,294,300	0.89	7,460,613	0.76
Forfeited during the year	–	–	–	–
Exercised during the year	(2,868,460)	0.05	–	–
Outstanding at 31 December	14,886,453	0.83	7,460,613	0.76
Exercisable at 31 December	–	–	–	–

The shares are granted to the employees at no cost.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2016 range from 0.80 to 1.52 years.

The weighted average fair value of awards granted during the year range from US$0.89 to US$1.49.

The exercise prices for options outstanding at the end of the year range from US$0.83 to US$1.31.

24. Share capital continued

The following table lists the inputs to the models used for the four plans for the year ended 31 December 2016:

	The Group and Company				
	2015 Global Offer Bonus	2015 Non-Executive Shares Bonus	2015 Deferred Bonus	2015 LTIP	2016 LTIP
Weighted average fair values at the measurement date					
Dividend yield (%)	n/a	n/a	n/a	0.00%	0.00%
Expected volatility (%)	n/a	n/a	n/a	56%	56%
Risk-free interest rate (%)	n/a	n/a	n/a	0.63%	0.63%
Expected life of share options	nil	nil	1.46	2.35	2.35
Weighted average share price ($)	1.5386	1.5386	1.512	1.497	1.497

24c. Share premium

	The Group and Company	
	2016 US$ '000	2015 US$ '000
Share premium	497,457	497,457

Section 120.2 of Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 requires that where a Company issues shares at premium (i.e. above the par value), the value of the premium should be transferred to share premium.

25. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations.

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Capital contribution	40,000	40,000	40,000	40,000

26. Foreign currency translation reserve

Cumulative exchange difference arising from translation of foreign subsidiary is taken to foreign translation reserve through other comprehensive income.

27. Interest bearing loans and borrowings

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Non-current:				
Bank borrowings	446,098	608,846	446,098	556,346
Current:				
Bank borrowings	217,998	290,769	217,998	290,769
Total borrowings	**664,096**	**899,615**	**664,096**	**847,115**

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a US$1.7 billion debt refinancing package, made up of the following facilities:

- US$700 million seven-year term loan with an ability to stretch it to US$1.4 billion contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven-year maturity period.
- US$300 million three-year corporate revolving loan primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three-year maturity period.

As at 31 December 2016, there were no further draw downs (2015: US$1 billion) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. Principal repayments in 2016 were made, and the outstanding balance as at 31 December 2016 is US$676 million (2015: US$900 million).

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end.

31 December 2016 Term loan	Interest	The Group Current US$'000	Non-current US$'000	Total US$'000	The Company Current US$'000	Non-current US$'000	Total US$'000
SBSA	8.5% + LIBOR	1,652	17,601	19,253	1,652	17,601	19,253
Stanbic	8.5% + LIBOR	1,652	17,601	19,253	1,652	17,601	19,253
FBN	8.5% + LIBOR	11,026	117,445	128,471	11,026	117,445	128,471
UBA	8.5% + LIBOR	11,026	117,445	128,471	11,026	117,445	128,471
Zenith Bank	8.5% + LIBOR	17,642	187,910	205,552	17,642	187,910	205,552
		42,998	**458,002**	**501,000**	**42,998**	**458,002**	**501,000**

31 December 2016 Corporate loan	Interest	The Group Current US$'000	Non-current US$'000	Total US$'000	The Company Current US$'000	Non-current US$'000	Total US$'000
Citibank Nigeria Limited	6% + LIBOR	26,250	–	26,250	26,250	–	26,250
FirstRand Bank Limited	6% + LIBOR	17,500	–	17,500	17,500	–	17,500
JP Morgan Chase Bank N A London	6% + LIBOR	17,500	–	17,500	17,500	–	17,500
Nedbank Limited, London Branch	6% + LIBOR	17,500	–	17,500	17,500	–	17,500
Bank Of America Merrill Lynch	6% + LIBOR	17,500	–	17,500	17,500	–	17,500
Standard Chartered Bank	6% + LIBOR	26,250	–	26,250	26,250	–	26,250
Natixis	6% + LIBOR	26,250	–	26,250	26,250	–	26,250
Stanbic Ibtc Bank Plc	6% + LIBOR	13,125	–	13,125	13,125	–	13,125
The Standard Bank Of South Africa	6% + LIBOR	13,125	–	13,125	13,125	–	13,125
		175,000	–	**175,000**	**175,000**	–	**175,000**

31 December 2015 Term loan	Interest	The Group Current US$'000	Non-current US$'000	Total US$'000	The Company Current US$'000	Non-current US$'000	Total US$'000
SBSA	8.5% + LIBOR	5,649	16,947	22,596	5,649	16,947	22,596
Stanbic	8.5% + LIBOR	5,649	16,947	22,596	5,649	16,947	22,596
FBN	8.5% + LIBOR	37,695	113,085	150,780	37,695	113,085	150,780
UBA	8.5% + LIBOR	37,695	113,085	150,780	37,695	113,085	150,780
Zenith Bank	8.5% + LIBOR	60,312	180,936	241,248	60,312	180,936	241,248
		147,000	**441,000**	**588,000**	**147,000**	**441,000**	**588,000**

Notes to the financial statements continued

27. Interest bearing loans and borrowings continued

31 December 2015 Corporate loan	Interest	The Group Current US$'000	Non-current US$'000	Total US$'000	The Company Current US$'000	Non-current US$'000	Total US$'000
Citibank Nigeria Limited	6% + LIBOR	8,333	14,583	22,916	8,333	14,583	22,916
FirstRand Bank Limited	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
JP Morgan Chase Bank N A London	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Nedbank Limited, London Branch	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Bank Of America Merrill Lynch	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Standard Chartered Bank	6% + LIBOR	15,000	26,250	41,250	15,000	26,250	41,250
Citibank N.A.	6% + LIBOR	6,667	11,667	18,334	6,667	11,667	18,334
Natixis	6% + LIBOR	15,000	26,250	41,250	15,000	26,250	41,250
Stanbic Ibtc Bank Plc	6% + LIBOR	7,500	13,125	20,625	7,500	13,125	20,625
The Standard Bank Of South Africa	6% + LIBOR	7,500	13,125	20,625	7,500	13,125	20,625
		100,000	**175,000**	**275,000**	**100,000**	**175,000**	**275,000**

Loans	The Group 2016 US$ '000	2015 US$ '000	The Company 2016 US$ '000	2015 US$ '000
Term loan	501,000	588,000	501,000	588,000
Corporate loan	175,000	275,000	175,000	275,000
Sterling bank loan (business combination)	–	52,500	–	–
Less: Capitalised loan transaction costs	(11,904)	(15,885)	(11,904)	(15,885)
	664,096	**899,615**	**664,096**	**847,115**

28. Contingent consideration

	The Group US$ '000
At 1 January 2015	9,377
Fair value movement	3,325
Additions	19,198
Write-off	(10,000)
At 31 December 2015	21,900
At 1 January 2016	21,900
Fair value movement	2,614
Additions	–
Deconsolidation of subsidiary	(12,474)
At 31 December 2016	**12,040**

In 2014, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the 'Umuseti/Igbuku Fields'). The contingency criteria are the achievement of certain production milestones. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability was carried at fair value through profit or loss. These milestones were not achieved as at mid-2015 and as such the liability was derecognised during the year.

During the year, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of US$18.5 million for OML 53 is being recognised at the fair value of US$12 million. This is still contingent on oil price rising above US$90/bbl. over the next three years.

29. Provision for decommissioning obligation

	The Group	The Company
	US$ '000	US$ '000
At 1 January 2015	12,690	9,838
Unwinding of discount due to passage of time	–	–
Change in estimate	(8,821)	(6,867)
At 31 December 2015	3,869	2,971
At 1 January 2016	3,869	2,971
Unwinding of discount due to passage of time	480	330
Deconsolidation of subsidiary	(32)	–
Change in estimate	(3,720)	(2,962)
At 31 December 2016	**597**	**339**

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a "probable future sacrifice of economic benefits arising from a present obligation", and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2045 to 2066 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2045 to 2066. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

The change in estimate in the current year for Group and Company is US$3.7 million and US$2.9 million respectively (2015: US$ 8.8 million and US$6.9 million) and is due to the increase in the expected cessation of operations.

	Current estimated life span of reserves	
	2016	2015
Seplat Petroleum Development Company:	2045	2052
OML 4	2056	2052
OML 38	2052	2052
OML 41	2066	2052
Newton Energy Limited (OPL 283)	2045	2052
Seplat East Onshore Ltd (OML 53)	2054	2052

The discount rate used in the calculation of unwinding of the provision for both Group and Company for 2016 was within the range of 11.1% to 14.82% (2015: 11.1%). As of 31 December 2016, management has estimated decommissioning expenditure to occur from 2045 to 2066 for Group and Company (2015: 2052 for Group and Company).

30. Employee benefit obligation

30a. Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') – a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2016 was US$419,005 (2015: US$394,561).

30b. Defined benefit plan

The Company commenced its unfunded defined benefit plan (gratuity) in July 2015. The Company makes provisions for gratuity for employees from day one of employment in the Company. The employee qualifies to receive the gratuity on resignation or retirement from the Company after five years of continuous service. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted to inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on independent actuarial valuation performed by HR Nigeria Limited using the projected unit credit method.

The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

i) Liability recognised in the financial position

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Defined benefit obligation	5,112	6,926	5,112	6,926

ii) Amount recognised in profit or loss

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Current service cost	1,554	6,926	1,554	6,926
Interest cost on benefit obligation	530	–	530	–
	2,084	6,926	**2,084**	6,926

The Group recognises a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners; this is recognised as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Charged to receivables	1,146	3,809	1,146	3,809
Charged to profit or loss	938	3,117	938	3,117
	2,084	6,926	**2,084**	6,926

iii) Re-measurement (gains)/losses in other comprehensive income

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Remeasurement (gains)/losses due to changes in financial and demographic assumptions	(1,829)	–	(1,829)	–
Remeasurement (gains)/losses due to experience adjustment	578	–	578	–
	(1,251)	–	**(1,251)**	–

The Group recognises a part of the remeasurement gains/losses in other comprehensive income and recharges/credits the other part to its joint operations partners; this is recognised as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Credited to receivables	(688)	–	(688)	–
Credited to other comprehensive income	(563)	–	(563)	–
	(1,251)	–	**(1,251)**	–

iv) Changes in the present value of the defined benefit obligation are as follows:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Defined benefit obligation as at 1 January	6,926	–	6,926	–
Current service cost	1,554	6,926	1,554	6,926
Interest cost	530	–	530	–
Remeasurement (gains)/losses	(1,251)	–	(1,251)	–
Benefits paid by the employer	(242)	–	(242)	–
Exchange differences	(2,405)	–	(2,405)	–
Defined benefit obligation at 31 December	**5,112**	**6,926**	**5,112**	**6,926**

For the purpose of presentation in the statement of cash flows, defined benefit expenses is as follows:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Movement in defined benefit expense during the year	(1,814)	–	(1,814)	–
Adjustment for non-cash movements:				
Remeasurement gains/(losses)	1,251	–	1,251	–
Current service and interest cost charged to receivables	(1,146)	–	(1,146)	–
Defined benefit expenses in the cash flow	**(1,709)**	–	**(1,709)**	–

v) The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:

	The Group and Company	
	2016 %	2015 %
Discount rate	16	12
Average future pay increase	13	12
Average future rate of inflation	12	9

a) Mortality in service

	The Group and Company	
	Number of deaths in year out of 10,000 lives	
Sample age	2016	2015
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

30. Employee benefit obligation continued

b) Withdrawal from service

Age band	The Group and Company Rates 2016	2015
Less than or equal to 30	1.0%	1.0%
31 – 39	1.5%	1.5%
40 – 44	1.5%	1.5%
45 – 55	1.0%	1.0%
56 – 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

		The Group and Company					
		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase US$ '000	1% decrease US$ '000	1% increase US$ '000	1% decrease US$ '000	1% increase US$ '000	1% decrease US$ '000
Sensitivity level: Impact on the net defined benefit obligation							
31 December 2016	5,112	476	(556)	(591)	511	31	(30)
31 December 2015	6,926	811	(987)	(1,013)	41	(56)	845

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	The Group 2016 US$ '000	The Group 2015 US$ '000	The Company 2016 US$ '000	The Company 2015 US$ '000
Within the next 12 months (next annual reporting period)	364	298	364	298
Between 2 and 5 years	2,909	2,356	2,909	2,356
Between 5 and 10 years	7,912	9,378	7,912	9,378
	11,185	**12,032**	**11,185**	**12,032**

The weighted average liability duration for the Plan is 11.53 years. The longest weighted duration for Nigerian Government bond as at 31 December 2016 was about 5.85 years with a gross redemption yield of about 15.32%.

d) Risk exposure

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks. The most significant of these are detailed below:

i) Liquidity risk

The plan liabilities are unfunded and as a result there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long-term asset values and a rise in liability values.

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant where inflationary increases result in higher sensitivity to changes in life expectancy.

31. Trade and other payables

Goodwill acquired through business combinations is allocated to OML 55 for impairment testing. The carrying amount of goodwill is stated below.

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Trade payable	108,140	125,408	96,205	125,166
Accruals and other payables	117,600	216,265	101,028	169,158
NDDC levy	19	6,272	19	6,272
Deferred revenue	1,420	1,420	1,420	1,420
Royalties	34,349	25,668	27,766	25,212
Intercompany payable	–	–	55,681	24,578
	261,528	**375,033**	**282,119**	**351,806**

The accruals balance is mainly composed of other field-related accruals – US$35 million and others of US$24 million for the Group and Company (2015: US$97.9 million). Royalties include accruals for unpaid gas revenues during the period.

32. Earnings per share ('EPS')

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the period.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share-based payment scheme) into ordinary shares.

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Loss)/profit for the year attributable to equity holders of the parent	(164,590)	67,462	(124,412)	60,165
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	560,576	563,445	560,576
Share awards	1,540	189	1,540	189
Weighted average number of ordinary shares adjusted for the effect of dilution	564,985	560,765	564,985	560,765
	US$	US$	US$	US$
Basic (loss)/earnings per share	(0.29)	0.12	(0.22)	0.11
Diluted (loss)/earnings per share	(0.29)	0.12	(0.22)	0.11
	US$ '000	US$ '000	US$ '000	US$ '000
(Loss)/profit attributable to equity holders of the parent	(164,590)	67,462	(124,412)	60,165
(Loss)/profit used in determining diluted earnings per share	**(164,590)**	**67,462**	**(124,412)**	**60,165**

33. Dividends paid and proposed

As at 31 December 2016, the dividend proposed for the year was Nil for both Group and Company (2015: US$49.7 million).

	The Group and Company	
	2016 US$ '000	2015 US$ '000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2016: US$0.04 per share, 563,444,561 shares in issue (2015: US$ 0.04 per share, 560,576,101 shares in issue)	22,534	22,139
Final dividend for 2016: US$ Nil per share, 563,444,561 shares in issue (2015: US$'0.09 per share, 560,576,101 shares in issue)	–	49,701
Total	**22,534**	**71,840**
Proposed dividends on ordinary shares:		
Final cash dividend for 2016: US$ Nil per share (2015: US$'0.04 per share)	22,534	22,423

34. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the 'parent Company'). As at 31 December 2016, the parent Company is owned 13.84% either directly or by entities controlled by A.B.C. Orjiako ('SEPCOL') and members of his family and 13.15% either directly or by entities controlled by Austin Avuru ('Professional Support Limited' and 'Platform Petroleum Limited'). The remaining shares in the parent Company are widely held.

34a. Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: The Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Berwick Nigeria Limited: The Chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent Company. The company provides drilling rigs and drilling services to Seplat.

Helko Nigeria Limited: The Chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The Chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Ndosumili Ventures Limited: Is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The Chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent Company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

Platform Petroleum Limited: The Chief Executive Officer of Seplat is a director and shareholder of this company. The company seconded support staff to Seplat.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Exploration and Production Company Limited ('SEPCOL'): The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

34b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Shareholders of the parent company				
SEPCOL	1,364	1,517	1,364	1,517
Platform Petroleum Limited	–	35	–	35
	1,364	**1,552**	**1,364**	**1,552**
Entities controlled by key management personnel:				
Contracts > US$1m in 2016				
Nerine Support Services Limited[1]	14,991	21,015	14,991	21,015
Montego Upstream Services Limited	13,513	9,449	13,513	9,449
Cardinal Drilling Services Limited	6,931	17,244	6,931	17,244
Helko Nigeria Limited	1,976	566	1,976	556
Ndosumili Ventures Limited	1,729	1,350	1,729	1,350
	39,140	**49,624**	**39,140**	**49,614**
Contracts < US$1m in 2016				
Abbeycourt Trading Company Limited	598	2,362	598	2,362
Oriental Catering Services Limited	579	941	579	941
Keco Nigeria Enterprises	259	1,896	259	1,896
ResourcePro Inter Solutions Limited	81	1,841	81	1,841
Nabila Resources & Investment Ltd	58	226	58	226
Berwick Nigeria Limited	28	27	28	27
Neimeth International Pharmaceutical Plc	10	–	10	–
	1,613	**7,293**	**1,613**	**7,293**
	40,753	**56,917**	**40,753**	**56,907**

1. Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e include salaries and Nerine's mark-up. Total costs for agency and contracts during 2016 are US$7.9 million.

34c. Balances:

Year-end balances arising from related party transactions:

i) Prepayments / receivables

	The Group and Company	
	2016 US$ '000	2015 US$ '000
Entities controlled by key management personnel		
Cardinal Drilling Services Limited – current portion	6,211	12,632
Cardinal Drilling Services Limited – non-current portion	–	1,333
	6,211	13,965

ii) Payables

	The Group and Company	
	2016 US$ '000	2015 US$ '000
Entities controlled by key management personnel		
Montego Upstream Services Limited	11,540	–
Nerine Support Services Limited	11,411	–
Cardinal Drilling Services Limited	1,009	–
	23,960	–

35. Information relating to employees

35a. Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Salaries and other short-term employee benefits	4,104	4,522	4,104	4,522
Post-employment benefits	700	1,357	700	1,357
Share-based payment expenses	289	3,788	289	3,788
	5,093	**9,667**	**5,093**	**9,667**

35b. Chairman and Directors' emoluments

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Chairman (Non-executive)	1,116	1,125	1,116	1,125
Chief Executive Officer	1,644	1,645	1,644	1,645
Executive Directors	1,858	2,917	1,858	2,917
Non-Executive Directors	2,652	2,708	2,652	2,461
Bonus	–	1,661	–	1,661
JV Partner Share	(1,926)	(2,208)	(1,926)	(2,208)
Total	**5,344**	**7,848**	**5,344**	**7,601**

35c. Highest paid Director

	The Group and Company	
	2016 US$ '000	2015 US$ '000
Highest paid Director	1,644	1,645

35d. The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	The Group and Company	
	2016 Number	2015 Number
Zero – US$65,000	–	–
US$65,001 – US$378,000	7	7
US$378,001 – US$516,000	1	–
Above US$516,000	3	4
	11	**11**

35e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over US$6,500, received remuneration (excluding pension contributions) in the following ranges:

	The Group and Company	
	2016 Number	2015 Number
US$6,500 – US$16,000	1	4
US$16,001 – US$32,000	33	6
US$32,001 – US$48,000	136	76
Above US$48,000	220	303
	390	**389**

35f. The average number of persons (excluding Directors) in employment during the year was as follows:

	The Group and Company	
	2016 Number	2015 Number
Senior management	15	19
Managers	78	68
Senior staff	110	111
Junior staff	187	191
	390	**389**

35g. Employee cost

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	The Group and Company	
	2016 US$ '000	2015 US$ '000
Salaries and wages	20,055	19,057
	20,055	**19,057**

36.Commitments and contingencies

36a. Operating lease commitments – Group as lessee

The Group has entered into operating leases for the use of drilling rigs and rentals. The Group has no minimum lease payments to be disclosed because the total lease payment has been prepaid at inception of the lease.

36b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2016 is US$15.5 million (31 December 2015: US$299.9 million). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

37. Events after the reporting period

The Group confirmed that proceedings have begun in the English High Court against its wholly owned subsidiary, Newton Energy Limited, by Crestar Natural Resources Limited, relating to the deposit of US$20.5 million currently held in an escrow account.

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 paid US$11 million to Crestar for past costs and a US$45 million deposit remains with the potential vendor of the asset. Crestar alleges bad faith conduct by Seplat's subsidiary, Newton Energy Limited, with regards to the Group's request for the escrow monies to be released to Seplat. Seplat has emphasised that it intends to defend the claim vigorously and further announcement, if appropriate, will be made in due course.

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2016 and on the profit or loss for the year ended on that date, which has not been adequately provided for or disclosed in these financial statements.

Other national disclosures

For the year ended 31 December 2016

Statement of value added
For the year ended 31 December 2016

	The Group				The Company			
	2016 US$ '000	%	2015 US$ '000	%	2016 US$ '000	%	2015 US$ '000	%
Revenue	254,217		570,477		202,446		497,867	
Other income	–		2,316		–		2,316	
Finance income	59,017		12,802		94,139		8,133	
Cost of goods and other services:								
Local	(190,810)		(219,876)		(158,752)		(179,875)	
Foreign	(127,207)		(95,889)		(105,834)		(88,680)	
Valued added	(4,783)	100%	269,830	100%	31,999	100%	239,761	100%

Applied as follows:

	The Group				The Company			
	2016 US$ '000	%	2015 US$ '000	%	2016 US$ '000	%	2015 US$ '000	%
To employees:								
– as salaries and labour-related expenses	20,869	-463%	26,042	10%	19,354	60%	21,639	9%
To external providers of capital:								
– as interest	73,900	-1,545%	83,588	31%	68,751	215%	77,338	32%
To government:								
– as Company taxes	(1,759)	37%	(239)	–	(1,885)	-6%	–	–
Retained for the Company's future:								
– For asset replacement, depreciation, depletion & amortisation	59,870	-1,252%	73,599	27%	53,807	168%	64,235	27%
Deferred tax	8,431	-2%	21,233	8%	16,384	51%	16,384	7%
Loss for the year	(166,094)	3473%	65,607	24%	(124,412)	-389%	60,165	25%
Valued added	**(4,783)**	**100%**	**269,830**	**100%**	**31,999**	**100%**	**239,761**	**100%**

The value (eroded)/added represents the additional wealth which the Company has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the future creation of more wealth.

Five year financial summary
As at 31 December 2016

					The Group
	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000	2012 US$ '000
Revenue	254,217	570,477	775,019	880,227	–
(Loss)/ profit before taxation	(172,766)	87,079	252,253	457,523	–
Income tax expense	6,672	(21,472)	–	92,745	–
(Loss)/profit for the year	(166,094)	65,607	252,253	550,268	–

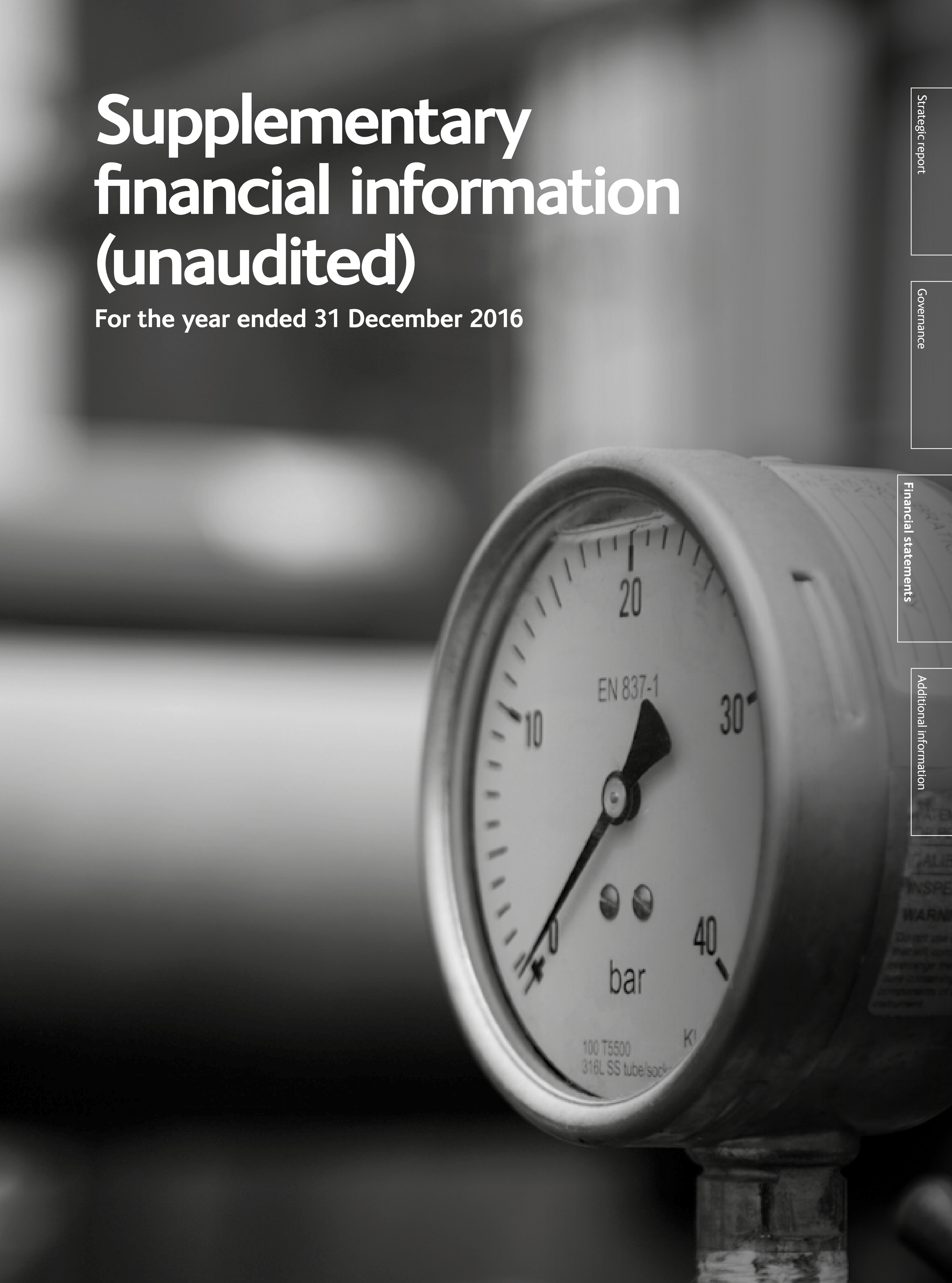
					The Group
	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000	2012 US$ '000
Capital employed:					
Issued share capital	1,826	1,821	1,798	1,334	690
Share premium	497,457	497,457	497,457	–	–
Share-based payment reserve	12,135	8,734	–	–	–
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	678,922	865,483	869,861	690,807	141,183
Foreign currency translation reserve	3,675	325	26	58	–
Non-controlling interest	–	(745)	–	–	–
Total equity	**1,234,015**	**1,413,075**	**1,409,142**	**732,199**	**181,873**
Represented by:					
Non-current assets	1,516,073	1,487,307	988,576	694,558	426,599
Current assets	663,200	1,254,583	1,421,114	623,003	473,583
Non-current liabilities	(463,847)	(662,774)	(261,834)	(144,271)	(281,489)
Current liabilities	(481,411)	(666,041)	(738,714)	(441,091)	(436,820)
Net assets	**1,234,015**	**1,413,075**	**1,409,142**	**732,199**	**181,873**

					The Company
	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000	2012 US$ '000
Revenue	202,446	497,867	755,508	869,982	624,546
(Loss)/ profit before taxation	(138,911)	76,549	271,236	457,477	295,655
Income tax expense	14,499	(16,384)	–	92,745	(186,556)
Loss/profit for the year	(124,412)	60,165	271,236	550,222	109,099

					The Company
	2016 US$ '000	2015 US$ '000	2014 US$ '000	2013 US$ '000	2012 US$ '000
Capital employed:					
Issued share capital	1,826	1,821	1,798	1,334	690
Share premium	497,457	497,457	497,457	–	–
Share-based payment reserve	12,135	8,734	–	–	–
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	730,740	877,123	888,798	690,761	141,183
Total equity	**1,282,158**	**1,425,135**	**1,428,053**	**732,095**	**181,873**
Represented by:					
Non-current assets	910,221	899,186	827,042	629,393	426,599
Current assets	1,325,488	1,751,151	1,593,114	661,472	473,583
Non-current liabilities	(451,549)	(642,575)	(742,498)	(423,342)	(436,820)
Current liabilities	(502,002)	(582,627)	(249,605)	(135,428)	(281,489)
Net assets	**1,282,158**	**1,425,135**	**1,428,053**	**732,095**	**181,873**

Supplementary financial information (unaudited)

For the year ended 31 December 2016



Supplementary financial information (unaudited) continued
For the year ended 31 December 2016

1. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 December 2015	208.9	1,573.2	480.2
Revisions	(9.8)	5.6	(8.8)
Discoveries and extensions	–	–	–
Acquisitions	–	–	–
Production	(3.7)	(34.7)	(9.7)
At 31 December 2016	**195.4**	**1,544.1**	**461.7**

Reserves are those quantities of crude oil, natural gas and natural gas liquid that, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known reservoirs under existing economic and operating conditions.

As additional information becomes available or conditions change, estimates are revised.

2. Capitalised costs related to oil producing activities

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Capitalised costs:				
Unproved properties	–	–	–	–
Proved properties	1,518,174	1,684,572	1,152,290	1,086,277
Total capitalised costs	1,518,174	1,684,572	1,152,290	1,086,277
Accumulated depreciation	293,774	247,622	284,663	236,063
Net capitalised costs	**1,224,400**	**1,436,950**	**867,627**	**850,214**

Capitalised costs include the cost of equipment and facilities for oil producing activities. Unproved properties include capitalised costs for oil leaseholds under exploration, and uncompleted exploratory well costs, including exploratory wells under evaluation. Proved properties include capitalised costs for oil leaseholds holding proved reserves, development wells and related equipment and facilities (including uncompleted development well costs) and support equipment.

3. Concessions
The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2016 are:

		Original	Term in years expired	Unexpired
Seplat	OMLs 4, 38 & 41	10	7	3
Newton	OML 56	10	7	3
Seplat East Swamp	OML 53	30	19	11
Seplat Swamp	OML 55	30	19	11

4. Results of operations for oil producing activities

	The Group		The Company	
	2016 US$ '000	2015 US$ '000	2016 US$ '000	2015 US$ '000
Revenue	254,217	570,477	202,446	497,867
Other income	–	2,316	–	2,316
Production and administrative expenses	(372,657)	(417,617)	(292,757)	(364,532)
Depreciation & amortisation	(54,326)	(68,097)	(48,600)	(59,102)
(Loss)/ profit before taxation	(172,766)	87,079	(138,911)	76,549
Taxation	6,672	(21,472)	14,499	(16,384)
Profit after taxation	**(166,094)**	**65,607**	**(124,412)**	**60,165**

Payments to governments (unaudited)
For the year ended 31 December 2016

The following information is included to comply with the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom and is prepared in accordance with Directive 2013/34/EU (the EU Accounting Directive (2013).

Basis for preparation

Reporting entities
The information includes payments to governments made by Seplat Petroleum Development Plc and its subsidiaries ('Seplat'). All payments to governments arise from operations within Nigeria.

Activities
Payments made by Seplat to governments arising from activities involving the exploration, prospection, discovery, development and extraction of minerals, oil and natural gas deposits or other materials (extractive activities) are disclosed in this report. It excludes payments related to refining, natural gas liquefaction or gas-to-liquids activities. When payments cover both extractive and processing activities and cannot be split, the payments have been disclosed in full.

Government
Government includes any national, regional or local authority of a country to which Seplat has made payment related to these regulations, and includes any department, agency or entity that is controlled by such authority.

Project
Payments are reported at project level except for payments that are not attributable to a specific project; these are reported at entity level. A project is defined as operational activities which are governed by a single contract, licence, lease, concession or similar legal agreement, and form the basis for payment liabilities with a government. However, if multiple such agreements are substantially interconnected, this shall be considered as a project. Indicators of integration include, but are not limited to, geographic proximity, the use of shared infrastructure and common operational management.

Payments
The information is reported under the following payment types:

Production entitlements
These represent the government's share of production in the reporting period arising from projects operated by Seplat. It comprises crude oil and gas attributable to the Nigerian government by virtue of its participation as an equity holder in projects within its sovereign jurisdiction (Nigeria).

Production entitlements to the government are lifted independently by the relevant government agency.

Royalties
These are payments for the rights to extract oil and gas resources, typically at set percentage of revenue less any deductions that may be taken.

Licence fees, rental fees, entry fees and other considerations for licences and/or concessions
These are fees and other sums paid as consideration for acquiring a licence for gaining access to an area where extractive activities are performed. Administrative government fees that are not specifically related to the extractive sector, or to obtain access to extractive resources, are excluded. Also excluded are payments made in return for services provided by a government.

Other types of payments that are required to be disclosed in accordance with the Regulations are the following:

- Taxes
- Dividends
- Bonuses
- Infrastructure improvements

However, for the year ended 31 December 2016, there were no such reportable payments above the materiality threshold, made by Seplat to a government.

Materiality
For each payment type, total payments below £86,000 (€100,000) to a government agency are excluded from this Report.

Reporting currency
Payments disclosed in this report have been disclosed in US Dollars. Where actual payments have been recorded in a currency other than US Dollars, they have been translated using the annual average exchange rate.

Payments by government

US Dollars	Production entitlements	Royalties	Fees	Total
Governments				
Nigerian National Petroleum Corporation	242,333,835	–	–	242,333,835
Department of Petroleum Resources	–	30,700,153	39,364	30,739,517
Nigeria Export Supervision Scheme	–	–	128,751	128,751
Niger Delta Development Commission	–	–	24,044,724	24,044,724
Nigerian Content Development and Monitoring Board	–	–	773,662	773,662
Total	**242,333,835**	**30,700,153**	**24,986,501**	**298,020,489**

Payments by project

US Dollars	Production entitlements	Royalties	Fees	Total
Projects				
OML 53	18,907,800	–	–	18,907,800
OMLs 4, 38 and 41	223,426,035	30,700,153	24,986,501	279,112,689
Total	**242,333,835**	**30,700,153**	**24,986,501**	**298,020,489**

For the purpose of this report, production entitlement refers to the value of liftings made by the government agency on fields operated by Seplat. The volume of crude oil and gas lifted during the year was approximately 2.7 million barrels and 42.3 million MMScf respectively. The crude oil price applied is based on the monthly average crude oil price per barrel, while the price per MMScf of gas is based on the actual gas price on the transaction dates. The volumes of crude oil lifted by the government, and gas lifted on behalf of the government, is multiplied by the price, as defined above, to arrive at the production entitlement.

Notice of the fourth Annual General Meeting of Seplat Petroleum Development Company Plc.

(Registered with the Corporate Affairs Commission of Nigeria under number RC 824838)

NOTICE is hereby given that the fourth Annual General Meeting of Seplat Petroleum Development Company Plc (the 'Company') will be held at the Civic Centre, Ozumba Mbadiwe Road, Victoria Island, Lagos, Nigeria at 11:00 a.m. on Thursday, 1 June 2017 for the transaction of the following business:

To consider and, if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

1. To receive the annual accounts, Directors' report, Auditor's report for the year ended 31 December 2016 and the Audit Committee report.
2. To approve the Remuneration section of the Directors' Remuneration Report set out in the Annual Report and Accounts for the year ended 31 December 2016[1].
3. To re-appoint Ernst & Young Nigeria as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which the Company's annual accounts are laid.
4. To authorise the Board of Directors of the Company to determine the auditor's remuneration.
5. To re-elect those Directors of the Company who are eligible for retirement by rotation.
6. To elect members of the Audit Committee.

Copies of the Annual Report and Accounts for Seplat Petroleum Development Company Plc for the financial year ended 31 December 2016 will be mailed to the shareholders and will be available on our website: www.seplatpetroleum.com. Printed versions can also be obtained by contacting DataMax Registrars in Nigeria at 2C Gbagada Expressway, Gbagada, Lagos, +234 1 7120008-11; or Computershare in the UK on +44 (0) 370 702 0000.

By Order of the Board.

Dr. Mirian Kene Kachikwu
FRC/2015/NBA/00000010739
General Counsel/Company Secretary
30 March 2017.

1. This is set out on pages 98 to 105 of the Annual Report and Accounts for the year ended 31 December 2016. In accordance with UK remuneration reporting rules, this is an advisory vote.

Notes:

1. **PROXY:**
   A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his/her/its place. A proxy need not be a member of the Company. For the appointment to be valid for the purposes of the meeting, a completed and duly stamped proxy form must be deposited at the office of the Registrar, DataMax Registrars Limited, 2C Gbagada Express Way, Gbagada, Lagos or at the head office of the Company, marked for the attention of the "Company Secretary" or by email to proxy@seplatpetroleum.com, not less than 48 hours before the time fixed for the meeting.
   For convenience purposes, a blank proxy form is attached to the 2016 Annual Report and Accounts, both of which are available at the Company's website: www.seplatpetroleum.com and at the Company's head office: 25a Lugard Avenue, Ikoyi, Lagos.
2. **CLOSURE OF REGISTER:**
   The Register of Members and Transfer Books of the Company (Nigeria & UK) will be closed on Tuesday, 20 May 2017 in accordance with the provisions of section 89 of CAMA, to enable the Registrars to prepare for the Annual General Meeting.
3. **E-DIVIDEND MANDATE:**
   Shareholders are kindly requested to advise DataMax Registrars Limited of their updated records and relevant bank accounts, by completing the e-mandate form. The e-mandate form can be downloaded from DataMax Registrars Limited's website at http://www.datamaxregistrars.com. The duly completed form(s) should be returned to DataMax Registrars Limited, No, 2c Gbagada Expressway, Gbagada Phase 1, Lagos.
4. **NOMINATION FOR AUDIT COMMITTEE:**
   In accordance with section 359(4) & (5) of the Companies and Allied Matters Act 2004, the Audit Committee shall consist of an equal number of directors and representatives of the shareholders of the Company (subject to a maximum number of six (6) members). Any shareholder may nominate a shareholder as a member of the Audit Committee. Such nomination should be in writing and should reach the Company Secretary at least twenty-one (21) days before the Annual General Meeting.
5. **RE-ELECTION OF DIRECTORS:**
   The following two Independent Non-Executive Directors who have stayed longest in office will retire and stand for re-election:
   i. Mr. Basil Omiyi; and
   ii. Dr. Charles Okeahalam.
   The profiles of these Directors are available on pages 63 and 64 respectively, of the Annual Report and Accounts.
6. **RIGHT OF SECURITIES' HOLDERS TO ASK QUESTIONS**
   In line with Rule 19.12(c) of the Listing Rules of the Nigerian Stock Exchange, Securities' Holders have a right to ask questions not only at the Meeting, but also in writing prior to the Meeting. Questions submitted prior to the Meeting should be addressed to the Company Secretary and must reach the head office of the Company no later than 7 days before the date of the Meeting (being 25 May 2017).

General information

Board of Directors:

A.B.C. Orjiako	Chairman
Ojunekwu Augustine Avuru	Managing Director and Chief Executive Officer
Stuart Connal	Chief Operating Officer (Executive Director)
Roger Brown	Chief Financial Officer (Executive Director)
Michel Hochard[1]	Non-Executive Director
Macaulay Agbada Ofurhie	Non-Executive Director
Michael Alexander	Senior Independent Non-Executive Director
Ifueko Omoigui Okauru	Independent Non-Executive Director
Basil Omiyi	Independent Non-Executive Director
Charles Okeahalam	Independent Non-Executive Director
Lord Mark Malloch-Brown	Independent Non-Executive Director
Damian Dodo	Independent Non-Executive Director

1. Madame Nathalie Delapalme acts as alternate Director to Michel Hochard.

Company Secretary
Mirian Kachikwu

Registered office and business address of Directors
25a Lugard Avenue
Ikoyi
Lagos
Nigeria

Registered number
RC No. 824838

FRC number
FRC/2015/NBA/00000010739

Auditors
Ernst & Young (Chartered Accountants)
10th & 13th Floors, UBA House
57 Marina Lagos, Nigeria

Registrar
DataMax Registrars Limited
7 Anthony Village Road
Anthony
P.M.B 10014
Shomolu
Lagos, Nigeria

Custodian and Depositary
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
United Kingdom

Solicitors
Abraham Uhunmwagho & Co
Adepetun Caxton-Martins Agbor & Segun ('ACAS-Law')
Austin and Berns Solicitors
Chief J.A. Ororho & Co.
Consolex LP
Freshfields Bruckhaus Deringer LLP
G.C. Arubayi & Co.
Herbert Smith Freehills LLP
J.E. Okodaso & Company
Norton Rose Fulbright LLP
Ogaga Ovrawah & Co.
Olaniwun Ajayi LP
O. Obrik. Uloho and Co.
Streamsowers & Kohn
Thompson Okpoko & Partners
V.E. Akpoguma & Co.
Winston & Strawn London LLP

Bankers
Citibank Nigeria Limited
First Bank of Nigeria Limited
HSBC Bank
Skye Bank Plc
Stanbic IBTC Bank Plc
Standard Chartered Bank
United Bank for Africa Plc
Zenith Bank Plc

Brokers
Citigroup Global Markets
25 Canada Square,
Canary Wharf,
Canary Wharf Group,
London E14 5LB

Investec Bank plc
2 Gresham Street
London EC2V 7QP

Glossary of terms

AGM
Annual General Meeting

bbls
Barrels of oil

boe
Barrels of oil equivalent

Bscf
Billion standard cubic feet of gas

bopd
Barrels of oil per day

boepd
Barrels of oil equivalent per day

bn
Billion

Development well
A well drilled specifically into a previously discovered field

Degrees API
A measure of how heavy or light a petroleum liquid is compared to water

DTR
The FCA's Disclosure and Transparency Rules

E&P
Exploration and Production

Farm in
To acquire an interest in a licence from another party

Farm out
To assign an interest in a licence to another party

FCA
Financial Conduct Authority

ft
Feet

GBP/£
Pound sterling currency

HSSE
Health, Safety, Security and Environment

Hydrocarbons
Compounds containing only the elements hydrogen and carbon; they may exist as solids, liquids or gases

H1
First half of the year

H2
Second half of the year

IPO
Initial Public Offering

Joint venture/JV
A group of companies who share the cost and rewards of exploring for and producing oil or gas from a licence or block

km^2
Square kilometres

LACT
Lease Automated Custody Transfer unit; facility used for accurately metering liquids production

LFN
Laws of the Federation of Nigeria

Licence/Block
Area of specified size, which is licensed to a company by the government for production of oil and gas

LSE
London Stock Exchange

m
Metres

Major IOC
Major international oil company

MMbbls
Million barrels

MMboe
Millions of barrels of oil equivalent

MMscfd
Million standard cubic feet of gas per day

MOU
Memorandum of Understanding

NSE
Nigerian Stock Exchange

₦
Nigerian Naira currency

OML
Oil Mining Licence

OPL
Oil Prospecting Licence

Q1
First quarter

Q2
Second quarter

Q3
Third quarter

Q4
Fourth quarter

Operator
A company which organises the exploration and production programmes in a block or licence on behalf of all the interest holders in the block or licence

Spud
To commence drilling a well

STOIIP
Stock Tank Oil Initially In Place

TFP/TFS
Trans Forcados Pipeline/System

Tscf
Trillion standard cubic feet of gas

US$/$
United States Dollar currency

US$/$m
Millions of United States Dollar currency

WI
Working interest

2D Seismic
Two-dimensional seismic

3D Seismic
Three-dimensional seismic

1P Reserves
Proven reserves

2P Reserves
Proven and probable reserves

3P Reserves
Proven, probable and possible reserves

Forward-looking statements

This document may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company's control and all of which are based on the Company's current beliefs and expectations about future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect the Company's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Company's business, results of operations, financial position, liquidity, prospects, growth, strategies and the oil and gas business. Forward-looking statements speak only as of the date they are made and cannot be relied upon as a guide to future performance.

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