

**Stability
Performance
Growth**



Announcement

Lagos and London, 6 March 2019: Seplat Petroleum Development Company Plc (“Seplat” or the “Company”), a leading Nigerian indigenous oil and gas company, listed on both the Nigerian Stock Exchange and London Stock Exchange, today announces its full year 2018 financial results and provides an operational update.

Commenting on the results Austin Avuru, Seplat’s Chief Executive Officer, said

“Seplat has delivered an excellent operational and financial performance resulting in robust profitability and cash flow generation providing us with an extremely solid foundation for growth in the coming years. At our core assets in the West, OMLs 4, 38 and 41, the extension of the license to 2038 means that we can confidently plan and invest long into the future to realise the full potential of those blocks. As we continue to enhance production and revenue diversification with new wells scheduled at OML 53 in the East, the board took the Final Investment Decision to invest in the large scale ANOH gas and condensate development which will form the next phase of transformational growth for our gas business. Disciplined capital allocation continues to remain at the core of our activities evidenced by our continual deleveraging of our debt levels to the current balance of US\$350m. In 2018, we reinstated the dividend, increased capital investments and with the resources and headroom in our capital structure, we are equipped to capitalise on organic and inorganic growth opportunities as they may arise.”

Full year 2018 results highlights

2018 working interest production within guidance; license renewal secured for OMLs 4, 38 and 41

- Full year working interest production of 49,867 boepd (comprising 25,669 bopd liquids and 145 MMscfd gas) within guidance range of 48,000 - 55,000 boepd; Uptime on the Trans Forcados System during 2018 was 85% (in line with budget), while average reconciliation losses stood at 8%
- License renewal for OMLs 4, 38 and 41 obtained with a new expiry date of 21 October 2038. US\$25.9 million renewal bonus paid ensuring all conditions have been met (renewal bonus included in 2018 capex)
- 2019 production guidance set at 49,000 boepd to 55,000 boepd (liquids production range of 24,000 bopd to 27,000 bopd and gas production range of 146 MMscfd to 164 MMscfd)

Strong profitability, cash flow generation and dividend reinstated

- Full year revenue US\$746 million; operating profit US\$310 million, profit before deferred tax US\$238 million; after adjusting for deferred tax of US\$91 million, net profit after tax stood at US\$147 million
- Cash flow from operations US\$502 million significantly ahead of capital expenditures of US\$88 million
- The board has recommended a final dividend of US\$0.05 per share.
- 2018 gas revenue at a record level of US\$156 million and accounts for 21% of total revenue in the year

Refinanced balance sheet, continued to deleverage and preserve significant headroom in the capital structure

- Successfully concluded debt refinancing in Q1 2018, including debut US\$350 million bond which diversifies the long-term capital base and new four year US\$300 million RCF
- Cash at bank US\$585 million and gross debt US\$450 million resulting in a net cash position of US\$135 million at end 2018
- Deleveraged further post period end by paying down US\$100 million to bring the RCF to zero while retaining the undrawn headroom in the capital structure to support growth; as a result, current gross debt is solely the bond at US\$350 million

Project updates - FID sanctioned at the large scale ANOH project

- Final investment decision sanctioned by Seplat’s board for the ANOH project post period end; Phase I to comprise a 300 MMscfd gas processing plant with accommodation space for future expansion
- Amukpe to Escravos alternate export pipeline nearing completion; anticipated to be fully commissioned and operational in Q2 2019, ramping up to initial permitted capacity of 40 kbpd during Q3 2019; access to three separate export routes at our western assets and two at our eastern assets providing adequate redundant capacity will significantly de-risk distribution of oil production to market

Financial overview

	US\$ million			₦ billion	
	2018	2017	% change	2018	2017
Revenue	746	452	65%	228	138
Gross profit	391	212	84%	120	65
Operating Profit	310	112	177%	95	34
Profit before deferred tax	238	41	480%	73	13
Net Profit after all taxes	147	265	(45)%	45	81
Basic earnings per share (US\$/₦)	0.26	0.47	(45)%	79.04	143.96
Cash flow from operations	502	447	12%	154	137
Working interest production (boepd)	49,867	36,923	35%		
Realised oil price (US\$/₦ per bbl)	70.1	50.4	39%	21,458	15,406
Realised gas price (US\$/₦ per Mscf)	2.94	2.97	(1)%	900	908

Announcement continued

Conference call

At 8:30 am GMT (London), 09:30 am WAT (Lagos) on 6 March 2019, Austin Avuru (CEO), Roger Brown (CFO) and Effiong Okon (Operations Director) will host a conference call to discuss the Company's results. Access details are:

Telephone Number: +44 (0) 20 3059 5868

The Company requests that participants dial in 10 minutes ahead of the call. When dialing in, please state the title of the call: "Seplat Petroleum Full Year Results 2018" when prompted by the operator.

The webcast can be accessed via the Company's website www.seplatpetroleum.com or at the following address: <https://secure.emincote.com/client/seplat/seplat001>

Enquiries

Seplat Petroleum Development Company Plc

Roger Brown, CFO	+44 203 725 6500
Andrew Dymond, Head of Investor Relations	+44 203 725 6500
Ayeesha Aliyu, Investor Relations	+234 12 770 400
Chioma Nwachuku, GM - External Affairs and Communications	+234 12 770 400

FTI Consulting

Ben Brewerton/Sara Powell seplat@fticonsulting.com	+44 203 727 1000
---	------------------

Citigroup Global Markets Limited

Tom Reid/Luke Spells	+44 207 986 4000
----------------------	------------------

Investec Securities

Chris Sim/Jonathan Wolf	+44 207 597 4000
-------------------------	------------------

Notes to editors

Seplat Petroleum Development Company Plc is a leading indigenous Nigerian oil and gas exploration and production company with a strategic focus on Nigeria, listed on the Main Market of the London Stock Exchange ("LSE") (LSE:SEPL) and Nigerian Stock Exchange ("NSE") (NSE:SEPLAT). Seplat is pursuing a Nigeria focused growth strategy and is well-positioned to participate in future divestment programmes by the international oil companies, other acquisition and farm-in opportunities and future licensing rounds. For further information please refer to the Company website, <http://seplatpetroleum.com/>

Important notice

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain. Certain statements included in these results contain forward-looking information concerning Seplat's strategy, operations, financial performance or condition, outlook, growth opportunities or circumstances in the countries, sectors or markets in which Seplat operates. By their nature, forward-looking statements involve uncertainty because they depend on future circumstances, and relate to events, not all of which are within Seplat's control or can be predicted by Seplat. Although Seplat believes that the expectations and opinions reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations and opinions will prove to have been correct. Actual results and market conditions could differ materially from those set out in the forward-looking statements. No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in Seplat or any other entity, and must not be relied upon in any way in connection with any investment decision. Seplat undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

Full year 2018 results overview

Working interest reserves

Working interest 2P reserves as assessed independently by Ryder Scott at 1 January 2019 stood at 481 MMboe, comprising 227 MMbbls of oil and condensate and 1,473 Bscf (254 MMboe) of natural gas. This represents an increase in overall 2P reserves of 1% year-on-year. The main driver of the upward revision year-on-year is due to the incorporation of updated 3D seismic data into field reservoir models (in the case of oil) and the anticipated compression benefits resulting from upgrades to the Sapele gas plant. Sustained good performance from the Oben gas wells also contributed to the upward revision, partially offsetting the gas volumes that were produced during the year.

	W.I reserves at 1/1/2018			W.I reserves at 1/1/2019		
	Liquids MMbbls	Gas Bscf	Oil equivalent MMboe	Liquids MMbbls	Gas Bscf	Oil equivalent MMboe
OMLs 4, 38 & 41	174.7	657.1	288.0	174.1	669.0	289.4
OPL 283	5.1	62.2	15.8	6.1	64.5	17.2
OML 53	41.5	736.4	168.5	42.7	739.4	170.2
OML 55 ⁽¹⁾	5.0	-	5.0	3.7	0.0	3.7
Total	226.3	1,455.7	477.3	226.6	1,473.0	480.5

⁽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 financial interest until a discharge sum of US\$330 million has been paid to Seplat through the monetisation of oil reserves at OML 55.

At 1 January 2019 working interest 2C resources stood at 80 MMboe, comprising 38 MMbbls of oil and condensate and 244 Bscf of natural gas. Consequently, the Company's working interest 2P+2C reserves and resources stood at 561 MMboe at 1 January 2019, comprising 265 MMbbls oil and condensate and 1,717 Bscf of natural gas.

Full year average daily production

	Seplat %	Gross production			Working Interest production		
		Liquids ⁽¹⁾ bopd	Gas MMscfd	Oil equivalent boepd	Liquids bopd	Gas MMscfd	Oil equivalent boepd
OMLs 4, 38 & 41	45.0%	52,620	323	106,392	23,679	145	47,876
OPL 283	40.0%	2,541	-	2,541	1,017	-	1,017
OML 53	40.0%	2,435	-	2,435	974	-	974
Total		57,596	323	111,368	25,669	145	49,867

⁽¹⁾ 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.

2018 full year average working interest production stood at 49,867 boepd and represents an overall increase of 35% year-on-year. Within this liquids production was up 44% year-on-year whilst gas production was up 27% year-on-year. The 2018 figures reflect a production uptime of 85%, compared to a production uptime of 50% in full year 2017 when the first six months of that year continued to be impacted by force majeure at the Forcados terminal. Overall reconciliation losses arising from use of third party infrastructure were around 8% for the year.

Alternative oil export routes

The Company's policy of creating multiple export routes for all of its assets has resulted in it 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 line with this objective, the Company has retained access to two jetties at the Warri refinery that will enable sustained exports of 30,000 bopd (gross) if required in the future. Exports via this route are not subject to the reconciliation losses or terminal crude handling and transport charges when exporting via the TFS. In 2018 it was not necessary for the Company to activate this alternative export route.

Looking ahead, the Amukpe to Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41. While completion work on the pipeline has been slower than anticipated due to delays on historical payments between the pipeline owner and the contractor, these have now been amicably resolved and based on information provided by the pipeline owners and contractor undertaking completion works and connection to the Escravos terminal and offshore export pipeline, the Company expects the pipeline now to be commissioned by the end of Q2 2019 and fully operational to the initial permitted volume for the Seplat / NPDC joint venture of 40kbpd in Q3 2019.

Full year 2018 results overview continued

With line of sight on the availability of three independent export routes it is Seplat's ultimate intention 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, significantly de-risking the distribution of production to market.

Gas business

Alongside its oil business, the Company has also prioritised the commercialisation and development of the substantial gas reserves and resources identified at its blocks and is today a leading supplier of processed natural gas to the domestic market in Nigeria.

Oben processing hub - Western Niger Delta

With overall operated gas processing capacity standing at the 525 MMscfd level, the Company is actively engaged with counterparties to increase contracted gas sales with the intention of taking gross production towards the 400 MMscfd level on a consistent basis. 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% investment project. The gas processing capacity expansion is also designed to allow the Company to accept third party gas and receive a processing tariff. In 2018 the gas projects undertaken were focused on reducing gas flaring and maximising gas monetisation. Key projects completed in the year include the Oben non associated gas ("NAG") booster compression project whereby the installation of additional compressors at the Oben gas plant will boost the pressure of existing NAG wells and translate into higher achievable gas recovery at the Oben gas field. The company also successfully completed the hook-up of a 10 kbpd condensate stabiliser train at the Oben Gas plant to allow for handling of additional condensate production in the future that will accompany higher future gas production. Furthermore, having initiated supplies of commissioning gas to the Azura Edo independent power plant at the start of the year, full operations commenced in May 2018 at which point gross deliveries stepped up to the contracted 116 MMscfd level on a take-or-pay basis.

ANOH processing hub (future) - Eastern Niger Delta

The ANOH gas development at OML 53 (and adjacent OML 21 with which the upstream project is unitised) is expected to underpin the next phase of growth for the gas business and Seplat's involvement positions it at the heart of one of the largest green field gas and condensate developments onshore the Niger Delta to date. Seplat is well positioned to leverage the experience gained at the Oben gas processing hub to incorporate operational and cost efficiencies. In August 2018 Seplat signed the Shareholder Agreement and Share Subscription Agreement with the Nigerian Gas Company ("NGC"), a wholly owned subsidiary of Nigerian National Petroleum Corporation ("NNPC") whereby NGC subscribed for fifty per cent of the shares in ANOH Gas Processing Company Limited ("AGPC"), a company that was incorporated in 2017, for the purpose of processing future wet gas production from the upstream unitised gas fields at OML 53 & OML 21, which is operated by Shell. The signed Shareholder Agreement will govern Seplat's and NGC's respective interests in the AGPC incorporated joint venture. Other commercial agreements with NNPC and the Nigerian Gas Marketing Company ("NGMC") were also executed during a signing ceremony held at NNPC headquarters in Abuja. Subsequent to the period end, the Seplat Plc board has taken the Final Investment Decision ("FID") to proceed with the ANOH project.

Rig based activity and other capital projects

Rig based activity at OMLs 4,38 and 41 was limited in the year to the drilling of one new gas production well at the Oben field and the workover on one further existing gas well. Upgrades to the liquid treatment infrastructure at OMLs 4,38 and 41 were also made that will enable Seplat 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 TFS. At OML 53 the Company re-entered two wells drilled by the previous operator at the Ohaji South oil field in order to complete them as oil producers. The Company expects the two wells to be brought onstream in Q2 2019 when the connection pipeline is completed, with the wells expected to flow at a combined initial rate for the joint venture of approximately 5,000 bopd.

License renewal of OMLs 4,38 and 41 for a further 20 years

In November Seplat announced that the President and Honourable Minister of Petroleum Resources had given consent for the licence renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41 and in 2018 production from the licences accounted for 92% of Seplat's total oil production and 100% of Seplat's gas production. In connection with the licence renewal Seplat paid in full a Renewal Bonus of US\$25.9 million, thus ensuring all conditions for licence renewal had been met.

Full year 2018 results overview continued

Finance

The higher oil production together with higher oil price realisations positively impacted oil revenue which stood at US\$590 million. Alongside this, gas revenue reached a new record of US\$156 million. Consequently, total revenue for 2018 was up 65% from 2017 at US\$746 million. Operating profit for the year stood at US\$310 million and profit before deferred tax of US\$238 million. After adjusting for deferred tax of US\$91 million net profit after tax stood at US\$147 million.

Cash flow from operations was US\$502 million and capital investments US\$88 million. Cash at bank and net cash at year end stood at US\$585 million and US\$135 million respectively. During the year the NPDC receivables balance was reduced to zero.

In March the Company successfully concluded a refinancing of the existing US\$300 million revolving credit facility (“RCF”) with a new four-year US\$300 million RCF at LIBOR +6% and issued a debut US\$350 million bond priced at 9.25%. Proceeds of the refinancing were used to repay and cancel pre-existing indebtedness and also to cash settle crude oil prepayments entered into during 2016 and 2017. The refinancing has enabled the Company to longer date its debt maturities which in turn has freed up significant free cash flow in 2018 and beyond, providing a greater financial resource to reinvest in Seplat’s organic and inorganic growth plans. The bond issuance has also, in particular, diversified Seplat’s long term capital base. In August the bond was listed on the International Securities Market of the London Stock Exchange in addition to the original listing on the Euro MTF market of the Luxembourg Stock Exchange, further raising Seplat’s profile in the international capital markets.

Dividend

Having emerged from a period of weak macro conditions and a disrupted operating environment in 2016 and 2017, where Seplat’s key focus was on preservation of liquidity and selective capital allocation to ensure the Company maintained a necessary level of financial flexibility, the Board reinstated the dividend in 2018 with a special dividend of US\$0.05 per share in April paid to normalise returns to shareholders after the dividend suspension and an interim dividend of US\$0.05 per share declared in October in line with our normal dividend distribution timetable.

Further to this, the board of Seplat is recommending a final dividend of US\$0.05 per share. Subject to approval of shareholders, the dividend will be paid shortly after the AGM which will be held on 16 May 2019 in Lagos, Nigeria.

2019 guidance

Production guidance for 2019 is set at 49,000 to 55,000 boepd on a working interest basis, comprising 24,000 to 27,000 bopd liquids and 146 to 164 MMscfd (25,000 to 28,000 boepd) gas production. Capex guidance for 2019 is set at US\$200 million.

Rig based activity will step-up significantly in 2019. In the western Niger Delta at OMLs 4, 38 and 41 the Company plans to drill up to seven new oil production wells, one new gas well, one rig based re-entry of an existing oil well and one appraisal well. Facilities and engineering projects will focus on delivery of an upgraded integrated gas processing facility at Sapele and further upgrades to the liquid treatment facility to enable increased deliveries of dry crude in sapele and Amukpe. At OPL 283 preparation work for development of the Igbuku gas field will continue with concept selection and FEED studies.

In the eastern Niger Delta at OML 53 development of the Ohaji South oil reserves will continue with the drilling of three planned oil production wells while the Company expects to also undertake a rig based workover of one existing oil production well at the jisike field. In addition to this two appraisal wells are planned, one of which will be at the undeveloped Owu oil discovery. Facilities and engineering work will focus on the expansion of oil production facilities at the Jisike and Ohaji South oil fields. At OML 55 the Company will continue to monetise liftings towards full recovery of the US\$330 million discharge sum.

Operations review

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.

OMLs 4, 38 and 41

Operator:	Seplat
Working interest:	45.0%
Partner:	NPDC
Main fields:	Oben, Amukpe, Okporhuru, Ovhor, Orogho, Sapele, Sapele Shallow
2018 working interest liquids production:	23,679 bopd
2018 working interest gas production:	145 MMscfd
Remaining working interest 2P oil reserves:	174.1 MMbbls
Remaining working interest 2P gas reserves:	669.0 Bscf
2019 activities:	Production and development

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 five 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 license was renewed in 2018 for a further 20 years and is next due for renewal on 21 October 2038.

OML 38 covers an area of 2,094km² and is located 48km north of Warri, Delta State. There are currently four producing fields on the block, namely Amukpe, Okpohuru, Orogho and Ovhor (which straddles OML 38 and OML 41). There are two further discoveries in OML 38: the Mosogar 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 license was renewed in 2018 for a further 20 years and is next due for renewal on 21 October 2038.

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 NGC 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 NGC owned Oben-Sapele pipeline system which feeds into the Sapele power plant. The license was renewed in 2018 for a further 20 years and is next due for renewal on 21 October 2038.

2018 activity

On OML 4, the Company completed the Oben NAG booster compression project whereby the installation of additional compressors at the Oben gas plant will boost the pressure of existing NAG wells and translate into higher achievable gas recovery at the Oben gas field. The company also successfully completed the hook-up of a 10 kbpd condensate stabiliser train at the Oben Gas plant to allow for handling of additional condensate production in the future that will accompany higher future gas production. Furthermore, having initiated supplies of commissioning gas to the Azura Edo independent power plant at the start of the year, full operations commenced in May 2018 at which point gross deliveries stepped up to the contracted 116 MMscfd level on a take-or-pay basis. Seplat also drilled a new gas production well at Oben which is expected to come onstream in Q1 2019.

On OML 38, further to the earlier commissioning of the liquid treatment facility ("LTF") at the Amukpe field, the Company undertook a crude quality upgrade project aimed at achieving an export grade specification of 0.5 BS&W MAX. 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 deliver increased export quality dry crude shipments via the alternative routes. The company also completed upgrades to the 2 x 7,000 bbl storage tanks at Amukpe in Q4 2018 that will

Operations review continued

further help ensure continuous evacuation of dry crude via the alternative routes during periods of outage on the Trans Forcados Pipeline.

On OML 41 the ongoing focus is full development of the Sapele Shallow field. 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 STOIP). 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

Operator:	Pillar Oil/OPGC
Working interest:	40.0%
Partner:	Pillar Oil
Main fields:	Umuseti and Igbuku
2018 working interest liquids production:	1,017 bopd
2018 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	6.1 MMbbls
Remaining working interest 2P gas reserves:	64.5 Bscf
2019 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.

2018 activity

The Anagba-1 appraisal well, completed in November 2017, is supporting unitisation discussions for OPL 283 partners to receive a share of production from wells at the Ashaka field on adjacent OML 60 operated by Nigeria Agip Oil Company. The Company also acquired Igbuku 3D seismic to support further development in the asset.

OML 53

Operator:	Seplat
Working interest:	40.0%
Partner:	NNPC
Main fields:	Jisike (producing) and Ohaji South (discovery)
2018 working interest liquids production:	974 bopd
2018 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	42.7 MMbbls
Remaining working interest 2P gas reserves:	739.4 Bscf
2019 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 is being pursued as a separate oil production project in the near term. Prior to initiating development of the

Operations review continued

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.

2018 activity

Seplat undertook a rig-based re-entry and completion of two wells drilled by the previous operator at the Ohaji South oil field which are due to come onstream in 2019. Other projects carried out during the year were focused on sustaining production at the Jisike oil field, developing infrastructure and improving existing facilities.

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. In August 2018, Seplat signed the Shareholder Agreement and Share Subscription Agreement with the Nigerian Gas Company ("NGC"), a wholly owned subsidiary of Nigerian National Petroleum Corporation ("NNPC"). NGC will subscribe for fifty percent of the shares in ANOH Gas Processing Company Limited ("AGPC"), a company that was incorporated in 2017, for the purpose of processing future wet gas production from the upstream unitised gas fields at OML 53 & OML 21, which is operated by Shell. The signed Shareholder Agreement will govern Seplat's and NGC's respective interests in the AGPC incorporated joint venture. Other commercial agreements with NNPC and the Nigerian Gas Marketing Company ("NGMC") were also executed at the same time. . Subsequent to the period end, the Seplat Plc board has taken the Final Investment Decision ("FID") to proceed with the ANOH project. The upstream development, including the drilling of production wells, will be delivered by the upstream unit operator SPDC.

OML 55

Operator:	Asset Management Team
Working interest:	Revenue interest
Partner:	NNPC, Belemaoil
Main fields:	Robertkiri, Idama and Inda (producing)
2018 working interest liquids production:	n/a
2018 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	3.7
Remaining working interest 2P gas reserves:	n/a
2019 activities:	Recovery of discharge sum

Background

OML 55 covers an area of approximately 840km² 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.

2018 activity

In accordance with the revised commercial arrangement that was agreed 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 volumes produced at OML 55, Seplat received payments amounting to US\$48 million in 2018. Total payments received from inception to the end of 2018 stood at US\$84 million and the outstanding discharge sum to be paid to Seplat is US\$246 million. The 40.00% operated interest in OML 55 continues to be jointly controlled by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising representatives of both parties.

Financial review

In 2018 the Group benefitted from the higher year-on-year oil and gas production volumes and an oil price tailwind, the combined effect of which was a sharp increase in both profitability and cash flow generation. Discretionary investments during the year were primarily directed towards the gas business, which is de-linked from oil prices, while a refinancing of the balance sheet reset the Group's capital structure and enables it now to optimally capture the numerous organic growth opportunities within the existing portfolio in addition to the potentially valuable inorganic acquisition opportunities that exist in the Nigerian oil and gas space.

Revenue

Total revenue for 2018 stood at US\$746 million for the full year, up 65% from 2017 at US\$452 million. The increase arises principally from higher oil production in 2018, further impacted by higher oil price realisations. Alongside this gas revenue reached a new record of US\$156 million, up 26% year-on-year and accounting for 21% of total revenue.

An increased full year uptime of 85% in 2018 resulted in average working interest liquids production of 25,669 bopd, up 44% from 17,853 bopd in 2017, whilst the total volume of crude lifted in the year was 8.4 MMbbls compared to 6.9 MMbbls in 2017. The Group's realised weighted average oil price of US\$70.1/bbl in 2018 was up 39% year-on-year (2017: US\$50.38/bbl), while the actual Brent oil price averaged US\$71/bbl over 2018. Brent remained volatile throughout the year, trading between a low of US\$62/bbl in February to a high of US\$86/bbl in October before selling off sharply to exit the year at around US\$51/bbl.

In 2018, the Group had in place dated Brent put options covering a volume of 6.60 MMbbls to year end at a combined weighted average strike price of US\$44.5/bbl. The net cost of these instruments in the year was US\$6.4 million. This hedging programme has been continued in 2019 where upfront premium put options at a strike price of US\$50.0/bbl were entered into, protecting a volume of 4.0 MMbbls. 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.

The higher year-on-year gas revenue was driven by a 27% increase in production volumes to 145 MMscfd while the average realised gas price remained relatively stable at US\$2.94/Mscf (2017: US\$2.97/Mscf). The increase in volume is from the benefit of production being fully de-constrained in a full year of normalized production following the lifting of force majeure. Also, the company initiated supplies of commissioning gas to the Azura Edo independent power plant at the start of the year and full operations commenced in May 2018 at which point gross deliveries stepped up to the contracted 116 MMscfd level on a take-or-pay basis. Management remains in active negotiations with new gas off take customers to ultimately reach gross production of 400 MMscf on a consistent basis.

Gross profit

Gross profit for the year was US\$391 million, an increase of 84% to the prior year (2017: US\$212 million). This principally reflects the resumption of a full year of production operations after force majeure was lifted and higher oil price realisations. Direct operating costs which include crude handling fees, rig-related costs and Operations & Maintenance costs amounted to US\$105 million in 2018 as against US\$80 million in 2017. This increase in cost is as a result of higher crude handling fees corresponding with higher production. On a cost per barrel basis, production opex were slightly lower at US\$5.77/boe when compared to prior year of US\$5.96/boe and reflects efficiencies generated with an increase of 35% in production volumes in 2018 when compared to 2017. A further improved performance in the overall running & maintenance of the production facility also positively impacted on production costs. Non-production costs primarily consisting of royalties and DD&A were US\$250 million compared to US\$160 million in the prior year. The DD&A charge for oil and gas assets increased during 2018 to US\$119 million (2017: US\$82 million) reflecting higher depletion of reserves because of the increased production during the year.

Operating profit

Operating profit for the year was US\$310 million compared with a prior year of US\$112 million. Impairment adjustments based on IFRS 9 requirements affected prior year numbers and resulted in an increase in G&A expenses for 2017 to US\$92 million. Emphasis on careful cost management led to a 13% reduction year-on-year in general and administrative expenses which stood at US\$80 million and helped the increased operating profit.

Tax

The pioneer tax incentive granted by Nigerian Investment Promotion Commission for three-year period elapsed at the end of 2015. The Company has prepared its 2018 financial statements including the effect of post pioneer tax status which resulted in a tax expense of US\$117 million, compared to a net tax credit of US\$221 million for the same period in 2017, owing primarily to deferred tax credits of US\$224 million.

Following a significant improvement in the financial position of the Group in 2017, the Group conducted an assessment of the assessable profit based on a five-year business plan in order to determine the possibility of future profit making prospects for

Financial review continued

2018 to 2022. The Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, deferred tax assets of \$133 million (2017: US\$224 million) were recognised for those losses. This resulted in a deferred tax charge of US\$91 million being charged in the year (2017: US\$ 224 million credit).

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Group provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

Net profit

Profit for the period before tax adjustments was US\$263 million, up 498% compared to US\$44 million in 2017. This profitability was sustained through six consecutive quarters from the third quarter of 2017 when production was unconstrained. Net Profit in 2018 was US\$147 million (2017: US\$265 million). The resultant EPS for 2018 was US\$0.26 compared to an EPS of US\$0.47 in 2017 when the deferred tax credit increased net profit by US\$224 million to US\$265 million.

Dividends

Having emerged from a period of weak macro conditions and a disrupted operating environment in 2016 and 2017, where Seplat's key focus was on preservation of liquidity and selective capital allocation to ensure the Company maintained a necessary level of financial flexibility, the Board reinstated the dividend in 2018 with a special dividend of US\$0.05 per share in April paid to normalise returns to shareholders after the dividend suspension and an interim dividend of US\$0.05 per share declared in October in line with our normal dividend distribution timetable.

Further to this, the board of Seplat is recommending a final dividend of US\$0.05 per share. Subject to approval of shareholders, the dividend will be paid shortly after the AGM which will be held on 16 May 2019 in Lagos, Nigeria.

Cash flows and liquidity

Cash flows from operating activities

Operating cash flow before movements in working capital was US\$454 million (2017: US\$194 million) Net cash flows from operating activities after movements in working capital was up 12% at US\$502 million (2017: US\$447 million). The Group has continued to receive the proceeds of gas sales from its partner NPDC in lieu of cash calls for ongoing operations. Tolling fees arising from NPDC's share of processed gas from the Oben Gas Expansion Project, which was financed on a sole risk basis by Seplat, are yet to be settled by NPDC and Seplat is currently in discussions with NPDC to finalise terms.

Cash flows from investing activities

Capital expenditures on oil and gas assets in 2018 stood at US\$88 million and includes the license renewal fee of US\$25.6 million; drilling costs for the Oben gas production well, re-entry of two Ohaji South wells and the well workover of Jisike. Gas project costs include the NAG booster compression station at Oben and other costs associated with plans towards ANOH FID.

Having reached agreement in 2016 with partner BelemaOil on a revised commercial arrangement at OML 55, 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 volumes, the Group received total proceeds of US\$48 million in 2018 under this arrangement. Consequently, after adjusting for interest receipts of US\$10 million, net cash outflow from investing activities for the full year was US\$31 million compared to a net cash inflow in 2017 of US\$7 million, reflecting the higher capex spend.

Cash flows from financing activities

Net cash at year-end was US\$135 million, compared to a net debt US\$141 million at December 2017. Net cash outflows from financing activities were US\$329 million (2017: cash outflow US\$173 million).

In March the Group successfully refinanced its existing US\$300 million revolving credit facility ("RCF") with a new four year US\$300 million RCF at LIBOR + 6% (US\$200 million drawn at 30 June 2018) and issued a debut US\$350 million bond priced at 9.25%, diversifying the long-term capital base. Proceeds from the re-financing were used to repay and cancel pre-existing indebtedness and also to cash settle crude oil prepayments undertaken during the extended period of force majeure in 2016 and 2017. In October, US\$100 million loan repayment in respect of the RCF was settled to reduce the outstanding balance on the facility to US\$100 million.

Overall Seplat's aggregate indebtedness at 31 December 2018 stood at US\$450 million and cash at bank US\$585 million to give a net cash position of US\$135 million with US\$163 million undrawn headroom on the RCF facility. Post period end, the company paid down an additional US\$100 million against the RCF facility taking its balance to zero and a headroom of US\$263 million. This is a significant deleveraging of the balance sheet from its peak levels of US\$1 billion in 2015. The Group is well capitalised and fully funded to execute its organic growth plans and therefore well positioned to pursue inorganic growth opportunities in line with its price disciplined approach balanced with a robust dividend yield.

Financial review continued

Net Cash at 31 December 2018

	US\$ Million	Coupon	Maturity
Senior Notes	350	9.25%	June 2023
3 year secured RCF*	100	L+6.00%	June 2022
Gross debt at parent	450		
Cash and cash equivalents	585		
Net cash	135		

* Total commitment under the RCF is US\$263 million

Following the reinstatement of a dividend of US\$0.10/share during the year, the Group returned US\$58.8 million to shareholders.

Brexit

The Group's activities in the UK are limited to providing capital management, investor relations, business development and other support services to the Nigerian operations. Brexit may result in a change in the financial reporting standards applicable to Seplat UK financial statements which currently reports under IFRS for the EU. However, the Group does not envisage that this would result in a material variance from what is currently reported.

With regards to taxes, including incentives, exemptions and reliefs, there are no uncertain tax positions as a result of Brexit. Changes in accounting treatments and disclosures may also result in changes in taxes. As mentioned, it is not envisaged that there would be any material impact on accounting for transactions in Seplat UK.

Seplat is not exposed to any material financial risk arising from Brexit. It is not exposed to additional market risk, liquidity risk or credit risk from its UK subsidiary.

It is the view of the Board that, given the Group's single country focus on Nigeria, Seplat's business, assets and operations will not be materially affected by Brexit. Seplat also derives most of its income from crude oil, a globally-traded commodity which is priced in US Dollars. Furthermore, Seplat's gas revenues are derived solely from sales to the domestic market in Nigeria and therefore are unaffected by international factors. The Board has therefore assessed and concludes that there are no material uncertainties arising from Brexit that would significantly impact Seplat as a result of its UK subsidiary.

Outlook

In 2019 we will retain our price disciplined approach to only allocating capital to the highest cash returning organic and value accretive acquisition growth opportunities. Combined with a robust dividend yield, we aim to ensure that Seplat is the investment of choice in Nigeria to access sub-Saharan Africa's most prolific oil and gas opportunities.

General information

Board of directors:

Ambrosie Bryant Chukwueloka Orjiako	Chairman	Nigerian
Ojunekwu Augustine Avuru	Managing Director and Chief Executive Officer	Nigerian
Roger Thompson Brown	Chief Financial Officer (Executive Director)	British
Effiong Okon	Operations Director (Executive Director)	Nigerian
Michel Hochard*	Non-Executive Director	French
Macaulay Agbada Ofurhie	Non-Executive Director	Nigerian
Michael Richard Alexander	Senior Independent Non-Executive Director	British
Ifueko M. Omoigui Okauru	Independent Non-Executive Director	Nigerian
Basil Omiyi	Independent Non-Executive Director	Nigerian
Charles Okeahalam	Independent Non-Executive Director	Nigerian
Lord Mark Malloch-Brown	Independent Non-Executive Director	British
Damian Dinshiya Dodo, SAN	Independent Non-Executive Director	Nigerian

*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
Auditor	Ernst & Young (10 th & 13 th Floors), UBA House 57 Marina Lagos, Nigeria
Registrar	DataMax Registrars Limited 7 Anthony Village Road Anthony P.M.B 10014 Shomolu Lagos, Nigeria
Solicitors	Olaniwun Ajayi LP Adepetun Caxton-Martins Agbor & Segun (“ACAS-Law”) Banwo & Ighodalo Templars Law White & Case LLP Whitehall Solicitors Bracewell (UK) LLP Herbert Smith Freehills LLP Chief J.A. Ororho & Co. Ogaga Ovwah & Co. Consolex LP J.E. Okodaso & Company V.E. Akpoguma & Co. Thompson Okpoko & Partners G.C. Arubayi & Co. Streamsowers & Kohn
Bankers	First Bank of Nigeria Limited Stanbic IBTC Bank Plc United Bank for Africa Plc Zenith Bank Plc Citibank Nigeria Limited Standard Chartered Bank HSBC Bank

Report of the Directors

For the year ended 31 December 2018

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 2018.

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 Companies 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 percent 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.

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. However, Seplat on the 4th April 2018, was migrated to the Premium Board of the Nigerian Stock Exchange.

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 percent 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.

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.

Report of the directors continued

For the year ended 31 December 2018

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 other wholly owned subsidiaries, namely, Seplat Petroleum Development Company UK Limited (“Seplat UK”), which was incorporated on 21 August 2013; Seplat East Onshore Limited (“Seplat East”), which was incorporated on 12 December 2013; Seplat East Swamp Company Limited (“Seplat Swamp”), which was incorporated on 12 December 2014; Seplat Gas Company Limited (“Seplat Gas”), which was incorporated on 12 December 2013; Seplat West Limited (“Seplat West”) which was incorporated on 16 January, 2018 and ANOH Gas Processing Company Limited which was incorporated on 18 January 2017 is 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
Seplat West Limited	Nigeria	100%	Oil & gas exploration and production
ANOH Gas Processing Company Limited	Nigeria	100%	Gas processing

Operating results:

	Nigerian ₦ million		US\$'000	
	2018	2017	2018	2017
Revenue	228,391	138,281	746,140	452,179
Operating profit	94,875	34,376	309,951	112,414
Profit before taxation	80,615	13,454	263,364	43,997
Profit for the year	44,867	81,111	146,576	265,230

Dividend

Having emerged from a period of weak macro conditions and a disrupted operating environment in 2016 and 2017, where Seplat's key focus was on preservation of liquidity and selective capital allocation to ensure the Company maintained a necessary level of financial flexibility, the Board reinstated the dividend in 2018 with a special dividend of US\$0.05 per share in April paid to normalise returns to shareholders after the dividend suspension and an interim dividend of US\$0.05 per share declared in October in line with our normal dividend distribution timetable (2017: nil).

Further to this, the board of Seplat is recommending a final dividend of US\$0.05 per share. Subject to approval of shareholders, the dividend will be paid shortly after the AGM which will be held on 16 May 2019 in Lagos, Nigeria.

Report of the directors continued

For the year ended 31 December 2018

Unclaimed dividend

The total amount outstanding as at 31 December 2018 is US\$2,713.50 and ₦88,777,086.54. A list of shareholders and corresponding unclaimed dividends 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 17 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. However, in accordance with Article 131 of the Company's Articles of Association, 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 Mrs. Ifueko M. Omoigui Okauru and Mr. Damian Dodo, SAN.

Board changes

The Board appointed an Executive Director since the last Annual General Meeting. Effiong Okon was appointed Operations Director effective 23 February 2018 and ratified by shareholders at the 2018 Annual General Meeting. Effiong brings a wealth of relevant Nigerian and international operational experience from 26 years in the industry with Shell. He is an asset to the Board and we look forward to his contribution to the growth of the Company.

The appointment and removal or reappointment of Directors is governed by its Articles of Association and Companies and Allied Matters Act (CAMA) LFN 2004. It also sets out the powers of Directors.

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, the Nigerian Code of Corporate Governance, 2018 issued by the Financial Reporting Council of Nigeria and the UK Corporate Governance Code, 2018 issued by the Financial Reporting Council 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 safe guarding the assets of the Company through prevention and detection of fraud and other irregularities.

In order to carry out its responsibilities, the Board has established 6 Board Committees and has delegated aspects of its responsibilities to them. The Committees of the Board and members are as follows:

1. Finance Committee

Charles Okeahalam
Michael Alexander
Ifueko M. Omoigui Okauru
Lord Mark Malloch-Brown

Committee Chairman
Member
Member
Member

2. Nomination and Establishment Committee

A.B.C. Orjiako
Basil Omiyi
Michael Alexander
Damian Dinshiya Dodo, SAN

Committee Chairman
Member
Member
Member

3. Remuneration Committee

Michael Alexander
Basil Omiyi

Committee Chairman
Member

Report of the directors continued

For the year ended 31 December 2018

Charles Okeahalam	Member
Damian Dinshiya Dodo, SAN	Member
4. Risk Management and HSSE Committee	
Basil Omiyi	Committee Chairman
Macaulay Agbada Ofurhie	Member
Ifueko M. Omoigui Okauru	Member
5. Corporate Social Responsibility Committee	
Lord Mark Malloch-Brown	Committee Chairman
Macaulay Agbada Ofurhie	Member
Ifueko M. Omoigui Okauru	Member
6. Gas Committee	
Basil Omiyi	Committee Chairman
Macaulay Agbada Ofurhie	Member
Michael Alexander	Member

The Board constituted the Gas Committee in 2018 to help fine tune the Company's gas strategy and bring greater focus to the management of gas business risks. The Committee will help the Company to successfully navigate the changing gas market landscape and position it to function as a robust, stand-alone midstream business.

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, SAN.	Committee Chairman (Shareholder Member)
Ifueko M. Omoigui Okauru	Director Member
Macaulay Agbada Ofurhie	Director Member
Michel Hochard	Director Member
Dr. Faruk Umar	Shareholder Member
Sir Sunday Nnamdi Nwosu	Shareholder Member

All seven 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 Board met thirteen times during the year and at least once every quarter in line with Section 12.1 of the SEC Code. Board meetings were well attended with attendance of all Directors exceeding two-thirds as required by Section 12.2 of the SEC Code. 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	13	13
2.	Austin Avuru	Chief Executive Officer	13	13
3.	Roger Brown	Chief Financial Officer	13	13
4.	Michel Hochard*	Non-Executive Director	13	13
5.	Macaulay Agbada Ofurhie	Non-Executive Director	13	9
6.	Michael Alexander	Senior Independent Non-Executive Director	13	13
7.	Charles Okeahalam	Independent Non-Executive Director	13	12
8.	Basil Omiyi	Independent Non-Executive Director	13	12

Report of the directors continued

For the year ended 31 December 2018

9.	Ifueko M. Omoigui-Okauru	Independent Non-Executive Director	13	11
10.	Lord Mark Malloch-Brown	Independent Non-Executive Director	13	10
11.	Damian Dodo, SAN	Independent Non-Executive Director	13	13
12.	Effiong Okon	Operations Director	10	10

Meeting dates: 23 January; 13, 23 February; 19, 26,27 April; 16 May; 6, 11 June; 19 July; 20, 27 September; 19 October

Finance Committee

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

Meeting dates: 23 January, 23 February, 18 April, 17 July, 24 October.

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	3

Meeting dates: 18 April, 17 July, 24 October

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	5
3.	Charles Okeahalam		5	4
4.	Damian Dodo		5	5

Meeting dates: 23 January, 23 February, 7 March, 18 April, 24 October.

Risk Management and HSSE 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

Meeting dates: 17 January, 10 April, 13 July, 12 October.

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

Meeting dates: 18 April, 17 July, 24 October.

Report of the directors continued

For the year ended 31 December 2018

Gas Committee

S/N	Name		No. of Meetings in the year	No. of times in Attendance
1.	Basil Omiyi	Chairman	2	2
2.	Macaulay Agbada Ofurhie		2	2
3.	Michael Alexander		2	2

Meeting dates: 17 July, 25 October.

Statutory Audit Committee

S/N	Name		No. of Meetings in the year	No. of times in Attendance
1.	Chief Anthony Idigbe, SAN	Chairman	4	4
2.	Dr. Faruk Umar	Shareholder Member	4	4
3.	Sir Sunday Nnamdi Nwosu	Shareholder Member	4	4
4.	Michel Hochard	Director Member	4	3
5.	Ifueko Omoigui Okauru	Director Member	4	3
6.	Macaulay Agbada Ofurhie	Director Member	4	4

Meeting dates: 22 February, 18 April, 16 July, 24 October.

Directors' interest in shares

In accordance with Section 275 of the Companies and Allied Matters Act, CAP C20 LFN 2004, 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) are as follows:

	31-Dec-17	31-Dec-18		28-Feb-19	
	No. of Ordinary Shares	No. of Ordinary Shares	As a percentage of Ordinary Shares in issue	No. of Ordinary Shares	As a percentage of Ordinary Shares in issue
A.B.C. Orjiako(1)	47,251,325	45,951,325	7.81%	45,951,325	7.81%
Austin Avuru (2)	74,546,740	70,823,189	12.04%	70,823,189	12.04%
Roger Brown	807,942	1,327,207	0.23%	1,327,207	0.23%
Effiong Okon	n/a	0	0.00%	0	0.00%
Michel Hochard	95,238	95,238	0.02%	95,238	0.02%
Macaulay Agbada Ofurhie	4,901,611	4,001,611	0.68%	4,001,611	0.68%
Michael Alexander	105,238	115,238	0.02%	115,238	0.02%
Charles Okeahalam	597,238	495,238	0.08%	495,238	0.08%
Basil Omiyi	495,238	495,238	0.08%	495,238	0.08%
Ifueko Omoigui Okauru	95,238	95,238	0.02%	95,238	0.02%
Lord Mark Malloch-Brown	31,746	31,746	0.01%	31,746	0.01%
Damian Dodo	0	0	0.00%	0	0.00%
Total	128,927,554	123,431,268	20.98%	123,431,268	20.98%

Notes:

- 16,151,325 ordinary shares are held directly by A.B.C. Orjiako and Shebah Petroleum Development Company Limited; 16,300,000 ordinary shares are held by Vitol Energy Limited for the benefit of Shebah Petroleum Development Company Limited, which is an entity controlled by A.B.C. Orjiako and members of his family; 900,000 ordinary shares are held by Pursley Resources Limited, a company owned by A.B.C.'s wife; and 12,600,000 ordinary shares are held directly by A.B.C. Orjiako's siblings
- 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. 40,659,695 ordinary shares, are held by Platform Petroleum Limited, which is an entity in which Austin Avuru has a 23% equity interest (during the year, 3,500,305 shares previously held through Platform Petroleum Limited are now directly held by certain shareholders of Platform and are therefore not considered to be connected persons) and 1,026,484 ordinary shares are held by Austin Avuru.

Report of the directors continued

For the year ended 31 December 2018

Director's interest in contracts

The Chairman and the Chief Executive Officer have disclosable indirect interest in contracts with which the Company was involved as at 31 December 2018 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, LFN, 2004. These have been disclosed in note 31.

Substantial interest in shares

According to the register of members at 31 December 2018 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 of Holdings	%
CIS PLC - MAIN ⁽¹⁾	414,415,996	70.43
Platform Petroleum Limited	40,659,695	6.91

(1) CIS PLC - MAIN is made up of the total shareholdings held in the UK by the registrars.

Free float

The Company's free float at 31 December 2018 was 52.47%

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 2018 is as stated below:

Share Range	Number of Shareholders	% of Shareholders	Number of Holdings	% Shareholding
1-10,000	1,921	86.3371	1,445,520	0.2457
10,001-50,000	148	6.6517	3,813,454	0.6481
50,001-100,000	50	2.2472	3,642,452	0.6190
100,001-500,000	68	3.0562	16,237,145	2.7593
500,001-1,000,000	14	0.6292	10,867,172	1.8468
1,000,001-5,000,000	18	0.8090	39,755,584	6.7560
5,000,001-10,000,000	2	0.0899	13,506,800	2.2953
10,000,001-50,000,000	3	0.1348	84,760,438	14.4042
50,000,001-100,000,000	0	0.0000	0	0.0000
100,000,001-500,000,000	1	0.0449	414,415,996	70.4257
Total	2,225	100.0000	588,444,561	100.0000

Share Capital History

Year	Authorised increase	Cummulative	Issued increase	Cummulative	Consideration
Jun-09	-	100,000,000	100,000,000	100,000,000	cash
Mar-13	100,000,000	200,000,000	100,000,000	200,000,000	stock split from ₦1.00 to 50k
Jul-13	200,000,000	400,000,000	200,000,000	400,000,000	bonus (1 for 2)
Aug-13	600,000,000	1,000,000,000	153,310,313	553,310,313	cash
Dec-14	-	1,000,000,000	-	553,310,313	No change
Dec-15	-	1,000,000,000	10,134,248	563,444,561	staff share scheme
Dec-16	-	1,000,000,000	-	563,444,561	No change
Dec-17	-	1,000,000,000	-	563,444,561	No change
Feb-18	-	1,000,000,000	25,000,000	588,444,561	staff share scheme

Report of the directors continued

For the year ended 31 December 2018

Donations

The following donations were made by the Group during the year (2017: ₦105,361,000; US\$344,535).

Name of beneficiary	₦'000	US\$
AOW Conference	805	2,634
Augustine University	46,125	150,571
Brandzone Innovations	338	1,104
Chartered institute of procurement	608	1,988
Edo festival	900	2,941
Ehimade Nigeria Limited	7,200	23,556
Energy Institute	2,186	7,152
Lagos Caledonian Society	450	1,469
Lagos Institute of Public Relation	225	733
Lagos state security trust fund	900	2,943
Malabite Magazine	180	589
Ministry of Oil and Gas	900	2,941
National Identity Management Commission	90	296
National Oil spill detection and response agency	4,041	13,220
National Orthopedic Hospital	900	2,943
Nigeria LP Gas Association	675	2,202
Nigerian Army	900	2,934
Nigerian Association of Petroleum Explorationists	11,700	38,294
Nigerian Conservation centre	450	1,466
Nigerian Conservation Foundation	225	734
Nigerian Environmental Society	1,215	3,975
Nigerian Gas Association	4,126	13,500
Nigerian Oil and Gas Industry Games	135	442
Nigerian Orthopaedic Association	675	2,208
Nigerian Sport Media Awards	1,163	3,792
NNPC Postgraduate scholarship	1,350	4,397
NNPC undergraduate scholarship	12,015	39,286
Oben Cottage Hospital	236	771
Okparavero Memorial Hospital	4,712	15,416
Others	5,178	16,927
Pearl Awards	223	727
Petroleum Technology Association	2,751	9,000
Society of Petroleum Engineer	5,069	16,583
Soja Magazine	113	366
St. Saviours Hospital	900	2,945
The Institute of Internal Auditors Nigeria	225	736
The Niche Newspaper	450	1,472
Tribemarks Media production	450	1,472
Union of National Africa paediatric societies	900	2,945
Total	121,683	397,672

Report of the directors continued

For the year ended 31 December 2018

Employment and employees

- a) **Employees involvement and training:** The Company continues to observe industrial relations practices such as joint Consultative Committee 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 the 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 HSE 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. As at the end of the reporting period, the Group has no disabled persons in employment.

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, CAP C20, Laws of the Federation of Nigeria, 2004. A resolution will be proposed for the re-appointment of Ernst & Young as the Company's Auditor and for authorization 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

Date: 6 March 2019

Statement of directors' responsibilities

For the year ended 31 December 2018

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 Group at the end of the year and of its profit or loss. The responsibilities include ensuring that the Group:

1. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and comply with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004;
2. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
3. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments 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 judgments 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 Group and of its financial performance and cashflows 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 Group will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Directors by:



A.B.C Orjiako
Chairman
FRC/2014/IODN/0000003161

6 March 2019



Austin Avuru
Chief Executive Officer
FRC/2014/IODN/0000003100

6 March 2019

Audit Committee's Report

For the year ended 31 December 2018

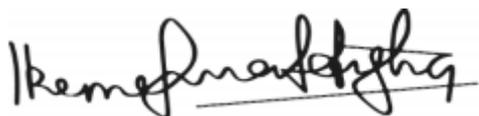
To the members of Seplat Petroleum Development Company Plc

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act, CAP C20, LFN 2004, members of the Audit Committee of Seplat Petroleum Development Company Plc hereby report on the financial statements of the Group for the year ended 31 December 2018 as follows:

- The scope and plan of the audit for the year ended 31 December 2018 were adequate;
- We have reviewed the financial statements and are satisfied with the explanations and comments obtained;
- We have reviewed the external auditors' management letter for the year and are satisfied with the management's responses and that management has taken appropriate steps to address the issues raised by the Auditors;
- We are of the opinion that the accounting and reporting policies of the Company are in accordance with legal requirements and ethical practices.

The external Auditors confirmed having received full co-operation from the Company's management in the course of the statutory audit and that the scope of their work was not restricted in any way.

Dated this 6th day of March 2019



Chief Anthony Idigbe, S.A.N.
Chairman, Audit Committee
FRC/2015/NBA/00000010414



Ernst & Young
10th Floor, UBA House
57, Marina
Lagos, Nigeria

Tel: +234 (01) 844 996 2/3
Fax: +234 (01) 463 0481
Email: services@ng.ey.com
www.ey.com

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

Opinion

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

Consolidated and Separate statement of profit or loss and other comprehensive income For the year ended 31 December 2018
Consolidated and Separate statement of financial position as at 31 December 2018
Consolidated and Separate statement of changes in equity for the year ended 31 December 2018
Consolidated and Separate statement of cash flows for the year ended 31 December 2018
Related Notes to the Consolidated and Separate financial statements

In our opinion:

- the consolidated and separate financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of the Group’s financial performance and cash flows for the year then ended;
- the consolidated and separate financial statements of the Group have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and
- the consolidated and separate financial statements of the Group 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 consolidated and separate 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 and its Subsidiaries. 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 and its Subsidiaries. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Key Audit Matters

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

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

Key Audit Matter	How the matter was addressed in the audit
<p>Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation (DD&A), decommissioning provisions and the going concern assessment</p> <p>As at 31 December 2018, Seplat reported 480.6 MMboe (2017: 477.2 MMboe) of proved plus probable reserves.</p> <p>The estimation and measurement of oil and gas reserves impacts a number of material elements of the consolidated and separate financial statements including DD&A, decommissioning provisions and impairments.</p> <p>This is a significant area of judgement due to the technical uncertainty in assessing reserve quantities and hence has been considered as a key audit matter.</p>	<p>We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures:</p> <ul style="list-style-type: none"> As a result of the technicality and uncertainty in assessing reserve quantities, we have assessed management's estimation process including whether bias exists in the determination of reserves and resources We performed analytical review procedures on reserve revisions based on the CPR report which management obtained from Ryder Scott Company (RSC). As at December 2018, the group proved plus probable reserves was estimated at 480.6 million barrels (2017: 477.2 mmboe) with an increase in asset life from 2034 to 2037. We have assessed RSC as experts and considered their objectivity, independence and competence which we found to be okay. We reviewed disclosures in the Group financial statements to ensure consistency with the reserves data that we have reviewed.

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, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate 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 consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 auditors' 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.

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

When we read the Annual Report, 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 consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate 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.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate 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 consolidated and separate 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 auditors' report to the related disclosures in the consolidated 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 auditors' 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 consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate 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 consolidated and separate financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' 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 Group, so far as appears from our examination of those books;
- iii) the statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account; and
- iv) in our opinion, the consolidated and separate 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.



Bernard Carrena, FCA
FRC/2013/ICAN/0000000670
Partner
For: Ernst & Young
Lagos, Nigeria.

6 March 2019

Group Accounts

For the year ended 31 December 2018

(Expressed in Nigerian Naira and US Dollars)

Consolidated financial statements

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

		31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Notes	₦ million	₦ million	\$'000	\$'000
Revenue	7	228,391	138,281	746,140	452,179
Cost of sales	8	(108,641)	(73,414)	(354,926)	(240,059)
Gross profit		119,750	64,867	391,214	212,120
Other income - net	9	4,618	209	15,085	682
General and administrative expenses	10	(24,417)	(28,175)	(79,769)	(92,130)
(Impairment)/reversal of losses on financial assets - net	11	(4,483)	3,138	(14,643)	10,260
Fair value loss - net	12	(593)	(5,663)	(1,936)	(18,518)
Operating profit		94,875	34,376	309,951	112,414
Finance income	13	3,032	1,326	9,905	4,335
Finance cost	13	(17,292)	(22,248)	(56,492)	(72,752)
Profit before taxation		80,615	13,454	263,364	43,997
Income tax (expense)/credit	14	(35,748)	67,657	(116,788)	221,233
Profit for the year		44,867	81,111	146,576	265,230
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		2,283	441	1,244	(1,778)
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	33	178	(90)	579	(294)
Deferred tax (expense)/credit on remeasurement (gains)/losses	14	(80)	76	(261)	250
		98	(14)	318	(44)
Other comprehensive income/(loss) for the year(net of tax)		2,381	427	1,562	(1,822)
Total comprehensive income for the year(net of tax)		47,248	81,538	148,138	263,408
Basic earnings per share (₦)/(\$)	35	79.04	143.96	0.26	0.47
Diluted earnings per share (₦)/(\$)	35	77.36	141.89	0.25	0.46

*There is no revenue other than revenue from contracts with customers in 2018.

Notes 1 to 41 on pages 8 to 93 are an integral part of these financial statements.

Consolidated financial statements

Statement of financial position

As at 31 December 2018

		31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Notes	₦ million	₦ million	\$'000	\$'000
ASSETS					
Non-current assets					
Oil & gas properties	17	399,475	393,377	1,301,220	1,286,387
Other property, plant and equipment	17	1,300	1,553	4,237	5,078
Other asset	18	51,299	66,368	167,100	217,031
Tax paid in advance	19	9,708	9,670	31,623	31,623
Prepayments	20	7,950	287	25,893	939
Deferred tax	15	42,487	68,417	138,393	223,731
Total non-current assets		512,219	539,672	1,668,466	1,764,789
Current assets					
Inventories	22	31,485	30,683	102,554	100,336
Trade and other receivables	23	41,874	94,904	136,393	310,345
Prepayments	20	3,549	595	11,561	1,948
Contract assets	24	4,327	-	14,096	-
Derivative financial instruments	25	2,693	-	8,772	-
Cash and bank balances	26	179,509	133,699	584,723	437,212
Total current assets		263,437	259,881	858,099	849,841
Total assets		775,656	799,553	2,526,565	2,614,630
EQUITY AND LIABILITIES					
Equity					
Issued share capital	27	286	283	1,834	1,826
Share premium	27	82,080	82,080	497,457	497,457
Share based payment reserve	27	7,298	4,332	27,499	17,809
Capital contribution	28	5,932	5,932	40,000	40,000
Retained earnings		192,723	166,149	1,030,954	944,108
Foreign currency translation reserve	29	203,153	200,870	3,141	1,897
Total shareholders' equity		491,472	459,646	1,600,885	1,503,097
Non-current liabilities					
Interest bearing loans and borrowings	30	133,799	93,170	435,827	304,677
Contingent consideration	31	5,676	4,251	18,489	13,900
Provision for decommissioning obligation	32	43,514	32,510	141,737	106,312
Defined benefit plan	33	1,819	1,994	5,923	6,518
Total non-current liabilities		184,808	131,925	601,976	431,407
Current liabilities					
Interest bearing loans and borrowings	30	3,031	81,159	9,872	265,400
Trade and other payables	34	87,360	125,559	284,565	410,593
Current tax liabilities	14	8,985	1,264	29,267	4,133
Total current liabilities		99,376	207,982	323,704	680,126
Total liabilities		284,184	339,907	925,680	1,111,533
Total shareholders' equity and liabilities		775,656	799,553	2,526,565	2,614,630

Notes 1 to 41 on pages 8 to 93 are an integral part of these financial statements.

Consolidated financial statements

Statement of financial position Continued

As at 31 December 2018

The Group's financial statements of Seplat Petroleum Development Company Plc and its subsidiaries for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 6 March 2019 and were signed on its behalf by:



A. B. C. Orjiako
FRC/2013/IODN/00000003161
Chairman
6 March 2019



A. O. Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
6 March 2019



R.T. Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
6 March 2019

Consolidated financial statements

Statement of changes in equity

For the year ended 31 December 2018

	Issued share capital	Share premium	Share based payment reserve	Capital contribution	Retained earnings	Foreign currency translation reserve	Total equity
	₦ million	₦ million	₦ million	₦ million	₦ million	₦ million	₦ million
At 1 January 2017	283	82,080	2,597	5,932	85,052	200,429	376,373
Profit for the year	-	-	-	-	81,111	-	81,111
Other comprehensive (loss)/income	-	-	-	-	(14)	441	427
Total comprehensive income for the year	-	-	-	-	81,097	441	81,538
Transactions with owners in their capacity as owners:							
Share based payments (Note 27)	-	-	1,735	-	-	-	1,735
Total	-	-	1,735	-	-	-	1,735
At 31 December 2017 as originally presented	283	82,080	4,332	5,932	166,149	200,870	459,646
Impact of change in accounting policy:							
Adjustment on initial application of IFRS 9 - net of tax (Note 41.1)	-	-	-	-	(355)	-	(355)
At 1 January 2018 - Restated	283	82,080	4,332	5,932	165,794	200,870	459,291
Profit for the year	-	-	-	-	44,867	-	44,867
Other comprehensive income	-	-	-	-	98	2,283	2,381
Total comprehensive income for the year	-	-	-	-	44,965	2,283	47,248
Transactions with owners in their capacity as owners:							
Dividends paid	-	-	-	-	(18,036)	-	(18,036)
Share based payments (Note 27)	-	-	2,969	-	-	-	2,969
Vested shares (Note 27)	3	-	(3)	-	-	-	-
Total	3	-	2,966	-	(18,036)	-	(15,067)
At 31 December 2018	286	82,080	7,298	5,932	192,723	203,153	491,472

Notes 1 to 41 on pages 8 to 93 are an integral part of these financial statements.

Consolidated financial statements

Statement of changes in equity

For the year ended 31 December 2018

	Issued share capital \$'000	Share premium \$'000	Share based payment reserve \$'000	Capital contribution \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
At 1 January 2017	1,826	497,457	12,135	40,000	678,922	3,675	1,234,015
Profit for the year	-	-	-	-	265,230	-	265,230
Other comprehensive loss	-	-	-	-	(44)	(1,778)	(1,822)
Total comprehensive income/(loss) for the year	-	-	-	-	265,186	(1,778)	263,408
Transactions with owners in their capacity as owners:							
Share based payments (Note 27)	-	-	5,674	-	-	-	5,674
Total	-	-	5,674	-	-	-	5,674
At 31 December 2017 as originally presented	1,826	497,457	17,809	40,000	944,108	1,897	1,503,097
Impact of change in accounting policy:							
Adjustment on initial application of IFRS 9 - net of tax (Note 41.1)	-	-	-	-	(1,160)	-	(1,160)
At 1 January 2018 - Restated	1,826	497,457	17,809	40,000	942,948	1,897	1,501,937
Profit for the year	-	-	-	-	146,576	-	146,576
Other comprehensive income	-	-	-	-	318	1,244	1,562
Total comprehensive income for the year	-	-	-	-	146,894	1,244	148,138
Transactions with owners in their capacity as owners:							
Dividends paid	-	-	-	-	(58,888)	-	(58,888)
Share based payments (Note 27)	-	-	9,698	-	-	-	9,698
Vested share (Note 27)	8	-	(8)	-	-	-	-
Total	8	-	9,690	-	(58,888)	-	(49,190)
At 31 December 2018	1,834	497,457	27,499	40,000	1,030,954	3,141	1,600,885

Notes 1 to 41 on pages 8 to 93 are an integral part of these financial statements.

Consolidated financial statements

Statement of cash flows

For the year ended 31 December 2018

	Notes	31 Dec 2018 ₦ million	31 Dec 2017 ₦ million	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities					
Cash generated from operations	16	153,624	136,870	501,750	447,574
Defined benefits paid		(63)	(163)	(206)	(532)
Net cash inflows from operating activities		153,561	136,707	501,544	447,042
Cash flows from investing activities					
Investment in oil and gas properties	17	(26,229)	(9,777)	(85,689)	(31,970)
Investment in other property, plant and equipment	17	(705)	(459)	(2,302)	(1,500)
Proceeds from disposal of other property plant and equipment	17	71	50	231	162
Receipts from sale of other asset	18	14,777	10,947	48,276	35,794
Payments for plan assets	33b	(502)	-	(1,635)	-
Interest received	13	3,032	1,326	9,905	4,335
Net cash (outflows)/inflows from investing activities		(9,556)	2,087	(31,214)	6,821
Cash flows from financing activities					
Repayments of loans	30	(207,532)	(29,970)	(678,000)	(98,000)
Proceeds from loans	30	163,775	-	535,045	-
Dividends paid	36	(18,036)	-	(58,888)	-
Principal repayments on crude oil advance	34a	(23,193)	-	(75,769)	-
Interest repayments on crude oil advance	34a	(530)	(1,770)	(1,730)	(5,789)
Payments for other financing charges	30	(1,809)	-	(5,910)	-
Interest paid on bank financing	30	(13,343)	(21,213)	(43,465)	(69,366)
Net cash outflows from financing activities		(100,668)	(52,953)	(328,717)	(173,155)
Net increase in cash and cash equivalents		43,337	85,841	141,613	280,708
Cash and cash equivalents at beginning of the year		133,699	48,684	437,212	159,621
Effects of exchange rate changes on cash and cash equivalents		1,424	(826)	2,480	(3,117)
Cash and cash equivalents at end of the year	26	178,460	133,699	581,305	437,212

Notes 1 to 41 on pages 8 to 93 are an integral part of these financial statements.

Notes to the consolidated financial statements

1. 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 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 and gas processing activities.

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 ₦50.4 billion (\$340 million) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of ₦4.8 billion (\$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 ₦11,850 (\$80) per barrel. ₦53.1 billion (\$358.6 million) was allocated to the producing assets including ₦2.8 billion (\$18.6 million) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of ₦5.1 billion (\$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').

On 21 August 2014, the Group incorporated a new subsidiary, Seplat Petroleum Development UK. The subsidiary provides technical, liaison and administrative support services relating to oil and gas exploration activities.

On 12 December 2014, Seplat Gas Company Limited ('Seplat Gas') was incorporated as a private limited liability company to engage in oil and gas exploration and production and gas processing. On 12 December 2014, the Group also incorporated a new subsidiary, Seplat East Swamp Company Limited with the principal activity of oil and gas exploration and production.

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta (Seplat East Onshore Limited), from Chevron Nigeria Ltd for ₦43.5 billion (\$259.4 million).

In 2017, the Group incorporated a new subsidiary, ANOH Gas Processing Company Limited. The principal activities of the Company is the processing of gas from OML 53.

The Company together with its other wholly owned subsidiaries namely, Newton Energy Limited, Seplat Petroleum Development Company UK Limited ('Seplat UK'), Seplat East Onshore Limited ('Seplat East'), Seplat East Swamp Company Limited ('Seplat Swamp'), Seplat Gas Company Limited ('Seplat gas'), ANOH Gas Processing Company Limited and Seplat West Limited are collectively referred to as the Group.

Subsidiary	Date of incorporation	Country of incorporation and place of business	Principal activities
Newton Energy Limited	1 June 2013	Nigeria	Oil & gas exploration and production
Seplat Petroleum Development Company UK Limited	21 August 2014	United Kingdom	Technical, liaison and administrative support services relating to oil & gas exploration and production
Seplat East Onshore Limited	12 December 2014	Nigeria	Oil & gas exploration and production
Seplat East Swamp Company Limited	12 December 2014	Nigeria	Oil & gas exploration and production
Seplat Gas Company Limited	12 December 2014	Nigeria	Oil & gas exploration and production and gas processing
ANOH Gas Processing Company Limited	18 January 2017	Nigeria	Gas processing
Seplat West Limited	16 January 2018	Nigeria	Oil & gas exploration and production and gas processing

Notes to the consolidated financial statements

Continued

2. Significant changes in the current accounting period

The following significant changes occurred during the reporting year ended 31 December 2018:

- The offering of 9.25% senior notes with an aggregate principal amount of ₦107 billion (\$350 million) due in April 2023. The notes were issued by the Group in March 2018 and guaranteed by some of its subsidiaries. The proceeds of the notes are being used to refinance existing indebtedness and for general corporate purposes.
- In March 2018, the Group obtained a ₦92 billion (\$300 million) revolving facility to refinance an existing ₦92 billion (\$300 million) revolving credit facility due in December 2018. The facility has a tenor of 4 years (due in June 2022) with an initial interest rate of the 6% +Libor. Interest is payable semi-annually and principal repayable annually. ₦61 billion (\$200 million) was drawn down in March 2018. The proceeds from the notes are being used to repay existing indebtedness. In October 2018, the Group made a principal repayment of ₦30.7 billion (\$100 million) out of its existing cash surplus.
- 25,000,000 additional shares were issued in furtherance of the Group's Long Term Incentive Plan, in February 2018. The additional issued shares, less 5,052,464 shares which vested in April 2018, are held by Stanbic IBTC Trustees Limited as Custodian. The Group's share capital as at the reporting date consists of 568,497,025 ordinary shares (excluding the additional shares held in trust) of ₦0.50k each, all with voting rights.

3. Summary of significant accounting policies

3.1 Introduction to summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These accounting policies have been applied to all the years presented, unless otherwise stated.

3.2 Basis of preparation

i) Compliance with IFRS

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC). 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, and derivative financial instruments measured at fair value through profit or loss on initial recognition. The financial statements are presented in Nigerian Naira and United States Dollars, and all values are rounded to the nearest million (₦'million) and thousand (\$'000) respectively, except when otherwise indicated.

iii) Going concern

Nothing has come to the attention of the directors to indicate that the Group will not remain a going concern for at least twelve months from the date of these financial statements.

iv) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2018.

- IFRS 9 Financial instruments, and
- IFRS 15 Revenue from contracts with customers
- Amendments to IFRS 15 Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 41. Other new accounting standards effective for reporting periods beginning on or after 1 January 2018 did not have any impact on the Group's accounting policies and did not require retrospective adjustments to the financial statements.

Notes to the consolidated financial statements

Continued

v) New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

a. IFRS 16 Leases

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	<p>Operating leases: The standard will affect primarily the accounting for the Group's operating leases which include leases of drilling rigs, buildings and land. As at the reporting date, the Group had non-cancellable operating lease commitments (₦8 billion, \$26 million).</p> <p>Short term leases & low value leases: The Group's one-year contracts with no planned extension commitments mostly applicable to leased staff flats will be covered by the exception for short-term leases. Of these non-cancellable lease commitments, approximately ₦191.9 million (\$0.6 million) relate to short-term leases. None of the Group's other leases will be covered by the exception for low value leases. Short term leases will be recognised on a straight line basis as an expense in profit or loss.</p> <p>Service contracts: Some commitments such as contracts for the provision of drilling, cleaning and community services were identified as service contracts as they did not contain an identifiable asset which the Group had a right to control. It therefore did not qualify as leases under IFRS 16.</p> <p>Right of use assets and lease liabilities: As at January 1 2019, the Group expects to recognise right-of-use assets and lease liabilities of approximately ₦6.8 billion, \$22.2 million and ₦5.6 billion, \$18.4 million respectively. The overall net current assets will be lower by approximately ₦141.4 million, \$0.5 million due to the presentation of a portion of the liability as current liability. Cash flows from principal repayments would be recognised in financing activities while cash flows from interest repayments and short term lease payments would be recognised in operating activities.</p> <p>The Group does not have arrangements where they are lessors.</p>
Date of adoption	<p>The standard for leases is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.</p> <p>The Group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.</p>

b. Amendments to IAS 19 Employee benefits

These amendments were issued in February 2018. The amendments issued require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. They also require an entity to recognise in profit or loss as part of past service cost or as a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Group does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

c. IFRIC 23 Uncertainty over income tax treatment

These amendments were issued in June 2017. IAS 12 Income taxes specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in IAS 12 based on applicable tax laws. It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the tax authority may affect an entity's accounting for a current or deferred tax asset or liability.

Notes to the consolidated financial statements

Continued

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Group does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

d. Conceptual framework for financial reporting - Revised

These amendments were issued in March 2018. Included in the revised conceptual framework are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. The amendments focused on areas not yet covered and areas that had shortcomings.

These amendments are mandatory for annual periods beginning on or after 1 January 2020. The Group does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

e. Amendments to IAS 23 Borrowing costs

These amendments were issued in December 2017. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Group does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

f. Amendments to IAS 12 Income taxes

These amendments were issued in December 2017. These amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits. In effect, the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Group does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

g. Amendments to IFRS 11 Joint arrangement

These amendments were issued in December 2017. These amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. In addition to clarifying when a previously held interest in a joint operation is remeasured, the amendments also provide further guidance on what constitutes the previously held interest. This is the entire previously held interest in the joint operation.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Group does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

3.3 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 Company and its subsidiaries as at 31 December 2018. 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:

Notes to the consolidated financial statements

Continued

- 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 financial position and profit or loss and other 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 joint operations and not joint ventures

vi) Joint operations

The Group recognises its 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.

Notes to the consolidated financial statements

Continued

The Group recognises its share in its accounting records as follows:

- a) Its share of the mineral properties which is shown within property, plant and equipment.
- b) Any liabilities that it has incurred.
- 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, 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.

3.4 Functional and presentation currency

Items included in the financial statements of 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 except the UK subsidiary which is the Pound Sterling. The consolidated financial statements are presented in Nigerian Naira and the US Dollars.

The Group has chosen to show both presentation currencies and this is allowable by the regulator.

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 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 or other comprehensive income depending on where fair value gain or loss is reported.

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 statement of financial position presented are translated at the closing rate.
- income and expenses for statement of profit or loss and other 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 respective exchange rates that existed on 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.

3.5 Oil and gas accounting

i) Pre-licensing costs

Pre-license costs are expensed in the period in which they are incurred.

ii) Exploration license cost

Exploration license costs are capitalised within oil and gas properties. License 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.

Notes to the consolidated financial statements

Continued

License 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 to establish development plans and timing. If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license 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.

3.6 Revenue recognition

3.6.1 Revenue recognition (policy from 1 January 2018)

The Group has adopted IFRS 15 as issued in May 2014 which has resulted in changes in accounting policy of the Group. IFRS 15 replaces IAS 18 which covers revenue arising from the sale of goods and the rendering of services, IAS 11 which covers construction contracts, and related interpretations. In accordance with the transitional provisions in IFRS 15, comparative figures have not been restated as the Group has applied the modified retrospective approach in adopting this standard.

Notes to the consolidated financial statements

Continued

IFRS 15 introduces a five-step model for recognising revenue to depict transfer of goods or services. The model distinguishes between promises to a customer that are satisfied at a point in time and those that are satisfied over time.

It is the Group's policy to recognise revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Collectability of customer's payments is ascertained based on the customer's historical records, guarantees provided, the customer's industry and advance payments made if any.

Revenue is recognised when control of goods sold has been transferred. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits (potential cash inflows or savings in cash outflows) associated with the asset. Seplat has two promises to its customers which is the sale of crude oil and gas. For crude oil, this occurs when the crude products are lifted by the customer (buyer) Free on Board at the Group's loading facility. Revenue from the sale of oil is recognised at a point in time when performance obligation is satisfied. For gas, revenue is recognised when the product passes through the custody transfer point to the customer. Revenue from the sale of gas is recognised over time using the practical expedient of the right to invoice.

The surplus or deficit of the product sold during the period over the Group's share of production in line with entitlement method is termed as an overlift or underlift. With regard to underlifts, if the over-lifter does not meet the definition of a customer or the settlement of the transaction is non-monetary, a receivable and other income is recognised. Conversely, when an overlift occurs, cost of sale is debited and a corresponding liability is accrued. 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 profit or loss as other income/expenses-net.

Definition of a customer

A customer is a party that has contracted with the Group to obtain crude oil or gas products in exchange for a consideration, rather than to share in the risks and benefits that result from sale. The Group has entered into collaborative arrangements with its Joint arrangement partners to share in the production of oil. Collaborative arrangements with its Joint arrangement partners to share in the production of oil are accounted for differently from arrangements with customers as collaborators share in the risks and benefits of the transaction, and therefore, do not meet the definition of customers. Revenue arising from these arrangements are recognised separately in other income.

Contract enforceability and termination clauses

It is the Group's policy to assess that the defined criteria for establishing contracts that entail enforceable rights and obligations are met. The criteria provides that the contract has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Revenue is not recognised for contracts that do not create enforceable rights and obligations to parties in a contract. The Group also does not recognise revenue for contracts that do not meet the revenue recognition criteria. In such cases where consideration is received it recognises a contract liability and only recognises revenue when the contract is terminated. For crude oil and gas sales, contract is enforceable at the inception of the contract.

The Group may also have the unilateral rights to terminate an unperformed contract without compensating the other party. This could occur where the Group has not yet transferred any promised goods or services to the customer and the Group has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

Identification of performance obligation

At inception, the Group assesses the goods or services promised in the contract with a customer to identify as a performance obligation, each promise to transfer to the customer either a distinct good or series of distinct goods. The number of identified performance obligations in a contract will depend on the number of promises made to the customer. The delivery of barrels of crude oil or units of gas are usually the only performance obligation included in oil and gas contract with no additional contractual promises. Additional performance obligations may arise from future contracts with the Group and its customers.

The identification of performance obligations is a crucial part in determining the amount of consideration recognised as revenue. This is due to the fact that revenue is only recognised at the point where the performance obligation is fulfilled.

Management has therefore developed adequate measures to ensure that all contractual promises are appropriately considered and accounted for accordingly.

Notes to the consolidated financial statements

Continued

Transaction price

Transaction price is the amount allocated to the performance obligations identified in the contract. It represents the amount of revenue recognised as those performance obligations are satisfied. Complexities may arise where a contract includes variable consideration, significant financing component or consideration payable to a customer.

Variable consideration not within the Group's control is estimated at the point of revenue recognition and reassessed periodically. The estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. As a practical expedient, where the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date, the Group may recognise revenue in the amount to which it has a right to invoice.

Sales contracts for crude oil and gas often incorporates provisional pricing - at the date of delivery of the oil or gas, a provisional price is recognised as revenue. The amount of revenue to be recognised is estimated based on the market price of the commodity being sold at the delivery date. The final price is based on agreements between the Group and counterparty with any adjustments recognised within revenue. The existence of provisionally priced arrangements may result in variable consideration. The Group applies judgement to determine if there is an amount that is variable consideration and, if so, whether it is subject to a significant reversal. Such a reversal would occur if there were a significant downward adjustment of the cumulative amount of revenue recognised for that performance obligation.

For crude oil contracts, revenue recognition is delayed until the invoice date. As a result, crude contracts are not categorised as provisionally pricing contracts. However for gas contracts, revenue is recognised on the date of delivery at a provisional price. At the invoice date, revenue is marked to market with any adjustments being recognised in revenue. A lag period exists between the delivery of the gas and the date gas volumes are agreed. As a result of the differences in gas volumes that may give rise to variable quantities, the Group recognizes the corresponding transaction as contract assets until the point at which the variable consideration becomes unconditional, and is then considered a financial asset within the scope of IFRS 9.

Although variable considerations are subject to a constraint, revenue recognised as the performance obligation is satisfied is not subject to a significant reversal in future periods.

Significant financing component (SFC) assessment is carried out (using a discount rate that reflects the amount charged in a separate financing transaction with the customer and also considering the Group's incremental borrowing rate) on contracts that have a repayment period of more than 12 months.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when it transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Instances when SFC assessment may be carried out include where the Group receives advance payment for agreed volumes of crude oil or receives take or pay deficiency payment on gas sales. Take or pay gas sales contract ideally provides that the customer must sometimes pay for gas even when not delivered to the customer. The customer, in future contract years, takes delivery of the product without further payment. The portion of advance payments that represents significant financing component will be recognised as interest expense.

Consideration payable to a customer is accounted for as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group. Examples include bargaining costs incurred, demurrage and freight costs. These do not represent a distinct service transferred and is therefore recognised as a direct deduction from revenue.

Breakage

The Group enters into take or pay contracts for sale of gas where the buyer may not ultimately exercise all of their rights to the gas. The take or pay quantity not taken is paid for by buyer called take or pay deficiency payment. The Group assesses if there is a reasonable assurance that it will be entitled to a breakage amount. Where it establishes that a reasonable assurance exists, it recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. However, where the Group is not reasonably assured of a breakage amount, it would only recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Notes to the consolidated financial statements

Continued

Contract modification and contract combination

Contract modifications relate to a change in the price and/or scope of an approved contract. Where there is a contract modification, the Group assesses if the modification will create a new contract or change the existing enforceable rights and obligations of the parties to the original contract.

Contract modifications are treated as new contracts when the performance obligations are separately identifiable and transaction price reflects the standalone selling price of the crude oil or the gas to be sold. Revenue is adjusted prospectively when the crude oil or gas transferred is separately identifiable and the price does not reflect the standalone selling price.

The Group enters into new contracts with its customers only on the expiry of the old contract. In the new contracts, prices and scope may be based on terms in the old contract. In gas contracts, prices change over the course of time. Even though gas prices change over time, the changes are based on agreed terms in the initial contract i.e. price change due to consumer price index. The change in price is therefore not a contract modifications. Any other change expected to arise from the modification of a contract is implemented in the new contracts.

The Group combines contracts entered into at near the same time (less than 12 months) as one contract if they are entered into with the same or related party customer, the performance obligations are the same for the contracts and the price of one contract depends on the other contract.

Portfolio expedients

As a practical expedient, the Group may apply the requirements of IFRS 15 to a portfolio of contracts (or performance obligations) with similar characteristics if it expects that the effect on the financial statements would not be materially different from applying IFRS to individual contracts within that portfolio.

Contract assets and liabilities

The Group recognises contract assets for unbilled amounts from crude oil and gas sales. The Group recognises contract liability for consideration received for which performance obligation has not been met.

Disaggregation of revenue from contract with customers

The Group derives revenue from two types of products, oil and gas. The Group has determined that the disaggregation of revenue based on the criteria of type of products meets the disaggregation of revenue disclosure requirement of IFRS 15. It depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See further details in note 6.

3.6.2 Revenue recognition (policy prior to 1 January 2018)

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 Group'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 profit or loss as revenue or cost of sales.

3.7 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.

Notes to the consolidated financial statements

Continued

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 are 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:

Plant and machinery	20%
Motor vehicles	25%
Office furniture and IT equipment	33.33%
Leasehold improvements	Over the unexpired portion of the lease

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.

Gains or losses on disposal of property, plant and equipment are determined as the difference between disposal proceeds and carrying amount of the disposed assets. These gains or losses are included in profit or loss.

3.8 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 incurred in connection with the borrowing of funds. These costs may arise from; specific borrowings used for the purpose of financing the construction of a qualifying asset, and those that arise from general borrowings that would have been avoided if the expenditure on the qualifying asset had not been made. The general borrowing costs attributable to an asset's construction is calculated by reference to the weighted average cost of general borrowings that are outstanding during the period.

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.

3.9 Finance income and costs

Finance income

Finance income is recognised in the statement of profit or loss as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the amortised cost of the financial instrument. The determination of finance income takes into account all contractual terms of the financial instrument as well as any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate (EIR), but not future credit losses.

Finance cost

Finance costs includes borrowing costs, interest expense calculated using the effective interest rate method, finance charges in respect of lease liabilities, the unwinding of the effect of discounting provisions, and the amortisation of discounts and premiums on debt instruments that are liabilities.

3.10 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

Notes to the consolidated financial statements

Continued

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 not 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 which 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 of disposal 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.

3.11 Cash and bank balances

Cash and bank balances 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. Please see note 3.15.1(b) for accounting policies on impairment of cash and bank balances.

3.12 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.

3.13 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 recognised at fair value through profit or loss.

3.14 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of directors has appointed a steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as the chief operating decision maker, consists

Notes to the consolidated financial statements

Continued

of the chief financial officer, the general manager (Finance), the general manager (Gas) and the financial reporting manager. See further details in note 6.

3.15 Financial instruments

3.15.1 Financial instruments (policy from 1 January 2018)

The Group's accounting policies were changed to comply with IFRS 9. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

a) Classification and measurement

Financial assets

It is the Group's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are expensed in profit or loss.

Classification and subsequent measurement is dependent on the Group's business model for managing the asset and the cashflow characteristics of the asset. On this basis, the Group may classify its financial instruments at amortised cost, fair value through profit or loss and at fair value through other comprehensive income.

All the Group's financial assets as at 31 December 2018 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which is measured at fair value through profit or loss.

The Group's financial assets include trade receivables, NPDC receivables, NAPIMS receivables, other receivables, derivative financial instruments and cash and bank balances. They are included in current assets, except for maturities greater than 12 months after the reporting date. Interest income from these assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in finance income/cost.

Financial liabilities

Financial liabilities of the Group are classified and measured at fair value on initial recognition and subsequently at amortised cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognised at fair value through profit or loss.

Fair value gains or losses for financial liabilities designated at fair value through profit or loss are accounted for in profit or loss except for the amount of change that is attributable to changes in the Group's own credit risk which is presented in other comprehensive income. The remaining amount of change in the fair value of the liability is presented in profit or loss. The Group's financial liabilities include trade and other payables and interest bearing loans and borrowings.

b) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The Group applies the simplified approach or the three-stage general approach to determine impairment of receivables depending on their respective nature. The simplified approach is applied for trade receivables and contract assets while the general approach is applied to NPDC receivables, NAPIMS receivables, other receivables and cash and bank balances.

The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. This involves determining the expected loss rates using a provision matrix that is based on the Group's historical default rates observed over the expected life of the receivable and adjusted forward-looking estimates. This is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

The three-stage approach assesses impairment based on changes in credit risk since initial recognition using the past due criterion and other qualitative indicators such as increase in political concerns or other macroeconomic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance. Financial assets classified as stage 1 have their ECL measured as a proportion of their lifetime ECL that results from possible default events that can occur within one year, while assets in stage 2 or 3 have their ECL measured on a lifetime basis.

Notes to the consolidated financial statements

Continued

Under the three-stage approach, the ECL is determined by projecting the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each ageing bucket and for each individual exposure. The PD is based on default rates determined by external rating agencies for the counterparties. The LGD is determined based on management's estimate of expected cash recoveries after considering the historical pattern of the receivable, and it assesses the portion of the outstanding receivable that is deemed to be irrecoverable at the reporting period. The EAD is the total amount of outstanding receivable at the reporting period. These three components are multiplied together and adjusted for forward looking information, such as the gross domestic product (GDP) in Nigeria and crude oil prices, to arrive at an ECL which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in profit or loss.

c) Significant increase in credit risk and default definition

The Group assesses the credit risk of its financial assets based on the information obtained during periodic review of publicly available information, industry trends and payment records. Based on the analysis of the information provided, the Group identifies the assets that require close monitoring.

Furthermore, financial assets that have been identified to be more than 30 days past due on contractual payments are assessed to have experienced significant increase in credit risk. These assets are grouped as part of Stage 2 financial assets where the three-stage approach is applied.

In line with the Group's credit risk management practices, a financial asset is defined to be in default when contractual payments have not been received at least 90 days after the contractual payment period. Subsequent to default, the Group carries out active recovery strategies to recover all outstanding payments due on receivables. Where the Group determines that there are no realistic prospects of recovery, the financial asset and any related loss allowance is written off either partially or in full.

d) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and the transfer qualifies for derecognition. Gains or losses on derecognition of financial assets are recognised as finance income/cost.

Financial liabilities

The Group derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. 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 immediately in the statement of profit or loss.

e) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial instrument, the Group recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/(cost)-net at the date of the modification. The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

f) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position. Offsetting can be applied when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right is not contingent on future events and is enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

g) Derivatives

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. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are recognised

Notes to the consolidated financial statements

Continued

within operating profit in profit or loss for the period. An analysis of the fair value of derivatives is provided in Note 5, Financial risk Management.

The Group accounts for financial assets with embedded derivatives (hybrid instruments) in their entirety on the basis of its contractual cash flow features and the business model within which they are held, thereby eliminating the complexity of bifurcation for financial assets. For financial liabilities, hybrid instruments are bifurcated into hosts and embedded features. In these cases, the Group measures the host contract at amortised cost and the embedded features is measured at fair value through profit or loss.

For the purpose of the maturity analysis, embedded derivatives included in hybrid financial instruments are not separated. The hybrid instrument, in its entirety, is included in the maturity analysis for non-derivative financial liabilities.

h) Fair value of financial instruments

The 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. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price - i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.15.2 Financial instruments (policy prior to 1 January 2018)

a) 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 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 other receivables.

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade and other receivables

Trade 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 receivables comprised of 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.

Notes to the consolidated financial statements

Continued

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 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.

b) 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, and interest bearing 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.

Interest bearing loans and 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.

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.

Notes to the consolidated financial statements

Continued

c) 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 profit or loss 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 5 financial risk management.

d) 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 reporting 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 Group'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.

3.16 Share capital

On issue of ordinary shares, any consideration received net of any directly attributable transaction costs is included in equity. Shares held by the Group are disclosed as treasury shares and deducted from equity. 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.

3.17 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 after taxation attributable to the parent entity 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 (after adjusting for outstanding share options arising from the share based payment scheme) into ordinary shares.

Notes to the consolidated financial statements

Continued

Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

3.18 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 and calculated annually by independent actuaries. The liability or asset recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using government bonds.

Remeasurements gains and losses, arising from changes in financial and demographic assumptions and experience adjustments, 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 obligation and the fair value of the plan assets.

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.
- Net interest cost

3.19 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.

Notes to the consolidated financial statements

Continued

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted (where the effects of the time value of money is considered to be material) using a pretax rate that is reflective of current market assessments of the time value of money and the risk specific to the liability;
- 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 a finance cost. 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 costs.

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.

3.20 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.

3.21.1. Contingent consideration

A contingent consideration to be transferred by the acquirer is recognised at fair value through profit or loss at the acquisition date by the Group. Contingent consideration classified as an asset or liability is measured at fair value in accordance with IFRS 13: Fair value Measurement with the changes in fair value recognised in the statement of profit or loss.

Financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit or loss due to changes in the Group's own credit risk. Such changes in fair value are recorded in the own credit reserve through other comprehensive income and are not get recycled to the profit or loss.

3.21 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.

Notes to the consolidated financial statements

Continued

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

During the year 2013, applications were made by Seplat 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. Under these incentives, the Company's profits were 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 if certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document were met. After the expiration of the initial three years, the company considered the extension and concluded that it would be of no benefit to the Company.

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55).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.

3.22 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.

Notes to the consolidated financial statements

Continued

That cost is recognised in employee benefits expense together with a corresponding increase in equity (share based payment reserve), 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 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.

4. 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.

4.1 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, 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 when the Group has an unconditional right to receive payment.

ii) New tax regime

Effective 1 January 2013, the Company was granted the inter 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 was exempted from paying petroleum profits tax on crude oil profits (at 85%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. After the expiration of the initial three years, the company considered the extension and concluded that it would be of no benefit to the business.

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

The impact of the tax holiday has been considered in calculating the current income tax and deferred tax asset recognised in the financial statements.

Tax incentives do not apply to Seplat East Swamp Company Limited (OML 55) and Seplat East Onshore Limited (OML 53), as they have no activities to which they would be entitled to tax incentives.

Notes to the consolidated financial statements

Continued

iii) Deferred tax asset

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. See further details in note 15.

iv) Foreign currency translation reserve

The Group has used the CBN rule to translate its Dollar currency to its Naira presentation currency. Management has determined that this rate is available for immediate delivery. If the rate used was 10% higher or lower, revenue in Naira would have increased/decreased by ₦22.8 billion, 2017: ₦ 13.8 billion. See note 47 for the applicable translation rates.

v) Revenue recognition

Definition of contracts

The Group has entered into a non-contractual promise with PanOcean where it allows PanOcean to pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with PanOcean means that it may not be viewed as a valid contract with a customer. As a result, income from this activity is recognised as other income when earned.

Performance obligations

The judgments applied in determining what constitutes a performance obligation will impact when control is likely to pass and therefore when revenue is recognised i.e. over time or at a point in time. The Group has determined that only one performance obligation exists in oil contracts which is the delivery of crude oil to specified ports. Revenue is therefore recognised at a point in time.

For gas contracts, the performance obligation is satisfied through the delivery of a series of distinct goods. Revenue is recognised over time in this situation as the customer simultaneously receives and consumes the benefits provided by the Group's performance. The Group has elected to apply the 'right to invoice' practical expedient in determining revenue from its gas contracts. The right to invoice is a measure of progress that allows the Group to recognise revenue based on amounts invoiced to the customer. Judgement has been applied in evaluating that the Group's right to consideration corresponds directly with the value transferred to the customer and is therefore eligible to apply this practical expedient.

Significant financing component

The Group has entered into an advance payment contract with Mercuria for future crude oil to be delivered. The Group has considered whether the contract contains a financing component and whether that financing component is significant to the contract, including both of the following;

- (a) The difference, if any, between the amount of promised consideration and cash selling price and;
- (b) The combined effect of both the following:

- The expected length of time between when the Group transfers the crude to Mercuria and when payment for the crude is received and;
- The prevailing interest rate in the relevant market.

The advance period is greater than 12 months. In addition, the interest expense accrued on the advance is based on a comparable market rate. Interest expense has therefore been included as part of finance cost.

Transactions with Joint Operating arrangement (JOA) partners

The treatment of underlift and overlift transactions is judgmental and requires a consideration of all the facts and circumstances including the purpose of the arrangement and transaction. The transaction between the Group and its JOA partners involves sharing in the production of crude oil, and for which the settlement of the transaction is non-monetary. The JOA partners have been assessed to be partners not customers. Therefore, shortfalls or excesses below or above the Group's share of production are recognised in other income/ (expenses) - net.

Barging costs

The Group refunds to Mercuria barging costs incurred on crude oil barrels delivered. The Group does not enjoy a separate service which it could have paid another party for. The barging costs is therefore determined to be a consideration payable to customer as there is no distinct goods or service being enjoyed by the Group. Since no distinct good or service is transferred, barging costs is accounted for as a direct deduction from revenue i.e. revenue is recognised net of barging costs.

Notes to the consolidated financial statements

Continued

vi) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of directors has appointed a steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief financial officer, the general manager (Finance), the general manager (Gas) and the financial reporting manager. See further details in note 6.

4.2 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.

vii) Other asset

Seplat has recorded its rights to receive the discharge sum of ₦75.5 billion, 2017: ₦89.9 billion (\$246 million, 2017: \$294 million) from the crude oil reserves of OML 55 as other asset. The fair value is determined using the income approach in line with IFRS 13 (Discounted cashflow). The fair value of the other asset is disclosed in Note 18.

viii) Contingent consideration

During the year the Group continued to recognise the contingent consideration of ₦5.7 billion, 2017: ₦5.6 billion (\$18.5 million, 2017: \$18.5 million) for OML 53 at the fair value of ₦5.7 billion, 2017: ₦4.2 billion (\$18.5 million, 2017: \$13.9 million). It is contingent on oil price rising above \$90 (₦ 27,630)/bbl over a one year period and expiring on 31 January 2020. See details of the assumptions used in estimating the contingent consideration in note 5.2.

ix) Defined benefit plans (pension benefits)

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. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bonds 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.

x) 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.

xi) Share-based payment reserve

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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 27.

Notes to the consolidated financial statements

Continued

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.

xii) Provision for decommissioning obligations

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.

xiii) Property, plant and equipment

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.

During the year, the Group carried out an impairment assessment on OML 4, 38 and 48, OML 56 and OML 53. The Group used the value in use in determining the recoverable amount of the cash-generating unit. In determining the value, the Group used a forecast of the annual net cash flows over the life of proved plus probable reserves, production rates, oil and gas prices, future costs and other relevant assumptions based on the 2018 year end CPR report. The pre-tax future cash flows were adjusted for risks specific to the forecast and discounted using a pre-tax discount rate of 10% which reflects both current market assessment of the time value of money and risks specific to the asset. The impairment test did not result in an impairment charge for both 2018 and 2017 reporting periods.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes otherwise.

xiv) 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.

xv) Contingencies

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. See Note 39 for further details.

xvi) Income taxes

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.

xvii) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default, expected loss rates and maximum contractual period. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed note 41.2.

Notes to the consolidated financial statements

Continued

5. Financial risk management

5.1 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	Interest bearing loans and borrowings at variable rate	Sensitivity analysis	Review refinancing opportunities
Market risk - commodity prices	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and bank balances, trade and other receivables, contract assets and derivative financial instruments.	Aging 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

5.1.1. 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 uncertainty around the rate at which oil prices increase or decline led to the Group's decision to enter into an option contract to insure the Group's revenue against adverse oil price movements.

On 17 December 2018, the Group entered economic crude oil hedge contracts with a strike price of ₦15,350 (\$50/bbl) to ₦16,885 (\$55/bbl) for 4 million barrels at an average premium price of ₦399 (\$1.3/bbl) on 19 December 2018. These contracts, which will commence in 1 January 2019, are expected to reduce the volatility attributable to price fluctuations of oil. The Group has pre-paid a premium of N1.6 billion, 2017: nil (\$5.2 million; 2017: nil) and has recognised an unrealised fair value gain of N2.7 billion, 2017: nil (\$8.8 million; 2017: nil) for these hedges. The termination date is 31 December 2019. Hedging the price volatility of forecast oil sales is in accordance with the risk management strategy of the Group. The Group has not made a formal designation to apply hedge accounting principles in accounting for the economic hedge.

The maturity of the commodity options the Group holds is shown in the table below:

	Less than 6 months Volume (bbls)	6 to 9 months Volume (bbls)	9 to 12 months Volume (bbls)	Total Volume (bbls)	Fair value ₦ million	Fair value \$'000
As at 31 December 2018						
Crude oil hedges	2,500,000	750,000	750,000	4,000,000	2,693	8,772

Notes to the consolidated financial statements

Continued

The following table summarises the impact of a 10 % change in crude oil prices, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000
Increase/decrease in crude oil prices				
+10%	111	-	363	-
-10%	(136)	-	(443)	-

The Group may be exposed to business risks from fluctuations in the future prices of crude oil and gas. The following table summarises the impact of a 10 % change in crude oil prices, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
Increase/decrease in market inputs				
+10%	18,075	-	10,037	-
-10%	(18,075)	-	(10,037)	-

	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
Increase/decrease in market inputs				
+10%	59,050	-	32,821	-
-10%	(59,050)	-	(32,821)	-

The following table summarises the impact of a 10% change in gas prices, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
Increase/decrease in Commodity Price				
+10%	4,764	-	3,791	-
-10%	(4,764)	-	(3,791)	-

	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
Increase/decrease in Commodity Price				
+10%	15,564	-	12,397	-
-10%	(15,564)	-	(12,397)	-

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to interest bearing loans and borrowings. The Group has both variable and fixed interest rate borrowings and deposits. 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. Fixed rate borrowings and deposits only give rise to interest rate risk if measured at fair value. The Group's borrowings are not measured at fair value and are denominated in US dollars.

Notes to the consolidated financial statements

Continued

The contractual re-pricing date of the interest bearing loans and borrowings is three (3) months. The exposure of the Group's interest bearing loans and borrowings at the end of the reporting period is shown below.

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Corporate loan	29,558	174,329	96,282	570,077

The following table demonstrates the sensitivity of changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+1%	(296)	-	(1,743)	-
-1%	296	-	1,743	-

Increase/decrease in interest rate	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
+1%	(963)	-	(5,701)	-
-1%	963	-	5,701	-

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 bank balances in US dollar. However, the Group maintains deposits in Naira in order to fund ongoing general and administrative activities 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 carrying value of monetary assets and liabilities exposed to foreign exchange risks at the reporting date:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Financial assets				
Cash and bank balances	64,753	27,370	210,923	89,504
Contract assets	4,327	-	14,096	-
Trade and other receivables	13,567	22,699	44,191	74,229
	82,647	50,069	269,210	163,733
Financial liabilities				
Trade and other payables	(28,945)	(25,425)	(94,283)	(83,144)
Net exposure to foreign exchange risk	53,702	24,644	174,927	80,589

Notes to the consolidated financial statements

Continued

Sensitivity to foreign exchange risk is based on the Group's net exposure to foreign exchange risk due to Naira denominated balances. If the Naira strengthens or weakens by the following thresholds, the impact is as shown in the table below:

	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
Increase/decrease in foreign exchange risk				
+5%	(2,557)	-	(1,174)	-
-5%	2,826	-	1,297	-

	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
Increase/decrease in foreign exchange risk				
+5%	(8,330)	-	(3,838)	-
-5%	9,207	-	4,242	-

5.1.2. Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and bank balances, derivative assets, deposits with banks and financial institutions as well as credit exposures to customers (i.e. Mercuria, Pillar and NGMC receivables), and other parties (i.e. NPDC receivables, receivables and other receivables)

i) Risk management

The Group is exposed to credit risk from its sale of crude oil to Mecuria. The off-take agreement with Mercuria also runs for five years until 31 July 2020 with a 30 day payment term.

In addition, the Group is exposed to credit risk in relation to its sale of gas to its customers. This risk is managed by the treasury and credit department approved by the Board of Directors through policies that ensure collectability of receivable amounts.

The credit risk on cash and balances is managed through the diversification of banks in which cash and bank balances are held. This risk is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Group's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The maximum exposure to credit risk as at the reporting date is:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Trade and other receivables (Gross)	36,282	91,613	118,244	299,584
Contract asset	4,327	-	14,096	
Cash and bank balances	179,545	133,699	584,841	437,212
Gross amount	220,154	225,312	717,181	736,796
Impairment of receivables	(6,852)	-	(22,380)	-
Net amount	213,302	225,312	694,801	736,796

Trade and other receivables (excluding prepayments), contract assets and cash and bank balances are financial instruments whose carrying amounts as per the financial statements approximate their fair values.

Notes to the consolidated financial statements

Continued

The gross carrying amount of the Group's financial assets have been disclosed using the days past due criteria and other borrower specific information. The details of the credit quality of each financial asset is shown in note 41.2.2

ii) Estimation uncertainty in measuring impairment loss

The table below shows information on the sensitivity of the carrying amounts of the Group's financial assets to the methods, assumptions and estimates used in calculating impairment losses on those financial assets at the end of the reporting period. These methods, assumptions and estimates have a significant risk of causing material adjustments to the carrying amounts of the Group's financial assets.

a. Expected cashflow recoverable

The table below demonstrates the sensitivity of a 20% change in the expected cashflows from financial assets, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in estimated cash flows				
+20%	24	-	79	-
-20%	(24)	-	(79)	-

b. Significant unobservable inputs

The table below demonstrates the sensitivity to movements in the loss given default (LGD) for financial assets, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in loss given default				
+10%	(222)	-	(725)	-
-10%	222	-	725	-

The table below demonstrates the sensitivity to movements in the forward looking macroeconomic indicators, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in forward looking macroeconomic indicators				
+10%	16	-	52	-
-10%	(15)	-	(52)	-

Notes to the consolidated financial statements

Continued

5.1.3. 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.

i. Financing arrangements

The Group had access to the undrawn loan facility at the end of the reporting period:

	2018	2017	2018	2017
Floating rate	₦'million	₦'million	\$'000	\$'000
Expiring within one year (bank loans)	61,400	-	200,000	-

The outstanding amount on the loan facility may be drawn at any time up to the total commitment balance available at each commitment period. The available commitment balance as at the year end was ₦92.1billion (\$300 million). This amount reduces by ₦11.5 billion (\$37.5 million) at each subsequent reporting period, that is, every 6 months. There are no restrictions to the amounts available for drawdown.

ii. Maturities of financial liabilities

The following tables detail 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.

	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	Total ₦ million
31 December 2018						
Non - derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	10,130	10,075	10,048	122,220	152,473
Variable interest rate borrowings						
Stanbic IBTC Bank Plc	6.0% +LIBOR	312	313	312	3,789	4,726
The Standard Bank of South Africa L	6.0% +LIBOR	208	209	208	2,526	3,151
Nedbank Limited, London Branch	6.0% +LIBOR	434	434	434	5,263	6,565
Standard Chartered Bank	6.0% +LIBOR	390	391	390	4,736	5,907
Natixis	6.0% +LIBOR	304	304	304	3,684	4,596
FirstRand Bank Limited Acting	6.0% +LIBOR	304	304	304	3,684	4,596
Citibank N.A. London	6.0% +LIBOR	260	261	260	3,158	3,939
The Mauritius Commercial Bank Plc	6.0% +LIBOR	260	261	260	3,158	3,939
Nomura International Plc	6.0% +LIBOR	130	130	130	1,579	1,969
		2,602	2,607	2,602	31,577	39,388
Other non - derivatives						
Trade and other payables**		48,152	-	-	-	48,152
Contingent consideration		-	5,680			5,680
		60,884	18,362	12,650	153,797	245,693

** Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

Notes to the consolidated financial statements

Continued

	Effective interest rate	Less than 1 year	1 - 2 year	2 - 3 years	3 - 5 years	Total
	%	₦ million	₦ million	₦ million	₦ million	₦ million
31 December 2017						
Non - derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	1,696	1,564	1,124	538	4,922
Zenith Bank Plc	8.5% + LIBOR	23,243	21,439	15,404	7,371	67,457
First Bank of Nigeria Limited	8.5% + LIBOR	12,830	11,835	8,503	4,069	37,237
United Bank for Africa Plc	8.5% + LIBOR	14,527	13,400	9,628	4,607	42,162
Stanbic IBTC Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
The Standard Bank of South Africa Limited	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
Standard Chartered Bank	6.0% + LIBOR	5,747	-	-	-	5,747
Natixis	6.0% + LIBOR	5,747	-	-	-	5,747
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	4,470	-	-	-	4,470
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	-	-	-	-	-
Nomura Bank Plc*	6.0% + LIBOR	3,831	-	-	-	3,831
NedBank Ltd, London Branch	6.0% + LIBOR	3,831	-	-	-	3,831
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	3,831	-	-	-	3,831
Stanbic IBTC Bank Plc	6.0% + LIBOR	2,874	-	-	-	2,874
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,152	-	-	-	4,152
		90,812	52,254	37,545	17,965	198,576
Other non - derivatives						
Trade and other payables**	-	38,876	-	-	-	38,876
		130,009	52,254	37,545	17,965	237,773

*Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America

** Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

	Effective interest rate	Less than 1 year	1 - 2 year	2 - 3 years	3 - 5 years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2018						
Non - derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	33,094	32,915	32,825	399,282	498,116
Variable interest rate borrowings						
Stanbic IBTC Bank Plc	6.0% +LIBOR	1,020	1,023	1,020	12,378	15,441
The Standard Bank of South Africa L	6.0% +LIBOR	680	682	680	8,252	10,294
Nedbank Limited, London Branch	6.0% +LIBOR	1,417	1,421	1,417	17,192	21,447
Standard Chartered Bank	6.0% +LIBOR	1,275	1,279	1,275	15,473	19,302
Natixis	6.0% +LIBOR	992	995	992	12,035	15,014
FirstRand Bank Limited Acting	6.0% +LIBOR	992	995	992	12,035	15,014
Citibank N.A. London	6.0% +LIBOR	850	853	850	10,315	12,868
The Mauritius Commercial Bank Plc	6.0% +LIBOR	850	853	850	10,315	12,868
Nomura International Plc	6.0% +LIBOR	425	426	425	5,158	6,434
		8,501	8,527	8,501	103,153	128,682
Other non - derivatives						
Trade and other payables**		156,847	-	-	-	156,847
Contingent consideration		-	18,500			18,500
		198,442	59,942	41,326	502,435	802,145

Notes to the consolidated financial statements

Continued

**Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables).

	Effective interest rate %	Less than 1 year \$'000	1 - 2 year \$'000	2 - 3 years \$'000	3 - 5 years \$'000	Total \$'000
31 December 2017						
Non - derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	5,546	5,116	3,676	1,759	16,097
Zenith Bank Plc	8.5% + LIBOR	76,006	70,109	50,373	24,104	220,592
First Bank of Nigeria Limited	8.5% + LIBOR	41,957	38,702	27,807	13,306	121,772
United Bank for Africa Plc	8.5% + LIBOR	47,504	43,818	31,483	15,065	137,870
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	20,662
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,119	6,567	4,718	2,258	20,662
Standard Chartered Bank	6.0% + LIBOR	18,794	-	-	-	18,794
Natixis	6.0% + LIBOR	18,794	-	-	-	18,794
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	14,617	-	-	-	14,617
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	12,529	-	-	-	12,529
Nomura Bank Plc*	6.0% + LIBOR	12,529	-	-	-	12,529
NedBank Ltd, London Branch	6.0% + LIBOR	12,529	-	-	-	12,529
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	12,529	-	-	-	12,529
Stanbic IBTC Bank Plc	6.0% + LIBOR	9,399	-	-	-	9,399
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,576	-	-	-	13,576
Other non - derivatives						
Trade and other payables**	-	127,128	-	-	-	127,128
		437,675	170,879	122,775	58,750	790,079

*Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America

** Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

5.2 Fair value measurements

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

	Carrying amount			Fair value
	2018 ₦ million	2017 ₦ million	2018 ₦ million	2017 ₦ million
Financial assets at amortised cost				
Trade and other receivables*	29,466	91,613	29,466	91,613
Contract assets	4,327	-	4,327	-
Cash and bank balances	179,509	133,699	179,509	133,699
	213,302	225,312	213,302	225,312
Financial assets at fair value				
Derivative financial instruments	2,693	-	2,693	-
	2,693	-	2,693	-
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	136,830	174,329	143,158	174,329
Contingent consideration	5,676	4,251	18,489	13,900
Trade and other payables	48,152	38,876	48,152	38,876
	190,658	217,456	209,799	227,105

Notes to the consolidated financial statements

Continued

* Trade and other receivables exclude NGMC VAT receivables, cash advances and advance payments.

	Carrying amount		Fair value	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Financial assets at amortised cost				
Trade and other receivables*	95,982	310,345	95,982	310,345
Contract assets	14,096	-	14,096	-
Cash and bank balances	694,801	437,212	584,723	437,212
	804,879	747,557	694,801	747,557
Financial assets at fair value				
Derivative financial instruments	8,772	-	8,772	-
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	445,699	570,077	466,314	570,077
Contingent consideration	18,489	13,900	18,489	13,900
Trade and other payables	156,847	127,128	156,847	127,128
	621,035	711,105	641,650	711,105

* Trade and other receivables exclude NGMC receivables, VAT receivables, cash advances and advance payments.

In determining the fair value of the interest bearing loans and borrowings, non-performance risks of the Group as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments), contract assets and cash and bank balances are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short term nature.

5.2.1 Fair Value Hierarchy

As at the reporting period, the Group had classified its financial instruments into the three levels prescribed under the accounting standards. These are all recurring fair value measurements. There were no transfers of financial instruments between fair value hierarchy levels during the year.

	Financial Assets					
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
31 Dec 2018						
Financial assets:						
Derivative financial instruments	2,693	-	-	8,772	-	-
	2,693	-	-	8,772	-	-
Financial liabilities						
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
31 Dec 2018						
Financial liabilities:						
Interest bearing loans and borrowings	-	143,158	-	-	466,314	-
Contingent consideration	-	-	5,676	-	-	18,489
	-	148,834	5,676	-	484,803	18,489
31 Dec 2017						
Financial liabilities:						
Interest bearing loans and borrowings	-	174,329	-	-	570,077	-
Contingent consideration	-	-	4,251	-	-	13,900
	-	174,329	4,251	-	570,077	13,900

Notes to the consolidated financial statements

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.

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 fair value of the Group's interest bearing loans and borrowings is determined by using discounted cash flow models that use market interest rates as at the end of the period. The interest-bearing loans and borrowings are in level 2. The carrying amounts of the other financial instruments are the same as their fair values.

The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flows were determined based on probable future oil prices. The estimated future cash flow was discounted to present value using a discount rate.

The fair value of the Group's derivative financial instruments has been determined using a proprietary pricing model that uses marked to market valuation. The valuation represents the mid-market value and the actual close-out costs of trades involved. The market inputs to the model are derived from observable sources. Other inputs are unobservable but are estimated based on the market inputs or by using other pricing models.

The valuation process

The finance & planning team of the Group performs the valuations of financial and non financial assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the Finance Manager (FM) who reports to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussions of valuation processes and results are held between the FM and the valuation team at least once every quarter, in line with the Group's quarterly reporting periods.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a government risk free rate to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Contingent consideration - Fair value is determined by using the discounted cash flow model. Expected cash inflows are determined based on the terms of the contract (see Note 31) and the entity's knowledge of the business and how the current economic environment is likely to impact it.
- Changes in level 3 fair values are analysed and the reason for the change explained at the end of each reporting period during the quarterly discussion between the FM and the valuation team and eventually with the CFO and Audit Committee.

5.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

Refer to note 31 for reconciliation of fair value measurements of level 3 contingent consideration.

5.2.3 Sensitivity of level 3 significant unobservable inputs

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax to changes in the discount rate of the contingent consideration, with all other variables held constant.

	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000
Increase/decrease in discount rate				
+1%	181	-	56	-
-1%	(185)	-	(57)	-

Notes to the consolidated financial statements

Continued

	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
Increase/decrease in discount rate				
+10%	2,209	-	676	-
-10%	(2,888)	-	(883)	-

The fair value of the contingent consideration of US\$18.5 million for OML 53 was estimated by calculating the present value of the deferred payment of US\$18.75 million over the contractual maximum period of five (5) years till 31 January 2020.

The estimates are calculated using the 5 year US daily treasury yield curve rates as at the inception date, 05 Feb 2015. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. The market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York.

They represent "bond equivalent yields" for securities that pay semiannual interest, which are expressed on a simple annualized basis. This is consistent with market practices for quoting bond yields in the market and makes the constant Maturity Treasury (CMT) yield directly comparable to quotations on other bond market yields.

The 5 year US daily treasury yield curve rates represents a good proxy for a risk-free pre-tax rate as it is the currency in which the obligation arose and it also matches the maturity of the liability. Given that the possible obligation will be paid as a single payment, the discount rate has not been adjusted to reflect different timing of the cash flows.

5.3 Capital management

5.3.1 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 bank balances.

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Interest bearing loans and borrowings	136,830	174,329	445,699	570,077
Less: cash and bank balances	(179,509)	(133,699)	(584,723)	(437,212)
Net debt	(42,679)	40,630	(139,024)	132,865
Total equity	491,472	459,646	1,600,885	1,503,097
Total capital	448,793	500,276	1,461,861	1,635,962
Net debt (net debt/total capital) ratio	(10%)	8%	(10%)	8%

During the year, the Group's strategy which was unchanged from 2017, was to maintain a gearing ratio of 20% to 40%. Capital includes share capital, share premiums, treasury shares, capital contribution and all other equity reserves.

5.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- The sources of funds exceed the relevant expenditures in each semi-annual period within the 18 months shown in the Group's liquidity plan.
- The minimum production levels stipulated for each 6 month period must be achieved.

The Group has complied with these covenants throughout the reporting periods present.

Notes to the consolidated financial statements

Continued

6. Segment reporting

Business segments are based on Seplat's internal organisation and management reporting structure. Seplat's business segments are the two core businesses: Oil and Gas. The Oil segment deals with the exploration, development and production of crude oil while the Gas segment deals with the production and processing of gas. These two reportable segments make up the total operations of the Group.

For the year ended 31 December 2018, revenue from the gas segment of the business constituted 21% of the Group's revenue. Management believes that the gas segment of the business will continue to generate higher profits in the foreseeable future. It also decided that more investments will be made toward building the gas arm of the business. This investment will be used in establishing more offices, creating a separate operational management and procuring the required infrastructure for this segment of the business. The gas business is positioned separately within the Group and reports directly to the ('chief operating decision maker'). As this business segment's revenues and results, and also its cash flows, will be largely independent of other business units within Seplat, it is regarded as a separate segment.

The result is two reporting segments, Oil and Gas. There were no intersegment sales during the reporting periods under consideration, therefore all revenue was from external customers.

Amounts relating to the gas segment are determined using the gas cost centres, with the exception of depreciation. Depreciation relating to the gas segment is determined by applying a percentage which reflects the proportion of the Net Book Value of oil and gas properties that relates to gas investment costs (i.e. cost for the gas processing facilities).

Where applicable, the comparative figures for 2017 have been reclassified to match the new structure for the year ended 31 December 2018.

The Group accounting policies are also applied in the segment reports.

6.1. Segment profit disclosure

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Oil	8,437	58,752	27,562	192,123
Gas	36,430	22,359	119,014	73,107
Total profit for the year	44,867	81,111	146,576	265,230

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Revenue				
Crude oil sales	180,751	100,369	590,503	328,206
Operating profit before depreciation, amortisation and impairment	94,518	34,708	308,779	113,505
Depreciation, amortisation and impairment	(36,073)	(22,691)	(117,842)	(74,198)
Operating profit	58,445	12,017	190,937	39,307
Finance income	3,032	1,326	9,905	4,335
Finance expenses	(17,292)	(22,248)	(56,492)	(72,752)
Profit before taxation	44,185	(8,905)	144,350	(29,110)
Taxation	(35,748)	67,657	(116,788)	221,233
Profit for the year	8,437	58,752	27,562	192,123

Notes to the consolidated financial statements

Continued

			Gas	
	2018	2017	2018	2017
	N'million	N'million	\$'000	\$'000
Revenue				
Gas sales	47,640	37,912	155,637	123,973
Operating profit before depreciation, amortisation and impairment	42,302	26,053	138,198	85,186
Depreciation, amortisation and impairment	(5,872)	(3,694)	(19,184)	(12,079)
Operating profit	36,430	22,359	119,014	73,107
Finance income	-	-	-	-
Finance expenses	-	-	-	-
Profit before taxation	36,430	22,359	119,014	73,107
Taxation	-	-	-	-
Profit for the year	36,430	22,359	119,014	73,107

During the reporting period, impairment losses recognised in the gas segment related to NGMC. Impairment losses recognised in the oil segment relate to receivables from NPDC and other receivables. See note 41.2.2 and note 11 for further details.

6.1.1. Disaggregation of revenue

The Group derives revenue from the transfer of commodities at a point in time or over time and from different geographical regions. The Group has not disclosed disaggregated revenue and contract asset for the comparative periods, as the effect of IFRS 15 adjustments have been treated retrospectively using the modified retrospective approach. The modified approach does not require a restatement of comparatives.

	2018	2018	2018	2018	2018	2018
	Oil	Gas	Total	Oil	Gas	Total
	N'million	N'million	N'million	\$'000	\$'000	\$'000
Geographical markets						
Nigeria	11,218	47,640	58,858	36,647	155,637	192,284
Switzerland	169,533	-	169,533	553,856	-	553,856
Revenue	180,751	47,640	228,391	590,503	155,637	746,140
Timing of revenue recognition						
At a point in time	180,751	-	180,751	590,503	-	590,503
Over time	-	47,640	47,640	-	155,637	155,637
Revenue	180,751	47,640	228,391	590,503	155,637	746,140

The Group's transactions with its major customer, Mercuria, constitutes more than 10% (N169 billion, \$554 million) of the total revenue from the oil segment and the Group as a whole. Also, the Group's transactions with NGMC (N48 billion, \$156 million) accounted for more than 10% of the total revenue from the gas segment and the Group as a whole.

6.1.2. Impairment/(reversal of) losses by reportable segments

	2018	2018	2018	2017	2017	2017
	Oil	Gas	Total	Oil	Gas	Total
	N'million	N'million	N'million	N'million	N'million	N'million
Impairment losses recognised during the period	4,990	-	4,990	(3,129)	-	(3,129)
Reversal of previous impairment losses	(158)	(347)	(505)	(9)	-	(9)
Exchange difference	(3)	1	(2)	(9)	-	-
	4,829	(346)	4,483	(3,138)	-	(3,138)

Notes to the consolidated financial statements

Continued

	2018	2018	2018	2017	2017	2017
	Oil	Gas	Total	Oil	Gas	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Impairment losses recognised during the period	16,303	-	16,303	-	-	-
Reversal of previous impairment losses	(522)	(1,138)	(1,660)	(10,260)	-	(10,260)
	15,781	(1,138)	14,643	(10,260)	-	(10,260)

6.2. Segment assets

Segment assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the reporting segment and the physical location of the asset. The Group had no non-current assets domiciled outside Nigeria.

	Oil	Gas	Total	Oil	Gas	Total
Total segment assets	₦'million	₦'million	₦'million	\$'000	\$'000	\$'000
31 December 2018	623,017	152,639	775,656	2,029,374	497,191	2,526,565
31 December 2017	716,657	82,896	799,553	2,343,553	271,077	2,614,630

6.3. Segment liabilities

Segment liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

	Oil	Gas	Total	Oil	Gas	Total
Total segment liabilities	₦'million	₦'million	₦'million	\$'000	\$'000	\$'000
31 December 2018	257,564	26,620	284,184	838,971	86,709	925,680
31 December 2017	325,967	13,940	339,907	1,065,950	45,583	1,111,533

6.4. Contingent consideration

The contingent consideration of ₦5.7 billion, ₦4.3 billion (\$18.5 million, 2017: \$13.9 million) for OML 53 relates solely to the oil segment. This is contingent on oil price rising above ₦ 27,630/bbl (\$ 90/bbl) over a one year period and expiring on 31st January 2020. The fair value loss arising during the reporting period is ₦1.4 billion, 2017: ₦568 million (\$4.6 million, 2017: \$1.9 million). See further details in note 5.2.3 and note 31.

7. Revenue

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Crude oil sales	180,751	112,045	590,503	366,386
Gas sales	47,640	37,912	155,637	123,973
	228,391	149,957	746,140	490,359
(Overlift)/ Underlift	-	(11,676)	-	(38,180)
	228,391	138,281	746,140	452,179

*There is no revenue other than revenue from contracts with customers in 2018.

The major off-taker for crude oil is Mercuria. The major off-taker for gas is the Nigerian Gas Marketing Company.

Notes to the consolidated financial statements

Continued

8. Cost of sales

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Royalties	38,008	22,413	124,173	73,289
Depletion, depreciation and amortisation (Note 17a)	36,570	25,102	119,471	82,082
Crude handling fees	20,954	9,831	68,455	32,148
Nigeria Export Supervision Scheme (NESS) fee	235	124	767	404
Barging costs	-	2,787	-	9,113
Niger Delta Development Commission Levy	1,651	1,200	5,395	3,924
Rig related costs	12	985	39	3,220
Operational & maintenance expenses	11,211	10,972	36,626	35,879
	108,641	73,414	354,926	240,059

Rig related costs for 2017 mostly relate to work-overs which form part of expenses for the relevant reporting period. During the year ended 2018, activities carried out on the site were majorly drilling activities for which the related costs have been capitalised within oil and gas properties (note 17).

Operational & maintenance expenses mainly relates to maintenance costs, warehouse operations expenses, security expenses, community expenses, cleanup costs, fuel supplies and catering services.

9. Other income - net

	2018	2017	2018	2017
	₦ million	₦'million	\$'000	\$'000
Underlift	4,179	-	13,652	-
Gains on foreign exchange	439	209	1,433	682
	4,618	209	15,085	682

Shortfalls may exist between the crude oil lifted and sold to customers during the period and the participant's ownership share of production. The shortfall is initially measured at the market price of oil at the date of lifting and recognised as other income. At each reporting period, the shortfall is remeasured at the current market value. The resulting change, as a result of the remeasurement, is also recognised in profit or loss as other income.

Gains on foreign exchange are principally as a result of translation of naira denominated monetary assets and liabilities.

10. General and administrative expenses

	2018	2017	2018	2017
	₦ million	₦'million	\$'000	\$'000
Depreciation (Note 17b)	891	1,283	2,912	4,195
Auditor's remuneration`	181	178	591	581
Professional and consulting fees	3,962	6,502	12,939	21,259
Directors' emoluments (executive)	757	1,073	2,474	3,509
Directors' emoluments (non-executive)	1,083	976	3,537	3,193
Donations	122	105	397	344
Employee benefits (Note 10a)	10,604	7,925	34,648	25,917
Flights and other travel costs	2,326	2,253	7,599	7,366
Rentals	588	514	1,920	1,680
Loss on disposal of plant & equipment	-	10	-	32
Other general expenses	3,903	7,356	12,752	24,054
	24,417	28,175	79,769	92,130

Notes to the consolidated financial statements

Continued

Directors' emoluments have been split between executive and non-executive directors. There were no non-audit services rendered by the Group's auditors during the period (2017: nil).

Other general expenses relate to costs such as office maintenance costs, telecommunication costs, logistics costs and others. Share based payment expenses are included in employee benefits expense.

Reversal of impairment loss on NPDC receivables was reclassified from other general expenses to (impairment)/reversal of losses on financial assets in note 11.

10a. Salaries and employee related costs include the following:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Short term employee benefits:				
Basic salary	5,488	3,684	17,932	12,047
Housing allowances	37	484	123	1,582
Other allowances	1,314	1,065	4,292	3,484
Post-employment benefits:				
Defined contribution expenses	456	455	1,492	1,489
Defined benefit expenses (Note 33b)	340	502	1,111	1,641
Share based payment benefits (Note 27d)	2,969	1,735	9,698	5,674
	10,604	7,925	34,648	25,917

Other allowances mainly relates to staff bonus, car allowances and relocation expenses.

11. (Impairment)/reversal of losses on financial assets - net

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Impairment losses:				
Impairment loss on NPDC receivables	(775)	-	(2,533)	-
Impairment loss on other receivables	(4,215)	-	(13,770)	-
	(4,990)	-	(16,303)	-
Reversal of impairment losses:				
Reversal of impairment loss on NAPIMS receivables	64	-	215	-
Reversal of impairment loss on NGMC receivables	347	-	1,139	-
Reversal of impairment loss on Pillar Limited receivables	27	-	89	-
Reversal of impairment loss on fixed deposits	67	-	217	-
Reversal of impairment loss on NPDC receivables	-	3,129	-	10,260
	505	3,129	1,660	10,260
Exchange difference	2	9	-	-
Total impairment loss allowance	(4,483)	3,138	(14,643)	10,260

The trade receivables balances in note 23 includes NPDC, NAPIMS, NGMC, and Pillar Limited receivables.

Reversal of impairment loss on NPDC receivables was reclassified from other general expenses within general and administrative expenses in note 10.

The impairment losses in 2018 relate to expected credit losses (ECL) computed on these financial assets on adoption of IFRS 9. For some trade receivables and contract assets, impairment was assessed to be immaterial and therefore has not been recognised in 2018. The reversal of previously recognised impairment loss on fixed deposits, NAPIMS, Pillar and trade receivables are due to settlement of the outstanding receivable amounts. See note 41.2.2 for further details.

Notes to the consolidated financial statements

Continued

12. Fair value loss -net

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Realised fair value (loss) on derivatives	(1,374)	(5,931)	(4,464)	(19,393)
Unrealised fair value gain on derivatives (Note 25)	2,693	-	8,772	-
Fair value loss on contingent consideration (Note 31)	(1,405)	(568)	(4,589)	(1,860)
Fair value (loss)/gain on other asset (Note 18)	(507)	836	(1,655)	2,735
	(593)	(5,663)	(1,936)	(18,518)

Fair value gain/(loss) on derivatives represents changes arising from the valuation of the crude oil economic hedge contracts 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 OML 53. The contingency criteria are the achievement of certain production milestones. Fair value gain/(loss) on other asset arises from the fair value remeasurement of the Group's rights to receive the discharge sum on OML 55. See note 18 for further details.

13. Finance income/(cost)

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Finance income				
Interest income	3,032	1,326	9,905	4,335
Finance cost				
Interest on advance payments for crude oil sales	(530)	(1,770)	(1,730)	(5,789)
Interest on bank loans	(15,870)	(20,449)	(51,848)	(66,867)
Unwinding of discount on provision for decommissioning (note 32)	(892)	(29)	(2,914)	(96)
	(17,292)	(22,248)	(56,492)	(72,752)
Finance income/(cost) - net	(14,260)	(20,922)	(46,587)	(68,417)

Finance income represents interest on fixed deposits.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings denominated in dollars during the year, in this case 13.1% (2017: 9.41%).

14. Taxation

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

14.1. Income tax (expense)/credit

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Current tax:				
Current tax on profit for the year	(6,651)	-	(21,726)	-
Education tax	(1,042)	(687)	(3,408)	(2,248)
Total current tax	(7,693)	(687)	(25,134)	(2,248)
Deferred tax:				
Deferred tax (expense)/credit in profit or loss	(28,055)	68,344	(91,654)	223,481
Total tax (expense)/credit in statement of profit or loss	(35,748)	67,657	(116,788)	221,233
Deferred tax recognised in other comprehensive income	(80)	76	(261)	250
Total tax (charge)/credit for the period	(35,828)	67,733	(117,049)	221,483
Effective tax rate	(44%)	503%	(44%)	503%

Notes to the consolidated financial statements

Continued

14.2. Reconciliation of effective tax rate

The estimated applicable average annual tax rates used for the year ended 31 December 2018 were 85% and 65.75% for crude oil activities and 30% for gas activities. A tax rate of 85% applies to Seplat for petroleum profit tax, 65.75% is the new entrant petroleum profit tax rate for oil and gas companies in their first five years of operation. It is applicable to Newton and East. The 30% is the company income tax rate for the other entities in the Group. These rates remained unchanged from the year ended 31 December 2017.

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Group provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

The financial statements have been prepared taking into consideration the impact of the additional tax holiday relating to gas sales and this forms the basis for the Group's current income taxation and deferred taxation for the year ended 31 December 2018.

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Profit before taxation	80,615	13,454	263,364	43,997
Tax rate of 85%, 65.75% and 30%	68,523	11,435	223,859	37,397
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(36,671)	(25,578)	(119,803)	(83,644)
Expenses not deductible for tax purposes	15,936	31,246	52,065	102,179
Recognition of previously unrecognised deductible temporary difference	-	(64,335)	-	(210,380)
Impact of unutilised tax losses	-	3,362	-	10,996
Effect of differences in tax rates	-	5,708	-	18,666
Impact of tax incentive	(13,083)	(29,228)	(42,741)	(95,577)
Education tax	1,043	687	3,408	2,248
Tax loss utilised	-	(954)	-	(3,118)
Total tax credit in statement of profit or loss	35,748	(67,657)	116,788	(221,233)

14.3. Current tax liabilities

The movement in the current tax liabilities is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
As at 1 January	1,264	575	4,133	1,885
Tax charge	7,693	687	25,134	2,248
Exchange difference	28	2	-	-
As 31 December	8,985	1,264	29,267	4,133

15. Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	-	-	-	-
Deferred tax asset to be recovered after more than 12 months	130,466	158,381	426,131	517,924
	130,466	158,381	426,131	517,924

Notes to the consolidated financial statements

Continued

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Deferred tax liabilities				
Deferred tax liabilities to be recovered in less than 12 months		-		-
Deferred tax liabilities to be recovered after more than 12 months	(87,979)	(89,964)	(287,738)	(294,193)
	(87,979)	(89,964)	(287,738)	(294,193)
Net deferred tax assets	42,487	68,417	138,393	223,731

15.1. Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	₦ million	₦ million	₦ million	₦ million	₦ million
Tax losses	12,392	-	(12,404)	-	(12)
Other cumulative timing differences:					
Unutilised capital allowance	127,499	-	(11,431)	-	116,068
Provision for decommissioning obligation	102	-	716	-	818
Defined benefit plan	1,250	-	370	(80)	1,540
Share based payment reserve	4,629	-	(1,335)	-	3,294
Unrealised foreign exchange (gain)/loss on trade and other receivables	4,209	-	(2,951)	-	1,258
Other income	6,489	-	(1,243)	-	5,246
Impairment provision on trade and other receivables	1,811	2,013	(1,753)	-	2,071
	158,381	2,013	(30,031)	(80)	130,283
Effect of exchange differences	-	6	177	-	183
	158,381	2,019	(29,854)	(80)	130,466

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	\$'000	\$'000	\$'000	\$'000	\$'000
Tax losses	40,523	-	(40,523)	-	-
Other cumulative timing differences:					
Unutilised capital allowance	416,935	-	(37,343)	-	379,592
Provision for decommissioning obligation	334	-	2,339	-	2,63
Defined benefit plan	4,087	-	1,209	(261)	5,035
Share based payment reserve	15,138	-	(4,360)	-	10,778
Unrealised foreign exchange (gain)/loss on trade and other receivables	13,765	-	(9,642)	-	4,123
Other income	21,219	-	(4,060)	-	17,159
Impairment provision on trade and other receivables	5,923	6,577	(5,730)	-	6,770
	517,924	6,577	(98,109)	(261)	426,131

Notes to the consolidated financial statements

Continued

Following a significant improvement in the financial position of the Group in 2017, the Group conducted an assessment of the assessable profit based on a five (5) year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. The Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, net deferred tax assets of ₦42 billion, 2017: ₦68 billion (\$138 million, 2017: \$224 million) were recognised for those losses.

15.2. Deferred tax liabilities

Deferred tax liabilities are recognised for amounts of income taxes payable in future periods in respect of taxable temporary differences.

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	₦ million	₦ million	₦ million	₦ million	₦ million
Other cumulative timing differences:		-	-		-
Fixed assets	(89,964)	-	4,258	-	(85,706)
Derivative financial instruments	-	-	(2,282)		(2,282)
	(89,964)	-	1,976	-	(87,988)
Effect of exchange difference	-	-	9	-	9
	(89,964)	-	1,976	-	(87,979)

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	\$'000		\$'000	\$'000	\$'000
Other cumulative timing differences:					
Fixed assets	(294,193)	-	13,911	-	(280,282)
Derivative financial instruments	-	-	(7,456)		(7,456)
	294,193	-	6,455	-	(287,738)

15.3. Unrecognised deferred tax assets

The unrecognised deferred tax assets relates to the Group's subsidiaries and will be recognised once the entities return to profitability. There are no expiration dates for the unrecognized deferred tax assets.

	As at 30 Dec 2018	As at 30 Dec 2018	As at 31 Dec 2017	As at 31 Dec 2017
	₦'million	₦'million	₦'million	₦'million
	Gross amount	Tax effect	Gross amount	Tax effect
Other cumulative timing differences	17,894	11,206	14,988	7,869
Tax losses	10,224	6,011	14,579	8,908
	28,036	17,167	29,567	16,777

Notes to the consolidated financial statements

Continued

	As at 31 Dec 2018	As at 31 Dec 2018	As at 31 Dec 2017	As at 31 Dec 2017
	\$'000	\$'000	\$'000	\$'000
	Gross amount	Tax effect	Gross amount	Tax effect
Other cumulative timing differences	58,288	36,502	48,995	25,730
Tax losses	33,303	19,580	47,673	29,132
	91,591	56,082	96,668	54,862

Other cumulative timing differences relates to temporary differences arising from unutilised capital allowance, provision for decommissioning obligation, defined benefit plan, share based payment reserve, unrealised foreign exchange (gain)/loss, other income and trade and other receivables.

15.4. Unrecognised deferred tax liabilities

There were no temporary differences associated with investments in the Group's subsidiaries for which a deferred tax liability would have been recognised in the periods presented.

16. Computation of cash generated from operations

	Notes	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Profit before tax		80,615	13,454	263,364	43,997
Adjusted for:					
Depletion, depreciation and amortisation	17	37,461	26,385	122,383	86,277
Impairment/(reversal) of losses on financial assets	11	4,483	(3,138)	14,643	(10,260)
Interest income	13	(3,032)	(1,326)	(9,905)	(4,335)
Interest on advance payments for crude oil sales	13	530	1,770	1,730	5,789
Interest expense on bank loans	13	15,870	20,449	51,848	66,867
Unwinding of discount on provision for decommissioning	13	892	29	2,914	96
Fair value loss on contingent consideration	12	1,405	568	4,589	1,860
Fair value loss/(gain) on other assets	12	507	(836)	1,655	(2,735)
Unrealised fair value gain on derivatives	12	(2,693)	-	(8,772)	-
Unrealised foreign exchange gain	9	(439)	(209)	(1,433)	(682)
Share based payment expenses	10a	2,969	1,735	9,698	5,674
Defined benefit expenses	10a	340	502	1,111	1,641
Loss on disposal of other property, plant and equipment	17	-	10	-	32
Changes in working capital: (excluding the effects of exchange differences)					
Trade and other receivables		47,266	29,154	153,958	95,335
Prepayments		(11,355)	322	(36,988)	1,054
Contract assets		(4,327)	-	(14,096)	-
Trade and other payables		(15,139)	46,204	(49,313)	151,087
Restricted cash		(1,049)	-	(3,418)	-
Inventories		(680)	1,797	(2,218)	5,877
Net cash from operating activities		153,624	136,870	501,750	447,574

Notes to the consolidated financial statements

Continued

17. Property, plant and equipment

17a. Oil and gas properties

	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
Cost	₦ million	₦ million	₦ million	\$'000	\$'000	\$'000
At 1 January 2017	416,720	46,323	463,043	1,366,294	151,880	1,518,174
Additions	3,910	5,867	9,777	12,784	19,186	31,970
Changes in decommissioning	32,299	-	32,999	105,619	-	105,619
Transfer from asset under construction	10,990	(10,990)	-	35,938	(35,938)	-
Interest capitalised	-	1,982	1,982	-	6,480	6,480
Exchange differences	1,091	122	1,213	-	-	-
At 31 December 2017	465,010	43,304	508,314	1,520,635	141,608	1,662,243
Depreciation						
At 1 January 2017	89,601	-	89,601	293,774	-	293,774
Charge for the year	25,102	-	25,102	82,082	-	82,082
Exchange differences	234	-	234	-	-	-
At 31 December 2017	114,937	-	114,937	375,856	-	375,856
NBV						
At 31 December 2017	350,073	43,304	393,377	1,144,779	141,608	1,286,387
Cost						
At 1 January 2018	465,010	43,304	508,314	1,520,635	141,608	1,662,243
Additions	2,203	24,026	26,229	7,212	78,477	85,689
Changes in decommissioning	10,112	-	10,112	32,511	-	32,511
Transfer from asset under construction	1,526	(1,526)	-	4,970	(4,970)	-
Interest capitalised	-	4,929	4,929	-	16,104	16,104
Exchange differences	1,705	251	1,956	-	-	-
At 31 December 2018	480,556	70,984	551,540	1,565,328	231,219	1,796,547
Depreciation						
At 1 January 2018	114,937	-	114,937	375,856	-	375,856
Charge for the year	36,570	-	36,570	119,471	-	119,471
Exchange difference	558	-	558	-	-	-
At 31 December 2018	152,065	-	152,065	495,327	-	495,327
NBV						
At 31 December 2018	328,491	70,984	399,475	1,070,001	231,219	1,301,220

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. Some of which are qualifying assets that take a substantial period to get ready for its intended use. A capitalisation rate of 13.1% (2017: 9.41%) has been determined and applied to the Group's general borrowing to determine the borrowing cost capitalised as part of the qualifying assets. Borrowing costs capitalised during the year amounted to ₦4.9 billion, 2017: ₦1.98 billion (\$16.1 million, 2017: \$6.48 million). There was no oil and gas property pledged as security during the reporting period.

Notes to the consolidated financial statements

Continued

17b. Other property, plant and equipment

	Plant & machinery ₦ million	Motor vehicles & IT equipment ₦ million	Office furniture & equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
Cost					
At 1 January 2017	1,465	2,232	4,349	870	8,916
Additions	125	170	141	23	459
Disposals	-	(141)	-	-	(141)
Exchange differences	4	5	(34)	2	(23)
At 31 December 2017	1,594	2,266	4,456	895	9,211
Depreciation					
At 1 January 2017	778	1,451	3,653	604	6,486
Disposals	-	(82)	-	-	(82)
Charge for the year	269	374	518	122	1,283
Exchange differences	2	4	(36)	1	(29)
At 31 December 2017	1,049	1,747	4,135	727	7,658
NBV					
At 31 December 2017	545	519	321	168	1,553
Cost					
At 1 January 2018	1,594	2,266	4,456	895	9,211
Addition	-	469	206	30	705
Disposals	(102)	(82)	-	-	(184)
Exchange differences	6	10	18	3	37
At 31 December 2018	1,498	2,663	4,680	928	9,769
Depreciation					
At 1 January 2018	1,049	1,747	4,135	727	7,658
Disposal	(31)	(82)	-	-	(113)
Charge for the year	224	331	272	64	891
Exchange differences	5	7	17	4	33
At 31 December 2018	1,247	2,003	4,424	795	8,469
NBV					
At 31 December 2018	251	660	256	133	1,300

Notes to the consolidated financial statements

Continued

	Plant & machinery \$'000	Motor vehicles & IT equipment \$'000	Office furniture & IT equipment \$'000	Leasehold improvements \$'000	Total \$'000
Cost					
At 1 January 2017	4,804	7,318	14,260	2,853	29,235
Additions	408	555	462	75	1,500
Disposals	-	(462)	-	-	(462)
Exchange differences	-	-	(150)	-	(150)
At 31 December 2017	5,212	7,411	14,572	2,928	30,123
Depreciation					
At 1 January 2017	2,552	4,758	11,978	1,980	21,268
Disposals	-	(268)	-	-	(268)
Charge for the year	880	1,224	1,693	398	4,195
Exchange differences	-	-	(150)	-	(150)
At 31 December 2017	3,432	5,714	13,521	2,378	25,045
NBV					
At 31 December 2017	1,780	1,697	1,051	550	5,078

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Cost				
At 1 January 2018	5,212	7,411	2,928	30,123
Addition	-	1,532	98	2,302
Disposals	(332)	(268)	-	(600)
At 31 December 2018	4,880	8,675	3,026	31,825
Depreciation				
At 1 January 2018	3,432	5,714	2,378	25,045
Disposals	(101)	(268)	-	(369)
Charge for the year	731	1,081	210	2,912
At 31 December 2018	4,062	6,527	2,588	27,588
NBV				
At 31 December 2018	818	2,148	438	4,237

17c. Depletion, depreciation and amortisation

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Oil and gas properties	36,570	25,102	119,471	82,082
Other property, plant and equipment	891	1,283	2,912	4,195
Total depletion, depreciation and amortisation	37,461	26,385	122,383	86,277

17d. Gain/(loss) on disposal of other property plant and equipment

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Proceeds from disposal of assets	71	50	231	162
Less net book value of disposed assets	(71)	(59)	(231)	(194)
Exchange difference	-	(1)	-	-
	-	(10)	-	(32)

Notes to the consolidated financial statements

Continued

18. Other asset

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Initial fair value of investment in OML 55 at acquisition date	66,368	76,277	217,031	250,090
Receipts from crude oil lifted	(14,777)	(10,947)	(48,276)	(35,794)
Fair value adjustment	(507)	836	(1,655)	2,735
Exchange differences	215	202	-	-
Fair value at the end of the year	51,299	66,368	167,100	217,031

Other assets represents the Group's rights to receive the discharge sum of ₦76 billion, 2017: ₦90 billion (\$246 million, 2017: \$294 million) from the crude oil reserves of OML 55. The asset is measured at fair value through profit or loss (FVTPL) and receipts from crude oil lifted reduce the value of the asset. At each reporting date, the fair value of the discharge sum is determined using the income approach in line with IFRS 13: Fair Value Measurement (discounted cash flow). This asset is categorised within Level 3 of the fair value hierarchy. As at 31 December 2018, the fair value of the discharge sum is ₦51 billion, 2017: ₦66 billion (\$167 million, 2017: \$217 million).

19. Tax paid in advance

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Tax paid in advance	9,708	9,670	31,623	31,623

In 2013 and 2014, Petroleum Profit Tax payments (2013: ₦9 billion and 2014: ₦0.9 billion) (2013: \$28.7 million and 2014: \$2.9 million) were made by the Group prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Group will be expected to offset it against its tax liability.

20. Prepayments

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Non-current				
Rent	275	287	893	939
Advances to suppliers	7,675	-	25,000	-
	7,950	287	25,893	939
Current				
Rent	1,217	211	3,964	691
Crude oil hedge	1,584	-	5,160	-
Other prepayments	748	384	2,437	1,257
	3,549	595	11,561	1,948
	11,499	882	37,454	2,887

20a. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies with two in Lagos state and one in Delta state. The non-cancellable leases which relate to buildings in Lagos expire in 2018 and 2019 respectively. The rent on the expired lease agreement was not renewed. 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 2018 is ₦0.28 billion, 2017: ₦0.29 billion (\$0.89 million, 2017: \$0.94 million).

In 2018, the Group entered into a lease agreement for an office building in Lagos. The non-cancellable period of the lease is 5 years commencing on 1 January 2019 and ending on 31 December 2023. However, the Group has an option of either extending the lease period on terms to be mutually agreed by parties to the lease on the expiration of the current term, or purchase the property.

Notes to the consolidated financial statements

Continued

20b. Advances to suppliers

Advances to suppliers relate to a milestone payment made to Fenog to finance the construction of the Amukpe Escravos Pipeline Project and other related facilities. At the end of the reporting period, the total prepaid amount is ₦7.7 billion, 2017: Nil (\$25 million, 2017: nil)

20c. Other prepayments

Included in other prepayments are prepaid service charge expenses for office buildings, health insurance, software license maintenance, motor insurance premium and crude oil handling fees.

20d. Crude oil hedge

In 2018, the Group commenced a crude oil hedge of ₦15,350 (\$50/bbl) for 4 million barrels at a cost of ₦1.6 billion (\$5.2 million). The contract will commence on 1 January 2019. A premium of ₦1.6 billion (\$5.2 million) has been pre-paid and has been recognised as a prepayment as at 31 December 2018.

21. Interest in other entities

i) Material subsidiaries

The Group's principal subsidiaries as at 31 December 2018 are set in Note 1. Unless otherwise stated, their share capital consists solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

There were no significant judgements made in consolidating these entities. Also, there were no significant restrictions on any of the entities.

22. Inventories

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Tubulars, casings and wellheads	31,485	30,683	102,554	100,336

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. There was no inventory charged to profit or loss and included in cost of sales during the year (2017: ₦1.3 billion, \$4.3 million). There was no write down or reversal of previously recognised write down of inventory for the year ended 31 December 2018.

23. Trade and other receivables

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Trade receivables (Note 23a)	29,127	33,236	94,875	108,685
Nigerian Petroleum Development Company (NPDC) receivables (Note 23b)	-	34,453	-	112,664
National Petroleum Investment Management Services (NAPIMS) receivables (Note 23c)	-	3,824	-	12,506
Underlift	1,325	-	4,313	-
Advances on investments	-	20,093	-	65,705
Advances to suppliers	1,822	2,404	5,933	7,861
Other receivables (Note 23d)	9,600	894	31,272	2,924
	41,874	94,904	136,393	310,345

Notes to the consolidated financial statements

Continued

23a Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Marketing Company (NGMC) and Central Bank of Nigeria (CBN) totaling ₦14 billion, 2017: ₦22 billion (\$46 million, 2017: \$72 million) with respect to the sale of gas, for the Group. Also included in trade receivables is an amount of ₦13 billion, 2017: ₦13 billion (\$43 million, 2017: \$43 million) due from Mecuria for sale of crude and ₦0.5 billion, 2017: ₦1.2 billion (\$1.5 million, 2017: \$4 million) due from Mecuria for sale of crude.

23b. NPDC receivables

The outstanding cash calls due to Seplat from its JOA partner, NPDC is nil, 2017: ₦34 billion (\$ nil, 2017: \$113 million). The outstanding NPDC receivables at the end of the reporting period has been netted against the gas receipts payable to NPDC as Seplat has a legally enforceable right to settle outstanding amounts on a net basis.

	2018	2018	2018	2018
	₦'million	₦'million	₦'000	₦'000
	Gross amounts	Loss allowance	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets				
Trade receivables	14,871	(2,475)	12,396	-
Financial liabilities				
Payable to NPDC	(22,418)	-	(12,396)	(10,022)

	2018	2018	2018	2018
	\$'million	\$'million	\$'000	\$'000
	Gross amounts	Loss allowance	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets				
Trade receivables	48,439	(8,086)	40,353	-
Financial liabilities				
Payable to NPDC	(72,996)	-	(40,353)	(32,643)

23c. NAPIMS receivables

The outstanding cash calls due to Seplat from its JOA partner, NAPIMS is nil, 2017: ₦4 billion (nil. 2017: \$13 million). At the end of the reporting period, NAPIMS settled their cash calls for the Jisike Oil project which is yet to commence. The amount has been recognised as a payable. See Note 34.

23d. Other receivables

Other receivables are amounts outside the usual operating activities of the Group. Included in other receivables is a receivable amount on an investment that is no longer being pursued. The outstanding receivable amount as at the reporting date is ₦9.6 billion, 2017: nil (\$31.3 million, 2017: nil). This was reclassified from advances on investment.

Notes to the consolidated financial statements

Continued

23.1. Reconciliation of trade receivables

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Balance as at 1 January	33,236	22,395	108,685	73,427
Additions during the year	217,553	10,841	710,725	35,258
Receipts for the year	(221,659)	-	(724,127)	-
Exchange difference	123	-	-	-
Gross carrying amount	29,253	33,236	95,283	108,685
Less: impairment allowance (note 41.2.2)	(126)	-	(408)	-
Balance as at 31 December	29,127	33,236	94,875	108,685

24. Contract assets

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Revenue on gas sales	4,327	-	14,096	-

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. The Group has recognised an asset in relation to a contract with NGMC for the delivery of Gas supplies which NGMC has received but which has not been invoiced as at the end of the reporting period.

The terms of payments relating to the contract is between 30- 45 days from the invoice date. However, invoices are raised after delivery between 14-21 days when the receivable amount has been established and the right to the receivables crystallises. The right to the unbilled receivables is recognised as a contract asset.

At the point where the final billing certificate is obtained from NGMC authorising the quantities, this will be reclassified from the contract assets to trade receivables.

24.1 Reconciliation of contract assets

The movement in the Group's contract assets is as detailed below:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Impact on initial application of IFRS 15	4,217	-	13,790	-
Addition during the year	39,120	-	127,803	-
Receipts for the year	(39,027)	-	(127,497)	-
Exchange difference	17	-	-	-
Gross carrying amount	4,327	-	14,096	-
Less: impairment allowance	-	-	-	-
	4,327	-	14,096	-

25. Derivative financial instruments

The Group uses its derivatives for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. They are presented as current assets.

The derivative financial instrument of ₦2.7 billion, 2017: nil (\$8.8 million, 2017: \$ nil) as at 31 December 2018 is as a result of a fair value gain on crude oil hedges. The fair value has been determined using a proprietary pricing model which generates results from inputs. The market inputs to the model are derived from observable sources. Other inputs are unobservable but are estimated based on the market inputs or by using other pricing models.

Notes to the consolidated financial statements

Continued

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Foreign currency option - crude oil hedges	2,693	-	8,772	-

26. Cash and bank balances

Cash and bank balances in the statement of financial position comprise of cash at bank and on hand, fixed deposits with a maturity of three months or less and restricted cash balances.

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Cash on hand	2	3	7	11
Restricted cash	1,049	19,166	3,418	62,674
Cash at bank	178,494	114,530	581,416	374,527
	179,545	133,699	584,841	437,212
Less: impairment allowance (note 41.2.2)	(36)	-	(118)	-
	179,509	133,699	584,723	437,212

For the purpose of the statement of cashflows, cash and cash equivalents comprise the following at 31 December:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Cash on hand	2	3	7	11
Fixed deposits	33,236	30,191	108,614	98,343
Restricted cash	-	19,166	-	62,674
Cash at bank	145,222	84,339	472,684	276,184
	178,460	133,699	581,305	437,212

In 2017, the restricted cash balance comprised amounts relating to debt reserve account and stamping reserve account. The amount was subject to capital restrictions relating to the borrowings in that period and was therefore not available for general use by the Group. During the reporting period, a portion of the restricted cash was used to settle the outstanding borrowing facility, resulting in a reduction in the restricted cash balance as at 31 December 2018.

In 2018, the restricted cash balance relates to amounts set aside in the Stamping Reserve account for the revolving credit facility (RCF). The amount is to be used for the settlement of all fees and costs payable for the purposes of stamping and registering the Security Documents at the stamp duties office and at the Corporate Affairs Commission (CAC). The amounts are restricted for a period five (5) years, which is the contractual period of the RCF. These amounts are subject to legal restrictions and are therefore not available for general use by the Group. These amounts have therefore been excluded from cash and bank balances for the purposes of cash flow.

Notes to the consolidated financial statements

Continued

27. Share capital

27a. Authorised and issued share capital

	2018 ₦'million	2017 ₦'million	2018 \$'000	2017 \$'000
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	500	500	3,335	3,335
Issued and fully paid				
568,497,025 (2017: 563,444,561) issued shares denominated in Naira of 50 kobo per share	286	283	1,834	1,826

The Group's issued and fully paid as at the reporting date consists of 568,497,025 ordinary shares (excluding the additional shares held in trust) of ₦0.50k each, all with voting rights. Fully paid ordinary shares carry one vote per share and the right to dividends. There were no restrictions on the Group's share capital.

27b. Movement in share related reserves

	Number of shares Shares	Issued share capital ₦'million	Share based payment reserve ₦'million	Total ₦'million
Opening balance as at 1 January 2018	563,444,561	283	4,332	4,615
Share based payments (note 27d)	-	-	2,969	2,969
Vested shares (note 27d)	5,052,464	3	(3)	-
Closing balance as at 31 December 2018	568,497,025	286	7,298	7,584

	Number of shares Shares	Issued share capital \$'000	Share based payment reserve \$'000	Total \$'000
Opening balance as at 1 January 2018	563,444,561	1,826	17,809	19,635
Share based payments (note 27)	-	-	9,698	9,698
Vested shares (note 27)	5,052,464	8	(8)	-
Closing balance as at 31 December 2018	568,497,025	1,834	27,499	29,333

25,000,000 additional shares were issued in furtherance of the Company's Long Term Incentive Plan, in February 2018. The additional issued shares, less 5,052,464 shares which vested in April 2018, are held by Stanbic IBTC Trustees Limited.

	Number of shares Shares	2018 ₦'million	2018 \$'000
Opening balance as at 1 January 2018	-	-	-
Issue of shares	25,000,000	13	41
Vested shares (note 26d)	(5,052,464)	(3)	(8)
Closing balance as at 31 December 2018	19,947,736	10	(33)

27c. Share Premium

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Share premium	82,080	82,080	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.

Notes to the consolidated financial statements

Continued

27d. Employee share based payment scheme

As at 31 December 2018, the Group had awarded 40,410,644 shares (2017: 33,697,792 shares) to certain employees and senior executives in line with its share based incentive scheme. Included in the share based incentive schemes are two additional schemes (2017 Deferred Bonus Scheme and 2018 LTIP Scheme) awarded during the reporting period. During the year ended 31 December 2018, 5,052,464 shares were vested under the 2015 LTIP and 2015 Deferred Bonus schemes (31 December 2017: No shares had vested).

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, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017/2018 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016, 2017 and 2018 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Group.

i. Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015, 2016 and 2017 bonus (paid in 2015, 2016, 2017 and 2018) has been deferred into shares and released on 1 June 2017, 1 June 2018, 20 April 2019 and 31 December 2019 respectively subject to continued employment over the vesting period. 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 3 years) based on the following conditions.

- 25% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 25% 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 LTIP awards have been approved by the NSE.

ii. Share based payment expenses

The expense recognised for employee services received during the year is shown in the following table:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Expense arising from equity-settled share-based payment transactions	2,969	1,735	9,698	5,674

There were no cancellations to the awards in 2018 or 2017. 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 Bonus Offer	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	09 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	247,610
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long term incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
2017 Deferred Bonus	29 December 2017	29 December 2017	31 December 2019	193,830
2018 Long term incentive Plan	2 May 2018	2 May 2018	1 May 2021	6,519,022
				40,410,644

Notes to the consolidated financial statements

Continued

iii. Determination of diluted EPS

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2018.

Share award scheme (all awards)	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	8,205,773	251.64	1,540,024	205.87
Granted during the year	9,197,562	362.26	6,665,749	262.45
Exercised during the year	(5,052,464)	-	-	-
Outstanding at 31 December	12,350,871	435.94	8,205,773	251.64
Exercisable at 31 December	-	-	-	-

Share award scheme (all awards)	2018 Number	2018 WAEP \$	2017 Number	2017 WAEP \$
Outstanding at 1 January	8,205,773	0.82	1,540,024	0.67
Granted during the year	9,197,562	1.18	6,665,749	0.86
Exercised during the year	(5,052,464)	-	-	-
Outstanding at 31 December	12,350,871	1.42	8,205,773	0.82
Exercisable at 31 December	-	-	-	-

iv. Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in deferred bonus scheme and long term incentive plan during the year for each available scheme.

Deferred Bonus Scheme	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	738,502	412.05	427,370	399.55
Granted during the year	193,830	589.04	311,132	428.69
Exercised during the year	(247,610)	-	-	-
Outstanding at 31 December	684,722	614.00	738,502	412.05
Exercisable at 31 December	-	-	-	-

Deferred Bonus Scheme	2018 Number	2018 WAEP \$	2017 Number	2017 WAEP \$
Outstanding at 1 January	738,502	1.35	427,370	1.31
Granted during the year	193,830	1.92	311,132	1.40
Exercised during the year	(247,610)	-	-	-
Outstanding at 31 December	684,722	2.00	738,502	1.35
Exercisable at 31 December	-	-	-	-

In 2017, the Group increased the number of shares attributable to the 2015 Deferred Bonus scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification was determined to be ₦ 457.43 (\$1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted. The fair value of the modified options was determined using the same models and principles as described in the table below on the inputs to the models used for the scheme.

The 2015 LTIP and the deferred bonus scheme that have vested in the year have conditions of release attached and this represents the basis of transfer of the shares to the staff.

Notes to the consolidated financial statements

Continued

Long term incentive Plan (LTIP)	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	22,825,042	292.30	14,886,453	253.2
Granted during the year	6,519,022	593.27	7,938,589	367.45
Exercised during the year	(4,804,854)	-	-	-
Outstanding at 31 December	24,539,210	414.45	22,825,042	292.25
Exercisable at 31 December	-	-	-	-

Long term incentive Plan (LTIP)	2018 Number	2018 WAEP \$	2017 Number	2017 WAEP \$
Outstanding at 1 January	22,825,042	0.96	14,886,453	0.83
Granted during the year	6,519,022	1.93	7,938,589	1.20
Exercised during the year	(4,804,854)	-	-	-
Outstanding at 31 December	24,539,210	1.35	22,825,042	0.96
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 2018 range from 0.3 to 1.3 years (2017: 0.3 to 2.3 years).

The weighted average fair value of awards granted during the year range from ₦459.15 to ₦590.77, 2017: ₦366.9 to ₦428.1 (\$1.50 to \$1.93, 2017: \$1.20 to \$1.40). There was no exercise prices for options outstanding at the end of the year. (2017: Nil).

The fair value at grant date is independently determined using the Monte Carlo Model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of peer group companies.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

v. Inputs to the models

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2018:

	2017 Deferred bonus	2017 LTIP	2018 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	43%	41%
Risk-free interest rate (%)	n/a	0.44%	0.83%
Expected life of share options	1.66	2.40	3.00
Weighted average share price (\$)	1.93	1.4	1.93
Weighted average share price (₦)	589.90	428.12	589.90
Model used	Black Scholes	Monte Carlo	Monte Carlo

28. Capital contribution

This represents M&P additional cash contribution to the Group. In accordance with the Shareholders' Agreement, the amount was used by the Group for working capital as was required at the commencement of operations.

Notes to the consolidated financial statements

Continued

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Capital contribution	5,932	5,932	40,000	40,000

29. Foreign currency translation reserve

Cumulative foreign exchange differences arising from translation of the Group's results and financial position into the presentation currency and from the translation of foreign subsidiary is recognised in foreign currency translation reserve.

30. Interest bearing loans and borrowings

30a. Net debt reconciliation

Below is the net debt reconciliation on interest bearing loans and borrowings:

	Borrowings due within 1 year	Borrowings due above 1 year	Total	Borrowings due within 1 year	Borrowings due above 1 year	Total
	₦ million	₦ million	₦ million	\$'000	\$'000	\$'000
Balance as at 1 January 2018	81,159	93,170	174,329	265,400	304,677	570,077
Principal repayment	(81,237)	(126,295)	(207,532)	(265,400)	(412,600)	(678,000)
Interest repayment	(13,343)	-	(13,343)	(43,465)	-	(43,465)
Interest accrued	18,135	239	18,374	59,247	782	60,029
Effect of loan restructuring	-	2,425	2,425	-	7,923	7,923
Other financing charges	(1,809)	-	(1,809)	(5,910)	-	(5,910)
Proceeds from loan financing	-	163,775	163,775	-	535,045	535,045
Exchange differences	126	485	611	-	-	-
Carrying amount as at 31 December 2018	3,031	133,799	136,830	9,872	435,827	445,699

Interest bearing loans and borrowings include a revolving loan facility and senior notes. In the reporting period, the Group repaid the outstanding principal amount of ₦140 billion (\$458 million) on its ₦215 billion (\$700 million) seven year term loan and ₦37 billion (\$120 million) on its ₦92 billion (\$300 million) four year revolving loan facility. The amount recognised as effect of loan restructuring represents the transaction costs related to these facilities.

In the reporting period, the Group also issued ₦107 billion (\$350 million) senior notes at a contractual interest rate of 9.25% with interest payable on 1 April and 1 October, and principal repayable at maturity. The notes are expected to mature in April 2023. The interest accrued at the reporting date is ₦8 billion (\$27 million) using an effective interest rate of 10.4%. Transaction costs of ₦2.1 billion, 2017: nil (\$7 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

An agreement for another four year revolving loan facility was entered into by the Group to refinance its old four year revolving loan facility with interest payable semi-annually and principal repayable on 31 December of each year. The new revolving loan has an initial contractual interest rate of 6% +Libor (7.7%) and a settlement date of June 2022.

The interest rate of the facility is variable. The Group made a drawdown of ₦61 billion (\$200 million) in March 2018. The interest accrued at the reporting period is ₦8 billion (\$25 million) using an effective interest rate of 9.77%. The interest paid was determined using 3-month LIBOR rate + 6 % on the last business day of the reporting period. The amortised cost for the senior notes and the borrowings at the reporting period is ₦107 billion (\$349 million) and ₦30 billion (\$96 million) respectively.

In October 2018, the Group made principal repayments on the four-year revolving facility for a lump sum of ₦30.7 billion (\$100 million). The repayment was accounted for as a prepayment of the outstanding loan facility. The gross carrying amount of the facility was recalculated as the present value of the estimated future contractual cash flows that are discounted using the effective interest rate at the last reporting period. Gain or loss on modifications are recognised immediately as part of interest accrued on the facility. Transaction costs of ₦1.4 billion, 2017: nil (\$4.5 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

The proceeds from the notes issue and new revolving loan facility were used to repay and cancel existing indebtedness, and for general corporate purposes.

Notes to the consolidated financial statements

Continued

30b. Outstanding principal exposures

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end:

31 December 2018	Interest	Current ₦ million	Non-Current ₦ million	Total ₦ million	Current \$'000	Non-Current \$'000	Total \$'000
Senior notes	9.25%	-	107,450	107,450	-	350,000	350,000
Corporate loan:							
Stanbic IBTC Bank Plc	6.0% +LIBOR	-	3,684	3,684	-	12,000	12,000
The Standard Bank of South Africa	6.0% +LIBOR	-	2,456	2,456	-	8,000	8,000
Nedbank Limited, London Branch	6.0% +LIBOR	-	5,117	5,117	-	16,666	16,666
Standard Chartered Bank	6.0% +LIBOR	-	4,605	4,605	-	15,000	15,000
Natixis	6.0% +LIBOR	-	3,582	3,582	-	11,667	11,667
FirstRand Bank Limited Acting	6.0% +LIBOR	-	3,582	3,582	-	11,667	11,667
Citibank N.A. London	6.0% +LIBOR	-	3,070	3,070	-	10,000	10,000
The Mauritius Commercial Bank Plc	6.0% +LIBOR	-	3,070	3,070	-	10,000	10,000
Nomura International Plc	6.0% +LIBOR	-	1,535	1,535	-	5,000	5,000
		-	30,701	30,701	-	100,000	100,000
		-	138,151	138,151	-	450,000	450,000

31 December 2017	Interest	Current ₦ million	Non-Current ₦ million	Total ₦ million	Current \$'000	Non-Current \$'000	Total \$'000
Term Loan:							
SBSA	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
FBN	8.5% + LIBOR	10,070	21,651	31,721	32,931	70,800	103,731
UBA	8.5% + LIBOR	11,402	24,513	35,915	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	18,243	39,221	57,464	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	1,331	2,862	4,193	4,353	9,359	13,712
		44,464	95,593	140,057	145,401	312,599	458,000
Corporate loan:							
Citibank Nigeria Limited	6% + LIBOR	4,280	-	4,280	14,000	-	14,000
FirstRand Bank Limited Acting	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Nedbank Limited, London Branch	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Standard Chartered Bank	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Natixis	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Stanbic Ibtc Bank Plc	6% + LIBOR	2,751	-	2,751	9,000	-	9,000
The Standard Bank Of South Africa	6% + LIBOR	3,974	-	3,974	13,000	-	13,000
		36,683	-	36,683	120,000	-	120,000
		81,147	95,593	176,740	265,401	312,599	578,000

Notes to the consolidated financial statements

Continued

31. Contingent consideration

	₦ million	\$'000
At 1 January 2017	3,672	12,040
Fair value loss	568	1,860
Exchange differences	11	-
At 31 December 2017	4,251	13,900
At 1 January 2018	4,251	13,900
Fair value loss	1,405	4,589
Exchange differences	20	-
At 31 December 2018	5,676	18,489

The contingent consideration of ₦5.7 billion (\$18.5 million) for OML 53 relates solely to the oil segment. This is contingent on oil price rising above \$90/bbl (₦27,630/bbl) over a one year period and expiring on 31st January 2020. The fair value loss arising during the reporting period is ₦1.4 billion (\$4.6 million).

32. Provision for decommissioning obligation

	₦ million	\$'000
At 1 January 2017	182	597
Unwinding of discount due to passage of time	29	96
Change in estimate	32,299	105,619
At 31 December 2017	32,510	106,312
At 1 January 2018	32,510	106,312
Unwinding of discount due to passage of time	892	2,914
Change in estimate	10,112	32,511
At 31 December 2018	43,514	141,737

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 2027 to 2054 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 2027 to 2054. These provisions were based on estimations carried out by Ryder Scott 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 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.

Following the review of the current assumptions for the year ended 31 December 2018, the future value of the decommissioning liability was adjusted to reflect economic reality in the primary economic environment in which the Group operates.

As a result, the change in estimate in the current year for the Group amounted to ₦10.1 billion, 2017: ₦32.3 billion (US\$32.5 million, 2017: US\$105.6 million).

Notes to the consolidated financial statements

Continued

	Current estimated life span of reserves	
	2018 In years	2017 In years
Seplat Petroleum Development Company:	2027	2027
OML 4	2037	2034
OML 38	2027 - 2037	2027 - 2034
OML 41	2037	2034
Newton Energy Limited (OPL 283)	2037 - 2044	2027 - 2047
Seplat East Onshore Ltd (OML 53)	2028 - 2054	2041 - 2043

33. Employee benefit obligation

33a. Defined contribution plan

The Group 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 Group 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 Group. The Group's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2018 was ₦103 million, 2017: ₦55 million (\$333,983, 2017: \$180,462).

33b. Defined benefit plan

i) Investment management strategy and policy

The Group operates a funded defined benefit pension plan in Nigeria under the regulation of National Pension Commission. The plan provides benefits to all the employees (excluding Directors holding salaried employment in the Group) who have been employed by the Group for a continuous period of five years and whose employment have been confirmed. The employee's entitlement to the accrued benefits occurs on retirement from the Group. The level of benefits provided on severance depends on members' length of service and salary at retirement age.

The overall investment philosophy of the defined benefit plan fund is to ensure safety, optimum returns and liquidity in line with the regulation and guidelines of the Pension Reform Act 2014 or guidelines that may be issued from time to time by National Pension Commission.

Plan assets are held in trust. Responsibility for supervision of the plan assets (including investment decisions and contributions schedules) lies jointly with the trustees and the pension fund managers. The trustees are made up of members of the Group's senior management appointed by Group's board of directors. The Group does not have an investment strategy of matching plan assets with the defined obligations as they fall due, however, the Group has an obligation to settle shortfalls in the plan asset upon annual actuarial valuations.

The provision for gratuity is based on an independent actuarial valuation performed by Logic Professional Services ("LPS") using the projected unit credit method. The provision is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries.

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:

ii) Liability recognised in the financial position

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Defined benefit obligation	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	-	(1,645)	-
	1,819	1,994	5,923	6,518

Notes to the consolidated financial statements

Continued

iii) Amount recognised in profit or loss

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Present value of obligation				
Current service cost	500	444	1,633	1,451
Past service cost due to curtailment	-	(180)	-	(589)
Interest cost on benefit obligation	285	238	931	779
	785	502	2,564	1,641
Interest income on plan assets	(3)	-	(10)	-
Balance as at 31 December	782	502	2,554	1,641

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:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Balance as at 31 December	782	502	2,554	1,641
Charged to receivables	(442)	-	(1,443)	-
Charged to profit or loss	340	502	1,111	1,641

iv) Re-measurement (gains)/losses in other comprehensive income

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Remeasurement gains/(losses) due to changes in financial assumptions	408	(172)	1,331	(561)
Remeasurement losses/(gains) due to experience adjustment	(14)	82	(46)	267
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)

The Group recognises a part of the remeasurement losses in other comprehensive income and credits the other part to its joint operations partners. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)
Charged to receivables	(216)	-	(706)	-
Credited to comprehensive income	178	(90)	579	(294)

v) Deferred tax (expense)/credit on re-measurement (gains)/losses

The Group recognises deferred tax (expense)/credit on a part of the remeasurement losses in other comprehensive income. Below is the breakdown:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Deferred tax on remeasurement losses	(335)	76	(1,094)	250
Credited to receivables	255	-	833	-
Charged to comprehensive income	(80)	76	(261)	250

Notes to the consolidated financial statements

Continued

vi) Changes in the present value of the defined benefit obligation are as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Defined benefit obligation as at 1 January	1,994	1,559	6,518	5,112
Current service cost	500	444	1,633	1,451
Past service cost due to curtailment	-	(180)	-	(589)
Interest cost on benefit obligation	285	238	931	779
Remeasurement losses	(394)	90	(1,285)	294
Contributions paid by the employer	(63)	(163)	(206)	(532)
Exchange differences	2	6	(23)	3
Defined benefit obligation at 31 December	2,324	1,994	7,568	6,518

vii) The changes in the fair value of plan assets is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Balance as at 1 January	-	-	-	-
Employer contributions	502	-	1,635	-
Contributions paid by the employer	63	-	206	-
Benefits paid by the employer	(63)	-	(206)	-
Interest income on plan assets	3	-	10	-
Balance as at 31 December	505	-	1,645	-

The net liability disclosed above relates to funded plans as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Present value of funded obligations	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	-	(1,645)	-
Deficit of funded plans	1,819	1,994	5,923	6,518

The fair value of the plan asset of the Group at the end of the reporting period was determined using the market values of the comprising assets as shown below:

	2018		2017		2018
	Quoted	Not quoted	Quoted	Not quoted	
Money market	-	125	-	407	407
Treasury bills	379	-	1,234	-	1,234
Cash at bank	-	1	-	4	4
Total plan asset as at 31 December	379	126	1,234	411	1,645

viii) The principal assumptions used in determining defined benefit obligations for the Group's plans are shown below:

	2018	2017
	%	%
Discount rate	15.50	14.00
Average future pay increase	12.00	12.00
Average future rate of inflation	12.00	12.00

Notes to the consolidated financial statements

Continued

a) Mortality in service

Sample age	Number of deaths in year out of 10,000 lives	
	2018	2017
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

Age band	Rates	
	2018	2017
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 2018 is as shown below:

Assumptions	Base	Discount Rate		Salary increases		Mortality	
		1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2018	2,324	(225)	262	280	(243)	3	(3)
31 December 2017	1,994	(215)	253	266	(229)	27	(28)

Assumptions	Base	Discount Rate		Salary increases		Mortality	
		1% increase \$'000	1% decrease \$'000	1% increase \$'000	1% decrease \$'000	1% increase \$'000	1% decrease \$'000
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2018	7,568	(735)	856	915	(794)	10	(10)
31 December 2017	6,518	(704)	828	869	(749)	88	(91)

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 sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The expected maturity analysis of the undiscounted defined benefit plan obligation is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Within the next 12 months (next annual reporting period)	57	70	186	228
Between 2 and 5 years	1,335	926	4,361	3,028
Between 5 and 10 years	131,806	3,796	430,604	12,412
	133,198	4,792	435,151	15,668

Notes to the consolidated financial statements

Continued

The weighted average liability duration for the Plan is 11.95 years. The longest weighted duration for Nigerian Government bond as at 31 December 2018 was about 5.96 years with a gross redemption yield of about 15.29%.

d) Risk exposure

Through its defined benefit pension plans, the Group is exposed to a number of risks. the most significant of which are detailed below:

i) Liquidity risk

The plan liabilities are not fully funded 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.

iv) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to federal government bond yields. Majority of the plan assets are investments in fixed income securities. If plan assets underperform the federal government bond yields, it will result in a deficit in the plan assets.

34. Trade and other payables

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Trade payable	12,073	19,191	39,328	62,758
Nigerian Petroleum Development Company (NPDC)	10,022	-	32,643	-
National Petroleum Investment Management Services (NAPIMS)	2,785	-	9,073	-
Accruals and other payables	53,296	45,570	173,604	149,020
Pension payables	107	55	350	180
NDDC levy	345	2,564	1,124	8,383
Deferred revenue	-	41,970	-	137,248
Royalties payable	8,732	16,209	28,443	53,004
	87,360	125,559	284,565	410,593

Included in accruals and other payables are field-related accruals of ₦22.7 billion, 2017: ₦17.1 billion (\$74 million, 2017: \$56 million) and other vendor payables of ₦31 billion, 2017: ₦28.7 billion (\$101 million, 2017: \$93 million). Royalties include accruals in respect of crude and gas production for which payment is outstanding at the end of the year.

NPDC payables relate to cash calls paid in advance in line with the Group's Joint operating agreement (JOA) on OML 4, OML 38 and OML 41. The outstanding NPDC receivables at the end of the reporting period was used to calculate the impairment losses for the year. The impairment losses was then netted against the outstanding receivables to arrive at a net receivables amount. At the end of the reporting period, this net receivables amount has been netted against payables to NPDC as the Group has a right to offset.

In 2017, NAPIMS receivables related to cash calls from its JOA with Seplat East Onshore. At the end of the reporting period, NAPIMS settled their cash calls and advanced monies for the Jisike Oil project, which is yet to commence. The amount advanced has therefore been recognised as a payable.

Notes to the consolidated financial statements

Continued

34a. Net debt reconciliation

Included in accruals and other payables is advance payment on crude oil sales. Below is the net debt reconciliation on this amount.

	2018 ₦ million	2018 \$'000
Balance as at 1 January 2018	23,723	77,499
Principal repayment	(23,193)	(75,769)
Interest repayment	(530)	(1,730)
Carrying amount as at 31 December 2018	-	-

35. Earnings per share (EPS)

Basic

Basic EPS is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average number of issued and fully paid ordinary shares at the end of the year.

Diluted

Diluted EPS is calculated by dividing the profit after taxation attributable to the parent entity 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.

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Profit for the year	44,867	81,111	146,576	265,230
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	567,555	563,445	567,555	563,445
Outstanding share based payments (shares)	12,351	8,206	12,351	8,206
Weighted average number of ordinary shares adjusted for the effect of dilution	580,006	571,651	580,006	571,651
	₦	₦	\$	\$
Basic earnings per share	79.04	143.96	0.26	0.47
Diluted earnings per share	77.36	141.89	0.25	0.46
	₦ million	₦ million	\$'000	\$'000
Profit used in determining basic/diluted earnings per share	44,867	81,111	146,576	265,230

The shares were weighted for the proportion of the number of months they were in issue during the reporting period

Notes to the consolidated financial statements

Continued

36. Dividends paid and proposed

As at 31 December 2018, there was no final dividend proposed for the Group (2017: Nil).

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2018: ₦30.7 (\$0.10) per share, 568,497,025 shares in issue (2017: ₦ Nil, \$ Nil per share, 563,444,561 shares in issue)	18,036	-	58,888	-
Proposed dividend on ordinary shares:				
Final proposed dividend for the year: ₦15.35 (\$0.05) per share	9,033		29,422	

₦9 billion (\$29.4 million) of the interim dividend was paid at ₦15.35 (\$0.05) per share as at 31 March 2018 and the remaining dividend (\$29.4 million, ₦9 billion) was paid at ₦15.35 (\$0.05) as at 31 December 2018.

37. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). The parent Company is owned 7.81% either directly or by entities controlled by A.B.C Orjiako (SPDCL(BVI)) and members of his family and 12.04% 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.

37a. 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.

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.

Charismond Nigeria Limited: The sister to the CEO works as a General Manager. The company provides administrative services including stationary and other general supplies to the field locations.

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.

Stage leasing (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.

Notes to the consolidated financial statements

Continued

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Petroleum Development Company Limited ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL (BVI). The company provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

37b. Related party transactions

Year-end balances arising from related party transactions

iii) Purchases of goods and services

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Shareholders of the parent company				
SPDCL (BVI)	333	413	1,088	1,350
Total	333	413	1,088	1,350
Entities controlled by key management personnel:				
Contracts > \$1million in 2018				
Nerine Support Services Limited*	2,335	2,161	7,627	7,066
Cardinal Drilling Services Limited	621	1,001	2,029	3,272
Helko Nigeria Limited	-	444	-	1,453
Abbey Court Trading Company Limited	334	199	1,090	650
Stage leasing(formerly Ndosumuli Venture Limited)	434	171	1,419	560
	3,724	3,976	12,165	13,001
Contracts < \$1million in 2018				
Montego Upstream Services Limited	24	131	79	427
Oriental Catering Services Limited	199	159	650	520
Keco Nigeria Enterprises	78	110	254	361
ResourcePro Inter Solutions Limited	3	9	9	31
Neimeth International Pharmaceutical Plc	-	1	-	2
Charismond Nigeria Limited	23	17	74	55
	327	427	1,066	1,396
	4,051	4,403	13,231	14,397

* 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. it includes salaries and Nerine's mark-up. Total costs for agency and contracts during 2018 is ₦0.2 billion, 2017: ₦1.4 billion (\$0.6 million, 2017: \$4.6million).

All other transactions were made on normal commercial terms and conditions, and at market rates.

Notes to the consolidated financial statements

Continued

37c. Balances

The following balances were receivable from or payable to related parties as at the end of the year:

i) Prepayments/receivables

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Entities controlled by key management personnel				
Cardinal Drilling Services Limited - current portion	1,495	1,681	4,869	5,498
Montego Upstream Services Limited	8	-	26	-
Resourcepro Inter Solutions Ltd	2	-	6	-
	1,505	1,681	4,901	5,498

iv) Payables

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Entities controlled by key management personnel				
Montego Upstream Services Limited	-	115	-	375
Nerine Support Services Limited	-	2	-	8
Keco Nigeria Enterprises	19	8	61	25
Oriental Catering Services Ltd	14	-	47	
Cardinal Drilling Services Limited	-	292	-	954
Abbey Court Trading Company Limited	9	-	28	
Charismond Nigeria Limited	-	-	1	
Stage Leasing Limited	13	-	43	
	55	417	180	1,362

The outstanding balances payable to/receivable from related parties are unsecured and are payable/receivable in cash.

38. Information relating to employees

38a. 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:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Salaries and other short-term employee benefits	793	617	2,590	2,017
Post-employment benefits	86	88	281	287
Share based payment expenses	146	87	476	283
	1,025	792	3,347	2,587

The numbers here reflect the Seplat share paid to key management staff (leadership team).

Notes to the consolidated financial statements

Continued

38b. Chairman and Directors' emoluments

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Chairman (Non-executive)	342	342	1,118	1,118
Chief Executive Officer	445	476	1,453	1,557
Executive Directors	699	284	2,283	928
Non-Executive Directors	494	580	1,614	1,897
Bonus*	-	632	-	2,067
JOA Partner Share	-	(418)	-	(1,367)
Total	1,980	1,896	6,468	6,200

* This relates to 2017 bonus paid in 2018. Out of this amount ₦231 million (\$0.7 million) relates to 2016 bonus accrued and paid in 2017.

38c. Highest paid Director

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Highest paid Director	483	476	1,577	1,557

Emoluments are inclusive of income taxes.

38d. Number of Directors

The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	2018 Number	2017 Number
Zero - ₦19,896,500	-	-
₦19,896,501 - ₦115,705,800	8	8
₦115,705,801 - ₦157,947,600	-	1
Above ₦157,947,600	3	3
	11	12

	2018 Number	2017 Number
Zero - \$65,000	-	-
\$65,001 - \$378,000	8	8
\$378,001 - \$516,000	-	1
Above \$516,000	3	3
	11	12

38e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,989,650 (\$6,500), received remuneration (excluding pension contributions) in the following ranges:

Notes to the consolidated financial statements

Continued

	2018 Number	2017 Number
₦1,989,650 - ₦4,897,600	71	61
₦4,897,601 - ₦9,795,200	177	184
₦9,795,201 - ₦14,692,800	77	59
Above ₦14,692,800	139	110
	464	414

	2018 Number	2017 Number
\$6,500 - \$16,000	71	61
\$16,001 - \$32,000	177	184
\$32,001 - \$48,000	77	59
Above \$48,000	139	110
	464	414

The ranges reflect Seplat's share paid to employees during the year.

38f. Number of persons employed during the year

The average number of persons (excluding Directors) in employment during the year was as follows:

	2018 Number	2017 Number
Senior management	16	14
Managers	93	88
Senior staff	193	147
Junior staff	162	165
	464	414

38g. Employee cost

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Salaries & wages	6,021	5,016	19,670	16,401
	6,021	5,016	19,670	16,401

39. Commitments and contingencies

39a. Non-cancellable operating leases

The Group leases drilling rigs, buildings and land. The lease terms are between 1 and 5 years. The leases have varying terms, including extension options. On renewal of a lease, the terms are renegotiated. Commitments for minimum operating lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Operating lease commitments				
Not later than one year	589	728	1,918	2,382
Later than one year and not later than five years	7,379	565	24,036	1,846
	7,968	1,293	25,954	4,228

Rental expense relating to operating leases are disclosed within general and administrative expenses. See note 10.

Notes to the consolidated financial statements

Continued

The Group entered into a 5 year agreement from 1 January 2018 to 31 December 2023 for the lease of its new head office. The agreement had a Fit-Out period of four months from 1 September to 31 December 2018 in which the premises was made available for the Group's use and purpose. As a result, the non-cancellable lease commitment relating to this has been included in the table above. The Group has not early adopted IFRS 16 which will affect the accounting for this contract. See note 3.2 for further details.

39b. Contingent assets

Seplat solely constructed Oben Gas plant to process gas extracted from OML 4, 38 & 41. Seplat has processed NPDC's 55% share of gas from 2015 till date and has not received payment for this service. Seplat did not recognise the related income or receivable for the service provided till date as the basis for determining the fees is yet to be concluded with NPDC.

To enable parties close out this, in 2018, a Value For Money (VFM) audit was initiated by NPDC to determine whether to buy in to the gas processing operation or to pay tolling for the processing services provided in the past and to continue tolling. A contingent asset is highly probable but has not been recognised as a receivable as at 31 December 2018 as receipt of the amount is dependent on the outcome of the VFM audit and eventual negotiations.

Seplat entered into a non-contractual promise with PanOcean to allow PanOcean pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with PanOcean means that it may not be viewed as a valid contract with a customer in accordance with IFRS 15 which was adopted at the beginning of the year. However, parties are now in discussions and in the concluding stages of executing a contract.

Seplat has not recognised the related income or receivable for the service provided. It has therefore disclosed a contingent asset of ₦0.4 billion, 1 January 2018: ₦0.4 billion (\$1.4 million, 1 January 2018: \$1.4 million) as the amount that will be due to Seplat when an enforceable contract is agreed by both parties. No amount has been recognised in revenue in relation to the transaction.

39c. 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 2018 is ₦0.7 billion, 2017: ₦57 billion (\$2.4 million, 2017: \$187 million). The contingent liability for the year is determined based on possible occurrences, though unlikely to occur. 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.

39d. Capital commitments

As the end of the reporting period, the Group had no capital commitments (2017: nil).

40. Events after the reporting period

Group has contingent consideration relating to the transfer of OMLs 52, 53 and 55 to Chevron Nigeria Limited. Both parties agreed to defer a part of the price of the transfer (₦5.7 billion, \$18.5 million) for a maximum period of five (5) years till 31 January 2020. The terms of the deferred payment provide that the Group is required to pay the full amount if the average daily Brent crude closing has been maintained at a price of less than \$90 per barrel for a minimum period of twelve (12) consecutive months at any time before the expiration of the deferred payment term.

Subsequent to the year-end, the Group has determined that the price of average daily Brent crude closing will not be more than \$90 per barrel and is therefore not liable to the make the deferred payment.

Following a review of the Group's financial position and liquidity at 31 December 2018, the Board has proposed a final dividend of ₦15.35 (\$0.05) per share. The total amount of this proposed dividend expected to be paid out of retained earnings but for which no liability has been recognized in the financial statements is ₦9 billion (\$29.4 million).

Except for the dividends paid and the reversal of the contingent consideration (Note31), there were no significant events 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 2018 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

41. Transition disclosures

This note explains the impact of the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers (including the amendments to IFRS 15) on the Group's financial statements.

Notes to the consolidated financial statements

Continued

41.1. Impact on the financial statements

As explained in note 41.1.2 below, IFRS 9: Financial instruments was adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of changes in equity on 1 January 2018. The Group has not elected to adopt practical expedients on adoption of IFRS 9.

The Group has also adopted IFRS 15: Revenue from Contracts with Customers using the modified retrospective method, with the effect of applying this standard recognised at the date of initial application (1 January 2018). The Group has elected to adopt the right to invoice as a practical expedient for gas sales on adoption of IFRS 15. Accordingly, the information presented for 2017 financial year has not been restated but is presented, as previously reported, under IAS 18 and related interpretations.

The following tables summarise the impact, net of tax, of transition to IFRS 9 and IFRS 15 for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. There was no impact on the statement of cash flows as a result of adopting the new standards.

		At 31 December 2017	Impact of IFRS 9	Impact of IFRS 15	As at 1 January 2018
	Note	₦'million	₦'million	₦'million	₦'million
ASSETS					
Non-current assets					
Deferred tax		68,417	2,013	-	70,430
Current assets					
Trade and other receivables	23	94,904	(2,265)	(4,217)	88,422
Contract assets	24	-	-	4,217	4,217
Cash and bank balances	26	133,699	(103)	-	133,596
Total assets		799,553	(355)	-	799,198
EQUITY AND LIABILITIES					
Equity					
Retained earnings		166,149	(355)	-	165,794
Total shareholders' equity		459,646	(355)	-	459,291

		At 31 December 2017	Impact of IFRS 9	Impact of IFRS 15	As at 1 January 2018
	Note	\$'000	\$'000	\$'000	\$'000
ASSETS					
Non-current assets					
Deferred tax		223,731	6,577	-	230,308
Current assets					
Trade and other receivables	23	310,345	(7,402)	(13,790)	289,153
Contract assets	24	-	-	13,790	13,790
Cash and bank balances	26	437,212	(335)	-	436,877
Total assets		2,614,630	(1,160)	-	2,613,470
EQUITY AND LIABILITIES					
Equity					
Retained earnings		944,108	(1,160)	-	942,948
Total shareholders' equity		1,503,097	(1,160)	-	1,501,937

41.2. IFRS 9 Financial instruments - Impact of adoption

The new financial instruments standard, IFRS 9 replaces the provisions of IAS 39. The new standard presents a new model for classification and measurement of assets and liabilities, a new impairment model which replaces the incurred credit loss approach with an expected credit loss approach, and new hedging requirements.

Notes to the consolidated financial statements

Continued

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in the notes below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated but the impact of adoption has been adjusted through opening retained earnings for the current reporting period.

41.2.1. Classification and measurement

a) Financial assets

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management assessed the classification of its financial assets which is driven by the cash flow characteristics of the instrument and the business model in which the asset is held.

The Group's financial assets include cash and bank balances and trade and other receivables. The Group's business model is to hold these financial assets to collect contractual cash flows and to earn contractual interest. For cash and bank balances, interest is based on prevailing market rates of the respective bank accounts in which the cash and bank balances are domiciled. Interest on trade and other receivables is earned on defaulted payments in accordance with the Joint operating agreement (JOA). The contractual cash flows arising from these assets represent solely payments of principal and interest (SPPI).

Cash and bank balances and trade and other receivables that were previously classified as loans and receivables (L and R) are now classified as financial assets at amortised cost.

Since there was no change in the measurement basis except for nomenclature change, opening retained earnings was not impacted (no difference between the previous carrying amount and the revised carrying amount of these assets at 1 January 2018).

b) Financial liabilities

The adoption of IFRS 9 eliminates the policy choice on the treatment of gain or loss from the refinancing of a borrowing. Day one gain or loss can no longer be deferred over the remaining life of the borrowing but must now be recognised at once. No retrospective adjustments have been made in relation to this change as at 1 January 2018.

On the date of initial application, 1 January 2018, the financial instruments of the Group were classified as follows:

	Classification & Measurement category		Carrying amount	
	Original	New	Original	New
	IAS 39	IFRS 9	₦ million	₦ million
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	33,236	33,236
NPDC receivables	L and R	Amortised cost	34,453	34,453
NAPIMS receivables	L and R	Amortised cost	3,824	3,824
Other receivables*	L and R	Amortised cost	7	7
Cash and bank balances	L and R	Amortised cost	133,699	133,699
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	93,170	93,170
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	81,159	81,159
Trade and other payables**	Amortised cost	Amortised cost	38,876	38,876

Notes to the consolidated financial statements

Continued

	Classification & Measurement category		Carrying amount	
	Original	New	Original	New
	IAS 39	IFRS 9	\$'000	\$'000
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	108,685	108,685
NPDC receivables	L and R	Amortised cost	112,664	112,664
NAPIMS receivables	L and R	Amortised cost	12,506	12,506
Other receivables*	L and R	Amortised cost	23	23
Cash and bank balances	L and R	Amortised cost	437,212	437,212
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	304,677	304,677
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	265,400	265,400
Trade and other payables**	Amortised cost	Amortised cost	127,128	127,128

*Other receivables exclude NGMC VAT receivables, cash advance and advance payments.

** Trade and other payables exclude provisions (including provisions for bonus and royalties), VAT, Withholding tax, deferred revenue and royalties.

The new carrying amounts in the table above have been determined based on the measurement criteria specified in IFRS 9. However, the impact of IFRS 9 expected credit loss impairment and IFRS 15 reclassifications has also not been considered here. See the subsequent pages for the impacts.

41.2.2. Impairment of financial assets

The Group has five types of financial assets that are subject to IFRS 9's new expected credit loss model. Contract assets are also subject to the new expected credit loss model, even though they are not financial assets, as they have substantially the same credit risk characteristics as trade receivables. Under IFRS 9, the Group is required to revise its previous impairment methodology under IAS 39 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in the table below.

- Nigerian Petroleum Development Company (NPDC) receivables
- National Petroleum Investment Management Services (NAPIMS)
- Trade receivables
- Contract assets
- Other receivables and;
- Cash and bank balances

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	Notes	₦'million	\$'000
Closing retained earnings as at 31 December 2017- IAS 39		166,149	944,108
Increase in provision for Nigerian Petroleum Development Company (NPDC) receivables	(a)	(1,698)	(5,553)
Increase in provision for National Petroleum Investment Management Services (NAPIMS) receivables	(b)	(64)	(213)
Increase in provision for Nigerian Gas Marketing Company (NGMC) receivables	(c)	(468)	(1,535)
Increase in provision for Pillar Limited receivables	(c)	(31)	(101)
Increase in provision for fixed deposits	(e)	(103)	(335)
Exchange difference		(4)	-
Total transition adjustments		(2,368)	(7,737)
Deferred tax impact on transition adjustments		2,013	6,577
Opening retained earnings as at 1 January 2018 on adoption of IFRS 9		165,794	942,948

Notes to the consolidated financial statements

Continued

The parameters used to determine impairment for NPDC receivables, NAPIMS receivables, other receivables and fixed deposits are shown below. For all receivables presented in the table, the respective 12-month Probability of Default (PD) equate the Lifetime PD for stage 2 as the maximum contractual period over which the Group is exposed to credit risk arising from the receivables is less than 12 months.

	Nigerian Petroleum Development Company (NPDC) receivables	National Petroleum Investment Management Services (NAPIMS) receivables	Other receivables	Fixed deposits
Probability of Default (PD)	The 12 month PD and lifetime PD for stage 1 and stage 2 is 3.9%. The PD for stage 3 is 99%.	The 12 month PD and lifetime PD for stage 1 and stage 2 is 3.9%. The PD for stage 3 is 99%.	The 12 month PD and lifetime PD for stage 1 and stage 2 is 0.05%. The PD for stage 3 is 99%.	The 12 month PD and lifetime PD for stage 1 and stage 2 is 0.09%. The PD for stage 3 is 99%.
Loss Given Default (LGD)	The 12-month LGD and lifetime LGD were determined using average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.
Exposure at default (EAD)	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the fixed deposits to credit risk.
Macroeconomic indicators	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were used.
Probability weightings	75%, 8% and 17% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	75%, 8% and 17% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	89%, 2% and 9% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	78%, 12% and 10% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.

The Group considers both quantitative and qualitative indicators in classifying its receivables into the relevant stages for impairment calculation as shown below:

- Stage 1: This stage includes financial assets that are less than 30 days past due (Performing).
- Stage 2: This stage includes financial assets that have been assessed to have experienced a significant increase in credit risk using the days past due criteria (i.e. the outstanding receivables amounts are more than 30 days past due but less than 90 days past due) and other qualitative indicators such as the increase in political risk concerns or other micro-economic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance.
- Stage 3: This stage includes financial assets that have been assessed as being in default (i.e. receivables that are more than 90 days past due) or that have a clear indication that the imposition of financial or legal penalties and/or sanctions will make the full recovery of indebtedness highly improbable.

a) Nigerian Petroleum Development Company (NPDC) receivables

NPDC receivables represent the outstanding cash calls due to Seplat from its Joint Arrangement partner, Nigerian Petroleum Development Company. The Group applies the IFRS 9 general model for measuring expected credit losses (ECL). This requires a three-stage approach in recognising the expected loss allowance for NPDC receivables.

The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Notes to the consolidated financial statements

Continued

The ECL was calculated based on actual credit loss experience from 2014, which is the date the Group initially became a party to the contract. The following analysis provides further detail about the calculation of ECLs related to these assets. The Group considers the model and the assumptions used in calculating these ECLs as key sources of estimation uncertainty. See notes 11, 23 and 34 for further details.

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	-	11,369	23,084	34,453
Loss allowance as at 1 January 2018	-	(32)	(1,666)	(1,698)
Net EAD	-	11,337	21,418	32,755

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	-	-	14,871	14,871
Loss allowance as at 31 December 2018	-	-	(2,475)	(2,475)
Net EAD	-	-	12,396	12,396

* Exposure at default

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	-	37,179	75,485	112,664
Loss allowance as at 1 January 2018	-	(105)	(5,448)	(5,553)
Net EAD	-	37,074	70,037	107,111

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	-	-	48,439	48,439
Loss allowance as at 31 December 2018	-	-	(8,086)	(8,086)
Net EAD	-	-	40,353	40,353

* Exposure at default

The reconciliation of loss allowances for Nigerian Petroleum Development Company receivables as at 31 December 2017 and 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts adjusted through opening retained earnings	1,698	5,553
Loss allowance as at 1 January 2018 - calculated under IFRS 9	1,698	5,553
Unwinding of discount	19	62
Increase in provision for impairment loss on NPDC receivables	756	2,471
Exchange difference	2	-
Loss allowance as at 31 December 2018 - Under IFRS 9	2,475	8,086

Notes to the consolidated financial statements

Continued

b) National Petroleum Investment Management services (NAPIMS) receivables

NAPIMS receivables represent the outstanding cash calls due to Seplat from its Joint Operating Arrangement (JOA) partner, National Petroleum Investment Management Services. The Group applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for NAPIMS receivables.

The ECL was calculated based on actual credit loss experience from 2016, which is the date the Group initially became a party to the contract. The following analysis provides further detail about the calculation of ECLs related to these assets. The Group considers the model and the assumptions used in calculating these ECLs as key sources of estimation uncertainty. The explanation of inputs, assumptions and estimation techniques used are consistent with those for NPDC receivables.

On initial application of IFRS 9, an impairment loss of ₦80 million, (\$263,000) was recognised for NAPIMS receivables. This loss allowance was calculated on a total exposure of ₦3.8 billion, (\$12.5 million). During the reporting period, the outstanding receivable was settled. This resulted in a reversal of the previously recognised impairment loss. See notes 11, 23 and 34 for further details.

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	1,306	-	2,518	3,824
Loss allowance as at 1 January 2018	(2)	-	(62)	(64)
Net EAD	1,304	-	2,456	3,760

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	4,274	-	8,232	12,506
Loss allowance as at 1 January 2018	(5)	-	(208)	(213)
Net EAD	4,269	-	8,024	12,293

The reconciliation of gross carrying amount for National Petroleum Investment Management Services receivables is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	3,824	12,506
Receipts for the year	(3,824)	(12,506)
Exchange differences	-	-
Gross carrying amount as at 31 December	-	-

The reconciliation of loss allowances for National Petroleum Investment Management Services receivables as at 31 December 2017 and 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts restated through opening retained earnings	64	213
Loss allowance as at 1 January 2018 - calculated under IFRS 9	64	213
Unwinding of discount	1	2
Reversal of impairment loss on NAPIMS receivables	(65)	(215)
Exchange difference	-	-
Loss allowance as at 31 December 2018 - Under IFRS 9	-	-

Notes to the consolidated financial statements

Continued

c) Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due criterion. Contract assets relate to unbilled amounts for the delivery of gas supplies in which NGMC has taken delivery of but has not been invoiced as at the end of the reporting period. These assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Trade receivables and contract assets include amounts receivable from Nigerian Gas Marketing Company (NGMC), Mercuria Energy Group and Pillar Limited. See notes 11 and 23 for further details.

i. Nigerian Gas Marketing Company (NGMC) receivables

NGMC receivables represents the amount receivable from NGMC for gas sales. The expected credit loss rate for this receivable is determined using a provision matrix. The provision matrix used is based on the Group's historical default rates observed over the expected life of the receivable and is adjusted for forward-looking estimates. An expected loss rate was calculated as the percentage of the receivable that is deemed uncollectible during a particular period. The expected loss rates as at 1 January 2018 and 31 December 2018 are as follows:

	1 January 2018					
	Current	1-30 days past due	31-60 days past due	61-9091 and 120 days past due	More than 120 days past due	
	₦'million	₦'million	₦'million	₦'million	₦'million	₦'million
Gross carrying amount	-	-	3,328	5,168	6,103	3,404
Expected loss rate	-	-	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	-	-	(47)	(81)	(98)	(242)
Total	-	-	3,281	5,087	6,005	3,162

	31 December 2018					
	Current	1-30 days past due	31-60 days past due	61-9091 and 120 days past due	More than 120 days past due	
	₦'million	₦'million	₦'million	₦'million	₦'million	₦'million
Gross carrying amount	4,639	-	2,392	4,035	-	3,080
Expected loss rate	0.53%	-	0.53%	0.53%	-	2.04%
Lifetime ECL	(25)	-	(13)	(21)	-	(63)
Total	4,614	-	2,379	4,014	-	3,017

	1 January 2018					
	Current	1-30 days past due	31-60 days past due	61-9091 and 120 days past due	More than 120 days past due	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount	-	-	10,877	16,888	19,944	11,128
Expected loss rate	-	-	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	-	-	(155)	(265)	(320)	(794)
Total	-	-	10,722	16,623	19,624	10,334

	31 December 2018					
	Current	1-30 days past due	31-60 days past due	61-9091 and 120 days past due	More than 120 days past due	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount	15,111	-	7,792	13,142	-	10,033
Expected loss rate	0.53%	-	0.53%	0.53%	-	2.04%
Lifetime ECL	(80)	-	(41)	(70)	-	(205)
Total	15,031	-	7,751	13,072	-	9,828

Notes to the consolidated financial statements

Continued

The reconciliation of gross carrying amount for NGMC is as follows:

	N'million	\$'000
Gross carrying amount as at 1 January	18,003	58,837
Receipts for the year	(3,903)	(12,750)
Exchange differences	46	-
Gross carrying amount as at 31 December	14,146	46,077

The reconciliation of loss allowances for Nigerian Gas Marketing Company receivables as 31 December 2018 is as follows:

	N'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts restated through opening retained earnings	468	1,535
Loss allowance as at 1 January 2018 - calculated under IFRS 9	468	1,535
Reversal of impairment loss on NGMC receivables	(347)	(1,139)
Exchange difference	1	-
Loss allowance as at 31 December 2018 - Under IFRS 9	122	396

ii. Pillar Limited receivables

These amounts represent cash calls receivables from Pillar Limited. The expected cash calls was assessed to be repayable within the next 12 months after adjusting for possible cash shortfalls and macroeconomic indicators. Based on this, possible loss rates were determined for each aging bucket.

	1 January 2018						
	Current	1-30	31-60	61-90	91 and 120	More than 120	
	days past due	days past due	days past due	days past due	days past due	days past due	days past due
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Gross carrying amount	1,273	-	-	-	-	-	-
Expected loss rate	2.46%	-	-	-	-	-	-
Lifetime ECL	(31)	-	-	-	-	-	-
Total	1,242	-	-	-	-	-	-

	31 December 2018						
	Current	1-30	31-60	61-90	91 and 120	More than 120	
	days past due	days past due	days past due	days past due	days past due	days past due	days past due
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Gross carrying amount	164	-	-	-	-	-	-
Expected loss rate	2.26%	-	-	-	-	-	-
Lifetime ECL	(4)	-	-	-	-	-	-
Total	160	-	-	-	-	-	-

	1 January 2018						
	Current	1-30	31-60	61-90	91 and 120	More than 120	
	days past due	days past due	days past due	days past due	days past due	days past due	days past due
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount	4,160	-	-	-	-	-	-
Expected loss rate	2.46%	-	-	-	-	-	-
Lifetime ECL	(101)	-	-	-	-	-	-
Total	4,059	-	-	-	-	-	-

Notes to the consolidated financial statements

Continued

	31 December 2018					
	Current	1-30 days past due	31-60 days past due	61-9091 days past due	120 days past due	More than 120 days past due
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount	535	-	-	-	-	-
Expected loss rate	2.26%	-	-	-	-	-
Lifetime ECL	(12)	-	-	-	-	-
Total	523	-	-	-	-	-

The reconciliation of gross carrying amount for Pillars Limited receivables is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	1,273	4,160
Receipts for the year	(1,110)	(3,625)
Exchange differences	1	-
Gross carrying amount as at 31 December	164	535

The reconciliation of loss allowances for Pillars Limited receivables as 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts restated through opening retained earnings	31	101
Loss allowance as at 1 January 2018 - calculated under IFRS 9	31	101
Reversal of impairment loss on Pillars Limited receivables	(27)	(89)
Exchange difference	-	-
Loss allowance as at 31 December 2018 - Under IFRS 9	4	12

iii. Mercuria Energy Group

Mercuria Energy Group receivables represents the amount receivable from oil sales. The expected credit loss rate was determined using provision matrix. The loss rate was calculated to be 0.05% for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was therefore assessed to be insignificant. These assets are classified as less than 30 days past due.

iv. Contract assets

The Contract assets comprises majorly of unbilled gas invoices from the Group's sale of gas to NGMC. In determining the expected credit losses using a provision matrix, contract assets were grouped in the current 'aging' bucket i.e. less than 30 days. This is based on the premise that the period between the delivery of gas and the date an invoice is raised is usually 30 days.

The estimated loss was calculated using the applicable loss rate of current NGMC receivables of 0.53% as the Group's exposure to credit risk on contract asset is similar to that of NGMC receivables. The loss was calculated for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was assessed as insignificant. See note 24.1 for reconciliation of gross carrying amounts.

d) Other receivables

The Group applies the IFRS 9 general approach to measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for all financial assets that are classified within other receivables.

i) Other receivables

These receivables represent the outstanding payments due to Seplat from an investment no longer being pursued. This amount was previously presented as advances on investment but is now included in other receivables. See notes 11 and 23 for further details.

Notes to the consolidated financial statements

Continued

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	-	10,770	3,070	13,840
Loss allowance as at 31 December 2018	-	(1,186)	(3,029)	(4,215)
Net EAD	-	9,584	41	9,625

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	-	35,121	10,000	45,121
Loss allowance as at 31 December 2018	-	(3,875)	(9,895)	(13,770)
Net EAD	-	31,246	105	31,351

The reconciliation of gross carrying amount for other receivables is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	-	-
Additions during the year	13,840	45,121
Gross carrying amount as at 31 December	13,840	45,121

The reconciliation of loss allowances for these receivables as 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 1 January 2018 - calculated under IFRS 9	-	-
Increase in provision for impairment loss on other receivables	4,215	13,770
Loss allowance as at 31 December 2018 - Under IFRS 9	4,215	13,770

ii) Staff receivables

These receivables relate to staff receivables. For impairment assessment, the Group uses the only borrower specific information available (days past due information and employment status) to assess whether credit risk has increased significantly since initial recognition. These assets are classified as less than 30 days past due (stage 1).

Impairment allowance on receivable amounts was assessed to be insignificant. This was on the basis that there has been no history of default on these asset as repayments are deducted directly from the staff's monthly salary. In addition, the outstanding balance as at 31 December 2018 and 31 December 2017 was deemed to be insignificant (₦218 million, 2017: ₦7.1 million) (\$0.7 million, 2017: \$23,288). The impairment loss was nil under the incurred loss model of IAS 39.

e) Cash and bank balances

i. Fixed deposits

The Group applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for cash and bank balances. The ECL was calculated as the probability weighted estimate of the credit losses expected to occur over the contractual period of the facility after considering macroeconomic indicators. See notes 11 and 26 for further details.

Notes to the consolidated financial statements

Continued

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	30,191	-	-	30,191
Loss allowance as at 31 December 2018	(103)	-	-	(103)
Net EAD	30,088	-	-	30,088

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	33,272	-	-	33,272
Loss allowance as at 1 January 2018	(36)	-	-	(36)
Net EAD	33,236	-	-	33,236

* Exposure at default

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	98,343	-	-	98,343
Loss allowance as at 31 December 2018	(335)	-	-	(335)
Net EAD	98,008	-	-	98,008

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	108,732	-	-	108,732
Loss allowance as at 1 January 2018	(118)	-	-	(118)
Net EAD	108,614	-	-	108,614

* Exposure at default

The reconciliation of gross carrying amount for fixed deposits is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	30,191	98,343
Additions during the year	3,180	10,389
Exchange differences	135	-
Gross carrying amount as at 31 December	33,506	108,732

Notes to the consolidated financial statements

Continued

The reconciliation of loss allowances for fixed deposits as at 31 December 2017 and 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts adjusted through opening retained earnings	103	335
Loss allowance as at 1 January 2018 - calculated under IFRS 9	103	335
Reversal of impairment loss on fixed deposits	(67)	(217)
Exchange difference	-	-
Loss allowance as at 31 December 2018 - Under IFRS 9	36	118

The impact of unwinding of discount on impairments of fixed deposits is rounded up to zero.

ii. Other cash and bank balances

The Group also assessed the other cash and bank balances to determine their expected credit losses. Based on this assessment, they identified the expected losses as at 1 January 2018 and 31 December 2018 to be insignificant. The assets are assessed to be in stage 1.

iii. Credit quality of cash and bank balances

The credit quality of the Group's other cash and bank balances is assessed on the basis of external credit ratings (Fitch national long term rating) as shown below:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Non-rated	4	62,937	12	205,811
B-	-	24,978	-	81,681
B	-	16,589	-	54,247
B+	-	4,308	-	14,090
BB+	-	-	-	-
BBB+	36	-	117	-
BBB	619	-	2,015	-
A+	94,128	24,331	306,608	79,564
AA	47,920	-	156,090	-
AA-	28,688	556	93,451	1,819
AAA	8,150	-	26,548	-
	179,545	133,699	584,841	437,212
Allowance for impairment recognised during the year	(36)	-	(118)	-
Net cash and cash bank balances	179,509	133,699	584,723	437,212

f) Deferred tax impact on transition adjustment.

The deferred tax assets recognised were as a result of the expected credit losses recognised on initial adoption of IFRS 9.

Notes to the consolidated financial statements

Continued

g) Reconciliation of impairment loss on financial assets

Movements in the provision for impairment of financial assets that are assessed are as follows:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
At 1 January	-	3,129	-	10,260
Impact on initial application of IFRS 9	2,369	-	7,737	-
Adjusted balance at 1 January 2018	2,369	-	7,737	-
Allowance for impairment recognised during the year	4,990	-	16,303	-
Reversal of previously recognised impairment losses	(505)	(3,138)	(1,660)	(10,260)
Exchange rate differences	(2)	9	-	-
At 31 December	6,852	-	22,380	-

41.2.3. Hedge accounting

The Group entered agreements to sell put options for crude oil in Brent at a strike price of ₦12,280 (\$40) per barrel to Ned Bank Limited for 600,000 barrels within a period of 6 months from 1 January 2018 to 30 June 2018.

It also entered into agreements to sell put options for crude oil in Brent at a strike price of ₦15,350 (\$50) per barrel to Natixis for 500,000 barrels within a period of 6 months from 1 July 2018 to 31 December 2018.

The purpose of these is to hedge its cash flows against oil price risk. The contracts provide for a no loss position for Seplat, in that Seplat makes a gain if the price of oil falls below the strike price; and if the price of oil is above the strike price, there is no loss i.e. no payment is made by Seplat except for the mutually agreed monthly premium which is paid in arrears and is settled net of any gain on settlement date.

As at the reporting periods ended 31 December 2017 and 31 December 2018, the Group had derivative assets and no derivative liabilities. The derivative assets are measured and recognised at fair value. The Group has not formally designated any of these instruments for hedge accounting.

41.3. IFRS 15 Revenue from Contracts with Customers - Impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules using the modified retrospective approach and has not restated comparatives for the 2017 financial year. There was no impact on the Group's retained earnings at the date of initial application (i.e. 1 January 2018). The reclassification adjustments resulting from the adoption of IFRS 15 is shown in note 41.3 and detailed below:

41.3.1. Impact on statement of financial position

a) Trade and other receivables

The Group introduced the presentation of contract assets in the balance sheet to reflect the guidance of IFRS 15. Contract assets of ₦4.3 billion, 1 January 2018: ₦4.2 billion (\$14.1 million, 1 January 2018: \$13.8 million) recognised in relation to unbilled amounts from Nigerian Gas Marketing Company (NGMC) were previously presented as part of trade and other receivables. See notes 23 and 24 for further details.

41.3.1.1. Impact on statement of profit or loss and other comprehensive income

a) Reclassification of underlifts to other income

In some instances, Joint Operating arrangement (JOA) partners lift the share of production of other partners. Under IAS 18, over lifts and underlifts were recognised net in revenue using entitlement accounting. They are settled at a later period through future liftings and not in cash (non-monetary settlements). This is referred to as the entitlement method. IFRS 15 excludes transactions arising from arrangements where the parties are participating in an activity together and share the risks and benefits of that activity as the counterparty is not a customer. To reflect the change in policy, the Group has reclassified underlifts to other income. Revenue has therefore been recognised net of underlifts of ₦4.2 billion (\$13.7 million) for the reporting period. Under IAS 18, revenue recognized without reclassifying underlifts to other income would have been ₦232.6 billion (\$759.8 million). See note 9 for other details.

Notes to the consolidated financial statements

Continued

b) Reclassification of demurrage from costs of sales

Seplat pays demurrage to Mercuria for delays caused by incomplete cargoes delivered at the port. These are referred to as price adjustments and Seplat is billed subsequently by Mercuria. Under IFRS 15, these are considerations payable to customers and should be recognised net of revenue. Revenue has therefore been recognised net of demurrage costs of ₦64.6 million (\$211,160) for the reporting period. This had no tax impact. In the current period, there was a refund of demurrage which has been added to revenue. In prior reporting periods, demurrage costs were included as part of operations and maintenance costs. Under IAS 18, revenue recognized without reclassifying demurrage costs to revenue would have been ₦228.3 billion (\$745.9 million). See note 8 for further details.

Statement of value added

For the year ended 31 December 2018

	2018		2017		2018		2017	
	₦ million	%	₦ million	%	\$'000	%	\$'000	%
Revenue	228,391		138,281		746,140		452,179	
Other income	4,618		209		15,085			
Finance income	3,032		1,326		9,905		4,335	
Cost of goods and other services:								
Local	(54,041)		(41,757)		(176,546)		(136,543)	
Foreign	(36,028)		(27,838)		(117,697)		(91,028)	
Valued added	145,972		70,012	100%	476,887		228,943	100%

Applied as follows:

	2018		2017		2018		2017	
	₦ million	%	₦ million	%	\$'000	%	\$'000	%
To employees:								
- as salaries and labour related expenses	10,604	7	7,925	11	34,648	7	25,917	11
To external providers of capital:	17,292							
- as interest		12	22,248	32	56,492	12	72,752	32
To Government:								
- as Group taxes	7,693	5	687	1	25,134	5	2,248	1
Retained for the Group's future:								
- For asset replacement, depreciation, depletion & amortisation	37,461	26	26,385	38	122,383	26	86,277	38
Deferred tax (charges)/credit	28,055	19	(68,344)	(98)	91,654	19	(223,481)	(98)
Profit for the year	44,867	31	81,111	116	146,576	31	265,230	116
Valued added	145,972	100%	70,012	100%	476,887	100%	228,943	100%

The value added represents the additional wealth which the Group 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 creation of future wealth.

Five year financial summary

As at 31 December 2018

	2018	2017	2016	2015	2014
	₦ million				
Revenue	228,391	138,281	63,384	112,972	124,377
Profit/(loss) before taxation	80,615	13,454	(47,419)	17,243	40,481
Income tax (expense)/credit	(35,748)	67,657	2,035	(4,252)	-
Profit/(loss) for the year	44,867	81,111	(45,384)	12,991	40,481

	2018	2017	2016	2015	2014
	₦ million				
Capital employed:					
Issued share capital	286	283	283	282	277
Share premium	82,080	82,080	82,080	82,080	82,080
Share based payment reserve	7,298	4,332	2,597	1,729	-
Capital contribution	5,932	5,932	5,932	5,932	5,932
Retained earnings	192,723	166,149	85,052	134,919	135,727
Foreign translation reserve	203,153	200,870	200,429	56,182	35,642
Non-controlling interest	-	-	-	(148)	-
Total equity	491,472	459,646	376,373	280,976	259,658
Represented by:					
Non-current assets	512,219	539,672	462,402	295,735	182,162
Current assets	263,437	259,881	202,274	249,462	261,864
Non-current liabilities	(184,808)	(131,925)	(141,473)	(131,786)	(48,247)
Current liabilities	(99,376)	(207,982)	(146,830)	(132,435)	(136,121)
Net assets	491,472	459,646	376,373	280,976	259,658

Five year financial summary

As at 31 December 2018

	2018	2017	2016	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	746,140	452,179	254,217	570,477	775,019
Profit/(loss) before taxation	263,364	43,997	(172,766)	87,079	252,253
Income tax (expense)/credit	(116,788)	221,233	6,672	(21,472)	-
Profit/(loss) for the year	146,576	265,230	(166,094)	65,607	252,253

	2018	2017	2016	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000
Capital employed:					
Issued share capital	1,834	1,826	1,826	1,821	1,798
Share premium	497,457	497,457	497,457	497,457	497,457
Share based payment reserve	27,499	17,809	12,135	8,734	-
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,030,954	944,108	678,922	865,483	869,861
Foreign currency translation reserve	3,141	1,897	3,675	325	26
Non-controlling interest	-	-	-	(745)	-
Total equity	1,600,885	1,503,097	1,234,015	1,413,075	1,409,142
Represented by:					
Non-current assets	1,668,466	1,764,789	1,516,073	1,487,307	988,576
Current assets	88,099	84,841	66,200	1,254,583	1,421,114
Non-current liabilities	(601,976)	(431,407)	(463,847)	(662,774)	(261,834)
Current liabilities	(323,704)	(680,126)	(481,411)	(666,041)	(738,714)
Net assets	1,600,885	1,503,097	1,234,015	1,413,075	1,409,142

Supplementary financial information (unaudited)

For the year ended 31 December 2018

42. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 1 January 2018	226.2	1,455.8	477.2
Revisions	10.7	70.2	22.8
Discoveries and extensions	-	-	-
Acquisitions	-	-	-
Production	(10.3)	(53.0)	(19.4)
At 1 January 2019	226.6	1,473.0	480.6

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.

43. Capitalised costs related to oil producing activities

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Capitalised costs:				
Unproved properties	-	-	-	-
Proved properties	551,540	508,314	1,796,547	1,662,243
Total capitalised costs	551,540	508,314	1,796,547	1,662,243
Accumulated depreciation	(152,065)	(114,937)	(495,327)	(375,856)
Net capitalised costs	399,475	393,377	1,301,220	1,286,387

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.

44. Concessions

The expiry dates of concessions granted to the Group are:

	Expiry date
Seplat	October 2038
Newton	October 2028
Seplat East Swamp	June 2027
Seplat Swamp	June 2027

On 15 November 2018 Seplat announced the President and Honourable Minister of Petroleum Resources had given consent for the renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41. In connection with the license renewal Seplat has paid in full a Renewal Bonus of ₦7.8 billion, 2017: nil (\$25.9 million, 2017: nil), thus ensuring all conditions for license renewal have been met. The Company is working with the Department of Petroleum Resources to obtain the updated title deeds in connection with the renewal.

Supplementary financial information (unaudited)

For the year ended 31 December 2018 - continued

45. Results of operations for oil producing activities

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Revenue	180,751	100,369	590,503	328,206
Other income - net	4,618	209	15,085	682
Production and administrative expenses	(105,111)	(86,792)	(343,396)	(283,800)
Depreciation & amortisation	(36,073)	(22,691)	(117,842)	(74,198)
Profit/(loss) before taxation	44,185	(8,905)	144,350	(29,110)
Taxation	(35,748)	67,657	(116,788)	221,233
Profit/(loss) after taxation	8,437	58,752	27,562	192,123

46. Reclassification

Certain comparative figures have been reclassified in line with the current year's presentation.

47. Exchange rates used in translating the accounts to Naira

The table below shows the exchange rates used in translating the accounts into Naira

	Basis	31 December 2018	31 December 2017
		₦/\$	₦/\$
Fixed assets - opening balances	Historical rate	Historical	Historical
Fixed assets - additions	Average rate	306.10	305.80
Fixed assets - closing balances	Closing rate	307.00	305.81
Current assets	Closing rate	307.00	305.81
Current liabilities	Closing rate	307.00	305.81
Equity	Historical rate	Historical	Historical
Income and Expenses:	Overall Average rate	306.10	305.81

Company Accounts

For the year ended 31 December 2018

(Expressed in Nigerian Naira and US Dollars)

Separate financial statements

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2018

		31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
	Notes	₦ million	₦ million	\$'000	\$'000
Revenue	7	217,174	127,655	709,493	417,428
Cost of sales	8	(103,086)	(67,666)	(336,777)	(221,258)
Gross profit		114,088	59,989	372,716	196,170
Other income - net	9	1,757	334	5,739	1,092
General and administrative expenses	10	(19,752)	(18,459)	(64,520)	(60,355)
(Impairment)/reversal of losses on financial assets - net	11	(69)	3,138	(227)	10,260
Fair value gain/(loss) - net	12	1,319	(5,931)	4,308	(19,393)
Operating profit		97,343	39,071	318,016	127,774
Finance income	13	2,874	11,924	9,388	38,992
Finance cost	13	(14,788)	(22,236)	(48,311)	(72,710)
Profit before taxation		85,429	28,759	279,093	94,056
Income tax (expense)/credit	14	(35,748)	67,657	(116,788)	221,233
Profit for the year		49,681	96,416	162,305	315,289
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		2,026	1,027	-	-
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	31	178	(90)	579	(294)
Deferred tax (expense)/credit on remeasurement (gains)/losses	14	(80)	76	(261)	250
		98	(14)	318	(44)
Other comprehensive income/(loss) for the year (net of tax)		2,124	1,013	318	(44)
Total comprehensive income for the year (net of tax)		51,805	97,429	162,623	315,245
Basic earnings per share ₦/(\$)	33	87.52	171.12	0.29	0.56
Diluted earnings per share ₦/(\$)	33	85.66	168.66	0.28	0.55

*There is no revenue other than revenue from contracts with customers in 2018.

Notes 1 to 39 on pages 8 to 86 are an integral part of these financial statements.

Separate financial statements

Statement of financial position

As at 31 December 2018

	Notes	31 Dec 2018 ₦ million	31 Dec 2017 ₦ million	31 Dec 2018 \$'000	31 Dec 2017 \$'000
ASSETS					
Non-current assets					
Oil & gas properties	17	275,085	278,841	896,040	911,839
Other property, plant and equipment	17	1,285	1,537	4,183	5,025
Tax paid in advance	18	9,708	9,670	31,623	31,623
Prepayments	19	7,871	287	25,635	939
Deferred tax	15	44,284	68,417	144,246	223,731
Investment in subsidiaries	20	345	345	1,129	1,129
Total non-current assets		338,578	359,097	1,102,856	1,174,286
Current assets					
Inventories	21	30,400	29,576	99,022	96,719
Trade and other receivables	22	318,997	327,528	1,039,074	1,071,044
Prepayments	19	3,456	513	11,258	1,674
Contract assets	23	4,327	-	14,096	-
Derivative financial instruments	24	2,693	-	8,772	-
Cash and bank balances	25	153,535	117,220	500,116	383,321
Total current assets		513,408	474,837	1,672,338	1,552,758
Total assets		851,986	833,934	2,775,194	2,727,044
EQUITY AND LIABILITIES					
Equity					
Issued share capital	26	286	283	1,834	1,826
Share premium	26	82,080	82,080	497,457	497,457
Share based payment reserve	26	7,298	4,332	27,499	17,809
Capital contribution	27	5,932	5,932	40,000	40,000
Retained earnings		234,148	203,072	1,147,526	1,045,985
Foreign currency translation reserve	28	196,542	194,526	-	-
Total shareholders' equity		526,296	490,225	1,714,316	1,603,077
Non-current liabilities					
Interest bearing loans and borrowings	29	133,799	93,170	435,827	304,677
Provision for decommissioning obligation	30	37,658	30,716	122,666	100,447
Defined benefit plan	31	1,819	1,994	5,923	6,518
Total non-current liabilities		173,276	125,880	564,416	411,642
Current liabilities					
Interest bearing loans and borrowings	29	3,031	81,159	9,872	265,400
Trade and other payables	32	140,398	135,406	457,323	442,792
Current tax liabilities	14	8,985	1,264	29,267	4,133
Total current liabilities		152,414	217,829	496,462	712,325
Total liabilities		325,690	343,709	1,060,878	1,123,967
Total shareholders' equity and liabilities		851,986	833,934	2,775,194	2,727,044

Notes 1 to 39 on pages 8 to 86 are an integral part of these financial statements.

Separate financial statements

Statement of financial position continued

As at 31 December 2018

The financial statements of Seplat Development Company Plc for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 6 March 2019 and were signed on its behalf by:



A. B. C. Orjiako
FRC/2013/IODN/00000003161
Chairman
6 March 2019



A. O. Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
6 March 2019



R.T. Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
6 March 2019

Separate financial statements

Statement of changes in equity

For the year ended 31 December 2018

	Issued share capital ₦ million	Share premium ₦ million	Share based payment reserve ₦ million	Capital contribution ₦ million	Retained earnings ₦ million	Foreign currency translation reserve ₦ million	Total equity ₦ million
At 1 January 2017	283	82,080	2,597	5,932	106,670	193,499	391,061
Profit for the year	-	-	-	-	96,416	-	96,416
Other comprehensive (loss)/income	-	-	-	-	(14)	1,027	1,013
Total comprehensive income for the year	-	-	-	-	96,402	1,027	97,429
Transactions with owners in their capacity as owners:							
Share based payments (Note 26)	-	-	1,735	-	-	-	1,735
Total	-	-	1,735	-	-	-	1,735
At 31 December 2017 as originally presented	283	82,080	4,332	5,932	203,072	194,526	490,255
Impact of change in accounting policy:							
Adjustment on initial application of IFRS 9 - net of tax (Note 39.1)	-	-	-	-	(667)	-	(667)
At 1 January 2018 - Restated	283	82,080	4,332	5,932	202,405	194,526	489,558
Profit for the year	-	-	-	-	49,681	-	49,681
Other comprehensive income	-	-	-	-	98	2,026	2,124
Total comprehensive income for the year	-	-	-	-	49,779	2,026	51,805
Transactions with owners in their capacity as owners:							
Dividends paid	-	-	-	-	(18,036)	-	(18,036)
Share based payments (Note 26)	-	-	2,969	-	-	-	2,969
Vested shares (Note 26)	3	-	(3)	-	-	-	-
Total	3	-	2,966	-	(18,036)	-	(15,067)
At 31 December 2018	286	82,080	7,298	5,932	234,148	196,552	526,296

Notes 1 to 39 on pages 8 to 86 are an integral part of these financial statements.

Separate financial statements

Statement of changes in equity continued

For the year ended 31 December 2018

	Issued share capital \$'000	Share premium \$'000	Share based payment reserve \$'000	Capital contribution \$'000	Retained earnings \$'000	Total equity \$'000
At 1 January 2017	1,826	497,457	12,135	40,000	730,740	1,282,158
Profit for the year	-	-	-	-	315,289	315,289
Other comprehensive loss	-	-	-	-	(44)	(44)
Total comprehensive income for the year	-	-	-	-	315,245	315,245
Transactions with owners in their capacity as owners:						
Share based payments (Note 26)	-	-	5,674	-	-	5,674
Total	-	-	5,674	-	-	5,674
At 31 December 2017 as originally presented	1,826	497,457	17,809	40,000	1,045,985	1,603,077
Impact of change in accounting policy:						
Adjustment on initial application of IFRS 9 - net of tax (Note 39.1)	-	-	-	-	(2,194)	(2,194)
At 1 January 2018 - Restated	1,826	497,457	17,809	40,000	1,043,791	1,600,883
Profit for the year	-	-	-	-	162,305	162,305
Other comprehensive income	-	-	-	-	318	318
Total comprehensive income for the year	-	-	-	-	162,623	162,623
Transactions with owners in their capacity as owners:						
Dividends paid	-	-	-	-	(58,888)	(58,888)
Share based payments (Note 26)	-	-	9,698	-	-	9,698
Vested shares (Note 26)	8	-	(8)	-	-	-
Total	8	-	9,690	-	(58,888)	(49,190)
At 31 December 2018	1,834	497,457	27,499	40,000	1,147,526	1,714,316

Notes 1 to 39 on pages 8 to 86 are an integral part of these financial statements.

Separate statement of cash flows

For the year ended 31 December 2018

	Notes	31 Dec 2018 ₦ million	31 Dec 2017 ₦ million	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Cash flows from operating activities					
Cash generated from operations	16	151,582	118,577	495,074	387,760
Defined benefit paid		(63)	(163)	(206)	(532)
Net cash inflows from operating activities		151,519	118,414	494,868	387,228
Cash flows from investing activities					
Investment in oil and gas properties	17	(20,128)	(4,818)	(65,757)	(15,756)
Investment in other property, plant and equipment	17	(698)	(441)	(2,281)	(1,442)
Investment in subsidiary	20	-	(20)	-	(65)
Proceeds from disposal of other property plant and equipment	17	73	50	239	162
Payments for plan assets	31b	(502)	-	(1,635)	-
Interest received	13	2,874	11,924	9,388	38,992
Net cash (outflows/inflows) from investing activities		(18,389)	6,695	(60,046)	21,891
Cash flows from financing activities					
Repayments of loans	29	(207,532)	(29,970)	(678,000)	(98,000)
Proceeds from loans	29	163,775	-	535,045	-
Dividends paid	34	(18,036)	-	(58,888)	-
Principal repayments on crude oil advance	32a	(23,193)	-	(75,769)	-
Interest repayments on crude oil advance	32a	(530)	(1,770)	(1,730)	(5,789)
Payments for other financing charges	29	(1,802)	-	(5,885)	-
Interest paid on bank financing	29	(10,890)	(21,213)	(35,471)	(69,366)
Net cash outflows from financing activities		(98,208)	(52,953)	(320,698)	(173,155)
Net increase in cash and cash equivalents		35,980	72,156	117,541	235,964
Cash and cash equivalents at beginning of the year		117,220	44,950	383,321	147,377
Effects of exchange rate changes on cash and cash equivalents		344	114	(747)	(20)
Cash and cash equivalents at end of the year	25	152,486	117,220	496,698	383,321

Notes 1 to 39 on pages 8 to 86 are an integral part of these financial statements.

Notes to the separate financial statements

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company') 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.

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 ₦50.4 billion (\$340 million) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of ₦4.8 billion (\$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 ₦11,850 (\$80) per barrel. ₦53.1 billion (\$358.6 million) was allocated to the producing assets including ₦2.8 billion (\$18.6 million) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of ₦5.1 billion (\$33 million) was paid on 22 October 2012.

2. Significant changes in the current accounting period

The following significant changes occurred during the reporting year ended 31 December 2018:

- The offering of 9.25% senior notes with an aggregate principal amount of ₦107 billion (\$350 million) due in April 2023. The notes were issued by the Company in March 2018 and guaranteed by some of its subsidiaries. The proceeds of the notes are being used to refinance existing indebtedness and for general corporate purposes.
- In March 2018, the Company obtained a ₦92 billion (\$300 million) revolving facility to refinance an existing ₦92 billion (\$300 million) revolving credit facility due in December 2018. The facility has a tenor of 4 years (due in June 2022) with an initial interest rate of the 6% +Libor. Interest is payable semi-annually and principal repayable annually. ₦61 billion (\$200 million) was drawn down in March 2018. The proceeds from the notes are being used to repay existing indebtedness. In October 2018, the Company made a principal repayment of ₦30.7 billion (\$100 million) out of its existing cash surplus.
- 25,000,000 additional shares were issued in furtherance of the Company's Long Term Incentive Plan, in February 2018. The additional issued shares, less 5,052,464 shares which vested in April 2018, are held by Stanbic IBTC Trustees Limited as Custodian. The Company's share capital as at the reporting date consists of 568,497,025 ordinary shares (excluding the additional shares held in trust) of ₦0.50k each, all with voting rights.

3. Summary of significant accounting policies

3.1. Introduction to summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These accounting policies have been applied to all the years presented, unless otherwise stated.

3.2. Basis of preparation

i) Compliance with IFRS

The financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC). 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 derivative financial instruments measured at fair value through profit or loss on initial recognition. The financial statements are presented in Nigerian Naira and United States Dollars, and all values are rounded to the nearest million (₦'million) and thousand (\$'000) respectively, except when otherwise indicated.

Notes to the separate financial statements

Continued

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 twelve months from the date of this statement.

iv) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2018.

- IFRS 9 Financial instruments, and
- IFRS 15 Revenue from contracts with customers
- Amendments to IFRS 15 Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 39. Other new accounting standards effective for reporting periods beginning on or after 1 January 2018 did not have any impact on the Company's accounting policies and did not require retrospective adjustments to the financial statements.

v) New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

a. IFRS 16 Leases

Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	<p>Operating leases: The standard will affect primarily the accounting for the Company's operating leases which include leases of drilling rigs, buildings and land. As at the reporting date, the Company had non-cancellable operating lease commitments (₦8 billion, \$26 million).</p> <p>Short term leases & low value leases: The Company's one-year contracts with no planned extension commitments mostly applicable to leased staff flats will be covered by the exception for short-term leases. Of these non-cancellable lease commitments, approximately ₦190.8 million (\$0.6 million) relate to short-term leases. None of the Company's other leases will be covered by the exception for low value leases. Short term leases will be recognised on a straight line basis as an expense in profit or loss.</p> <p>Service contracts: Some commitments such as contracts for the provision of drilling, cleaning and community services were identified as service contracts as they did not contain an identifiable asset which the Company had a right to control. It therefore did not qualify as leases under IFRS 16.</p> <p>Right of use assets and lease liabilities: As at January 1 2019, the Company expects to recognise right-of-use assets and lease liabilities of approximately ₦6.8 billion, \$22.2 million and ₦5.6 billion, \$18.4 million respectively. The overall net current assets will be lower by approximately ₦141.4 million, \$0.5 million due to the presentation of a portion of the liability as current liability. Cash flows from principal repayments would be recognised in financing activities while cash flows from interest repayments and short term lease payments would be recognised in operating activities.</p> <p>The Company does not have arrangements where they are lessors.</p>
Date of adoption	<p>The standard for leases is mandatory for financial years commencing on or after 1 January 2019. The Company does not intend to adopt the standard before its effective date.</p> <p>The Company intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption.</p>

Notes to the separate financial statements

Continued

b. Amendments to IAS 19 Employee benefits

These amendments were issued in February 2018. The amendments issued require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. They also require an entity to recognise in profit or loss as part of past service cost or as a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

c. IFRIC 23 Uncertainty over income tax treatment

These amendments were issued in June 2017. IAS 12 Income taxes specifies requirements for current and deferred tax assets and liabilities. An entity applies the requirements in IAS 12 based on applicable tax laws. It may be unclear how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under tax law may not be known until the relevant taxation authority or a court takes a decision in the future. Consequently, a dispute or examination of a particular tax treatment by the tax authority may affect an entity's accounting for a current or deferred tax asset or liability.

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

d. Conceptual framework for financial reporting - Revised

These amendments were issued in March 2018. Included in the revised conceptual framework are revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. The amendments focused on areas not yet covered and areas that had shortcomings.

These amendments are mandatory for annual periods beginning on or after 1 January 2020. The Company does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

e. Amendments to IAS 23 Borrowing costs

These amendments were issued in December 2017. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

f. Amendments to IAS 12 Income taxes

These amendments were issued in December 2017. These amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits. In effect, the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

Notes to the separate financial statements

Continued

g. Amendments to IFRS 11 Joint arrangements

These amendments were issued in December 2017. These amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. In addition to clarifying when a previously held interest in a joint operation is remeasured, the amendments also provide further guidance on what constitutes the previously held interest. This is the entire previously held interest in the joint operation.

These amendments are mandatory for annual periods beginning on or after 1 January 2019. The Company does not intend to adopt the amendments before its effective date and does not expect it to have a material impact on its current or future reporting periods.

3.3. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'), which is the US dollar. The financial statements are presented in Nigerian Naira and the US Dollars.

The Company has chosen to show both presentation currencies and this is allowable by the regulator.

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 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 or other comprehensive income depending on where fair value gain or loss is reported.

3.4. Oil and gas accounting

i) Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

ii) Exploration license cost

Exploration license costs are capitalised within oil and gas properties. License 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.

License 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 to establish development plans and timing. If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license 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 Company 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.

Notes to the separate financial statements

Continued

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.

3.5. Revenue recognition

3.5.1. Revenue recognition (policy from 1 January 2018)

The Company has adopted IFRS 15 as issued in May 2014 which has resulted in changes in accounting policy of the Company. IFRS 15 replaces IAS 18 which covers revenue arising from the sale of goods and the rendering of services, IAS 11 which covers construction contracts, and related interpretations. In accordance with the transitional provisions in IFRS 15, comparative figures have not been restated as the Company has applied the modified retrospective approach in adopting this standard.

IFRS 15 introduces a five-step model for recognising revenue to depict transfer of goods or services. The model distinguishes between promises to a customer that are satisfied at a point in time and those that are satisfied over time.

It is the Company's policy to recognise revenue from a contract when it has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Collectability of customer's payments is ascertained based on the customer's historical records, guarantees provided, the customer's industry and advance payments made if any.

Revenue is recognised when control of goods sold has been transferred. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits (potential cash inflows or savings in cash outflows) associated with the asset. Seplat has two promises to its customers which is the sale of crude oil and gas. For crude oil, this occurs when the crude products are lifted by the customer (buyer) Free on Board at the Company's loading facility. Revenue from the sale of oil is recognised at a point in time when performance obligation is satisfied. For gas, revenue is recognised when the product passes through the custody transfer point to the customer. Revenue from the sale of gas is recognised over time using the practical expedient of the right to invoice.

Notes to the separate financial statements

Continued

The surplus or deficit of the product sold during the period over the Company's share of production in line with entitlement method is termed as an overlift or underlift. With regard to underlifts, if the over-lifter does not meet the definition of a customer or the settlement of the transaction is non-monetary, a receivable and other income is recognised. Conversely, when an overlift occurs, cost of sale is debited and a corresponding liability is accrued. 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 profit or loss as other income/expenses-net.

Definition of a customer

A customer is a party that has contracted with the Company to obtain crude oil or gas products in exchange for a consideration, rather than to share in the risks and benefits that result from sale. The Company has entered into collaborative arrangements with its Joint arrangement partners to share in the production of oil. Collaborative arrangements with its Joint arrangement partners to share in the production of oil are accounted for differently from arrangements with customers as collaborators share in the risks and benefits of the transaction, and therefore, do not meet the definition of customers. Revenue arising from these arrangements are recognised separately in other income.

Contract enforceability and termination clauses

It is the Company's policy to assess that the defined criteria for establishing contracts that entail enforceable rights and obligations are met. The criteria provides that the contract has been approved by both parties, rights have been clearly identified, payment terms have been defined, the contract has commercial substance, and collectability has been ascertained as probable. Revenue is not recognised for contracts that do not create enforceable rights and obligations to parties in a contract. The Company also does not recognise revenue for contracts that do not meet the revenue recognition criteria. In such cases where consideration is received it recognises a contract liability and only recognises revenue when the contract is terminated. For crude oil and gas sales, contract is enforceable at the inception of the contract.

The Company may also have the unilateral rights to terminate an unperformed contract without compensating the other party. This could occur where the Company has not yet transferred any promised goods or services to the customer and the Company has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

Identification of performance obligation

At inception, the Company assesses the goods or services promised in the contract with a customer to identify as a performance obligation, each promise to transfer to the customer either a distinct good or series of distinct goods. The number of identified performance obligations in a contract will depend on the number of promises made to the customer. The delivery of barrels of crude oil or units of gas are usually the only performance obligation included in oil and gas contract with no additional contractual promises. Additional performance obligations may arise from future contracts with the Company and its customers.

The identification of performance obligations is a crucial part in determining the amount of consideration recognised as revenue. This is due to the fact that revenue is only recognised at the point where the performance obligation is fulfilled. Management has therefore developed adequate measures to ensure that all contractual promises are appropriately considered and accounted for accordingly.

Transaction price

Transaction price is the amount allocated to the performance obligations identified in the contract. It represents the amount of revenue recognised as those performance obligations are satisfied. Complexities may arise where a contract includes variable consideration, significant financing component or consideration payable to a customer.

Variable consideration not within the Company's control is estimated at the point of revenue recognition and reassessed periodically. The estimated amount is included in the transaction price to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. As a practical expedient, where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date, the Company may recognise revenue in the amount to which it has a right to invoice.

Sales contracts for crude oil and gas often incorporates provisional pricing - at the date of delivery of the oil or gas, a provisional price is recognised as revenue. The amount of revenue to be recognised is estimated based on the market price of the commodity being sold at the delivery date. The final price is based on agreements between the Company and counterparty with any adjustments recognised within revenue. The existence of provisionally priced arrangements may result in variable consideration. The Company applies judgement to determine if there is an amount that is variable consideration and, if so, whether it is subject

Notes to the separate financial statements

Continued

to a significant reversal. Such a reversal would occur if there were a significant downward adjustment of the cumulative amount of revenue recognised for that performance obligation.

Although variable considerations are subject to a constraint, revenue recognised as the performance obligation is satisfied is not subject to a significant reversal in future periods.

For crude oil contracts, revenue recognition is delayed until the invoice date. As a result, crude contracts are not categorised as provisionally pricing contracts. However for gas contracts, revenue is recognised on the date of delivery at a provisional price. At the invoice date, revenue is marked to market with any adjustments being recognised in revenue. A lag period exists between the delivery of the gas and the date gas volumes are agreed. As a result of the differences in gas volumes that may give rise to variable quantities, the Company recognizes the corresponding transaction as contract assets until the point at which the variable consideration becomes unconditional, and is then considered a financial asset within the scope of IFRS 9.

Significant financing component (SFC) assessment is carried out (using a discount rate that reflects the amount charged in a separate financing transaction with the customer and also considering the Company's incremental borrowing rate) on contracts that have a repayment period of more than 12 months.

As a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when it transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Instances when SFC assessment may be carried out include where the Company receives advance payment for agreed volumes of crude oil or receives take or pay deficiency payment on gas sales. Take or pay gas sales contract ideally provides that the customer must sometimes pay for gas even when not delivered to the customer. The customer, in future contract years, takes delivery of the product without further payment. The portion of advance payments that represents significant financing component will be recognised as interest expense.

Consideration payable to a customer is accounted for as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Company. Examples include barging costs incurred, demurrage and freight costs. These do not represent a distinct service transferred and is therefore recognised as a direct deduction from revenue.

Breakage

The Company enters into take or pay contracts for sale of gas where the buyer may not ultimately exercise all of their rights to the gas. The take or pay quantity not taken is paid for by buyer called take or pay deficiency payment. The Company assesses if there is a reasonable assurance that it will be entitled to a breakage amount. Where it establishes that a reasonable assurance exists, it recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. However, where the Company is not reasonably assured of a breakage amount, it would only recognise the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.

Contract modification and contract combination

Contract modifications relate to a change in the price and/or scope of an approved contract. Where there is a contract modification, the Company assesses if the modification will create a new contract or change the existing enforceable rights and obligations of the parties to the original contract.

Contract modifications are treated as new contracts when the performance obligations are separately identifiable and transaction price reflects the standalone selling price of the crude oil or the gas to be sold. Revenue is adjusted prospectively when the crude oil or gas transferred is separately identifiable and the price does not reflect the standalone selling price.

The Company enters into new contracts with its customers only on the expiry of the old contract. In the new contracts, prices and scope may be based on terms in the old contract. In gas contracts, prices change over the course of time. Even though gas prices change over time, the changes are based on agreed terms in the initial contract i.e. price change due to consumer price index. The change in price is therefore not a contract modifications. Any other change expected to arise from the modification of a contract is implemented in the new contracts.

The Company combines contracts entered into at near the same time (less than 12 months) as one contract if they are entered into with the same or related party customer, the performance obligations are the same for the contracts and the price of one contract depends on the other contract.

Notes to the separate financial statements

Continued

Portfolio expedients

As a practical expedient, the Company may apply the requirements of IFRS 15 to a portfolio of contracts (or performance obligations) with similar characteristics if it expects that the effect on the financial statements would not be materially different from applying IFRS to individual contracts within that portfolio.

Contract assets and liabilities

The Company recognises contract assets for unbilled amounts from crude oil and gas sales. Contract liability is recognised for consideration received for which performance obligation has not been met.

Disaggregation of revenue from contract with customers

The Company derives revenue from two types of products, oil and gas. The Company has determined that the disaggregation of revenue based on the criteria of type of products meets the disaggregation of revenue disclosure requirement of IFRS 15. It depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See further details in note 6.

3.5.2. Revenue recognition (policy prior to 1 January 2018)

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 Company'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 Company'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 profit or loss as revenue or cost of sales.

3.6. 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 are 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:

Notes to the separate financial statements

Continued

Plant and machinery	20%
Motor vehicles	25%
Office furniture and IT equipment	33.33%
Leasehold improvements	Over the unexpired portion of the lease

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.

Gains or losses on disposal of property, plant and equipment are determined as the difference between disposal proceeds and carrying amount of the disposed assets. These gains or losses are included in profit or loss.

3.7. 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 incurred in connection with the borrowing of funds. These costs may arise from; specific borrowings used for the purpose of financing the construction of a qualifying asset, and those that arise from general borrowings that would have been avoided if the expenditure on the qualifying asset had not been made. The general borrowing costs attributable to an asset's construction is calculated by reference to the weighted average cost of general borrowings that are outstanding during the period.

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.

3.8. Finance income and costs

Finance income

Finance income is recognised in the statement of profit or loss as it accrues using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the amortised cost of the financial instrument. The determination of finance income takes into account all contractual terms of the financial instrument as well as any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate (EIR), but not future credit losses.

Finance cost

Finance costs includes borrowing costs, interest expense calculated using the effective interest rate method, finance charges in respect of lease liabilities, the unwinding of the effect of discounting provisions, and the amortisation of discounts and premiums on debt instruments that are liabilities.

3.9. 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 not 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 Company'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 which 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.

Notes to the separate financial statements

Continued

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 of disposal 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.

3.10. Cash and bank balances

Cash and bank balances 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. Please see note 3.13.1(b) for accounting policies on impairment of cash and bank balances.

3.11. 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.

3.12. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of directors has appointed a steering committee which assesses the financial performance and position of the Company, and makes strategic decisions. The steering committee, which has been identified as the chief operating decision maker, consists of the chief financial officer, the general manager (Finance), the general manager (Gas) and the financial reporting manager. See further details in note 6.

3.13. Financial instruments

3.13.1. Financial instruments (policy from 1 January 2018)

The Company's accounting policies were changed to comply with IFRS 9. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

j) Classification and measurement

Financial assets

It is the Company's policy to initially recognise financial assets at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which are expensed in profit or loss.

Notes to the separate financial statements

Continued

Classification and subsequent measurement is dependent on the Company's business model for managing the asset and the cashflow characteristics of the asset. On this basis, the Company may classify its financial instruments at amortised cost, fair value through profit or loss and at fair value through other comprehensive income.

All the Company's financial assets as at 31 December 2018 satisfy the conditions for classification at amortised cost under IFRS 9 except derivative financial instruments which is measured at fair value through profit or loss.

The Company's financial assets include trade receivables, NPDC receivables, intercompany receivables, other receivables, derivative financial instruments and cash and bank balances. They are included in current assets, except for maturities greater than 12 months after the reporting date. Interest income from these assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in finance income/cost.

Financial liabilities

Financial liabilities of the Company are classified and measured at fair value on initial recognition and subsequently at amortised cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognised at fair value through profit or loss.

Fair value gains or losses for financial liabilities designated at fair value through profit or loss are accounted for in profit or loss except for the amount of change that is attributable to changes in the Company's own credit risk which is presented in other comprehensive income. The remaining amount of change in the fair value of the liability is presented in profit or loss. The Company's financial liabilities include trade and other payables and interest bearing loans and borrowings.

k) Impairment of financial assets

Recognition of impairment provisions under IFRS 9 is based on the expected credit loss (ECL) model. The ECL model is applicable to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The simplified approach is applied for trade receivables and contract assets while the general approach is applied to NPDC receivables, cash and bank balances, and other receivables.

The simplified approach requires expected lifetime losses to be recognised from initial recognition of the receivables. This involves determining the expected loss rates using a provision matrix that is based on the Company's historical default rates observed over the expected life of the receivable and adjusted forward-looking estimates. This is then applied to the gross carrying amount of the receivable to arrive at the loss allowance for the period.

The three-stage approach assesses impairment based on changes in credit risk since initial recognition using the past due criterion and other qualitative indicators such as increase in political concerns or other macroeconomic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance. Financial assets classified as stage 1 have their ECL measured as a proportion of their lifetime ECL that results from possible default events that can occur within one year, while assets in stage 2 or 3 have their ECL measured on a lifetime basis.

Under the three-stage approach, the ECL is determined by projecting the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each ageing bucket and for each individual exposure. The PD is based on default rates determined by external rating agencies for the counterparties. The LGD is determined based on management's estimate of expected cash recoveries after considering the historical pattern of the receivable, assesses the portion of the outstanding receivable that is deemed to be irrecoverable at the reporting period. The EAD is the total amount of outstanding receivable at the reporting period. These three components are multiplied together and adjusted for forward looking information, such as the gross domestic product (GDP) in Nigeria and crude oil prices, to arrive at an ECL which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the related financial assets and the amount of the loss is recognised in profit or loss.

l) Significant increase in credit risk and default definition

The Company assesses the credit risk of its financial assets based on the information obtained during periodic review of publicly available information, industry trends and payment records. Based on the analysis of the information provided, the Company identifies the assets that require close monitoring.

Notes to the separate financial statements

Continued

Furthermore, financial assets that have been identified to be more than 30 days past due on contractual payments are assessed to have experienced significant increase in credit risk. These assets are grouped as part of Stage 2 financial assets where the three-stage approach is applied.

In line with the Company's credit risk management practices, a financial asset is defined to be in default when contractual payments have not been received at least 90 days after the contractual payment period. Subsequent to default, the Company carries out active recovery strategies to recover all outstanding payments due on receivables. Where the Company determines that there are no realistic prospects of recovery, the financial asset and any related loss allowance is written off either partially or in full.

m) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and the transfer qualifies for derecognition. Gains or losses on derecognition of financial assets are recognised as finance income/cost.

Financial liabilities

The Company derecognises a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. 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 immediately in the statement of profit or loss.

n) Modification

When the contractual cash flows of a financial instrument are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial instrument, the Company recalculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/(cost)-net at the date of the modification. The gross carrying amount of the financial instrument is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

o) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position. Offsetting can be applied when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right is not contingent on future events and is enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

p) Derivatives

The Company 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. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are recognised within operating profit in profit or loss for the period. An analysis of the fair value of derivatives is provided in Note 5, Financial risk Management.

The Company accounts for financial assets with embedded derivatives (hybrid instruments) in their entirety on the basis of its contractual cash flow features and the business model within which they are held, thereby eliminating the complexity of bifurcation for financial assets. For financial liabilities, hybrid instruments are bifurcated into hosts and embedded features. In these cases, the Company measures the host contract at amortised cost and the embedded features is measured at fair value through profit or loss.

For the purpose of the maturity analysis, embedded derivatives included in hybrid financial instruments are not separated. The hybrid instrument, in its entirety, is included in the maturity analysis for non-derivative financial liabilities.

q) Fair value of financial instruments

The 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. When available, the Company measures the fair value of an instrument using

Notes to the separate financial statements

Continued

quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measure the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price - i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.13.2. Financial instruments (Policy prior to 1 January 2018)

e) Financial assets

i) Financial assets initial recognition and measurement

The Company 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 profit or loss which do not include transaction costs. The Company's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives, intercompany receivables and other receivables.

ii) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as follows:

Trade and other receivables

Trade 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 Company's receivables comprised of trade and other receivables in the 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 Company 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 profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

Notes to the separate financial statements

Continued

iii) Impairment of financial assets

The Company 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 Company 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.

f) 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 Company determines the classification of its financial liabilities at initial recognition.

iii) 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 Company's financial liabilities include trade and other payables, and interest bearing loans and borrowings.

iv) 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.

Interest bearing loans and 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.

v) 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.

Notes to the separate financial statements

Continued

g) Derivative financial instruments

The Company 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 profit or loss 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 Company'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 Company 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 5 financial risk management.

h) Fair value of financial instruments

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. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price - i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in the income statement on initial recognition of the instrument. In other cases, the difference is not recognised in the income statement immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.14. Share capital

On issue of ordinary, shares any consideration received net of any directly attributable transaction costs is included in equity. Shares held by the Company are disclosed as treasury shares and deducted from equity. 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.

3.15. Earnings and dividends per share

Basic EPS

Basic earnings per share is calculated on the Company's profit or loss after taxation attributable to the company 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 after taxation attributable to the company 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 (after adjusting for outstanding share options arising from the share based payment scheme) into ordinary shares.

Notes to the separate financial statements

Continued

Dividend

Dividends on ordinary shares are recognised as a liability in the period in which they are approved.

3.16. Post-employment benefits

Defined contribution scheme

The Company 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 Company. The Company'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 Company 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 Company operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Company 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 and calculated annually by independent actuaries. The liability or asset recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets (if any). The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using government bonds.

Remeasurements gains and losses, arising from changes in financial and demographic assumptions and experience adjustments, 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 Company recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation and the fair value of the plan assets.

The Company 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.
- Net interest cost

Notes to the separate financial statements

Continued

3.17. Provisions

Provisions are recognised when (i) the Company 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 is considered to be material) using a pretax rate that is reflective of current market assessments of the time value of money and the risk specific to the liability;
- 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 a finance cost. 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 costs.

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 Company 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.

3.18. 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.

3.19. 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 Company 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.

Notes to the separate financial statements

Continued

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 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

During the year 2013, applications were made by Seplat 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. Under these incentives, the Company's profits were 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 if certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document were met. After the expiration of the initial three years, the company considered the extension and concluded that it would be of no benefit to the business.

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

3.20. 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 Company 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.

3.21. Share based payments

Employees (including senior executives) of the Company 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 (share based payment reserve), 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 Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Notes to the separate financial statements

Continued

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 Company'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.

4. Significant accounting judgements, estimates and assumptions

The preparation of the Company's 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.

4.1. Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the historical financial information:

i) OMLs 4, 38 and 41

OMLs 4, 38, 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 when the company has an unconditional right to receive payment.

ii) New tax regime

Effective 1 January 2013, the Company was granted the inter 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 was exempted from paying petroleum profits tax on crude oil profits (at 85%), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. After the expiration of the initial three years, the company considered the extension and concluded that it would be of no benefit to the business.

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

The impact of the tax holiday has been considered in calculating the current income tax and deferred tax asset recognised in the financial statements.

iii) Deferred tax asset

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. See further details in note 15.

iv) Foreign currency translation reserve

The Company has used the CBN rate to translate its Dollar currency to its Naira presentation currency. Management has determined that this rate is available for immediate delivery. If the rate used was 10% higher or lower, revenue in Naira would have increased/decreased by ₦21.7 billion (2017: ₦12.8 billion). See note 45 for the applicable translation rate.

Notes to the separate financial statements

Continued

v) Revenue recognition

Definition of contracts

The Company has entered into a non-contractual promise with PanOcean where it allows Panocean to pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with Panocean means that it may not be viewed as a valid contract with a customer. As a result, income from this activity is recognised as other income when earned.

Performance obligations

The judgments applied in determining what constitutes a performance obligation will impact when control is likely to pass and therefore when revenue is recognised i.e. over time or at a point in time. The Company has determined that only one performance obligation exists in oil contracts which is the delivery of crude oil to specified ports. Revenue is therefore recognised at a point in time.

For gas contracts, the performance obligation is satisfied through the delivery of a series of distinct goods. Revenue is recognised over time in this situation as the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company has elected to apply the 'right to invoice' practical expedient in determining revenue from its gas contracts. The right to invoice is a measure of progress that allows the Company to recognise revenue based on amounts invoiced to the customer. Judgement has been applied in evaluating that the Company's right to consideration corresponds directly with the value transferred to the customer and is therefore eligible to apply this practical expedient.

Significant financing component

The Company has entered into an advance payment contract with Mercuria for future crude oil to be delivered. The Company has considered whether the contract contains a financing component and whether that financing component is significant to the contract, including both of the following;

(a) The difference, if any, between the amount of promised consideration and cash selling price and;

(b) The combined effect of both the following:

- The expected length of time between when the Company transfers the crude to Mercuria and when payment for the crude is received and;
- The prevailing interest rate in the relevant market.

The advance period is greater than 12 months. In addition, the interest expense accrued on the advance is based on a comparable market rate. Interest expense has therefore been included as part of finance cost.

Transactions with Joint Arrangement (JOA) partners

The treatment of underlift and overlift transactions is judgmental and requires a consideration of all the facts and circumstances including the purpose of the arrangement and transaction. The transaction between the Company and its JOA partners involves sharing in the production of crude oil, and for which the settlement of the transaction is non-monetary. The JOA partners have been assessed to be partners not customers. Therefore, shortfalls or excesses below or above the Company's share of production are recognised in other income/ (expenses) - net.

Barging costs

The Company refunds to Mercuria barging costs incurred on crude oil barrels delivered. The Company does not enjoy a separate service which it could have paid another party for. The barging costs is therefore determined to be a consideration payable to customer as there is no distinct goods or service being enjoyed by the Company. Since no distinct good or service is transferred, barging costs is accounted for as a direct deduction from revenue i.e. revenue is recognised net of barging costs.

vi) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board of directors has appointed a steering committee which assesses the financial performance and position of the Company, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief financial officer, the general manager (Finance), the general manager (Gas) and the financial reporting manager. See further details in note 6.

Notes to the separate financial statements

Continued

4.2. 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 Company based its assumptions and estimates on parameters available when the 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 Company. Such changes are reflected in the assumptions when they occur.

i) Defined benefit plans (pension benefits)

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. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bonds 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.

ii) 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.

iii) Share-based payment reserve

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 Company measures the fair value of equity-settled transactions with employees at the grant date. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 26.

The Company 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.

iv) Provision for decommissioning obligations

Provisions for environmental clean-up and remediation costs associated with the Company'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.

v) Property, plant and equipment

The Company 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 Company 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.

Notes to the separate financial statements

Continued

During the year, the Company carried out an impairment assessment on OML 4, 38 and 48. The Company used the value in use in determining the recoverable amount of the cash-generating unit. In determining the value, the Company used a forecast of the annual net cashflows over the estimated life of proved plus probable reserves, production rates, oil and gas prices, future cost and other relevant assumptions based on 2018 year end CPR report.

The pre-tax future cashflow were adjusted for risk specific to the forecast and discounted using a pre-tax discount rate of 10% which reflects both current market assessment of the time value of money and risk specific to the assets. The impairment test did not result in an impairment charge for both 2018 and 2017 reporting periods.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes otherwise.

vi) Useful life of other property, plant and equipment

The Company 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 Company may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

vii) Contingencies

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.

viii) Income taxes

The Company 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 Company 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.

ix) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default, expected loss rates and maximum contractual period. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed note 39.2.2.

5. Financial risk management

5.1. Financial risk factors

The Company'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 Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company'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.

Notes to the separate financial statements

Continued

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	Interest bearing loans and borrowings at variable rate	Sensitivity analysis	Review refinancing opportunities
Market risk - commodity prices	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and bank balances, trade and other receivables, contract assets and derivative financial instruments.	Aging 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

5.1.1. 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 Company is exposed to the risk of fluctuations on crude oil prices. The uncertainty around the rate at which oil prices increase or decline led to the Company's decision to enter into an option contract to insure the Company's revenue against adverse oil price movements.

On 17 December 2018, the Company entered economic crude oil hedge contracts with a strike price of ₦15,350 (\$50/bbl) to ₦16,885 (\$55/bbl) for 4 million barrels at an average premium price of ₦399 (\$1.3/bbl) on 19 December 2018. These contracts, which will commence in 1 January 2019, are expected to reduce the volatility attributable to price fluctuations of oil. The Company has pre-paid a premium of ₦1.6 billion, 2017: nil (\$5.2 million; 2017: nil) and has recognised an unrealised fair value gain of ₦2.7 billion, 2017: nil (\$8.8 million; 2017: nil) for these hedges. The termination date is 31 December 2019. Hedging the price volatility of forecast oil sales is in accordance with the risk management strategy of the Company. The Company has not made a formal designation to apply hedge accounting principles in accounting for the economic hedge.

The maturity of the commodity options the Company holds is shown in the table below:

	Less than 6 months Volume (bbls)	6 to 9 months Volume (bbls)	9 to 12 months Volume (bbls)	Total Volume (bbls)	Fair value ₦ million	Fair value \$'000
As at 31 December 2018						
Crude oil hedges	2,500,000	750,000	750,000	4,000,000	2,693	8,772

The following table summarises the impact of a 10 % change in crude oil prices, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000
Increase/decrease in crude oil prices				
+10%	111	-	363	-
-10%	(136)	-	(443)	-

Notes to the separate financial statements

Continued

The Company may be exposed to business risks from fluctuations in the future prices of crude oil and gas. The following table summarises the impact of a 10 % change in crude oil prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+10%	16,953	-	8,974	-
-10%	(16,953)	-	(8,974)	-

Increase/decrease in Commodity Price	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
+10%	55,386	-	29,346	-
-10%	(55,386)	-	(29,346)	-

The following table summarises the impact of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+10%	4,764	-	3,791	-
-10%	(4,764)	-	(3,791)	-

Increase/decrease in Commodity Price	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
+10%	15,564	-	12,397	-
-10%	(15,564)	-	(12,397)	-

ii) Cash flow and fair value interest rate risk

The Company's exposure to interest rate risk relates primarily to interest bearing loans and borrowings. The Company has both variable and fixed borrowings and deposits. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash held at variable rates. Fixed rate borrowings and deposits only give rise to interest rate risk if measured at fair value. The Company's borrowings and fixed deposits are not measured at fair value and are denominated in US dollars.

The contractual re-pricing date of the interest bearing loans and borrowings is three (3) months. The exposure of the Company's interest bearing loans and borrowings at the end of the reporting period is shown below.

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Corporate loan	29,558	174,329	96,282	570,077

Notes to the separate financial statements

Continued

The following table demonstrates the sensitivity to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+1%	(296)	-	(1,743)	-
-1%	296	-	1,743	-

Increase/decrease in interest rate	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
+1%	(963)	-	(5,701)	-
-1%	963	-	5,701	-

iii) Foreign exchange risk

The Company has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. 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 holds the majority of its bank balances equivalents in US dollar. However, the Company does maintain deposits in Naira in order to fund ongoing general and administrative activities 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 carrying value of monetary assets and liabilities exposed to foreign exchange risks at the reporting date:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Financial assets				
Trade and other receivables	13,567	22,699	44,191	74,229
Contract assets	4,327	-	14,096	-
Cash and bank balances	56,026	26,565	182,496	86,869
	73,920	49,264	240,783	161,098
Financial liabilities				
Trade and other payables	(24,647)	(23,335)	(82,284)	(76,307)
Net exposure to foreign exchange risk	49,273	25,929	158,499	84,791

Sensitivity to foreign exchange risk is based on the Company's net exposure to foreign exchange risk due to Naira denominated balances. If the Naira strengthens or weakens by the following thresholds, the impact is as shown in the table below:

Increase/decrease in foreign exchange risk	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million
+5%	(2,346)	-	(1,235)	-
-5%	2,593	-	1,365	-

Notes to the separate financial statements

Continued

	Effect on profit before tax 2018 \$'000	Effect on other components of equity before tax 2018 \$'000	Effect on profit before tax 2017 \$'000	Effect on other components of equity before tax 2017 \$'000
Increase/decrease in foreign exchange risk				
+5%	(7,643)	-	(4,038)	-
-5%	8,447	-	4,463	-

5.1.2. 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 bank balances, derivative assets, deposits with banks and financial institutions as well as credit exposures to customers (i.e. Mercuria, Pillar and NGMC receivables), and other parties (i.e. NPDC receivables and other receivables).

i) Risk management

The Company is exposed to credit risk from its sale of crude oil to Mercuria. The off-take agreement with Mercuria also runs 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 sale of gas to its customers. This risk is managed by the treasury and credit department approved by the Board of Directors through policies that ensure collectability of receivable amounts.

The credit risk on cash and bank balances is managed through the diversification of banks in which cash and bank balances are held. This 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 maximum exposure to credit risk as at the reporting date is:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Trade and other receivables (Gross)	322,020	324,552	1,048,785	1,061,321
Contract assets	4,327		14,096	
Cash and bank balances	153,563	117,220	500,207	383,321
Gross amount	479,910	441,772	1,563,088	1,444,642
Impairment of receivables	(4,541)	-	(14,650)	-
Net amount	475,369	441,772	1,548,438	1,444,642

Trade and other receivables (excluding prepayments), contract assets and cash and bank balances are financial instruments whose carrying amounts as per the financial statements approximate their fair values.

The gross carrying amount of the Company's financial assets have been disclosed using the days past due criteria and other borrower specific information. The details of the credit quality of each financial asset is shown in note 39.2.2.

ii) Estimation uncertainty in measuring impairment loss

The table below shows information on the sensitivity of the carrying amounts of the Company's financial assets to the methods, assumptions and estimates used in calculating impairment losses on those financial assets at the end of the reporting period. These methods, assumptions and estimates have a significant risk of causing material adjustments to the carrying amounts of the Company's financial assets.

Notes to the separate financial statements

Continued

a. Expected cashflow recoverable

The table below demonstrates the sensitivity to a 20% change in the expected cashflows from financial assets, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in estimated cash flows				
+20%	24	-	79	-
-20%	(24)	-	(79)	-

b. Significant unobservable inputs

The table below demonstrates the sensitivity to movements in the probability of default (PD) and loss given default (LGD) for financial assets, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in loss given default				
+10%	(538)	-	(1,759)	-
-10%	538	-	1,759	-

The table below demonstrates the sensitivity to movements in the probability of default (PD) for financial assets (intercompany receivables) classified as stage 1 and stage 2 financial assets, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in probability of default				
+10%	(193)	-	(632)	-
-10%	193	-	630	-

The table below demonstrates the sensitivity to movements in the forward looking macroeconomic indicators, with all other variables held constant:

	Effect on profit before tax 2018 ₦ million	Effect on other components of profit before tax 2018 ₦ million	Effect on profit before tax 2018 \$'000	Effect on other components of profit before tax 2018 \$'000
Increase/decrease in forward looking macroeconomic indicators				
+10%	165	-	540	-
-10%	(164)	-	(540)	-

Notes to the separate financial statements

Continued

5.1.3. Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Company 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 deposit bearing current accounts, time deposits and money market deposits.

i. Financing arrangements

The Company had access to the undrawn loan facility at the end of the reporting period:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Floating rate				
Expiring within one year (bank loans)	61,400	-	200,000	-

The outstanding amount on the loan facility may be drawn at any time up to the total commitment balance available at each commitment period. The available commitment balance as at the year end was ₦92.1billion (\$300 million). This amount reduces by ₦11.5 billion (\$37.5 million) at each subsequent reporting period, that is, every 6 months. There are no restrictions to the amounts available for drawdown

ii. Maturities of financial liabilities

The following table details the Company'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 Company can be required to pay.

	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	Total ₦ million
31 December 2018						
Non - derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	10,130	10,075	10,048	122,220	152,473
Variable interest rate borrowings						
Stanbic IBTC Bank Plc	6.0% +LIBOR	312	313	312	3,789	4,726
The Standard Bank of South Africa L	6.0% +LIBOR	208	209	208	2,526	3,151
Nedbank Limited, London Branch	6.0% +LIBOR	434	434	434	5,263	6,565
Standard Chartered Bank	6.0% +LIBOR	390	391	390	4,736	5,907
Natixis	6.0% +LIBOR	304	304	304	3,684	4,596
FirstRand Bank Limited Acting	6.0% +LIBOR	304	304	304	3,684	4,596
Citibank N.A. London	6.0% +LIBOR	260	261	260	3,158	3,939
The Mauritius Commercial Bank Plc	6.0% +LIBOR	260	261	260	3,158	3,939
Nomura International Plc	6.0% +LIBOR	130	130	130	1,579	1,969
		2,602	2,607	2,602	31,577	39,388
Other non - derivatives						
Trade and other payables**		109,902	-	-	-	109,902
		122,634	12,682	12,650	153,797	301,763

** Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

Notes to the separate financial statements

Continued

	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	Total ₦ million
31 December 2017						
Non - derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	1,696	1,564	1,124	538	4,922
Zenith Bank Plc	8.5% + LIBOR	23,243	21,439	15,404	7,371	67,457
First Bank of Nigeria Limited	8.5% + LIBOR	12,830	11,835	8,503	4,069	37,237
United Bank for Africa Plc	8.5% + LIBOR	14,527	13,400	9,628	4,607	42,162
Stanbic IBTC Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
Standard Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	6,318
Standard Chartered Bank	6.0% + LIBOR	5,747	-	-	-	5,747
Natixis	6.0% + LIBOR	5,747	-	-	-	5,747
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	4,470	-	-	-	4,470
FirstRand Bank Limited Acting	6.0% + LIBOR	3,831	-	-	-	3,831
Nomura Bank Plc*	6.0% + LIBOR	3,831	-	-	-	3,831
NedBank Ltd, London Branch	6.0% + LIBOR	3,831	-	-	-	3,831
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	3,831	-	-	-	3,831
Stanbic IBTC Bank Plc	6.0% + LIBOR	2,874	-	-	-	2,874
		90,812	52,254	37,545	17,965	198,576
Other non - derivatives						
Trade and other payables**	-	59,351	-	-	-	59,351
		150,163	52,254	37,545	17,965	257,927

*Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America

** Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

	Effective interest rate %	Less than 1 year \$'000	1 - 2 year \$'000	2 - 3 years \$'000	3 - 5 years \$'000	Total \$'000
31 December 2018						
Non - derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	33,094	32,915	32,825	399,282	498,116
Variable interest rate borrowings						
Stanbic IBTC Bank Plc	6.0% +LIBOR	1,020	1,023	1,020	12,378	15,441
The Standard Bank of South Africa L	6.0% +LIBOR	680	682	680	8,252	10,294
Nedbank Limited, London Branch	6.0% +LIBOR	1,417	1,421	1,417	17,192	21,447
Standard Chartered Bank	6.0% +LIBOR	1,275	1,279	1,275	15,473	19,302
Natixis	6.0% +LIBOR	992	995	992	12,035	15,014
FirstRand Bank Limited Acting	6.0% +LIBOR	992	995	992	12,035	15,014
Citibank N.A. London	6.0% +LIBOR	850	853	850	10,315	12,868
The Mauritius Commercial Bank Plc	6.0% +LIBOR	850	853	850	10,315	12,868
Nomura International Plc	6.0% +LIBOR	425	426	425	5,158	6,434
		8,501	8,527	8,501	103,153	128,682
Other non - derivatives						
Trade and other payables**		357,988	-	-	-	357,988
		399,583	41,442	41,326	502,435	984,786

Notes to the separate financial statements

Continued

** Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

	Effective interest rate %	Less than 1 year \$'000	1 - 2 year \$'000	2 - 3 years \$'000	3 - 5 years \$'000	Total \$'000
31 December 2017						
Non - derivatives						
Variable interest rate borrowings (bank loans):						
Allan Gray	8.5% + LIBOR	5,546	5,116	3,676	1,759	16,097
Zenith Bank Plc	8.5% + LIBOR	76,006	70,109	50,373	24,104	220,592
First Bank of Nigeria Limited	8.5% + LIBOR	41,957	38,702	27,807	13,306	121,772
United Bank for Africa Plc	8.5% + LIBOR	47,504	43,818	31,483	15,065	137,870
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	20,662
Standard Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	20,662
Standard Chartered Bank	6.0% + LIBOR	18,794	-	-	-	18,794
Natixis	6.0% + LIBOR	18,794	-	-	-	18,794
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	14,617	-	-	-	14,617
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	12,529	-	-	-	12,529
FirstRand Bank Limited Acting	6.0% + LIBOR	12,529	-	-	-	12,529
Nomura Bank Plc*	6.0% + LIBOR	12,529	-	-	-	12,529
NedBank Ltd, London Branch	6.0% + LIBOR	12,529	-	-	-	12,529
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	9,399	-	-	-	9,399
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,576	-	-	-	13,576
		310,547	170,879	122,775	58,750	662,951
Other non - derivatives						
Trade and other payables**	-	194,084	-	-	-	194,084
		504,631	170,879	122,775	58,750	857,035

*Nomura and The Mauritius Commercial Bank replace JP Morgan and Bank of America

**Trade and other payables (excludes non-financial liabilities such as provisions, taxes, pension and other non-contractual payables).

Notes to the separate financial statements

Continued

5.2. Fair value measurements

Set out below is a comparison by category of carrying amounts and fair value of all financial instruments:

	Carrying amount		Fair value	
	2018 ₦ million	2017 ₦ million	2018 ₦ million	2017 ₦ million
Financial assets at amortised cost				
Trade and other receivables*	317,507	324,552	317,507	324,552
Contract assets	4,327	-	4,327	-
Cash and bank balances	153,535	117,220	153,535	117,220
	475,369	441,772	475,369	441,772
Financial assets at fair value				
Derivative financial instruments	2,693	-	2,693	-
	2,693	-	2,693	-
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	136,830	174,329	143,158	174,329
Trade and other payables	109,902	59,351	109,902	59,351
	246,732	233,680	253,060	233,680

* Trade and other receivables exclude NGMC VAT receivables, cash advances and advance payments.

	Carrying amount		Fair value	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Financial assets at amortised cost				
Trade and other receivables	1,034,226	1,061,321	1,034,226	1,061,321
Contract assets	14,096	-	14,096	-
Cash and bank balances	500,116	383,321	500,116	383,321
	1,548,438	1,444,642	1,548,438	1,444,642
Financial assets at fair value				
Derivative financial instruments	8,772	-	8,772	-
	8,772	-	8,772	-
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	445,699	570,077	466,314	570,077
Trade and other payables	357,988	194,084	357,988	194,084
	803,687	764,161	824,302	764,161

* Trade and other receivables exclude NGMC receivables, VAT receivables, cash advances and advance payments.

In determining the fair value of the interest bearing loans and borrowings, non-performance risks of the company as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables), trade and other receivables and contract assets (excluding prepayments) and cash and bank balances are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short term nature.

Notes to the separate financial statements

Continued

5.2.1. Fair Value Hierarchy

As at the reporting period, the Company had classified its financial instruments into the three levels prescribed under the accounting standards. These are all recurring fair value measurements. There were no transfers of financial instruments between fair value hierarchy levels during the year.

31 Dec 2018	Financial Assets					
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets:						
Derivative financial instruments	2,693	-	-	8,772	-	-
	2,693	-	-	8,772	-	-

31 Dec 2018	Financial liabilities					
	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial liabilities:						
Interest bearing loans and borrowings	-	136,830	-	-	445,699	-
	-	136,830	-	-	445,699	-
31 Dec 2017						
Financial liabilities:						
Interest bearing loans and borrowings	-	174,329	-	-	570,077	-
	-	174,329	-	-	570,077	-

- 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.

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 fair value of the Company's derivative financial instruments has been determined using a proprietary pricing model that uses marked to market valuation. The valuation represents the mid-market value and the actual close-out costs of trades involved. The market inputs to the model are derived from observable sources. Other inputs are unobservable but are estimated based on the market inputs or by using other pricing models.

5.3. Capital management

5.3.1. Risk management

The Company's objective when managing capital is to safeguard the Company'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 Company 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 bank balances.

Notes to the separate financial statements

Continued

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Interest bearing loans and borrowings	136,830	174,329	445,699	570,077
Less: cash and bank balances	(153,535)	(117,220)	(500,116)	(383,321)
Net debt	(16,705)	57,109	(54,417)	186,756
Total equity	526,296	490,225	1,714,316	1,603,077
Total capital	509,591	547,334	1,659,899	1,789,833
Net debt (net debt/total capital) ratio	(3%)	10%	(3%)	10%

During the year, the Company's strategy which was unchanged from 2017, was to maintain a gearing ratio of 20% to 40%. Capital includes share capital, share premium, treasury shares, capital contribution and all other equity reserves.

5.3.2. Loan covenant

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1.
- The sources of funds exceed the relevant expenditures in each semi-annual period within the 18 months shown in the Company's liquidity plan.
- The minimum production levels stipulated for each 6 month period must be achieved.

The Company has complied with these covenants throughout the reporting periods presented.

6. Segment reporting

Business segments are based on Seplat's internal organisation and management reporting structure. Seplat's business segments are the two core businesses: Oil and Gas. The Oil segment deals with the exploration, development and production of crude oil while the Gas segment deals with the production and processing of gas. These two reportable segments make up the total operations of the Company.

For the year ended 31 December 2018, revenue from the gas segment of the business constituted 22% of the Company's revenue. Management believes that the gas segment of the business will continue to generate higher profits in the foreseeable future. It also decided that more investments will be made toward building the gas arm of the business. This investment will be used in establishing more offices, creating a separate operational management and procuring the required infrastructure for this segment of the business. The gas business is positioned separately within the Company and reports directly to the ('chief operating decision maker'). As this business segment's revenues and results, and also its cash flows, will be largely independent of other business units within Seplat, it is regarded as a separate segment.

The result is two reporting segments, Oil and Gas. There were no intersegment sales during the reporting periods under consideration, therefore all revenue was from external customers.

Amounts relating to the gas segment are determined using the gas cost centres, with the exception of depreciation. Depreciation relating to the gas segment is determined by applying a percentage which reflects the proportion of the Net Book Value of oil and gas properties that relates to gas investment costs (i.e. cost for the gas processing facilities).

Where applicable, the comparative figures for 2017 have been reclassified to match the new structure for the year ended 31 December 2018.

The Company accounting policies are also applied in the segment reports.

47.1. Segment profit disclosure

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Oil	13,251	74,057	43,291	242,182
Gas	36,430	22,359	119,014	73,107
Total profit for the year	49,681	96,416	162,305	315,289

Notes to the separate financial statements

Continued

	Oil			
	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Revenue				
Crude oil sales	169,534	89,742	553,856	293,455
Operating profit before depreciation, amortisation and impairment	87,523	38,334	300,092	125,372
Depreciation, amortisation and impairment	(26,610)	(21,622)	(101,090)	(70,705)
Operating profit	60,913	16,712	199,002	54,667
Finance income	2,874	11,924	9,388	38,992
Finance cost	(14,788)	(22,236)	(48,311)	(72,710)
Profit before taxation	48,999	6,400	160,079	20,949
Taxation	(35,748)	67,657	(116,788)	221,233
Profit for the year	13,251	74,057	43,291	242,182

	Gas			
	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Revenue				
Crude oil sales	47,640	37,913	155,637	123,973
Operating profit before depreciation, amortisation and impairment	40,762	25,879	138,161	84,617
Depreciation, amortisation and impairment	(4,332)	(3,520)	(19,147)	(11,510)
Operating profit	36,430	22,359	119,014	73,107
Finance income	-	-	-	-
Finance cost	-	-	-	-
Profit before taxation	36,430	22,359	119,014	73,107
Taxation	-	-	-	-
Profit for the year	36,430	22,359	119,014	73,107

During the reporting period, impairment losses recognised in the gas segment related to NGMC. Impairment losses recognised in the oil segment relate to receivables from NPDC. See note 39.2.2 and note 11 for further details.

47.1.1. Disaggregation of revenue

The Company derives revenue from the transfer of commodities at a point in time or over time and from different geographical regions. The Company has not disclosed disaggregated revenue and contract asset for the comparative periods, as the effect of IFRS 15 adjustments have been treated retrospectively using the modified retrospective approach. The modified approach does not require a restatement of comparatives.

	2018	2018	2018	2018	2018	2018
	Oil	Gas	Total	Oil	Gas	Total
	₦'million	₦'million	₦'million	\$'000	\$'000	\$'000
Geographical markets						
Nigeria	-	47,640	47,640	-	155,637	155,637
Switzerland	169,534	-	169,534	553,856	-	553,856
Revenue	169,534	47,640	217,174	553,856	155,637	709,493
Timing of revenue recognition						
At a point in time	169,534	-	169,534	553,856	-	553,856
Over time	-	47,640	47,640	-	155,637	155,637
Revenue	169,534	47,640	217,174	553,856	155,637	709,493

The Company's transactions with its major customer, Mercuria, constitutes more than 10% (₦169 billion, \$554 million) of the total revenue from the oil segment and the Company as a whole. Also, the Company's transactions with NGMC (₦48 billion, \$156 million) accounted for more than 10% of the total revenue from the gas segment and the Company as a whole.

Notes to the separate financial statements

Continued

47.1.2. Impairment/(reversal of) losses by reportable segment

	2018	2018	2018	2017	2017	2017
	Oil	Gas	Total	Oil	Gas	Total
	₦'million	₦'million	₦'million	₦'million	₦'million	₦'million
Impairment losses recognised during the period	775	-	775	-	-	-
Reversal of previously recognised impairment losses	(356)	(347)	(703)	(3,129)	-	(3,129)
Exchange differences	(4)	1	(3)	(9)	-	(9)
Total	415	(346)	69	(3,138)	-	(3,138)

	2018	2018	2018	2017	2017	2017
	Oil	Gas	Total	Oil	Gas	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Impairment losses recognised during the period	2,533	-	2,533	-	-	-
Reversal of previously recognised impairment losses	(1,167)	(1,138)	(2,305)	(10,260)	-	(10,260)
Total	1,366	(1,138)	228	(10,260)	-	(10,260)

47.2. Segment assets

Segment assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the reporting segment and the physical location of the asset. The Company had no non-current assets domiciled outside Nigeria.

	Oil	Gas	Total	Oil	Gas	Total
	₦'million	₦'million	₦'million	\$'000	\$'000	\$'000
Total segment assets						
31 December 2018	699,347	152,639	851,986	2,278,003	497,191	2,775,194
31 December 2017	751,038	82,896	833,934	2,455,967	271,077	2,727,044

47.3. Segment liabilities

Segment liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

	Oil	Gas	Total	Oil	Gas	Total
	₦'million	₦'million	₦'million	\$'000	\$'000	\$'000
Total segment liabilities						
31 December 2018	299,070	26,620	325,690	974,169	86,709	1,060,878
31 December 2017	329,769	13,940	343,709	1,078,384	45,583	1,123,967

7. Revenue

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Crude oil sales	169,534	97,313	553,856	318,210
Gas sales	47,640	37,913	155,637	123,973
	217,174	135,226	709,493	442,183
(Overlift)/ Underlift	-	(7,571)	-	(24,755)
	217,174	127,655	709,493	417,428

*There is no revenue other than revenue from contracts with customers in 2018.

The major off-taker for crude oil is Mercuria. The major off-taker for gas is the Nigerian Gas Marketing Company.

Notes to the separate financial statements

Continued

8. Cost of sales

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Royalties	36,691	20,963	119,867	68,546
Depletion, depreciation and amortisation (Note 17a)	35,851	23,877	117,126	78,078
Crude handling fees	19,331	8,556	63,154	27,976
Nigeria Export Supervision Scheme (NESS) fee	217	104	708	340
Barging costs	-	2,787	-	9,113
Niger Delta Development Commission Levy	1,364	1,061	4,456	3,469
Rig related costs	12	985	39	3,220
Operational & maintenance expenses	9,620	9,333	31,427	30,516
	103,086	67,666	336,777	221,258

Rig related costs for 2017 mostly relate to work-overs which form part of expenses for the relevant reporting period. During the year ended 2018, activities carried out on the site were majorly drilling activities for which the related costs have been capitalised within oil and gas properties (note 17).

Operational & maintenance expenses mainly relates to maintenance costs, warehouse operations expenses, security expenses, community expenses, cleanup costs, fuel supplies and catering services.

9. Other income - net

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Underlift	1,462	-	4,776	-
Gains on foreign exchange	295	334	963	1,092
	1,757	334	5,739	1,092

Shortfalls may exist between the crude oil lifted and sold to customers during the period and the participant's ownership share of production. The shortfall is initially measured at the market price of oil at the date of lifting and recognised as other income. At each reporting period, the shortfall is remeasured at the current market value. The resulting change, as a result of the remeasurement, is also recognised in profit or loss as other income.

Gains on foreign exchange are principally as a result of translation of naira denominated monetary assets and liabilities.

10. General and administrative expenses

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Depreciation (Note 17b)	883	1,265	2,884	4,137
Auditor's remuneration	141	136	458	444
Professional and consulting fees	2,661	1,832	8,693	5,990
Directors' emoluments (executive)	617	711	2,014	2,322
Directors' emoluments (non-executive)	1,053	933	3,439	3,051
Donations	118	102	386	333
Employee benefits (Note 10a)	8,618	6,407	28,154	20,951
Flights and other travel costs	2,101	2,036	6,863	6,657
Rentals	532	509	1,738	1,664
Loss on disposal of plant & equipment	-	10	-	32
Other general expenses	3,028	4,518	9,891	14,774
	19,752	18,459	64,520	60,355

Directors' emoluments have been split between executive & non-executive directors. There were no non-audit services rendered by the Company's auditors during the period (2017: nil).

Notes to the separate financial statements

Continued

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Share based payment expenses are included in employee benefits expense.

Reversal of impairment loss on NPDC receivables was reclassified from other general expenses to (impairment)/reversal of losses on financial assets in note 11.

10a. Salaries and employee related costs include the following:

	2018 ₦ million	2017 ₦'million	2018 \$'000	2017 \$'000
Short term employee benefits:				
Basic salary	4,001	2,761	13,071	9,028
Housing allowances	14	421	45	1,376
Other allowances	855	685	2,794	2,241
Post-employment benefits:				
Defined contribution expenses	439	303	1,435	991
Defined benefit expenses (Note 31b)	340	502	1,111	1,641
Share-based benefits (Note 26d)	2,969	1,735	9,698	5,674
	8,618	6,407	28,154	20,951

Other allowances mainly relates to staff bonus, car allowances and relocation expenses.

11. (Impairment)/reversal of losses on financial assets - net

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Impairment loss on NPDC receivables	(775)	-	(2,533)	-
	(775)	-	(2,533)	-
Reversal of impairment losses:				
Reversal of impairment on NPDC receivables	-	3,129	-	10,260
Reversal of impairment loss on intercompany receivables	309	-	1,014	-
Reversal of impairment loss on NGMC receivables	347	-	1,139	-
Reversal of impairment loss on fixed deposits	47	-	153	-
	703	3,129	2,306	10,260
Exchange difference	3	9	-	-
Total (impairment)/reversal of loss allowance	(69)	3,138	(227)	10,260

The trade receivables balances included in Note 22 includes NGMC receivables

Reversal of impairment loss on NPDC receivables was reclassified from other general expenses within general and administrative expenses in note 10.

The impairment losses in 2018 relate to the expected credit losses (ECL) computed on these financial assets on adoption of IFRS 9. For some trade receivables and contract assets, impairment was assessed to be immaterial and therefore has not been recognised in 2018. The reversals of impairment losses are as a result of decreases in the outstanding balances of trade receivables and fixed deposits. See note 39.2.2 for further details.

12. Fair value gain/(loss) - net

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Realised fair value (loss) on derivatives	(1,374)	(5,931)	(4,464)	(19,393)
Unrealised fair value gain on derivatives (Note 24)	2,693	-	8,772	-
	1,319	(5,931)	4,308	(19,393)

Notes to the separate financial statements

Continued

Fair value gain/(loss) on derivatives represents changes arising from the valuation of the crude oil economic hedge contracts charged to profit or loss.

13. Finance income/(cost)

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Finance income				
Interest income	2,874	11,924	9,388	38,992
Finance cost				
Interest on advance payments for crude oil sales	(530)	(1,770)	(1,730)	(5,789)
Interest on bank loans	(13,415)	(20,449)	(43,828)	(66,867)
Unwinding of discount on provision for decommissioning (Note 30)	(843)	(17)	(2,753)	(54)
	(14,788)	(22,236)	(48,311)	(72,710)
Finance income/(cost) - net	(11,914)	(10,312)	(38,923)	(33,718)

Finance income represents interest on fixed deposits for the Company.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Company's general borrowings denominated in dollars during the year, in this case 13.1% (2017: 9.41%).

14. Taxation

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

14a. Income tax (expense)/credit

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Current tax:				
Current tax on profit for the year	(6,651)	-	(21,726)	-
Education tax	(1,042)	(687)	(3,408)	(2,248)
Total current tax	(7,693)	(687)	(25,134)	(2,248)
Deferred tax:				
Deferred tax (expense)/credit in profit or loss	(28,055)	68,344	(91,654)	223,481
Total tax (expense)/credit in statement of profit or loss	(35,748)	67,657	(116,788)	221,233
Deferred tax recognised in other comprehensive income	(80)	76	(261)	250
Total tax charge/credit for the period	(35,828)	67,733	(117,049)	221,483
Effective tax rate	(42%)	236%	(42%)	235%

14b. Reconciliation of effective tax rate

The estimated applicable average annual tax rates used for the year ended 31 December 2018 were 85% for crude oil activities and 30% for gas activities. A tax rate of 85% applies to Seplat for petroleum profit tax and 30% is the company income tax rate for the gas business. These rates remained unchanged from the year ended 31 December 2017.

In May 2015, in line with Sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Company provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two years tax holiday.

The financial statements have been prepared taking into consideration the impact of the additional tax holiday relating to gas sales and this forms the basis for the Company's current income taxation and deferred taxation for the year ended 31 December 2018.

Notes to the separate financial statements

Continued

A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Profit before taxation	85,429	28,759	279,093	94,056
Tax rate of 85% and 30%	72,615	24,445	237,229	79,948
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(24,827)	(25,578)	(81,108)	(83,644)
Expenses not deductible for tax purposes		27,305	-	89,290
Recognition of previously unrecognised deductible temporary difference	-	(64,335)	-	(210,380)
Impact of tax incentive	(13,083)	(29,227)	(42,741)	(95,577)
Education tax	1,043	687	3,408	2,248
Tax loss utilised	-	(954)	-	(3,118)
Total tax credit in statement of profit or loss	35,748	(67,657)	116,788	(221,233)

14c. Current tax liabilities

The movement in the current tax liabilities is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
As at 1 January	1,264	575	4,133	1,885
Tax charge	7,693	687	25,134	2,248
Exchange difference	28	2	-	-
As 31 December	8,985	1,264	29,267	4,133

15. Deferred tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	-	-	-	-
Deferred tax asset to be recovered after more than 12 months	132,263	158,381	431,984	517,924
	132,263	158,381	431,984	517,924

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Deferred tax liabilities				
Deferred tax liabilities to be recovered in less than 12 months	-	-	-	-
Deferred tax liabilities to be recovered after more than 12 months	(87,979)	(89,964)	(287,738)	(294,193)
	(87,979)	(89,964)	(287,738)	(294,193)
Net deferred tax assets	44,284	68,417	144,246	223,731

Notes to the separate financial statements

Continued

15a. Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	₦ million	₦ million	₦ million	₦ million	₦ million
Tax losses	12,392	-	(12,404)	-	(12)
Other cumulative timing differences:					
Unutilised capital allowance	127,499	-	(11,431)	-	116,068
Provision for decommissioning obligation	102	-	716	-	818
Defined benefit plan	1,250	-	370	(80)	1,540
Share based payment reserve	4,629	-	(1,335)	-	3,294
Unrealised foreign exchange (gain)/loss on trade and other receivables	4,209	-	(2,951)	-	1,258
Other income	6,489	-	(1,243)	-	5,246
Impairment provision on trade and other receivables	1,811	3,805	(1,753)	-	3,863
	158,381	3,805	(30,031)	(80)	132,075
Effect of exchange difference	-	11	177	-	188
	158,381	3,816	(29,854)	(80)	132,263

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	\$'000		\$'000	\$'000	\$'000
Tax losses	40,523	-	(40,523)	-	-
Other cumulative timing differences:					
Unutilised capital allowance	416,935	-	(37,343)	-	379,592
Provision for decommissioning obligation	334	-	2,340	-	2,674
Defined benefit plan	4,087	-	1,209	(261)	5,035
Share based payment reserve	15,138	-	(4,360)	-	10,778
Unrealised foreign exchange (gain)/loss on trade and other receivables	13,765	-	(9,642)	-	4,123
Other income	21,219	-	(4,060)	-	17,159
Impairment provision on trade and other receivables	5,923	12,430	(5,730)	-	12,623
	517,924	12,430	(98,109)	(261)	431,984

Following a significant improvement in the financial position of the Company in 2017, the Company conducted an assessment of its assessable profit based on a five (5) year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. The Company reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, net deferred tax assets of ₦44 billion, 2017: ₦68 billion (\$144 million, 2017: \$224 million) were recognised for those losses.

Notes to the separate financial statements

Continued

15b. Deferred tax liabilities

Deferred tax liabilities are recognised for amounts of income taxes payable in future periods in respect of taxable temporary differences.

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	₦ million	₦ million	₦ million	₦ million	₦ million
Other cumulative timing differences:		-	-		-
Fixed assets	(89,964)	-	4,258	-	(85,706)
Derivative financial instruments	-	-	(2,282)		(2,282)
	(89,964)	-	1,976	-	(87,988)
Effect of exchange difference	-	-	9	-	9
	(89,964)	-	1,976	-	(87,979)

	Balance at 1 January 2018	Impact on initial application of IFRS 9	Charged/credited to profit or loss	Credited to other comprehensive income	Balance at 31 December 2018
	\$'000		\$'000	\$'000	\$'000
Other cumulative timing differences:					
Fixed assets	(294,193)	-	13,911	-	(280,282)
Derivative financial instruments	-	-	(7,456)		(7,456)
	294,193	-	6,455	-	(287,738)

16. Computation of cash generated from operations

	Notes	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Profit before tax		85,429	28,759	279,093	94,056
Adjusted for:					
Depletion, depreciation and amortization	17	36,734	25,142	120,010	82,215
Impairment/(reversal) of losses on financial assets	11	69	(3,138)	227	(10,260)
Interest income	13	(2,874)	(11,924)	(9,388)	(38,992)
Interest on advance payments for crude oil sales	13	530	1,770	1,730	5,789
Interest expense on bank loans	13	13,415	20,449	43,828	66,867
Unwinding of discount on provision for decommissioning	13	843	17	2,753	54
Unrealised fair value gain on derivative financial instruments	12	(2,693)	-	(8,772)	-
Unrealised foreign exchange gain	9	(295)	(334)	(963)	(1,092)
Share based payment expenses	10a	2,969	1,735	9,698	5,674
Defined benefit expenses	10a	340	502	1,111	1,641
Loss on disposal of other property, plant and equipment	17	-	10	-	32
Changes in working capital: (excluding the effects of exchange differences)					
Trade and other receivables		6,689	3,989	21,787	13,045
Prepayments		(10,521)	322	(34,271)	1,054
Contract assets		(4,327)	-	(14,096)	-
Trade and other payables		27,030	49,477	88,048	161,788
Restricted cash		(1,049)		(3,418)	
Inventories		(707)	1,801	(2,303)	5,889
Net cash from operating activities		151,582	118,577	495,074	387,760

Notes to the separate financial statements

Continued

17. Property, plant and equipment

17a. Oil and gas properties

	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
Cost	₦ million	₦ million	₦ million	\$'000	\$'000	\$'000
At 1 January 2017	314,270	37,178	351,448	1,030,395	121,895	1,152,290
Additions	4,818	-	4,818	15,756	-	15,756
Changes in decommissioning	30,596	-	30,596	100,054	-	100,054
Transfer from asset under construction	10,305	(10,305)	-	33,698	(33,698)	-
Interest capitalised	-	1,982	1,982	-	6,480	6,480
Exchange differences	825	97	922	-	-	-
At 31 December 2017	360,814	28,952	389,766	1,179,903	94,677	1,274,580
Depreciation						
At 1 January 2017	86,822	-	86,822	284,663	-	284,663
Charge for the year	23,877	-	23,877	78,078	-	78,078
Exchange differences	226	-	226	-	-	-
At 31 December 2017	110,925	-	110,925	362,741	-	362,741
NBV						
At 31 December 2017	249,889	28,952	278,841	817,162	94,677	911,839
Cost						
At 1 January 2018	360,814	28,952	389,766	1,179,903	94,677	1,274,580
Additions	1,979	18,149	20,128	6,481	59,276	65,757
Changes in decommissioning	6,099	-	6,099	19,466	-	19,466
Transfer from asset under construction	1,526	(1,526)	-	4,970	(4,970)	-
Interest capitalized	-	4,929	4,929	-	16,104	16,104
Exchange differences	1,304	178	1,482	-	-	-
At 31 December 2018	371,722	50,682	422,404	1,210,820	165,087	1,375,907
Depreciation						
At 1 January 2018	110,925	-	110,925	362,741	-	362,741
Charge for the year	35,851	-	35,851	117,126	-	117,126
Exchange differences	543	-	543	-	-	-
At 31 December 2018	147,319	-	147,319	479,867	-	479,867
NBV						
At 31 December 2018	224,403	50,682	275,085	730,953	165,087	896,040

Assets under construction represent costs capitalised in connection with the development of the Company's oil fields and other property, plant and equipment not yet ready for their intended use. Some of which are qualifying assets which take a substantial period of time to get ready for their intended use. A capitalisation rate of 13.1% (2017: 9.41%) has been determined and applied to the Company's general borrowing to determine the borrowing cost capitalised as part of the qualifying assets. Borrowing costs capitalised during the year amounted to ₦4.93 billion, 2017: ₦1.98 billion (\$16.1 million, 2017: \$6.48 million). There was no oil and gas property pledged as security during the reporting period.

Notes to the separate financial statements

Continued

17b. Other property, plant and equipment

	Plant & machinery ₦ million	Motor vehicle ₦ million	Office Furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
Cost					
At 1 January 2017	1,462	2,180	4,106	864	8,612
Additions	122	169	136	13	441
Disposals	-	(141)	-	-	(141)
Exchange differences	4	5	12	3	23
At 31 December 2017	1,588	2,213	4,254	880	8,935
Depreciation					
At 1 January 2017	777	1,409	3,412	600	6,198
Disposals	-	(82)	-	-	(82)
Charge for the year	267	364	515	119	1,265
Exchange differences	2	4	9	2	17
At 31 December 2017	1,046	1,695	3,936	721	7,398
NBV					
At 31 December 2017	542	518	318	159	1,537
Cost					
At 1 January 2018	1,588	2,213	4,254	880	8,935
Addition	-	469	199	30	698
Disposal	(104)	(82)	-	-	(186)
Exchange differences	6	10	17	3	36
At 31 December 2018	1,490	2,610	4,470	913	9,483
Depreciation					
At 1 January 2018	1,046	1,695	3,936	721	7,398
Disposals	(31)	(82)	-	-	(113)
Charge for the year	223	331	268	61	883
Exchange differences	5	7	16	2	30
At 31 December 2018	1,243	1,951	4,220	784	8,198
NBV					
At 31 December 2018	247	659	250	129	1,285

Notes to the separate financial statements

Continued

	Plant & machinery \$'000	Motor vehicle \$'000	Office Furniture & IT equipment \$'000	Leasehold improvements \$'000	Total \$'000
Cost					
At 1 January 2017	4,793	7,146	13,463	2,833	28,235
Additions	399	554	446	43	1,442
Disposals	-	(462)	-	-	(462)
At 31 December 2017	5,192	7,238	13,909	2,876	29,215
Depreciation					
At 1 January 2017	2,546	4,621	11,187	1,967	20,321
Disposals	-	(268)	-	-	(268)
Charge for the year	876	1,189	1,683	389	4,137
At 31 December 2017	3,422	5,542	12,870	2,356	24,190
NBV					
At 31 December 2017	1,770	1,696	1,039	520	5,025
Cost					
At 1 January 2018	5,192	7,238	13,909	2,876	29,215
Addition	-	1,533	651	97	2,281
Disposal	(340)	(268)	-	-	(608)
At 31 December 2018	4,852	8,503	14,560	2,973	30,888
Depreciation					
At 1 January 2018	3,422	5,542	12,870	2,356	24,190
Disposal	(101)	(268)	-	-	(369)
Charge for the year	727	1,082	875	200	2,884
At 31 December 2018	4,048	6,356	13,745	2,556	26,705
NBV					
At 31 December 2018	804	2,147	815	417	4,183

17c. Depletion, depreciation and amortisation

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Oil and gas properties	35,851	23,877	117,126	78,078
Other property, plant and equipment	883	1,265	2,884	4,137
Total depletion, depreciation and amortisation	36,734	25,142	120,010	82,215

17d. Gain/(loss) on disposal of other property, plant and equipment

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Proceeds from disposal of assets	73	50	239	162
Less net book value of disposed assets	(73)	(59)	(239)	(194)
Exchange difference	-	(1)	-	-
	-	(10)	-	(32)

Notes to the separate financial statements

Continued

18. Tax paid in advance

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Tax paid in advance	9,708	9,670	31,623	31,623

In 2013 and 2014, Petroleum Profit Tax payments (2013: ₦9 billion and 2014: ₦0.9 billion) (2013: \$28.7 million and 2014: \$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.

19. Prepayments

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Non-current				
Rent	196	287	635	939
Advances to suppliers	7,675	-	25,000	-
	7,871	287	25,635	939
Current				
Rent	1,182	173	3,850	565
Crude oil hedge	1,584	-	5,159	-
Other prepayments	690	340	2,249	1,109
	3,456	513	11,258	1,674
	11,327	800	36,893	2,613

19a. Rent

In 2014, the Company entered into three new commercial leases in relation to three buildings that it occupies with two in Lagos state and one in Delta state. The non-cancellable leases which relate to buildings in Lagos expire in 2018 and 2019 respectively. The rent on the expired lease agreement was not renewed. The rent on the building in Delta state has been renewed and now expires in 2021. The Company has prepaid these rents. The long-term portion as at 31 December 2018 is ₦0.2 billion, 2017: ₦0.3 billion (\$0.6 million, 2017: \$0.9 million).

In 2018, the Company entered into a lease agreement for an office building in Lagos. The non-cancellable period of the lease is 5 years commencing on 1 January 2019 and ending on 31 December 2023. However, the company has an option of either extending the lease period on terms to be mutually agreed by parties to the lease on the expiration of the current term, or purchase the property.

19b. Advances to suppliers

Advances to suppliers relate to a milestone payment made to Fenog to finance the construction of the Amukpe Escravos Pipeline Project and other related facilities. At the end of the reporting period, the total prepaid amount is ₦7.7 billion, 2017: Nil (\$25 million, 2017: nil)

19c. Other prepayments

Included in other prepayment are prepaid service charge expenses for office buildings, health insurance, software license maintenance, motor insurance premium and crude oil handling fees.

19d. Crude oil hedge

In 2018, the Company commenced a crude oil hedge of ₦15,350 (\$50/bbl) for 4 million barrels at a cost of ₦1.6 billion (\$5.2 million). The contract will commence on 1 January 2019. A premium of ₦1.6 billion (\$5.2 million) has been pre-paid and has been recognised as a prepayment as at 31 December 2018.

Notes to the separate financial statements

Continued

20. Investment in subsidiaries

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Newton Energy Limited	290	290	950	950
Seplat Petroleum Development Company UK Limited	15	15	50	50
Seplat East Onshore Limited	10	10	32	32
Seplat East Swamp Company Limited	10	10	32	32
Seplat Gas Company Limited	10	10	32	32
ANOH Gas Processing Company Limited	10	10	33	33
	345	345	1,129	1,129

21. Inventories

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Tubulars, casings and wellheads	30,400	29,576	99,022	96,719

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. There was no inventory charged to profit or loss and included in cost of sales during the year (2017: ₦1.3 billion, \$4.3 million). There was no write down or reversal of previously recognised write down of inventory for the year ended 31 December 2018.

22. Trade and other receivables

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Trade receivables	27,203	30,890	88,608	101,011
Nigerian Petroleum Development Company (NPDC) receivables	-	34,453	-	112,664
Intercompany receivables	256,874	231,348	836,723	756,532
Advances on investments	20	188	65	613
Advances to related parties	33,086	27,854	107,773	91,086
Advances to suppliers	1,689	1,929	5,499	6,307
Other receivables	125	866	406	2,831
	318,997	327,528	1,039,074	1,071,044

22a. Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Company (NGMC) and Central Bank of Nigeria (CBN) totalling ₦14 billion, 2017: ₦22 billion (\$46 million, 2017: \$72 million) with respect to the sale of gas. Also included in trade receivables is an amount of ₦13 billion, 2017: ₦13 billion (\$43 million, 2017: \$43 million) due from Mecuria for sale of crude.

22b. NPDC receivables

The outstanding cash calls due to Seplat from its JOA partner, NPDC is ₦ nil, 2017: ₦34 billion (\$ nil, 2017: \$113 million). The outstanding NPDC receivables at the end of the reporting period has been netted against the gas receipts payable to NPDC as Seplat has a legally enforceable right to settle outstanding amounts on a net basis.

Notes to the separate financial statements

Continued

	2018	2018	2018	2018
	₦'million	₦'million	₦'000	₦'000
	Gross amounts	Loss allowance	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets				
Trade receivables	14,871	(2,475)	12,396	-
Financial liabilities				
Payable to NPDC	(22,418)	-	(12,396)	(10,022)

	2018	2018	2018	2018
	\$'million	\$'million	\$'000	\$'000
	Gross amounts	Loss allowance	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet
Financial assets				
Trade receivables	48,439	(8,086)	40,353	-
Financial liabilities				
Payable to NPDC	(72,996)	-	(40,353)	(32,643)

22c. Other receivables

Other receivables are amounts that arise as a result of activities outside the operating activities of the Company.

22.1 Reconciliation of trade receivables

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Balance as at 1 January	30,890	21,061	101,011	69,052
Additions during the year	192,567	9,829	629,098	31,959
Receipts for the year	(196,242)	-	(641,105)	-
Exchange differences	110	-	-	-
Gross carrying amount	27,325	30,890	89,004	101,011
Less: impairment allowance (note 39.2.2)	(122)	-	(396)	-
Balance as at 31 December	27,203	30,890	88,608	101,011

23. Contract assets

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Revenue on gas sales	4,327	-	14,096	-

A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. The Company has recognised an asset in relation to a contract with NGMC for the delivery of Gas supplies which NGMC has received but which has not been invoiced as at the end of the reporting period.

The terms of payments relating to the contract is between 30 - 45 days from the invoice date. However, invoices are raised after delivery between 14-21 days when the receivable amount has been established and the right to the receivables crystallises. The right to the unbilled receivables is recognised as a contract asset.

At the point where the final billing certificate is obtained from NGMC authorising the quantities, this will be reclassified from the contract assets to trade receivables.

Notes to the separate financial statements

Continued

23.1 Reconciliation of contract assets

The movement in the Company's contract assets is as detailed below:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Impact on initial application of IFRS 15	4,217	-	13,790	-
Additions during the year	39,120	-	127,803	-
Receipts for the year	(39,027)	-	(127,497)	-
Exchange difference	17	-	-	-
Gross carrying amount	4,327	-	14,096	-
Less: impairment allowance	-	-	-	-
	4,327	-	14,096	-

24. Derivative financial instruments

The Company uses its derivatives for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are accounted for at fair value through profit or loss. They are presented as current assets.

The derivative financial instrument of ₦2.7 billion, 2017: nil (\$8.8 million, 2017: \$ nil) as at 31 December 2018 is as a result of a fair value gain on crude oil hedges. The fair value has been determined using a proprietary pricing model which generates results from inputs. The market inputs to the model are derived from observable sources. Other inputs are unobservable but are estimated based on the market inputs or by using other pricing models.

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Foreign currency option - crude oil hedges	2,693	-	8,772	-

25. Cash and bank balances

Cash and bank balances in the statement of financial position comprise of cash at bank and on hand, fixed deposits with a maturity of three months or less and restricted cash balances.

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Cash on hand	2	3	6	9
Restricted cash	1,049	19,166	3,418	62,674
Cash at bank	152,512	98,051	496,783	320,638
	153,563	117,220	500,207	383,321
Less: impairment allowance (note 39.2.2)	(28)	-	(91)	-
	153,535	117,220	500,116	383,321

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Cash on hand	2	3	6	9
Fixed deposits	31,663	29,658	103,138	96,984
Restricted cash	-	19,166	-	62,674
Cash at bank	120,821	68,393	393,554	223,654
	152,486	117,220	496,698	383,321

Notes to the separate financial statements

Continued

In 2017, the restricted cash balance comprised amounts relating to debt reserve account and stamping reserve account. The amount was subject to capital restrictions relating to the borrowings in that period and was therefore not available for general use by the Company. During the reporting period, a portion of the restricted cash was used to settle the outstanding borrowing facility, resulting in a reduction in the restricted cash balance as at 31 December 2018.

In 2018, the restricted cash balance relates to amounts set aside in the Stamping Reserve account for the revolving credit facility (RCF). The amount is to be used for the settlement of all fees and costs payable for the purposes of stamping and registering the Security Documents at the stamp duties office and at the Corporate Affairs Commission (CAC). The amounts are restricted for a period five (5) years, which is the contractual period of the RCF. These amounts are subject to legal restrictions and are therefore not available for general use by the Company. These amounts have therefore been excluded from cash and bank balances for the purposes of cash flow.

26. Share capital

26a. Authorised and issued share capital

	2018 ₦'million	2017 ₦'million	2018 \$'000	2017 \$'000
Authorised ordinary share capital				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	500	500	3,335	3,335
Issued and fully paid				
568,497,025 (2017: 563,444,561) issued shares denominated in Naira of 50 kobo per share	286	283	1,834	1,826

The Company's issued and fully paid as at the reporting date consists of 568,497,025 ordinary shares (excluding the additional shares held in trust) of ₦0.50k each, all with voting rights. Fully paid ordinary shares carry one vote per share and the right to dividends. There were no restrictions on the Company's share capital.

26b. Movement in share related reserves

	Number of shares Shares	Issued share capital ₦'million	Share based payment reserve ₦'million	Total ₦'million
Opening balance as at 1 January 2018	563,444,561	283	4,332	4,615
Share based payments (note 26d)	-	-	2,969	2,969
Vested shares (note 26d)	5,052,464	3	(3)	-
Closing balance as at 31 December 2018	568,497,025	286	7,298	7,584

	Number of shares Shares	Issued share capital \$'000	Share based payment reserve \$'000	Total \$'000
Opening balance as at 1 January 2018	563,444,561	1,826	17,809	19,635
Share based payments (note 26d)	-	-	9,698	9,698
Vested shares (note 26d)	5,052,464	8	(8)	-
Closing balance as at 31 December 2018	568,497,025	1,834	27,499	29,333

25,000,000 additional shares were issued in furtherance of the Company's Long Term Incentive Plan, in February 2018. The additional issued shares, less 5,052,464 shares which vested in April 2018, are held by Stanbic IBTC Trustees Limited.

	Number of shares Shares	2018 ₦'million	2018 \$'000
Opening balance as at 1 January 2018	-	-	-
Issue of shares	25,000,000	13	41
Vested shares (note 26d)	(5,052,464)	(3)	(8)
Closing balance as at 31 December 2018	19,947,736	10	(33)

Notes to the separate financial statements

Continued

26c. Share Premium

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Share premium	82,080	82,080	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.

26d. Employee share based payment scheme

As at 31 December 2018, the Company had awarded 40,410,644 shares (2017: 33,697,792 shares) to certain employees and senior executives in line with its share based incentive scheme. Included in the share based incentive schemes are two additional schemes (2017 Deferred Bonus Scheme and 2018 LTIP Scheme) awarded during the reporting period. During the year ended 31 December 2018, 5,052,464 shares were vested under the 2015 LTIP and 2015 Deferred Bonus schemes (31 December 2017: No shares had vested).

The Company 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, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017/2018 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016, 2017 and 2018 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

i. Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015, 2016 and 2017 bonus (paid in 2015, 2016, 2017 and 2018 respectively) has been deferred into shares and released on 1 June 2017, 1 June 2018 20 April 2019 and 31 December 2019 respectively subject to continued employment over the vesting period. 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 3 years) based on the following conditions.

- 25% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 25% 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 Company outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The LTIP awards have been approved by the NSE.

ii. Share based payment expenses

The expense recognised for employee services received during the year is shown in the following table:

	2018	2017	2018	2017
	₦'million	₦'million	\$'000	\$'000
Expense arising from equity-settled share-based payment transactions	2,969	1,735	9,698	5,674

There were no cancellations to the awards in 2018 or 2017. The share awards granted to Executive Directors and confirmed employees are summarised below:

Notes to the separate financial statements

Continued

Scheme	Deemed grant date	Start of Service Period	End of service period	Number of awards
Global Bonus Offer	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	09 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	247,610
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long term incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
2017 Deferred Bonus	29 December 2017	29 December 2017	31 December 2019	193,830
2018 Long term incentive Plan	2 May 2018	2 May 2018	1 May 2021	6,519,022
				40,410,644

iii. Determination of diluted EPS

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2018.

Share award scheme (all awards)	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	8,205,773	251.64	1,540,024	205.87
Granted during the year	9,197,562	362.26	6,665,749	262.45
Exercised during the year	(5,052,464)	-	-	-
Outstanding at 31 December	12,350,871	435.94	8,205,773	251.64
Exercisable at 31 December	-	-	-	-

Share award scheme (all awards)	2018 Number	2018 WAEP \$	2017 Number	2017 WAEP \$
Outstanding at 1 January	8,205,773	0.82	1,540,024	0.67
Granted during the year	9,197,562	1.18	6,665,749	0.86
Exercised during the year	(5,052,464)	-	-	-
Outstanding at 31 December	12,350,871	1.42	8,205,773	0.82
Exercisable at 31 December	-	-	-	-

iv. Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in deferred bonus scheme and long term incentive plan during the year for each available scheme.

Deferred Bonus Scheme	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Outstanding at 1 January	738,502	412.05	427,370	399.55
Granted during the year	193,830	589.04	311,132	428.69
Exercised during the year	(247,610)	-	-	-
Outstanding at 31 December	684,722	614.00	738,502	412.05
Exercisable at 31 December	-	-	-	-

Notes to the separate financial statements

Continued

	2018 Number	2018 WAEP \$	2017 Number	2017 WAEP \$
Deferred Bonus Scheme				
Outstanding at 1 January	738,502	1.35	427,370	1.31
Granted during the year	193,830	1.92	311,132	1.40
Exercised during the year	(247,610)	-	-	-
Outstanding at 31 December	684,722	2.00	738,502	1.35
Exercisable at 31 December	-	-	-	-

In 2017, the Company increased the number of shares attributable to the 2015 Deferred Bonus scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification was determined to be ₦ 457.43 (\$1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted. The fair value of the modified options was determined using the same models and principles as described in the table below on the inputs to the models used for the scheme.

The 2015 LTIP and the deferred bonus scheme that have vested in the year have conditions of release attached and this represents the basis of transfer of the shares to the staff.

	2018 Number	2018 WAEP ₦	2017 Number	2017 WAEP ₦
Long term incentive Plan (LTIP)				
Outstanding at 1 January	22,825,042	292.30	14,886,453	253.2
Granted during the year	6,519,022	593.27	7,938,589	367.45
Exercised during the year	(4,804,854)	-	-	-
Outstanding at 31 December	24,539,210	414.45	22,825,042	292.25
Exercisable at 31 December	-	-	-	-

	2018 Number	2018 WAEP \$	2017 Number	2017 WAEP \$
Long term incentive Plan (LTIP)				
Outstanding at 1 January	22,825,042	0.96	14,886,453	0.83
Granted during the year	6,519,022	1.93	7,938,589	1.20
Exercised during the year	(4,804,854)	-	-	-
Outstanding at 31 December	24,539,210	1.35	22,825,042	0.96
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 2018 range from 0.3 to 1.3 years (2017: 0.3 to 2.3 years).

The weighted average fair value of awards granted during the year range from ₦459.15 to ₦590.77, 2017: ₦366.9 to ₦428.1 (\$1.50 to \$1.93, 2017: \$1.20 to \$1.40). There was no exercise prices for options outstanding at the end of the year. (2017: Nil).

The fair value at grant date is independently determined using the Monte Carlo Model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Notes to the separate financial statements

Continued

v. Inputs to the models

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2018:

	2017 Deferred bonus	2017 LTIP	2018 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	43%	41%
Risk-free interest rate (%)	n/a	0.44%	0.83%
Expected life of share options	1.66	2.40	3.00
Weighted average share price (\$)	1.93	1.40	1.93
Weighted average share price (₦)	589.90	428.12	589.90
Model used	Black Scholes	Monte Carlo	Monte Carlo

27. 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.

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Capital contribution	5,932	5,932	40,000	40,000

28. Foreign currency translation reserve

Cumulative foreign exchange differences arising from translation of the Company's results and financial position into the presentation currency and from the translation of foreign subsidiary is recognized in foreign currency translation reserve.

29. Interest bearing loans and borrowings

29a. Net debt reconciliation

Below is the net debt reconciliation on non-current and current interest bearing loans and borrowings:

	Borrowings due within 1 year ₦ million	Borrowings due above 1 year ₦ million	Total ₦ million	Borrowings due within 1 year \$'000	Borrowings due above 1 year \$'000	Total \$'000
Balance as at 1 January 2018	81,159	93,170	174,329	265,400	304,677	570,077
Principal repayment	(81,237)	(126,295)	(207,532)	(265,400)	(412,600)	(678,000)
Interest repayment	(10,890)	-	(10,890)	(35,471)	-	(35,471)
Interest accrued	15,680	239	15,919	51,228	782	52,010
Effect of loan restructuring	-	2,425	2,425	-	7,923	7,923
Other financing charges	(1,802)	-	(1,802)	(5,885)	-	(5,885)
Proceeds from loan financing	-	163,775	163,775	-	535,045	535,045
Exchange differences	121	485	606	-	-	-
Carrying amount as at 31 December 2018	3,031	133,799	136,830	9,872	435,827	445,699

Interest bearing loans and borrowings include a revolving loan facility and senior notes. In the reporting period, the Company repaid its outstanding principal amount of ₦140 billion (\$458 million) on its ₦215 billion (\$700 million) seven year term loan and ₦37 billion (\$120 million) on its ₦92 billion (\$300 million) four year revolving loan facility. The amount recognised as effect of loan restructuring represents the transaction costs related to these facilities.

Notes to the separate financial statements

Continued

In the reporting period, the Company also issued ₦107 billion (\$350million) senior notes at a contractual interest rate of 9.25% with interest payable on 1 April and 1 October, and principal repayable at maturity. The notes are expected to mature in April 2023. The interest accrued at the reporting date is ₦8 billion (\$27 million) using an effective interest rate of 10.4%. Transaction costs of ₦2.1 billion, 2017: nil (\$7 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

An agreement for another four year revolving loan facility was entered into by the Company to refinance its old four year revolving loan facility with interest payable semi-annually and principal repayable on 31 December of each year. The new revolving loan has an initial contractual interest rate of 6% +Libor (7.7%) and a settlement date of June 2022.

The interest rate of the facility is variable. The Company made a drawdown of ₦61 billion (\$200 million) in March 2018. The interest accrued at the reporting period is ₦8 billion (\$25 million) using an effective interest rate of 9.77%. The interest paid was determined using 3-month LIBOR rate + 6 % on the last business day of the reporting period. The amortised cost for the senior notes and the borrowings at the reporting period is ₦107 billion (\$349 million) and ₦30 billion (\$96 million) respectively.

In October 2018, the Company made principal repayments on the four-year revolving facility for a lump sum of ₦30.7 billion (\$100 million). The repayment was accounted for as a prepayment of the outstanding loan facility. The gross carrying amount of the facility was recalculated as the present value of the estimated future contractual cash flows that are discounted using the effective interest rate at the last reporting period. Gain or loss at modification are recognised immediately as part of interest accrued on the facility. Transaction costs of ₦1.4 billion, 2017: nil (\$4.5 million, 2017: nil) have been included in the amortised cost balance at the end of the reporting period.

The proceeds from the notes issue and new revolving loan facility were used to repay and cancel existing indebtedness, and for general corporate purposes.

29b. Outstanding principal exposures

The following is the analysis of the principal outstanding showing the lenders of the facility as at the year end:

31 December 2018	Interest	Current ₦ million	Non-Current ₦ million	Total ₦ million	Current \$'000	Non-Current \$'000	Total \$'000
Senior notes	9.25%	-	107,450	107,450	-	350,000	350,000
Corporate loan:							
Stanbic IBTC Bank Plc	6.0% +LIBOR	-	3,684	3,684	-	12,000	12,000
The Standard Bank of South Africa	6.0% +LIBOR	-	2,456	2,456	-	8,000	8,000
Nedbank Limited, London Branch	6.0% +LIBOR	-	5,117	5,117	-	16,666	16,666
Standard Chartered Bank	6.0% +LIBOR	-	4,605	4,605	-	15,000	15,000
Natixis	6.0% +LIBOR	-	3,582	3,582	-	11,667	11,667
FirstRand Bank Limited Acting	6.0% +LIBOR	-	3,582	3,582	-	11,667	11,667
Citibank N.A. London	6.0% +LIBOR	-	3,070	3,070	-	10,000	10,000
The Mauritius Commercial Bank Plc	6.0% +LIBOR	-	3,070	3,070	-	10,000	10,000
Nomura International Plc	6.0% +LIBOR	-	1,535	1,535	-	5,000	5,000
		-	30,701	30,701	-	100,000	100,000
		-	138,151	138,151	-	450,000	450,000

Notes to the separate financial statements

Continued

31 December 2017	Interest	Current ₦ million	Non-Current ₦ million	Total ₦ million	Current \$'000	Non-Current \$'000	Total \$'000
Term Loan:							
SBSA	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
FBN	8.5% + LIBOR	10,070	21,651	31,721	32,931	70,800	103,731
UBA	8.5% + LIBOR	11,402	24,513	35,915	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	18,243	39,221	57,464	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	1,331	2,862	4,193	4,353	9,359	13,712
		44,464	95,593	140,057	145,401	312,599	458,000
Corporate loan:							
Citibank Nigeria Limited	6% + LIBOR	4,280	-	4,280	14,000	-	14,000
FirstRand Bank Limited Acting	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Nedbank Limited, London Branch	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Standard Chartered Bank	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Natixis	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Stanbic Ibtcc Bank Plc	6% + LIBOR	2,751	-	2,751	9,000	-	9,000
The Standard Bank Of South Africa	6% + LIBOR	3,974	-	3,974	13,000	-	13,000
		36,683	-	36,683	120,000	-	120,000
		81,147	95,593	176,740	265,401	312,599	578,000

30. Provision for decommissioning obligation

	₦ million	\$ '000
At 1 January 2017	103	339
Unwinding of discount due to passage of time	17	54
Change in estimate	30,596	100,054
At 31 December 2017	30,716	100,447
At 1 January 2018	30,716	100,447
Unwinding of discount due to passage of time	843	2,753
Change in estimate	6,099	19,466
At 31 December 2018	37,658	122,666

The Company 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 2027 to 2037 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 2027 to 2037. These provisions were based on estimations carried out by Ryder Scott 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 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.

Notes to the separate financial statements

Continued

Following the review of the current assumptions for the year ended 31 December 2018, the future value of the decommissioning liability was adjusted to reflect economic reality in the primary economic environment in which the Company operates.

As a result, the change in estimate in the current year for the Company amounted to ₦6.1 billion, 2017: ₦30.6 billion (US\$19.5 million, 2017: US\$100.1 million).

	Current estimated life span of reserves	
	2018 In years	2017 In years
Seplat Petroleum Development Company:	2027	2027
OML 4	2037	2034
OML 38	2027 - 2037	2027 - 2034
OML 41	2037	2034

31. Employee benefit obligation

31a. 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 2018 was ₦106 million, 2017: ₦59 million (\$0.3 million, 2017: \$0.2 million).

31b. Defined benefit plan

i) Investment management strategy and policy

The Company operates a funded defined benefit pension plan in Nigeria under the regulation of National Pension Commission. The plan provides benefits to all the employees (excluding Directors holding salaried employment in the Company) who have been employed by the Company for a continuous period of five years and whose employment have been confirmed. The employee's entitlement to the accrued benefits occurs on retirement from the Company. The level of benefits provided on severance depends on members' length of service and salary at retirement age.

The overall investment philosophy of the defined benefit plan fund is to ensure safety, optimum returns and liquidity in line with the regulation and guidelines of the Pension Reform Act 2014 or guidelines that may be issued from time to time by National Pension Commission.

Plan assets are held in trust. Responsibility for supervision of the plan assets (including investment decisions and contributions schedules) lies jointly with the trustees and the pension fund managers. The trustees are made up of members of the Company's senior management appointed by Company's board of directors. The Company does not have an investment strategy of matching plan assets with the defined obligations as they fall due, however, the Company has an obligation to settle shortfalls in the plan assets upon annual actuarial valuations.

The provision for gratuity is based on an independent actuarial valuation performed by Logic Professional Services ("LPS") using the projected unit credit method. The provision is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries.

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:

ii) Liability recognised in the financial position

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Defined benefit obligation	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	-	(1,645)	-
	1,819	1,994	5,923	6,518

Notes to the separate financial statements

Continued

iii) Amount recognised in profit or loss

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Present value of obligation				
Current service cost	500	444	1,633	1,451
Past service cost due to curtailment	-	(180)	-	(589)
Interest cost on benefit obligation	285	238	931	779
	785	502	2,564	1,641
Interest income on plan assets	(3)	-	(10)	-
Balance as at 31 December	782	502	2,554	1,641

The Company 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:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Balance as at 31 December	782	502	2,554	1,641
Charged to receivables	(442)	-	(1,443)	-
Charged to profit or loss	340	502	1,111	1,641

iv) Re-measurement (gains)/losses in other comprehensive income

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Remeasurement (gains)/losses due to changes in financial assumptions	408	(172)	1,331	(561)
Remeasurement losses/(gains) due to experience adjustment	(14)	82	(46)	267
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)

The Company recognises a part of the remeasurement losses in other comprehensive income and credits the other part to its joint operations partners. Below is the breakdown:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Credited to other comprehensive income as at 31 December	394	(90)	1,285	(294)
Charged to receivables	(216)	-	(706)	-
Credited to comprehensive income	178	(90)	579	(294)

v) Deferred tax (expense)/credit on re-measurement (gains)/losses

The Company recognises deferred tax (expense)/credit on a part of the remeasurement losses in other comprehensive income. Below is the breakdown:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Deferred tax on remeasurement losses	(335)	76	(1,094)	250
Credited to receivables	255	-	833	-
Charged to comprehensive income	(80)	76	(261)	250

Notes to the separate financial statements

Continued

vi) Changes in the present value of the defined benefit obligation are as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Defined benefit obligation as at 1 January	1,994	1,559	6,518	5,112
Current service cost	500	444	1,635	1,451
Past service cost due to curtailment	-	(180)	-	(589)
Interest cost on benefit obligation	285	238	931	779
Remeasurement losses	(394)	90	(1,285)	294
Contributions paid by the employer	(63)	(163)	(206)	(532)
Exchange differences	2	6	(25)	3
Defined benefit obligation at 31 December	2,324	1,994	7,568	6,518

vii) The changes in the fair value of plan assets are as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Balance as at 1 January	-	-	-	-
Employer contributions	502	-	1,635	-
Contributions paid by the employer	63	-	206	-
Benefits paid by the employer	(63)	-	(206)	-
Interest income on plan assets	3	-	10	-
Balance as at 31 December	505	-	1,645	-

The net liability disclosed above relates to funded plans as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Present value of funded obligations	2,324	1,994	7,568	6,518
Fair value of plan assets	(505)	-	(1,645)	-
Deficit of funded plans	1,819	1,994	5,923	6,518

The fair value of the plan asset of the Company at the end of the reporting period was determined using the market values of the comprising assets as shown below:

	Quoted	Not quoted	2018	Quoted	Not quoted	2018
	₦ million	₦ million	₦ million	₦ million	₦ million	\$'000
Money market	-	125	125	-	407	407
Treasury bills	379	-	379	1,234	-	1,234
Cash at bank	-	1	1	-	4	4
Total plan asset as at 31 December	379	126	505	1,234	411	1,645

viii) The principal assumptions used in determining defined benefit obligations for the Company's plans are shown below:

	2018	2017
	%	%
Discount rate	15.50	14.00
Average future pay increase	12.00	12.00
Average future rate of inflation	12.00	12.0

Notes to the separate financial statements

Continued

a) Mortality in service

Sample age	Number of deaths in year out of 10,000 lives	
	2018	2017
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

Age band	Rates	
	2018	2017
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 2017 is as shown below:

Assumptions	Base	Discount Rate		Salary increases		Mortality	
		1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2018	2,324	(225)	262	280	(243)	3	(3)
31 December 2017	1,994	(215)	253	266	(229)	27	(28)

Assumptions	Base	Discount Rate		Salary increases		Mortality	
		1% increase \$'000	1% decrease \$'000	1% increase \$'000	1% decrease \$'000	1% increase \$'000	1% decrease \$'000
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2018	7,569	(735)	856	915	(794)	10	(10)
31 December 2017	6,518	(704)	828	869	(749)	88	(91)

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 sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

The expected maturity analysis of the undiscounted defined benefit plan obligation is as follows:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Within the next 12 months (next annual reporting period)	57	70	186	228
Between 2 and 5 years	1,335	926	4,361	3,028
Between 5 and 10 years	131,806	3,796	430,604	12,412
	133,198	4,792	435,151	15,668

Notes to the separate financial statements

Continued

The weighted average liability duration for the Plan is 11.95 years. The longest weighted duration for Nigerian Government bond as at 31st December 2018 was about 5.96 years with a gross redemption yield of about 15.29%.

d) Risk exposure

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

r) Liquidity risk

The plan liabilities are not fully funded and as a result, there is a risk of the Company 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.

iv) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to federal government bond yields. Majority of the plan assets are investments in fixed income securities. If plan assets underperform the federal government bond yields, it will result in a deficit in the plan assets.

32. Trade and other payables

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Trade payable	11,058	15,119	36,021	49,440
Accruals and other payables	44,884	30,758	146,202	100,580
Nigerian Petroleum Development Company (NPDC)	10,022	-	32,643	-
Pension payable	106	59	345	195
NDDC levy	7	2,364	22	7,728
Deferred revenue	-	41,970	-	137,248
Royalties	7,402	14,364	24,111	46,971
Intercompany payable	66,919	30,772	217,979	100,630
	140,398	135,406	457,323	442,792

Included in accruals and other payables are field-related accruals of ₦21 billion, 2017: ₦12 billion (\$67 million, 2017: \$38 million) and other vendor payables of ₦24 billion, 2017: ₦19 billion (\$79 million, 2017: \$63 million). Royalties include accruals in respect of crude and gas production for which payment is outstanding at the end of the year.

NPDC payables relate to cash calls paid in advance in line with the Company's Joint operating agreement (JOA) on OML 4, OML 38 and OML 41.

The outstanding NPDC receivables at the end of the reporting period was used to calculate the impairment losses for the year. The impairment losses was then netted against the outstanding receivables to arrive at a net receivables amount. At the end of the reporting period, this net receivables amount has been netted against payables to NPDC as the Company has a right to offset.

Notes to the separate financial statements

Continued

32a. Net debt reconciliation

Included in accruals and other payables is advance payment on crude oil sales. Below is the net debt reconciliation on this amount.

	2018 ₦ million	2018 \$'000
Balance as at 1 January 2018	23,723	77,499
Principal repayment	(23,193)	(75,769)
Interest repayment	(530)	(1,730)
Carrying amount as at 31 December 2018	-	-

33. Earnings per share (EPS)

Basic EPS

Basic EPS is calculated on the Company's profit or loss after taxation attributable to the company and on the basis of weighted average number of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit after taxation attributable to the company 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.

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Profit for the year	49,681	96,416	162,305	315,289
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	567,555	563,445	567,555	563,445
Outstanding share-based payment (shares)	12,351	8,206	12,351	8,206
Weighted average number of ordinary shares adjusted for the effect of dilution	580,006	571,651	580,006	571,651
	₦	₦	\$	\$
Basic earnings per share	87.52	171.12	0.29	0.56
Diluted earnings per share	85.66	168.66	0.28	0.55
	₦ million	₦ million	\$'000	\$'000
Profit used in determining basic/diluted earnings per share	49,681	96,416	162,305	315,289

The shares were weighted for the proportion of the number of months they were in issue during the reporting period.

34. Dividends paid and proposed

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2018: ₦30.7 (\$0.10) per share, 568,497,025 shares in issue (2017: ₦ Nil, \$Nil per share, 563,444,561 shares in issue)	18,036	-	58,888	-
Proposed dividend on ordinary shares:				
Final proposed dividend for the year: ₦15.35 (\$0.05) per share	9,033	-	29,422	-

Notes to the separate financial statements

Continued

₦9 billion (\$29.4 million) of the interim dividend was paid at ₦15.35 (\$0.05) per share as at 31 March 2018 and the remaining dividend (\$29.4 million, ₦9 billion) was paid at ₦15.35 (\$0.05) as at 31 December 2018.

35. Related party relationships and transactions

The Company is owned 7.81% either directly or by entities controlled by A.B.C Orjiako (SPDCL(BVI)) and members of his family and 12.04% 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.

35a. 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.

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.

Charismond Nigeria Limited: The sister to the CEO works as a General Manager. The company provides administrative services including stationary and other general supplies to the field locations.

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.

Stage leasing (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.

ResourcePro Inter Solutions Limited: The Chief Executive Officer of Seplat's in-law is its UK representative. The company supplies furniture to Seplat.

Shebah Petroleum Development Company Limited ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL (BVI). The company provided consulting services to Seplat.

The following transactions were carried by Seplat with related parties:

Notes to the separate financial statements

Continued

35b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Shareholders of the parent company				
SPDCL (BVI)	333	413	1,088	1,350
Total	333	413	1,088	1,350
Entities controlled by key management personnel:				
Contracts > \$1million in 2018				
Nerine Support Services Limited*	2,335	2,161	7,627	7,066
Cardinal Drilling Services Limited	621	1,001	2,029	3,272
Helko Nigeria Limited	-	444	-	1,453
Abbey Court Trading Company Limited	334	199	1,090	650
Stage leasing(formerly Ndosumuli Venture Limited)	434	171	1,419	560
	3,724	3,976	12,165	13,001
Contracts < \$1million in 2018				
Montego Upstream Services Limited	24	131	79	427
Oriental Catering Services Limited	199	159	650	520
Keco Nigeria Enterprises	78	110	254	361
ResourcePro Inter Solutions Limited	3	9	9	31
Neimeth International Pharmaceutical Plc	-	1	-	2
Charismond Nigeria Limited	23	17	74	55
	327	427	1,066	1,396
	4,051	4,403	13,231	14,397

* 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. it includes salaries and Nerine's mark-up. Total costs for agency and contracts during 2018 is ₦0.2 billion, 2017: ₦1.4 billion (\$0.6 million, 2017: \$4.6million).

All other transactions were made on normal commercial terms and conditions, and at market rates.

35c. Balances

The following balances were receivable from or payable to related parties as at the end of the year:

i) Prepayments/receivables

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Entities controlled by key management personnel				
Cardinal Drilling Services Limited - current portion	1,495	1,681	4,869	5,498
Montego Upstream Services Limited	8	-	26	-
Resourcepro Inte Solutions Ltd	2	-	6	-
	1,505	1,681	4,901	5,498

Notes to the separate financial statements

Continued

ii) Payables

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Entities controlled by key management personnel				
Montego Upstream Services Limited	-	115	-	375
Nerine Support Services Limited	-	2	-	8
Keco Nigeria Enterprises	19	8	61	25
Oriental Catering Services Ltd	14	-	47	-
Cardinal Drilling Services Limited	-	292	-	954
Abbey Court Trading Company Limited	9	-	28	-
Charismond Nigeria Limited	-	-	1	-
Stage Leasing Limited	13	-	43	-
	55	417	180	1,362

The outstanding balances payable to/receivable from related parties are unsecured and are payable/receivable in cash.

36. Information relating to employees

36a. 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:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Salaries and other short-term employee benefits	793	617	2,590	2,017
Post-employment benefits	86	88	281	287
Share based payment expenses	146	87	476	283
	1,025	792	3,347	2,587

The numbers here reflect Seplat's share paid to Key Management staff (Leadership team).

36b. Chairman and Directors' emoluments

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Chairman (Non-executive)	342	342	1,118	1,118
Chief Executive Officer	445	476	1,453	1,557
Executive Directors	699	284	2,283	928
Non-Executive Directors	494	580	1,614	1,897
Bonus*	-	632	-	2,067
JOA Partner Share	-	(418)	-	(1,367)
Total	1,980	1,896	6,468	6,200

* This relates to 2017 bonus paid in 2018. Out of this amount ₦231 million (\$0.7 million) relates to 2016 bonus accrued and paid in 2017.

Notes to the separate financial statements

Continued

36c. Highest paid Director

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Highest paid Director	483	476	1,577	1,557

Emoluments are inclusive of income taxes.

36d. Number of directors

The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	2018 Number	2017 Number
Zero - ₦19,896,500	-	-
₦19,896,501 - ₦115,705,800	8	8
₦115,705,801 - ₦157,947,600	-	1
Above ₦157,947,600	3	3
	11	12

	2018 Number	2017 Number
Zero - \$65,000	-	-
\$65,001 - \$378,000	8	8
\$378,001 - \$516,000	-	1
Above \$516,000	3	3
	11	12

36e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,989,650 (\$6,500), received remuneration (excluding pension contributions), in the following ranges (reflecting Seplat share paid to employees):

	2018 Number	2017 Number
₦1,989,650 - ₦4,897,600	62	57
₦4,897,601 - ₦9,795,200	170	176
₦9,795,201 - ₦14,692,800	69	49
Above ₦14,692,800	107	85
	408	367

	2018 Number	2017 Number
\$6,500 - \$16,000	62	57
\$16,001 - \$32,000	170	176
\$32,001 - \$48,000	69	49
Above \$48,000	107	85
	408	367

Notes to the separate financial statements

Continued

36f. Number of persons employed during the year

The average number of persons (excluding Directors) in employment during the year was as follows:

	2018 Number	2017 Number
Senior management	14	12
Managers	72	69
Senior staff	170	129
Junior staff	152	157
	408	367

36g. Employee cost

Seplat's staff costs (excluding pension contribution) in respect of the above employees amounted to the following:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Salaries & wages	4,761	3,936	15,553	12,871
	4,761	3,936	15,553	12,871

37. Commitments and contingencies

37a. Non-cancellable operating leases

The company leases drilling rigs, buildings, land, boats and storage facilities. The lease terms are between 1 and 5 years. On renewal of a lease, the terms are renegotiated. Commitments for minimum operating lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Operating lease commitments				
Not later than one year	589	728	1,918	2,382
Later than one year and not later than five years	7,379	565	24,036	1,846
	7,968	1,293	25,954	4,228

Rental expense relating to operating leases are disclosed within general and administrative expenses. See note 10.

The Company entered into a 5 year agreement from 1 January 2018 to 31 December 2023 for the lease of its new head office. The agreement had a Fit-Out period of four months from 1 September to 31 December 2018 in which the premises was made available for the Company's use and purpose. As a result, the non-cancellable lease commitment relating to this has been included in the table above. The Company has not early adopted IFRS 16 which will affect the accounting for this contract. See note 3.2 for further details.

37b. Contingent assets

Seplat solely constructed Oben Gas plant to process gas extracted from OML 4, 38 & 41. Seplat has processed NPDC's 55% share of gas from 2015 till date and has not received payment for this service. Seplat did not recognise the related income or receivable for the service provided till date as the basis for determining the fees is yet to be concluded with NPDC.

To enable parties close out this, in 2018, a Value For Money (VFM) audit was initiated by NPDC to determine whether to buy in to the gas processing operation or to pay tolling for the processing services provided in the past and to continue tolling. A contingent asset is highly probable but has not been recognised as a receivable as at 31 December 2018 as receipt of the amount is dependent on the outcome of the VFM audit and eventual negotiations.

Notes to the separate financial statements

Continued

Seplat entered into a non-contractual promise with PanOcean to allow PanOcean pass crude oil through its pipelines from a field just above Seplat's to the terminal for loading. Management has determined that the non-existence of an enforceable contract with PanOcean means that it may not be viewed as a valid contract with a customer in accordance with IFRS 15 which was adopted at the beginning of the year. However, parties are now in discussions and in the concluding stages of executing a contract.

Seplat has not recognised the related income or receivable for the service provided. It has therefore disclosed a contingent asset of ₦0.4 billion, 1 January 2018: ₦0.4 billion (\$1.4 million, 1 January 2018: \$1.4 million) as the amount that will be due to Seplat when an enforceable contract is agreed by both parties. No amount has been recognised in revenue in relation to the transaction.

37c. Contingent liabilities

The Company is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2018 is ₦ 0.7 billion, 2017: ₦54 billion (\$2.4 million, 2017: \$176 million). The contingent liability for the year is determined based on possible occurrences, though unlikely to occur. No provision has been made for this potential liability in these financial statements. Management and the Company's solicitors are of the opinion that the Company will suffer no loss from these claims.

37d. Capital commitments

As at the end of the reporting period, the Company had no capital commitments (2017: nil)

38. Events after the reporting period

Following a review of the Company's financial position and liquidity at 31 December 2018, the Board has proposed a final dividend of ₦15.35 (\$0.05) per share. The total amount of this proposed dividend expected to be paid out of retained earnings but for which no liability has been recognized in the financial statements is ₦9 billion (\$29.4 million).

Except for the dividends paid, there were no significant events after the statement of financial position date which could have a material effect on the state of affairs of the Company as at 31 December 2018 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

39. Transition disclosures

This note explains the impact of the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers (including the amendments to IFRS 15) on the Company's financial statements.

39.1. Impact on the financial statements

As explained in note 39.2 below, IFRS 9: Financial instruments was adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of changes in equity on 1 January 2018. The Company has not elected to adopt practical expedients on adoption of IFRS 9.

The Company has also adopted IFRS 15: Revenue from Contracts with Customers using the modified retrospective method, with the effect of applying this standard recognised at the date of initial application (1 January 2018). The Company has elected to adopt the right to invoice as a practical expedient for gas sales on adoption of IFRS 15. Accordingly, the information presented for 2017 financial year has not been restated but is presented, as previously reported, under IAS 18 and related interpretations.

The following tables summarise the impact, net of tax, of transition to IFRS 9 and IFRS 15 for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. There was no impact on the statement of cash flows as a result of adopting the new standards.

Notes to the separate financial statements

Continued

	Note	At 31 December	Impact of IFRS 9	Impact of IFRS 15	As at 1 January
		2017			2018
		₦'million	₦'million	₦'million	₦'million
ASSETS					
Non-current assets					
Deferred tax	13	-	3,805	-	3,805
Current assets					
Trade and other receivables	22	327,528	(4,397)	(4,217)	318,914
Contract assets	23	-	-	4,217	4,217
Cash and bank balances	25	117,220	(75)	-	117,145
Total assets		833,934	(667)	-	833,267
EQUITY AND LIABILITIES					
Equity					
Retained earnings		203,072	(667)	-	202,405
Total shareholders' equity		490,225	(667)	-	489,558

	Note	At 31 December	Impact of IFRS 9	Impact of IFRS 15	As at 1 January
		2017			2018
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Non-current assets					
Deferred tax	13	-	12,430	-	12,430
Current assets					
Trade and other receivables	22	1,071,044	(14,380)	(13,790)	1,042,874
Contract assets	23	-	-	13,790	13,790
Cash and bank balances	25	383,321	(244)	-	383,077
Total assets		2,727,044	(2,194)	-	2,724,850
EQUITY AND LIABILITIES					
Equity					
Retained earnings		1,045,985	(2194)	-	1,031,361
Total shareholders' equity		1,603,077	(2,194)	-	1,600,883

39.2. IFRS 9 Financial instruments - Impact of adoption

The new financial instruments standard, IFRS 9 replaces the provisions of IAS 39. The new standard presents a new model for classification and measurement of assets and liabilities, a new impairment model which replaces the incurred credit loss approach with an expected credit loss approach, and new hedging requirements.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in the notes below. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated but the impact of adoption has been adjusted through opening retained earnings for the current reporting period.

39.2.1. Classification and measurement

c) Financial assets

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management assessed the classification of its financial assets which is driven by the cash flow characteristics of the instrument and the business model in which the asset is held.

The Company's financial assets include cash and bank balances and trade and other receivables. The Company's business model is to hold these financial assets to collect contractual cash flows and to earn contractual interest. For cash and bank balances, interest is based on prevailing market rates of the respective bank accounts in which the cash and bank balances are domiciled. Interest on trade and other receivables is earned on defaulted payments in accordance with the Joint operating agreement (JOA). The contractual cash flows arising from these assets represent solely payments of principal and interest (SPPI).

Notes to the separate financial statements

Continued

Cash and bank balances and trade and other receivables that were previously classified as loans and receivables (L and R) are now classified as financial assets at amortised cost.

Since there was no change in the measurement basis except for nomenclature change, opening retained earnings was not impacted (no difference between the previous carrying amount and the revised carrying amount of these assets at 1 January 2018).

d) Financial liabilities

The adoption of IFRS 9 eliminates the policy choice on the treatment of gain or loss from the refinancing of a borrowing. Day one gain or loss can no longer be deferred over the remaining life of the borrowing but must now be recognised at once. No retrospective adjustments have been made in relation to this change as at 1 January 2018.

On the date of initial application, 1 January 2018, the financial instruments of the Company were classified as follows:

	Classification & Measurement category		Carrying amount	
	Original	New	Original	New
	IAS 39	IFRS 9	₦ million	₦ million
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	30,890	30,890
NPDC receivables	L and R	Amortised cost	34,453	34,453
Intercompany receivables	L and R	Amortised cost	231,348	231,348
Other receivables*	L and R	Amortised cost	9	9
Cash and bank balances	L and R	Amortised cost	117,220	117,220
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	93,170	93,170
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	81,159	81,159
Trade and other payables**	Amortised cost	Amortised cost	59,353	59,353

	Classification & Measurement category		Carrying amount	
	Original	New	Original	New
	IAS 39	IFRS 9	\$'000	\$'000
Current financial assets				
Trade and other receivables:				
Trade receivables	L and R	Amortised cost	101,011	101,011
NPDC receivables	L and R	Amortised cost	112,664	112,664
Intercompany receivables	L and R	Amortised cost	756,532	756,532
Other receivables*	L and R	Amortised cost	28	28
Cash and bank balances	L and R	Amortised cost	383,321	383,321
Non-current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	304,677	304,677
Current financial liabilities				
Interest bearing loans and borrowings	Amortised cost	Amortised cost	265,400	265,400
Trade and other payables**	Amortised cost	Amortised cost	194,084	194,084

*Other receivables exclude NGMC VAT receivables, cash advance and advance payments.

** Trade and other payables exclude provisions (including provisions for bonus and royalties), VAT, Withholding tax, deferred revenue and royalties.

Notes to the separate financial statements

Continued

The new carrying amounts in the table above have been determined based on the measurement criteria specified in IFRS 9. However, the impact of IFRS 9 expected credit loss impairment and IFRS 15 reclassifications has also not been considered here. See the subsequent pages for the impact.

39.2.2. Impairment of financial assets

The Company has four types of financial assets that are subject to IFRS 9's new expected credit loss model. Contract assets are also subject to the new expected credit loss model, even though they are not financial assets, as they have substantially the same credit risk characteristics as trade receivables. Under IFRS 9, the Company is required to revise its previous impairment methodology under IAS 39 for each of these classes of assets. The impact of the change in impairment methodology on the Company's retained earnings is disclosed in the table below:

- Nigerian Petroleum Development Company (NPDC) receivables
- Trade receivables
- Contract assets
- Other receivables and;
- Cash and bank balances

The total impact on the Company's retained earnings as at 1 January 2018 is as follows:

	Notes	₦'million	\$'000
Closing retained earnings as at 31 December 2017- IAS 39		203,072	1,045,985
Increase in provision for Nigerian Petroleum Development Company (NPDC) receivables	(a)	(1,698)	(5,553)
Increase in provision for intercompany receivables	(b)	(2,230)	(7,292)
Increase in provision for Nigerian Gas Marketing Company (NGMC) receivables	(c)	(468)	(1,535)
Increase in provision for fixed deposits	(e)	(75)	(244)
Exchange difference		(1)	-
Total transition adjustments		(4,472)	(14,624)
Deferred tax impact on transition adjustments	(g)	3,805	12,430
Opening retained earnings as at 1 January 2018 on adoption of IFRS 9		202,405	1,043,791

Notes to the separate financial statements

Continued

The parameters used to determine impairment for NPDC receivables, intercompany receivables and fixed deposits are shown below. For all receivables presented in the table, the respective 12-month Probability of Default (PD) equate the Lifetime PD for stage 2 as the maximum contractual period over which the Company is exposed to credit risk arising from the receivables is less than 12 months.

	Nigerian Petroleum Development Company (NPDC) receivables	Intercompany receivables	Fixed deposits
Probability of Default (PD)	The 12 month PD and lifetime PD for stage 1 and stage 2 is 3.9%. The PD for stage 3 is 99%.	The 12 month PD stage 1 and lifetime PD is 3.59%.	The 12 month PD and lifetime PD for stage 1 and stage 2 is 0.09%. The PD for stage 3 is 99%.
Loss Given Default (LGD)	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using the average recovery rate for Moody's senior unsecured corporate bonds for emerging economies.
Exposure at default (EAD)	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the receivable to credit risk.	The EAD is the maximum exposure of the fixed deposits to credit risk.
Macroeconomic indicators	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were the economic variables used to determine base, optimistic and downturn scenarios.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were the economic variables used to determine base, optimistic and downturn scenarios.	The historical gross domestic product (GDP) growth rate in Nigeria and crude oil price were the economic variables used to determine base, optimistic and downturn scenarios.
Probability weightings	75%, 8% and 17% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	89%, 2% and 9% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.	78%, 12% and 10% of historical GDP growth rate observations fall within acceptable bounds, periods of boom and periods of downturn respectively.

The Company considers both quantitative and qualitative indicators in classifying its receivables into the relevant stages for impairment calculation.

Impairment of financial assets are recognised in three stages on an individual or collective basis as shown below:

- Stage 1: This stage includes financial assets that are less than 30 days past due (Performing).
- Stage 2: This stage includes financial assets that have been assessed to have experienced a significant increase in credit risk using the days past due criteria (i.e. the outstanding receivables amounts are more than 30 days past due but less than 90 days past due) and other qualitative indicators such as the increase in political risk concerns or other micro-economic factors and the risk of legal action, sanction or other regulatory penalties that may impair future financial performance.
- Stage 3: This stage includes financial assets that have been assessed as being in default (i.e. receivables that are more than 90 days past due) or that have a clear indication that the imposition of financial or legal penalties and/or sanctions will make the full recovery of indebtedness highly improbable.

h) Nigerian Petroleum Development Company (NPDC) receivables

NPDC receivables represent the outstanding cash calls due to Seplat from its Joint Operating Arrangement (JOA) partner, Nigerian Petroleum Development Company. The Company applies the IFRS 9 general model for measuring expected credit losses (ECL). This requires a three-stage approach in recognising the expected loss allowance for NPDC receivables.

The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The ECL was calculated based on actual credit loss experience from 2014, which is the date the Company initially became a party to the contract. The following analysis provides further detail about the calculation of ECLs related to these assets. The Company considers the model and the assumptions used in calculating these ECLs as key sources of estimation uncertainty. See notes 11 and 22 for further details.

Notes to the separate financial statements

Continued

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	-	11,369	23,084	34,453
Loss allowance as at 1 January 2018	-	(32)	(1,666)	(1,698)
Net EAD	-	11,337	21,418	32,755

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	-	-	14,871	14,871
Loss allowance as at 31 December 2018	-	-	(2,475)	(2,475)
Net EAD	-	-	12,396	12,396

* Exposure at default

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	-	37,179	75,485	112,664
Loss allowance as at 1 January 2018	-	(105)	(5,448)	(5,553)
Net EAD	-	37,074	70,037	107,111

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	-	-	48,439	48,439
Loss allowance as at 31 December 2018	-	-	(8,086)	(8,086)
Net EAD	-	-	40,353	40,353

The reconciliation of gross carrying amount for Nigerian Petroleum Development Company (NPDC) receivables is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	34,453	112,664
Receipts for the year	(19,659)	(64,225)
Exchange differences	77	-
Gross carrying amount as at 31 December	14,871	48,439

Notes to the separate financial statements

Continued

The reconciliation of loss allowances for Nigerian Petroleum Development Company (NPDC) receivables as at 31 December 2017 and 31 December 2018 is as follows:

	N'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts adjusted through opening retained earnings	1,698	5,553
Loss allowance as at 1 January 2018 - calculated under IFRS 9	1,698	5,553
Unwinding of discount	19	62
Increase in provision for impairment loss on NPDC receivables	756	2,471
Exchange difference	2	-
Loss allowance as at 31 December 2018 - Under IFRS 9	2,475	8,086

i) Intercompany receivables

The Company applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for intercompany receivables. Intercompany receivables represent the outstanding payments due to Seplat from its related entities. See notes 11 and 22 for further details.

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	N'million	N'million	N'million	N'million
Gross EAD*	228,439	-	-	228,439
Loss allowance as at 31 December 2018	(2,230)	-	-	(2,230)
Net EAD	226,209	-	-	226,209

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	N'million	N'million	N'million	N'million
Gross EAD*	258,795	-	-	258,795
Loss allowance as at 31 December 2018	(1,921)	-	-	(1,921)
Net EAD	256,874	-	-	256,874

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	747,021	-	-	747,021
Loss allowance as at 31 December 2018	(7,292)	-	-	(7,292)
Net EAD	739,729	-	-	739,729

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	843,001	-	-	843,001
Loss allowance as at 31 December 2018	(6,278)	-	-	(6,278)
Net EAD	836,723	-	-	836,723

Notes to the separate financial statements

Continued

The reconciliation of gross carrying amount for intercompany receivables is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	228,439	747,021
Additions during the year	29,379	95,980
Exchange differences	977	-
Gross carrying amount as at 31 December	258,795	843,001

The reconciliation of loss allowances for intercompany receivables as at 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts adjusted through opening retained earnings	2,230	7,292
Loss allowance as at 1 January 2018 - calculated under IFRS 9	2,230	7,292
Unwinding of discount	10	33
Reversal of impairment loss on intercompany receivables	(319)	(1,047)
Exchange difference	-	-
Loss allowance as at 31 December 2018 - Under IFRS 9	1,921	6,278

j) Trade receivables and contract assets

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due criterion. Contract assets relate to unbilled amounts for the delivery of gas supplies in which NGMC has taken delivery of but has not been invoiced as at the end of the reporting period. These assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Trade receivables and contract assets include amounts receivable from Nigerian Gas Marketing Company (NGMC) and Mercuria Energy Group. See note 11 and 22 for further details.

v. Nigerian Gas Marketing Company (NGMC) receivables

NGMC receivables represents the amount receivable from NGMC for services rendered with respect to gas sales. The expected credit loss rate for this receivable is determined using a provision matrix. The provision matrix used is based on the Company's historical default rates observed over the expected life of the receivable and is adjusted for forward-looking estimates.

An expected loss rate was calculated as the percentage of the receivable that is deemed uncollectible during a particular period. The expected loss rates as at 31 December 2018 are as follows:

	1 January 2018					
	Current	1-30 days past due	31-60 days past due	61-90 days past due	91 and 120 days past due	More than 120 days past due
	₦'million	₦'million	₦'million	₦'million	₦'million	₦'million
Gross carrying amount	-	-	3,328	5,168	6,103	3,404
Expected loss rate	-	-	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	-	-	(47)	(81)	(98)	(242)
Total	-	-	3,281	5,087	6,005	3,162

Notes to the separate financial statements

Continued

	31 December 2018					
	Current	1-30	31-60	61-9091 and 120 days	More than 120	
	days past due	days past due	days past due	days past due	days past due	days past due
	₦'million	₦'million	₦'million	₦'million	₦'million	₦'million
Gross carrying amount	4,639	-	2,392	4,035	-	3,080
Expected loss rate	0.53%	-	0.53%	0.53%	-	2.04%
Lifetime ECL	(25)	-	(13)	(21)	-	(63)
Total	4,614	-	2,379	4,014	-	3,017

	1 January 2018					
	Current	1-30	31-60	61-9091 and 120 days	More than 120	
	days past due	days past due	days past due	days past due	days past due	days past due
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount	-	-	10,877	16,888	19,944	11,128
Expected loss rate	-	-	1.43%	1.56%	1.60%	7.13%
Lifetime ECL	-	-	(155)	(266)	(320)	(794)
Total	-	-	10,722	16,622	19,624	10,334

	31 December 2018					
	Current	1-30	31-60	61-9091 and 120 days	More than 120	
	days past due	days past due	days past due	days past due	days past due	days past due
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amount	15,111	-	7,792	13,142	-	10,033
Expected loss rate	0.53%	-	0.53%	0.53%	-	2.04%
Lifetime ECL	(80)	-	(41)	(70)	-	(205)
Total	15,031	-	7,751	13,072	-	9,828

The reconciliation of gross carrying amount for NGMC is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	18,003	58,837
Receipts for the year	(3,903)	(12,750)
Exchange differences	46	-
Gross carrying amount as at 31 December	14,146	46,077

The reconciliation of loss allowances for NGMC as at 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts adjusted through opening retained earnings	468	1,535
Loss allowance as at 1 January 2018 - calculated under IFRS 9	468	1,535
Reversal of impairment loss on NGMC receivables	(347)	(1,139)
Exchange difference	1	-
Loss allowance as at 31 December 2018 - Under IFRS 9	122	396

vi. Mercuria Energy Group

Mercuria Energy Group receivables represents the amount receivable from oil sales. The expected credit loss rate was determined using provision matrix. The loss rate was calculated to be 0.05% for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was therefore assessed to be insignificant. These assets are classified as less than 30 days past due.

Notes to the separate financial statements

Continued

vii. Contract assets

The Contract assets comprises majorly of unbilled gas invoices from the Company's sale of gas to NGMC. In determining the expected credit losses using a provision matrix, contract assets were grouped in the current 'aging' bucket i.e. less than 30 days. This is based on the premise that the period between the delivery of gas and the date an invoice is raised is usually 30 days.

The estimated loss was calculated using the applicable loss rate of current NGMC receivables of 0.53% as the Company's exposure to credit risk on contract asset is similar to that of NGMC receivables. The loss was calculated for both 1 January 2018 and 31 December 2018 reporting periods. The impairment calculated was assessed as insignificant. See note 23.1 for reconciliation of gross carrying amounts.

k) Other receivables

The Company applies the IFRS 9 general approach to measuring expected credit losses for all financial assets that are classified within other receivables.

Other receivables relate to staff receivables. For impairment assessment, the Company uses the only borrower specific information available (days past due information) and employment status to assess whether credit risk has increased significantly since initial recognition. These assets are classified as less than 30 days past due (stage 1).

Impairment allowance on receivable amounts was assessed to be insignificant. This was on the basis that there has been no history of default on these asset as repayments are deducted directly from the staff's monthly salary. In addition, the outstanding balance as at 31 December 2018 and 31 December 2017 was deemed to be insignificant (₦223 million, 2017: ₦8.7 million) (\$0.7 million, 2017: \$28,349). The impairment loss was nil under the incurred loss model of IAS 39.

l) Cash and bank balances

i. Fixed deposits

The Company applies the IFRS 9 general model for measuring expected credit losses (ECL) which uses a three-stage approach in recognising the expected loss allowance for cash and bank balances. The ECL was calculated as the probability weighted estimate of the credit losses expected to occur over the contractual period of the facility after considering macroeconomic indicators. See note 11 and 25 for further details.

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	29,658	-	-	29,658
Loss allowance as at 1 January 2018	(75)	-	-	(75)
Net EAD	29,583	-	-	29,583

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	₦'million	₦'million	₦'million	₦'million
Gross EAD*	31,691	-	-	31,691
Loss allowance as at 31 December 2018	(28)	-	-	(28)
Net EAD	31,663	-	-	31,663

* Exposure at default

	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	96,984	-	-	96,984
Loss allowance as at 1 January 2018	(244)	-	-	(244)
Net EAD	96,740	-	-	96,740

Notes to the separate financial statements

Continued

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	\$'000	\$'000	\$'000	\$'000
Gross EAD*	103,229	-	-	103,229
Loss allowance as at 31 December 2018	(91)	-	-	(91)
Net EAD	103,138	-	-	103,138

The reconciliation of gross carrying amount for fixed deposits is as follows:

	₦'million	\$'000
Gross carrying amount as at 1 January	29,658	96,984
Additions during the year	1,912	6,245
Exchange differences	121	-
Gross carrying amount as at 31 December	31,691	103,229

The reconciliation of loss allowances for fixed deposits as at 31 December 2017 and 31 December 2018 is as follows:

	₦'million	\$'000
Loss allowance as at 31 December 2017 - calculated under IAS 39	-	-
Amounts adjusted through opening retained earnings	75	244
Loss allowance as at 1 January 2018 - calculated under IFRS 9	75	244
Reversal of impairment loss on fixed deposits	(47)	(153)
Exchange difference	-	-
Loss allowance as at 31 December 2018 - Under IFRS 9	28	91

The impact of unwinding of discount on impairments of fixed deposits is rounded up to zero.

ii. Other cash and bank balances

The Company also assessed the other cash and bank balances to determine their expected credit losses. Based on this assessment, they identified the expected losses as at 1 January 2018 and 31 December 2018 to be insignificant as the loss rate is deemed to be immaterial. The assets are assessed to be in stage 1.

iii. Credit quality of cash and bank balances

The credit quality of the Company's cash and bank balances is assessed on the basis of external credit ratings (Fitch's national long term rating) as shown below:

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Non-rated	2	59,153	5	193,437
B-	-	16,019	-	52,384
B	-	14,937	-	48,845
B+	-	2,647	-	8,655
BB+	-	-	-	-
BBB+	36	-	117	-
BBB	584	-	1,902	-
A+	94,242	24,464	306,979	80,000
AA	31,658	-	103,123	-
AA-	25,755	-	83,893	-
AAA	1,286	-	4,188	-
	153,563	117,220	500,207	383,321
Allowance for impairment recognised during the year	(28)	-	(91)	-
Net cash and bank balances	153,535	117,220	500,116	383,321

Notes to the separate financial statements

Continued

iv. Deferred tax impact on transition adjustment.

The deferred tax assets recognised were as a result of the expected credit losses recognised on initial adoption of IFRS 9.

m) Reconciliation of impairment loss on financial assets

Movements in the provision for impairment of trade and other receivables that are assessed for impairment are as follows:

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
At 1 January	-	3,129	-	10,260
Impact on initial application of IFRS 9	4,472	-	14,423	-
Adjusted balance at 1 January	4,472	-	14,423	-
Allowance for impairment recognised during the year	775	-	2,533	-
Reversal of previously recognised impairment losses	(703)	(3,138)	(2,306)	(10,260)
Exchange differences	(3)	9	-	-
At 31 December	4,541	-	14,650	-

39.2.3. Hedge accounting

The Company entered agreements to sell put options for crude oil in Brent at a strike price of ₦12,280 (\$40) per barrel to NedBank Limited for 600,000 barrels within a period of 6 months from 1 January 2018 to 30 June 2018.

It also entered into agreements to sell put options for crude oil in Brent at a strike price of ₦15,350 (\$50) per barrel to Natixis for 500,000 barrels within a period of 6 months from 1 July 2018 to 31 December 2018.

The purpose of these is to hedge its cash flows against oil price risk. The contracts provide for a no loss position for Seplat, in that Seplat makes a gain if the price of oil falls below the strike price; and if the price of oil is above the strike price, there is no loss i.e. no payment is made by Seplat except for the mutually agreed monthly premium which is paid in arrears and is settled net of any gain on settlement date.

As at the reporting periods ended 31 December 2017 and 31 December 2018, the Company had derivative assets and no derivative liabilities. The derivative assets are measured and recognised at fair value. The Company has not formally designated any of these instruments for hedge accounting.

39.3. IFRS 15 Revenue from Contracts with Customers - Impact of adoption

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules using the modified retrospective approach and has not restated comparatives for the 2017 financial year. There was no impact on the Company's retained earnings at the date of initial application (i.e. 1 January 2018). The reclassification adjustments resulting from the adoption of IFRS 15 is shown in note 39.1 and detailed below:

39.3.1. Impact on statement of financial position

b) Trade and other receivables

The Company introduced the presentation of contract assets in the balance sheet to reflect the guidance of IFRS 15. Contract assets of ₦ 4.3 billion, 1 January 2018: ₦ 4.2 billion (\$ 14.1 million, 1 January 2018: \$13.8 million) recognised in relation to unbilled amounts from Nigerian Gas Marketing Company (NGMC) were previously presented as part of trade and other receivables. See note 22 and 23 for further details.

39.3.2. Impact on statement of profit or loss and other comprehensive income

c) Reclassification of underlifts to other income

In some instances, Joint arrangement (JOA) partners lift the share of production of other partners. Under IAS 18, over lifts and underlifts were recognised net in revenue using entitlement accounting. They are settled at a later period through future liftings and not in cash (non-monetary settlements). This is referred to as the entitlement method. IFRS 15 excludes transactions arising from arrangements where the parties are participating in an activity together and share the risks and benefits of that activity as

Notes to the separate financial statements

Continued

the counterparty is not a customer. To reflect the change in policy, the Company has reclassified underlifts to other income. Revenue has therefore been recognised net of underlifts of ₦1.5 billion (\$4.8 million) for the reporting period. Under IAS 18, revenue recognized and other income, without reclassifying underlifts to other income, would have been ₦218.6 billion (\$714.2 million). See note 9 for further details.

d) Reclassification of demurrage from costs of sales

Seplat pays demurrage to Mercuria for delays caused by incomplete cargoes delivered at the port. These are referred to as price adjustments and Seplat is billed subsequently by Mercuria. Under IFRS 15, these are considerations payable to customers and should be recognised net of revenue. Revenue has therefore been recognised net of demurrage costs of ₦64.6 million (\$211,160). This had no tax impact. In the current period, there was a refund of demurrage which has been added to revenue. In prior reporting periods, demurrage costs were included as part of operations and maintenance costs for the reporting period. Under IAS 18, revenue recognized without reclassifying demurrage costs to revenue would have been ₦217.1 billion (\$709.3 million). See note 8 for further details.

Statement of value added

For the year ended 31 December 2018

	2018		2017		2018		2017	
	₦ million	%	₦ million	%	\$'000	%	\$'000	%
Revenue	217,174		127,655		709,493		417,428	
Other income - net	1,757		334		5,739		1,092	
Finance income	2,874		11,924		9,388		38,992	
Cost of goods and other services:								
Local	(45,742)		(34,421)		(149,431)		(112,548)	
Foreign	(30,494)		(22,948)		(99,621)		(75,032)	
Valued added	145,569	100	82,544	100	475,568	100	269,932	100

Applied as follows:

	2018		2017		2018		2017	
	₦ million	%	₦ million	%	\$'000	%	\$'000	%
To employees:	8,618				28,154			
- as salaries and labour related expenses		6	6,407	8		6	20,951	8
To external providers of capital:	14,788				48,311			
- as interest		10	22,236	27		10	72,710	27
To Government:	7,693				25,134			
- as Company taxes		5	687	1		6	2,248	1
Retained for the Company's future:	36,734				120,010			
- For asset replacement, depreciation, depletion & amortisation		25	25,142	30		25	82,215	30
Deferred tax (charges)/credit	28,055	20	(68,344)	(83)	91,654	19	(223,481)	(83)
Profit for the year	49,681	34	96,416	117	162,305	34	315,289	117
Valued added	145,569	100	82,544	100	475,568	100	269,932	100

The value 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 creation of future wealth.

Five year financial summary

As at 31 December 2018

	2018	2017	2016	2015	2014
	₦ million				
Revenue	217,174	127,655	51,995	98,593	121,246
Profit/(loss) before taxation	85,429	28,759	(29,261)	15,159	43,529
Income tax (expense)/credit	(35,748)	67,657	4,421	(3,245)	-
Profit/(loss) for the year	49,681	96,416	(24,840)	11,914	43,529

	2018	2017	2016	2015	2014
	₦ million				
Capital employed:					
Issued share capital	286	283	283	282	277
Share premium	82,080	82,080	82,080	82,080	82,080
Share based payment reserve	7,298	4,332	2,597	1,729	-
Capital contribution	5,932	5,932	5,932	5,932	5,932
Foreign translation reserve	196,552	194,526	193,499	45,618	36,086
Retained earnings	234,148	203,072	106,670	136,456	138,768
Total equity	526,296	490,225	391,061	272,097	263,143
Represented by:					
Non-current assets	338,578	359,097	277,618	167,517	152,396
Current assets	513,408	474,837	404,274	348,199	293,558
Non-current liabilities	(173,276)	(125,880)	(137,722)	(115,850)	(45,994)
Current liabilities	(152,414)	(217,829)	(153,109)	(127,769)	(136,817)
Net assets	526,296	490,225	391,061	272,097	263,143

Five year financial summary

As at 31 December 2018

	2018	2017	2016	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	709,493	417,428	202,446	497,867	755,508
Profit/(loss) before taxation	279,093	94,056	(138,911)	76,549	271,236
Income tax (expense)/credit	(116,788)	221,233	14,499	(16,384)	-
Profit/(loss) for the year	162,305	315,289	(124,412)	60,165	271,236

	2018	2017	2016	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000
Capital employed:					
Issued share capital	1,834	1,826	1,826	1,821	1,798
Share premium	497,457	497,457	497,457	497,457	497,457
Share based payment reserve	27,499	17,809	12,135	8,734	-
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,147,526	1,045,985	730,740	877,123	888,798
Total equity	1,714,316	1,603,077	1,282,158	1,425,135	1,428,053
Represented by:					
Non-current assets	1,102,856	1,174,286	910,221	899,186	827,042
Current assets	1,672,338	1,552,758	1,325,488	1,751,151	1,593,114
Non-current liabilities	(564,416)	(411,642)	(451,549)	(642,575)	(742,498)
Current liabilities	(496,462)	(712,325)	(502,002)	(582,627)	(249,605)
Net assets	1,714,316	1,603,077	1,282,158	1,425,135	1,428,053

Supplementary financial information (unaudited)

For the year ended 31 December 2018

40. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 31 December 2017	226.2	1,455.8	477.2
Revisions	10.7	70.2	22.8
Discoveries and extensions	-	-	-
Acquisitions	-	-	-
Production	(10.3)	(53)	(19.4)
At 31 December 2018	226.6	1,473	(480.6)

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.

41. Capitalised costs related to oil producing activities

	2018 ₦ million	2017 ₦ million	2018 \$'000	2017 \$'000
Capitalised costs:				
Unproved properties	-	-	-	-
Proved properties	422,404	389,766	1,375,907	1,274,580
Total capitalised costs	422,404	389,766	1,375,907	1,274,580
Accumulated depreciation	(147,319)	(110,925)	(479,867)	(362,741)
Net capitalised costs	275,085	278,841	896,040	911,839

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.

42. Concessions

The expiry dates of concessions granted to the Company:

	Expiry date
Seplat OML 4, 38 & 41	October 2038

On 15 November 2018 Seplat announced the President and Honourable Minister of Petroleum Resources had given consent for the renewal of OMLs 4, 38 and 41 to a new expiry date of 21 October 2038. Seplat holds a 45% working interest in OMLs 4, 38 and 41. In connection with the license renewal Seplat has paid in full a Renewal Bonus of ₦7.8 billion, 2017: nil (\$25.9 million, 2017: nil), thus ensuring all conditions for license renewal have been met. The Company is working with the Department of Petroleum Resources to obtain the updated title deeds in connection with the renewal.

Supplementary financial information (unaudited)

For the year ended 31 December 2018 - continued

43. Results of operations for oil producing activities

	2018	2017	2018	2017
	₦ million	₦ million	\$'000	\$'000
Revenue	169,534	89,742	553,856	293,455
Other income - net	1,757	334	5,739	1,092
Production and administrative expenses	(95,682)	(62,054)	(298,426)	(202,893)
Depreciation & amortisation	(26,610)	(21,622)	(101,090)	(70,705)
Profit before taxation	48,999	6,400	160,079	20,949
Taxation	(35,748)	67,657	(116,788)	221,233
Profit after taxation	13,251	74,057	43,291	242,182

44. Reclassification

Certain comparative figures have been reclassified in line with the current year's presentation.

45. Exchange rates used in translating the accounts to Naira

The table below shows the exchange rates used in translating the accounts into Naira

	Basis	31 December 2018	31 December 2017
		₦/\$	₦/\$
Fixed assets - opening balances	Historical rate	Historical	Historical
Fixed assets - additions	Average rate	306.10	305.80
Fixed assets - closing balances	Closing rate	307.00	305.81
Current assets	Closing rate	307.00	305.81
Current liabilities	Closing rate	307.00	305.81
Equity	Historical rate	Historical	Historical
Income and Expenses:	Overall Average rate	306.10	305.81