seplat

Seplat Petroleum Development Company Plc
Annual Report and Accounts 2019

BUILDING A PLATFORM FOR GROWTH

2019 Highlights

Production within revised guidance, strong profitability, cash flow & balance sheet

Underpinned by a material production base

46,498 boepd ↙

2019	**46,498**
2018	49,867
2017	36,923

FY 2019 profit before tax

US$293m ↗

2019	**293**
2018	263
2017	44

Gas revenues at record levels

US$203m ↗

2019	**203**
2018	156
2017	124

FY 2019 profit after tax

US$277m ↗

2019	**277**
2018	147
2017	265

Strong cash flow from operations

US$338m ↙

2019	**338**
2018	502
2017	447

Low unit production opex

US$6.20/boe ↗

2019	**6.20**
2018	5.77
2017	5.96

Capital investments scaled up

US$125m ↗

2019	**125**
2018	88
2017	33

Net WI domestic gas market supply

131 MMscfd ↙

2019	**131**
2018	145
2017	114

Cash position

US$333m ↙

2019	**333**
2018	585
2017	437

Gross debt

US$789m ↗

2019	**789**
2018	450
2017	578

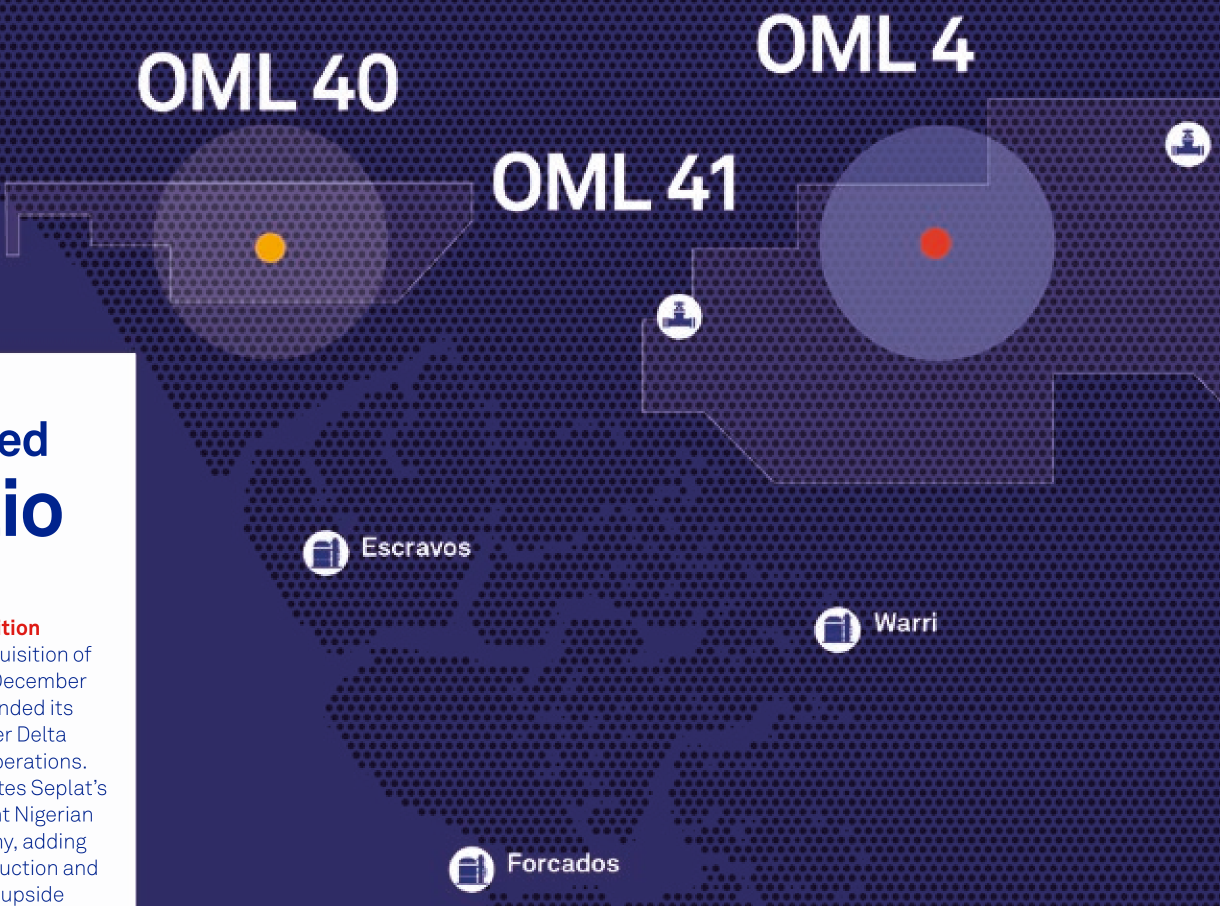
The next phase

In 2019 we made key strategic investment decisions that will help drive our future growth. In March, we took the final investment decision ("FID") to proceed with the ANOH gas and condensate project at OML 53. In December we completed the recommended cash acquisition of Eland Oil & Gas, the first time a London-listed business has been acquired by a Nigerian company. These decisions will add significant scale to both our oil and gas businesses and, alongside our existing asset base, establish Seplat as the pre-eminent independent E&P operating in Nigeria today.

20
ANOH project
One of Nigeria's key gas developments to supply the domestic market.

8
Chief Executive Officer's statement
Austin Avuru reflects on 10 years service as Seplat's CEO.

44
Special feature:
How Seplat's gas business can help close Nigeria's power deficit.



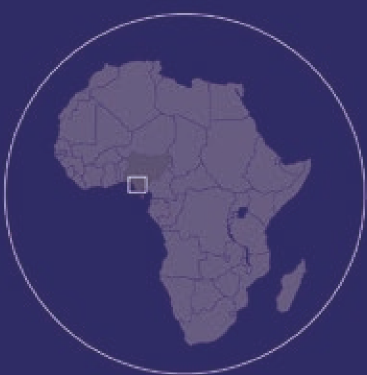
Strategic growth:

Strengthened Portfolio

Eland Oil and Gas acquisition
Seplat completed the acquisition of Eland Oil and Gas PLC in December 2019, and in doing so extended its footprint onshore the Niger Delta around its existing core operations. The acquisition consolidates Seplat's position as the preeminent Nigerian independent E&P company, adding immediate reserves, production and cash flow with significant upside opportunities to capitalise on.

Eland's flagship asset (OML 40) is located in a prolific onshore and swamp zone of the western Niger Delta and comes with a solid baseline of production from the Opuama field, near-term upside potential through full field development of the producing Gbetiokun field, additional undeveloped discoveries, future gas potential and low-risk exploration prospectivity. It's strategic location, in close proximity to the coast and OMLs 4, 38 and 41, will support Seplat's ultimate intention to have autonomy over its crude oil exports and own and operate an export terminal in an optimal location.

Eland Oil acquisition
See page 14



Who we are

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

Full-cycle upstream oil and gas
Our portfolio comprises direct interests in seven blocks in the Niger Delta area, four of which Seplat operates, and one further revenue interest. Since acquiring our first blocks in 2010, we have consistently grown oil production capacity, primarily through the drilling of new oil wells and employing advanced and proven technologies to increase production in mature fields.
We have also invested to increase gas production and capitalise on the rapidly growing demand and improving economics for gas in the domestic market.

Strategically important midstream gas operations
Alongside our upstream activities, we have successfully become a leading supplier of processed natural gas to the domestic market in Nigeria through substantial investments made in the commercialisation, development and monetisation of the large-scale gas reserves that exist on our blocks. Together with growing wellhead production we have invested in the installation of dedicated midstream gas processing facilities to meet domestic supply obligations and provide feedstock to power projects and industry that will help increase Nigeria's power generation capacity and industrial output. Today we supply enough processed gas to fuel around one third of Nigeria's on grid power generation.

Strategic growth:

Natural gas development

ANOH gas processing facility

The OML 53 block contains one of Nigeria's largest onshore undeveloped gas and condensate reserves. The facility will connect large scale gas reserves in the eastern Niger Delta into Nigeria's main demand centres and the regional West African market via Seplat's operated Oben processing hub. Phase I will comprise a 300 MMscfd gas processing facility, with accommodation space for future expansion. Processed gas and LPG will be sold in the domestic market with condensate spiked into and sold as crude oil in the international market. Seplat is strategically positioned to capitalise on future expansion of the gas market as demand for sales gas continues to out-strip available supply.

ANOH project
See page 20

A.B.C. Orjiako
Chairman

Dear shareholder,
I believe that in future years we will look back on 2019 as a turning point for Seplat, not least as a result of two major decisions we took that will help drive the future growth of the business. We reached FID on the ANOH gas development project and completed the acquisition of Eland Oil and Gas.

These decisions are expected to add significant scale to the business and, alongside the strong performance of our existing assets, establish Seplat as the pre-eminent independent E&P operating in Nigeria today.

Positioned for a new growth phase

2019 performance overview

Our 2019 operational and financial performance reflects lower overall production levels and the weaker oil price environment. Average working interest production for the year stood at 46,498 boepd, comprising 23,935 bopd and 131 MMscfd. This fell short of our initial guidance range of 49,000 to 55,000 boepd, but was within our revised guidance range of 45,000 to 48,000 boepd after we adjusted for rig mobilisation delays and availability constraints we encountered in the first half of the year, which caused a slippage in our production drilling programme. I am pleased to report that we rapidly regained momentum in the second half of the year and by the third quarter had four rigs operating simultaneously across our portfolio. Partially offsetting the slippage to the drilling programme we achieved an overall production uptime of 92%, marking an improvement compared to prior periods and indicative of the relative stability in the Niger Delta operating environment during the year.

While the Brent oil price averaged US$64.04/bbl in 2019 the elevated levels of price volatility witnessed in recent years continued (with the benchmark trading from a daily low of US$54.91/bbl in January to a peak of US$74.97/bbl in April and exiting the year at US$66.00/bbl). Against this backdrop our gas business continued to provide a stable revenue stream de-linked to oil price.

I am pleased to report that both lines of equity closed the year in positive territory with the Nigerian line closing the year up +2.8% and the London line up +7.2%, outperforming Brent oil (up +0.3%), the Nigerian ASI (down -14.6%) and listed peers (down -10.4%). In terms of financial performance, we recorded a post-tax profit of US$277 million while cash generated from operations of US$338 million remained comfortably in excess of capital investments which amounted to US$125 million in the year. We maintained a robust balance sheet in 2019, ending the year with US$333 million cash at bank and a net debt position of US$456 million.

The continued strong overall performance of the business in the year led the Board to sustain its normal dividend distribution for shareholders with US$59 million paid out in the calendar year (10 cents per share). Taking this into account our total shareholder return (TSR) for the year stood at 5.6% for the Nigerian line and 13.8% for the London line of equity.

The dominant force in Nigeria's domestic gas market

Seplat is positioned at the forefront of gas commercialisation for the domestic market in Nigeria, playing a lead role in support of the government's energy agenda to provide universal access to electricity by 2030. In 2019, the 291 MMscfd gross supply from OMLs 4, 38 and 41 which we processed at our own operated gas plants was sufficient to underpin 30% of Nigeria's on-grid power supply for the year. However, with around 50% of the population currently on the grid and a population that is expected to more than double to over 400 million by 2050 there is a huge requirement to increase gas supplies for the domestic market.

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. We are well positioned to leverage the experience we have gained at the Oben gas processing hub to incorporate operational and cost efficiencies.

The project will comprise a Phase One 300 MMscfd midstream gas processing plant with accommodation space for significant future expansion. ANOH Gas Processing Company ("AGPC"), is an incorporated joint venture owned 50:50 by Seplat and the Nigerian Gas Company ("NGC"), a wholly owned subsidiary of Nigerian National Petroleum Corporation ("NNPC"), delivering the midstream development, and at year end 2019 each had made an equity investment of US$150 million (US$300 million combined). The total project cost is budgeted at US$700 million. Seplat and NGC will each contribute a further US$60 million equity investment (US$120 million total) in 2020 with accompanying debt funding to be finalised and for which very strong demand in excess of the funding target has been indicated. The midstream plant will be supplied from the upstream unitised gas fields at OML 53 and Shell's OML 21. The upstream development will be operated by Shell. We are working towards a target of first gas in 2021 at which point Seplat will assume the mantle of being Nigeria's largest supplier of processed gas to the domestic market.

Consolidating the Nigerian E&P space

A stated part of our strategy since inception has been to seek out acquisition opportunities that offer near-term production growth, cash flow and reserve replacement potential while remaining true to our price disciplined approach. Having completed a series of asset acquisitions that saw the portfolio grow to five direct interests and one financial interest in upstream blocks onshore Nigeria, in another first for Seplat we became the first Nigerian company to complete the public market acquisition of a UK listed corporate with the £382 million recommended acquisition of Eland Oil and Gas PLC. The acquisition is not just a logical continuation of our business model, but also a strong statement of intent towards our ambition of being a consolidator in the Nigerian oil and gas space and ability to execute sophisticated transactions of this nature. Eland's main asset, OML 40, expands our footprint in the western Niger Delta and materially enhances our inventory of production, development, appraisal and exploration opportunities that will enable us to continually high-grade and ensure we deploy capital to the most value creative opportunities for shareholders.

I would also like to take this opportunity to welcome the staff of Eland to Seplat. Looking beyond the acquisition as simply a means of expanding our portfolio, we recognise that people are at the core of any successful business. The expanded team as a result of the acquisition, coupled with Seplat's financial capability, will not only allow us to accelerate growth from the enlarged asset base but also step up our pursuit of additional opportunities at a time when deal flow in Nigeria is set to increase considerably.

Non-Executive Director changes

In June it was announced that Mr. Macaulay Agbada Ofurhie had retired as Non-Executive Director of Seplat after nine years and three months of service following his appointment in March 2010. Post period end in January it was also announced that Mr. Michel Hochard had retired as Non-Executive Director of Seplat after ten years of service. Mr. Hochard in his role as Chief Executive officer of Maurel & Prom ("M&P") was appointed to the Board of Seplat in 2009 as a nominee of M&P.

During their service Mr. Ofurhie and Mr. Hochard provided valuable input and guidance as Seplat not only experienced rapid growth but also navigated through an increasingly turbulent macro environment and often challenging operating environment in the Niger Delta. I speak for all at Seplat in expressing gratitude for their dedicated service and wish them well in future endeavours.

I was pleased to welcome Madame Natalie Delapalme as Non-Executive Director of Seplat in July. Madame Delapalme is an Independent Director on the Board of Directors of M&P and had acted as an alternate to M&P's nominee since June 2014.

Following the retirement of Mr. Hochard as the Chief Executive Officer of M&P and from the Board of Seplat, we were pleased to announce the appointment of Mr. Olivier de Langavant (who is now the Chief Executive Officer of M&P) as a Non-Executive Director of Seplat effective from 28 January 2020. Mr. Langavant replaces Mr. Hochard as the nominee of M&P on the Board of Seplat.

We are privileged to have Madame Delapalme and Mr. Langavant join the Board and we look forward to their contribution towards the realisation of Seplat's strategic goals.

CEO succession

As a Board, we remain conscious of the need to have an effective succession plan that ensures the Board and management have the correct composition of skills and experience to support the effective implementation of our strategy.

After ten years of distinguished service in leading Seplat as CEO, it was announced in November that my co-founder, colleague and great friend Austin Avuru will be retiring in July 2020. In these ten years, Austin led the development of a strong organisation, the deployment of agile systems, processes and effective stakeholder relationships that allowed the organisation to grow rapidly from a gross production of 22,700 boepd as at December 2010 to peaks of 111,368 boepd as at December 2018 through major drilling campaigns and major new oil and gas development projects. This could not have been achieved without Austin's leadership skills, personal dedication and hard work, at the head of the Company.

The Board and employees of Seplat are grateful to Austin for these accomplishments and I look forward to his continued service at the Board level. The Board has selected Roger Brown as CEO designate to succeed Austin when he steps down on 31 July 2020. Roger joined Seplat in 2013 as the CFO and played a key role in the successful dual listing of the Company in 2014. Similarly, since joining the Company, he has fulfilled significant roles in various asset acquisitions. Roger will bring to the CEO role a deep knowledge of the Company gained from his six years as the CFO and a member of the Board. Roger is well known and respected in both the Nigerian and UK markets, where he has played in the oil and gas space for over 20 years. He has strong financial, commercial and M&A experience as well as proven people skills which will be an asset as the Company embarks on the next phase of its growth plan.

Covid-19

In response to the Covid-19 pandemic Seplat continually monitors the outbreak and advice from, among others, the World Health Organisation, Nigerian government and UK government to ensure best practice precautions and response actions are being implemented. At the time of writing the threat level is serious and increasing in both Nigeria and the UK where our staff are based. Our priorities lie in preserving the health, safety and wellbeing our staff and contractors, their families and operations while also implementing definitive steps designed to arrest the spread of Covid-19 and minimise the impact on our business. We have provided clear advice and information to our staff, contractors and other service providers detailing how they must protect themselves and others. Measures that have been implemented across the organisation include but are not limited to:

- Non critical staff must work remotely from home for as long as advised
- Mandatory self-isolation of 14 days for all employees and contractors who arrive in Nigeria from all countries from 12 March onwards until notified otherwise
- Business travel restrictions to only essential travel
- Responsibility for employees and contractors to advise Seplat on travel undertaken by members of family
- Visitor access to Seplat locations strictly limited to only essential participants in business critical activities that cannot be conducted remotely
- Temperature checks for all personnel at Seplat locations
- Avoidance of large gatherings and deferral of all training events, conferences and workshops
- Provision of hand sanitisers at Seplat locations

At Seplat we have robust crisis management protocols and HSE policies that are in place for us to rely on when needed. We also have recent experience of managing an infectious disease outbreak from the Ebola outbreak in 2015 and therefore have well developed, tried and tested contingency measures in place to allow us to continue to operate through and recover from the inevitable disruption associated with the Covid-19 pandemic.

Outlook

Looking forward, one of the main challenges facing the independent E&P sector is to remain relevant as the world makes the transition to a lower carbon future. The oil and gas industry faces considerable challenges given that oil in particular plays such a significant part in today's energy supply mix, with demand for the commodity still growing. A key part of my role as Chairman of the Board is to steer the Company through these transitions. I believe that Seplat has an important role to play throughout the energy transition that is set to occur in the years and decades ahead, not least through the impact we can have by scaling up our domestic gas supply business and displacing imported diesel fuels that are being burned for power generation and helping Nigeria benefit from the social and economic multiplier effects that reliable and affordable power availability can bring.

Against this backdrop Seplat plans to position itself for an ambitious next phase of growth which would see the expansion of its footprint in terms of energy business activities, a plan to pursue offshore assets acquisition, as well as opportunity driven entry into different geographies. The Board believes that such a corporate transition would require a different kind of organisational structure, people skills set and mentality to compete well in the expanded space. In view of this, over the course of 2020 we will be reviewing the current organisational and systems structure.

Meanwhile, the fundamentals of our core business remain strong and through the effective integration of the Eland acquisition the combined business will have greater scale and value creation opportunities to capture. I believe the investment case for Seplat remains compelling. We are a resilient business that:

- generates significant free cash flow from a low cost production base
- has a balanced portfolio split evenly between oil and gas (which is de-linked to oil price)
- maintains strict financial discipline over investment decisions
- is focused on delivering shareholder returns through regular dividend distributions and capital growth
- is established in sub-Sahara Africa's most prolific oil and gas system
- has embedded high standards of corporate governance and transparency
- is committed to creating a sustainable business
- effectively manages risks and possesses a strong HSE culture

As we look ahead to 2020 and beyond, I would like to take this opportunity to thank all Seplat employees and wider stakeholders for their efforts and continuing support and I look forward to updating all of our stakeholders on our progress throughout the year ahead.

A.B.C. Orjiako
Chairman

A robust approach to governance

Corporate governance remains at the heart of our business. Our Company has established its foothold as a major independent oil and gas company both in Nigeria and internationally because of the effective corporate governance and compliance framework, principles, standards and practices we have put in place. These principles, standards and practices derive and draw their strength from applicable legislations and global best practices. The governance of our Company, the conduct of our business and engagement with our various stakeholders are guided by these fundamental principles, standards and practices.

The successes recorded by Seplat over the years, particularly in the Company's growth and the strengthening of shareholder value, are attributable to the strong corporate governance principles, standards and practices as well as the effective management team we have at Seplat.

As a Board, we remain focused on building and maintaining a strong reputation that is defined by good corporate governance especially in the area of business conduct. The Board is confident that with our well-thought-out and well-articulated business and strategic objectives, the Company's vision to be a world-class independent energy company delivering premium value to all stakeholders will be achieved.

Board of Directors as at 31 December 2019

The Seplat Board consists of highly experienced professionals and business experts with profound understanding of the dynamics of the oil and gas industry at both local and international levels.

Madame Nathalie Delapalme
Non-Executive Director

Roger Thompson Brown
Chief Financial Officer; Executive Director

Michael Richard Alexander
Senior Independent Non-Executive Director

Lord Mark Malloch-Brown
Independent Non-Executive Director

Basil Omiyi
Independent Non-Executive Director

Damian Dinshiya Dodo, SAN
Independent Non-Executive Director

Ifueko M. Omoigui Okauru
Independent Non-Executive Director

Michel Hochard
Non-Executive Director

Charles Okeahalam
Independent Non-Executive Director

Effiong Okon
Operations Director; Executive Director

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

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

Governance
See page 84

Austin Avuru
Chief Executive Officer

The Seplat journey began a decade ago, when I became the CEO. Although a period of global political and economic volatility, we chose to focus our efforts on what we could control, remaining stubbornly resilient through various headwinds. I am proud of what we have achieved, not only our operational and financial accomplishments but also in our commitment to delivering for all of our stakeholders.

Firmly established core business with strong growth prospects

How would you summarise Seplat's operational performance in 2019?
I would describe 2019 as a solid year in which the robust fundamentals of the business once again kept us on an extremely solid footing. The strong cash generation we realised from our low-cost production base meant that our capital expenditures, debt service obligation and dividend distributions to shareholders were more than covered by cash generated from operations by a comfortable margin. It was disappointing that we had to revise production guidance downwards once it became apparent that unforeseen rig delays and availability constraints deferred the impact of planned production drilling activities. We also took the opportunity to undertake greater levels of maintenance and asset integrity work for the longer-term benefit of the assets. However, we rapidly regained momentum in the run in to the end of the year when we had four rigs simultaneously operating which sets us in good stead for 2020. Operating conditions in the Niger Delta were relatively stable and infrastructure uptime was excellent in the year when we benefitted from uptime of 92% on export infrastructure.

Realised oil price 2019 (US$ per barrel)

US$64.4

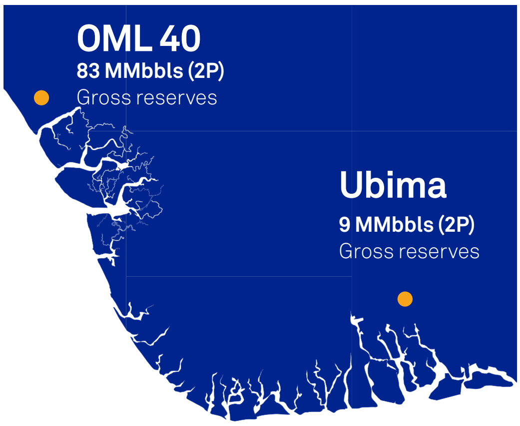
In 2019 you took FID for the ANOH project. What does this mean for the gas business going forward?

From a strategic perspective 2019 will prove to be an inflection point in our history. We took FID for the 300 MMscfd ANOH midstream gas processing project in March. Once completed the plant will process gas produced at the upstream unitised gas fields in OML 53, where Seplat has a 40% working interest, and Shell's OML 21. Now that we have gone live, so to speak, with the project in partnership with government we have set a clear trajectory that will see us become the largest supplier of processed gas to the domestic market once it becomes operational. With plans to connect the ANOH processing hub to our existing gas processing hub at Oben we will ultimately achieve our objective of having an interconnected domestic gas business where the large gas resources in the Niger Delta are connected to the largest demand centres along the Lagos and Abuja corridors in particular. In addition to processing our own gas we will also have a larger and more geographically expansive presence with which to capture third party tariffing opportunities and build out capacity further. We have secured the accommodation space at both Oben and ANOH to give us the headroom to expand each location up to 1 Bscfd processing capacity in the future. The gas business has tremendous growth potential.

With plans to connect the ANOH processing hub to our existing gas processing hub at Oben we will ultimately achieve our objective of having an east-west interconnected domestic gas business.

Having acquired Eland Oil and Gas PLC do you have the appetite and capacity to make further acquisitions?

We have spoken for some time about our inorganic growth ambitions and in December completed our first corporate acquisition through the recommended offer for Eland Oil and Gas PLC. This is the first time a Nigerian company has acquired a UK listed corporate and is a strong statement of intent by Seplat on its desire to be a consolidator within the Nigerian E&P space. The acquisition is a logical extension of our established footprint in the western Niger Delta, adds immediate production, cash flow and reserves and deepens our inventory of growth opportunities. We are of the opinion that deal flow in Nigeria is set to increase and are already seeing signs of this. For Seplat this means an increased asset supply to evaluate and high-grade. We have shown our ability to complete sophisticated transactions, operate successfully in the country and access both local and international capital markets. This combination sets us apart in Nigeria and means that we are well positioned to capitalise on further value accretive opportunities if and when they arise, remaining true to our price-disciplined approach and strict financial discipline.



Our role is to safely and responsibly meet Nigeria's demand for energy, driving its transition towards cleaner fuels that benefit the climate.

Given the ever-increasing concerns about climate change, how do you see Seplat's role in the energy transition?

Firstly, let's revisit the situation in Africa, and in particular Nigeria today. It is an irrefutable fact that the energy gap between Africa and the rest of the world, despite repeated attempts to improve it, is widening. Africa is the most underpowered continent on the planet, with six out of ten people in sub-Saharan Africa living without access to electricity. This means that half of the world's population who do not have power live in Africa. We know that access to reliable power is the key to social and economic development and GDP growth. What is of great concern is that while Africa lags the rest of the world by some margin today the population is growing and the situation is getting worse. A population of one billion is expected to grow to 2.5 billion by 2050. Within this, Nigeria is forecast to become the world's third most populated nation with the population set to grow from a current level of 200 million to 450 million by 2050.

Seplat's decision in 2012 to invest in building a domestic gas business has led to a position where we can today provide sufficient gas to underpin 25-30% of Nigeria's current active on-grid power generation of 3,500 MW to 4,000 MW. When the ANOH project is operating at Phase I capacity we expect Seplat to be able to supply processed gas capable of supporting 3,000 MW of power generation. In a country where 20 million households are without power and rely on diesel generators or wood burning stoves, our domestic gas business can lead to a material reduction in carbon emissions, health benefits through cleaner air, and economic growth through the provision of cheaper and more reliable electricity.

Alongside this we cannot escape the fact that oil demand continues to grow and that it is likely to take decades for a breakthrough whereby clean energy will become the dominant force. Until then the world's economies and consumers demand a supply of hydrocarbons and our role is to safely and responsibly meet Nigeria's demand for energy, driving its transition towards cleaner fuels that benefit the climate. It should also not be forgotten that the oil business has been a key enabler for the development of the gas business. It has generated cash flow and provided debt capacity that has enabled accelerated investments in gas. It also provides a dollar currency stream that has allowed us to grow the Naira revenue gas business and overcome FX liquidity challenges that have plagued Nigeria in recent years.

After ten years as CEO of Seplat you will be retiring later this year. Have you achieved the vision that you had when you co-founded the Company?

We established Seplat in 2010 because we could see that there was an opportunity to build an indigenous E&P company capable of operating to international standards, able to access international capital markets and committed to developing a predominantly Nigerian workforce, a company that could work effectively with a wide range of stakeholders and extract greater value from some of the onshore OMLs that were no longer a priority for IOC investment. It's clear from the production performance and reserves growth achieved at OMLs 4, 38 and 41 since we acquired the blocks in 2010 from Shell, Eni and Total that we have been successful in doing this.

Perhaps more than anything else I take great satisfaction from how we have set new standards in terms of engaging and working effectively with our host communities. Seplat continues to remain extremely proud of its identity as an indigenous Nigerian independent energy company, and carries a strong sense of responsibility to Nigeria and, in particular, our host communities. One of our founding priorities was to leave a lasting, positive legacy in our host communities through implementation of our shared value model. We have focused on environmental stewardship, healthcare, education, economic empowerment, capacity building and infrastructure development as key areas to achieve our goal of being a responsible business at all times. I truly feel that we have made a positive difference for our host communities and will continue to do so long into the future.

What do you think has been key to Seplat's success?

A combination of factors. Clearly asset quality is a major factor and we have been able to secure a portfolio of assets that is of extremely high quality. On top of this we are the operator at our core assets so we have been able to drive forward the development and apply industry best practice standards, particularly in the areas of health, safety and the environment. We have married our ability to safely operate to a strategy of disciplined capital allocation. The flexibility and control over the level and timing of spend has enabled us to maintain a strong balance sheet and withstand the oil price volatility and prolonged periods of force majeure at third party export infrastructure. As I have already described, our effective community relations has been a major factor underpinning our success.

However, above all else it is our people that have made everything happen and ensured Seplat has been a great success story for Nigeria. We have a great team at Seplat that consistently goes above and beyond the call of duty in order to deliver the required outcomes. I am constantly surprised at the levels of professionalism, dedication and persistence displayed by our staff throughout the organisation. I remain grateful to each and every member of staff for this and am sure I speak for all shareholders also in expressing my gratitude.

Seplat remains extremely proud of its identity as an indigenous Nigerian independent energy company, and carries a strong sense of responsibility to Nigeria and, in particular, our host communities.

What do you see as the main challenges of 2020?
We face the same challenges as the rest of industry in terms of managing oil price volatility and other macro risks. The emergence of the COVID-19 pandemic has thrown in another variable that has impacted the global economy. As these factors are not in our control we can only make sure that we have plans in place that can mitigate and de-sensitise the business to these risks as far as is possible.

On a company specific level it really comes down to execution and delivery of key projects together with prudent financial management. More specifically the success of acquisitions is really determined by how effectively the acquired business is integrated with the existing business. To this end we have a clear plan for the integration of Eland into Seplat that will be implemented over the course of the year. We also need to make sure that we remain on schedule with our key development projects, including the ANOH gas processing plant, and that we secure the requisite rig capacity and operational resources to undertake the planned production drilling programme. These are all things that are within our control and are in our hands to deliver.

A special thank you
I am extremely honoured to have led Seplat for the past ten years, and I am proud of the role it has played in promoting indigenous participation in the Nigerian oil and gas space. My ultimate goal in the transition of the CEO role is for Seplat to achieve even greater things in the next decade, creating a blueprint for others to follow.

As I look ahead, I remain confident in our position, strategy, and growth prospects. I am also confident that Roger Brown has the ability to steer the business through what will be an extremely challenging year in 2020 and then drive towards the next phase for Seplat's success. I am also confident that the leadership team and our talented employees will support Roger fully as we endeavour each day to realise the full potential of our portfolio and create value for all stakeholders.

I would like to take this opportunity to thank our shareholders, I do appreciate your loyalty and support during my decade as CEO. I have enjoyed and value our various engagements through the years. Again, I am extremely proud of what we have accomplished at Seplat through a challenging and transformational journey and look forward to a long and successful future.

Austin Avuru
Chief Executive Officer

A remarkable journey

– Celebrating a ten-year legacy

Having co-founded Seplat with A.B.C. Orjiako (current Chairman of the Board) in 2009, Austin Avuru is retiring from his role as CEO and executive director on 31 July 2020. Under his leadership Seplat has grown to become the leading Nigerian independent oil and gas company and to date the only Nigerian company to be fully listed on both the Nigeria and London stock exchanges.

His unwavering dedication has been a driving force behind the Company's achievements in not only operational and financial performance, but also its over-riding commitment to deliver value to all stakeholders. In recognition of Austin's contribution and leadership, we look back at some of the challenges and accomplishments from a remarkable journey that will continue to impact positively on our short and long term goals.

2009

With the vision of creating a leading indigenous upstream E&P company, indigenous independents Platform and Shebah co-founded Seplat to acquire OMLs 4,38 and 41 from Shell, Total and Eni.

2010

Bilateral acquisition of OMLs 4, 38 and 41 completed and Seplat granted operatorship.

Successfully transitioned management and technical teams from SPDC into Seplat operations.

First GMOU executed with host communities.

2011

In just a year of operations more than doubled daily liquids production from OMLs 4, 38 & 41 to over 30,000 bopd.

2012

Considering major policy and regulatory developments, Seplat was quick to see the increasing importance of natural gas as a key source of energy for Nigeria and made the strategic decision to invest in expanding the gas business for domestic consumption.

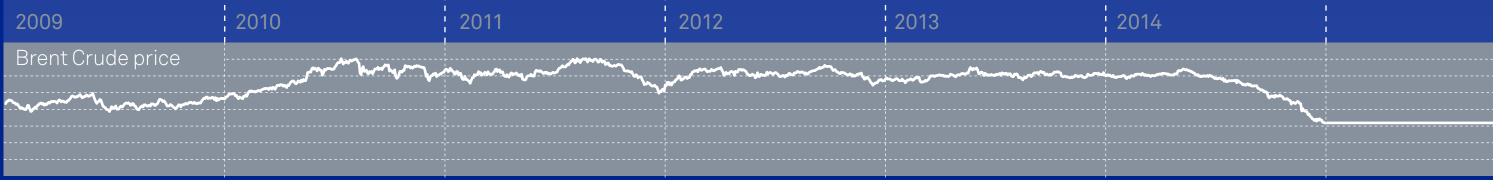
2013

Completed the acquisition of 40% participating interest in Umuseti/Igbuku (OPL 283) fields.

2014

Landmark IPO; the first ever London and Lagos dual listing and the first upstream E&P company to list on the Nigerian Stock Exchange. The IPO raised US$535 million and valued the business at US$1.9 billion.

Strategic pipeline connecting Seplat's Rapele LACT unit to Warri refinery completed that would give Seplat an alternative export route in periods of downtime and force majeure at the Forcados pipeline system and terminal.



In response to the lower oil price environment, Seplat adopted a prudent approach to align capex with cash flow and reduce costs to ensure a robust capital structure was maintained.

2015

Major expansion project to take the Oben gas processing capacity to 300 MMscfd was completed allowing the increased revenue from the gas business to partially offset the reduction in oil prices.

In addition to the low oil price, in 2016 Seplat had to contend with the force majeure at its principal oil export route – the Forcados terminal.

Completed upgrades to two jetties at the Warri refinery to sustain exports of 30,000 bopd.

2016

Completed the Acquisition of a 40% working interest in OML 53 and an effective 22.5% working interest in OML 55 (subsequently converted to a revenue interest).

Force majeure at the Forcados terminal was lifted in June allowing Seplat to return to full productivity in the second half and emerge from a difficult chapter in its history a fitter and stronger business.

2017

Phase II of the Oben expansion was completed taking processing capacity to 525 MMscfd and the gas business made a record contribution of US$124 million, accounting for 27% of total revenue.

Successfully completed a debut bond issuance of US$350 million, a strong endorsement of the quality of Seplat's underlying asset base.

2018

Seplat attained the Nigerian Stock Exchange's (NSE) Premium listing status becoming the first oil and gas company migrated to the Premium Board of the NSE.

Seplat entered into its first IJV with NGC for the development of one of the seven National Gas Priority Projects in Nigeria – the 300MMscfd ANOH gas processing plant.

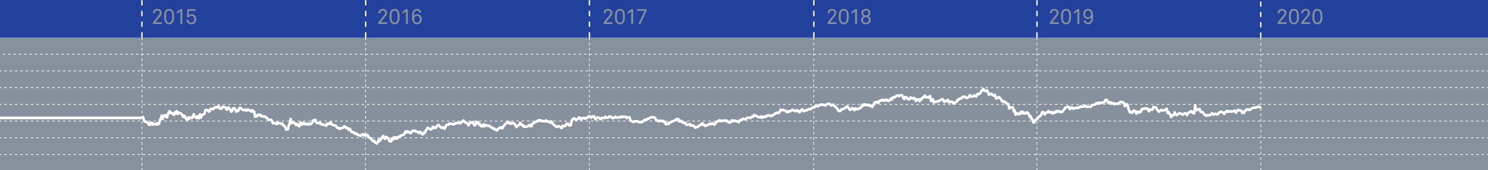
FID was taken for ANOH, which will position Seplat as Nigeria's largest supplier of processed gas to the domestic market

Completed the GBP382 million acquisition of Eland Oil and Gas, the first public market acquisition of a London Stock Exchange listed company by a Nigerian company.

2019

2020

Just ten years after it was founded, Seplat is now firmly established as Nigeria's leading independent oil and gas company

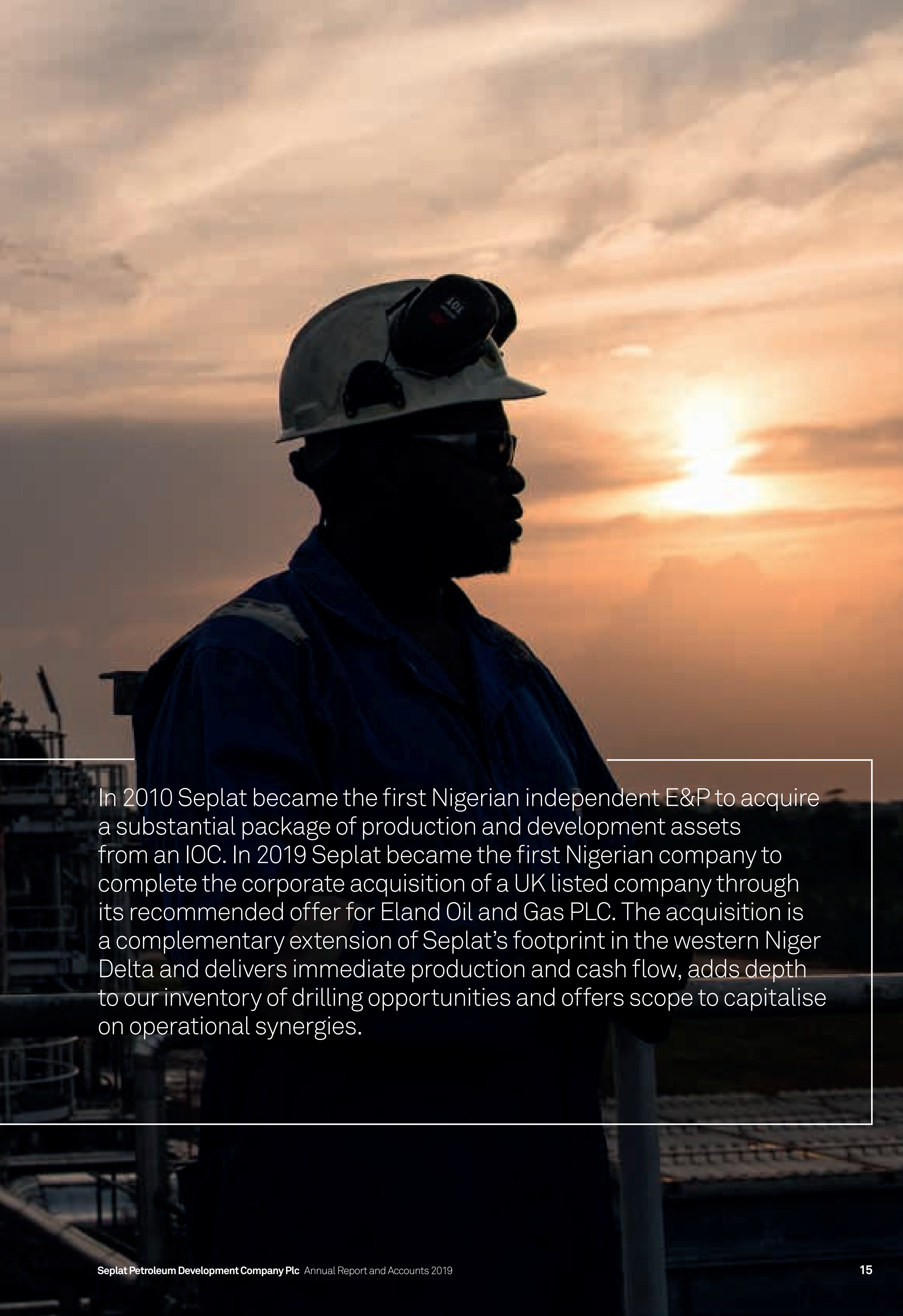


A high quality asset base

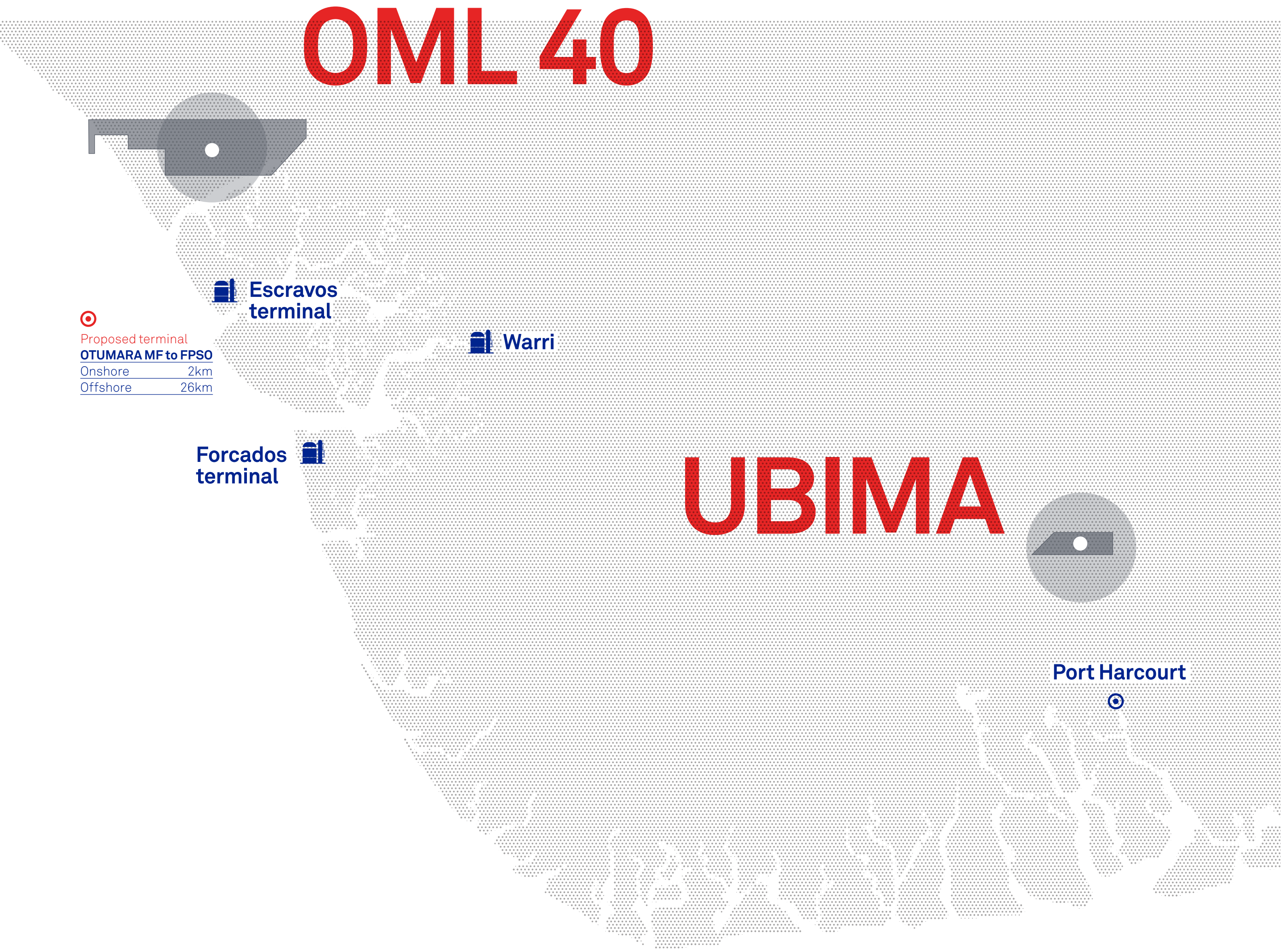
Eland, through its joint venture company Elcrest, acquired a 45% interest in OML 40 from Shell, Total and Eni in 2012. The block is located in the north west Niger Delta in close proximity to Seplat's core producing OMLs 4, 38 & 41 and holds multiple oil and gas discoveries. Under the previous ownership structure production from the Opuama field commenced in 1975 and peaked at approximately 11,000 bopd the following year before declining steadily to 2006 when the field was shut-in. Elcrest reactivated production from Opuama in 2014 and developed gross production from 3,338 bopd for producing days in 2014 to a peak 2018 production rate of over 31,000 bopd, an increase of over 800%. Elsewhere on OML 40, the Gbetiokun field was discovered in 1987 and further appraised in the early 1990's. By installing an Early Production Facility Elcrest was able to fast-track Gbetiokun into production during July 2019.

In addition, Eland has a 40% interest in the Ubima marginal field in OML 17, onshore eastern Niger Delta. The field was discovered in 1963 but has remained undeveloped. Eland acquired the interest in August 2014 and after a period of assessment, commenced appraisal operations in July 2018 with a re-entry and flow test of the discovery well, Ubima-1.

FOCUSED AND DOMINANT CONSOLIDATOR IN THE NIGERIAN E&P SPACE



In 2010 Seplat became the first Nigerian independent E&P to acquire a substantial package of production and development assets from an IOC. In 2019 Seplat became the first Nigerian company to complete the corporate acquisition of a UK listed company through its recommended offer for Eland Oil and Gas PLC. The acquisition is a complementary extension of Seplat's footprint in the western Niger Delta and delivers immediate production and cash flow, adds depth to our inventory of drilling opportunities and offers scope to capitalise on operational synergies.



The new offshore terminal will create more jobs and other multiplier opportunities for the region and the Nigerian economy.

Material reserves and attractive growth opportunities

OML 40 holds gross 2P reserves of 83 MMbbls, gross 2C resources of 49 MMbbls and a best estimate gross un-risked prospective resources of 252 MMbbls. The Ubima marginal field is estimated to hold gross 2P reserves of 9 MMbbls of oil and gross 2C resources of 4 MMbbls. The combined oil production of Seplat and Eland (as separate entities) in 2019 stood at 32,898 bopd and as per independent reserve assessments at 1 January 2020 the acquisition has increased Seplat's 2P reserves and 2C resources base by 9.6% to 615 MMboe.

An expanded and highly skilled organisation with increased capability

The strategic fit between Seplat and Eland does not only relate to the asset portfolio, but also the highly successful teams that have each delivered two of Nigeria's most successful independent operations. We have a carefully mapped out integration plan for both the assets and people of Eland, the end result of which will be a production and development business of greater scale and resilience managed by an enlarged team with expanded skill sets and common focus on operational excellence and strict financial discipline. In particular, Seplat will be able to leverage its financial capacity to realise the full development potential of Eland's current producing assets and accelerate the appraisal and development of as yet undeveloped discoveries on OML 40 in particular while also testing the identified exploration potential in what is a relatively low risk hydrocarbon play.

2019 Working interest production

8,963 bopd

Working interest 2P reserves

36 MMbbls

Working interest 2P reserves + 2C resources

56 MMbbls

Ubima Gross test well rate up to

2,500 bopd

Diversification of production and de-risking oil exports

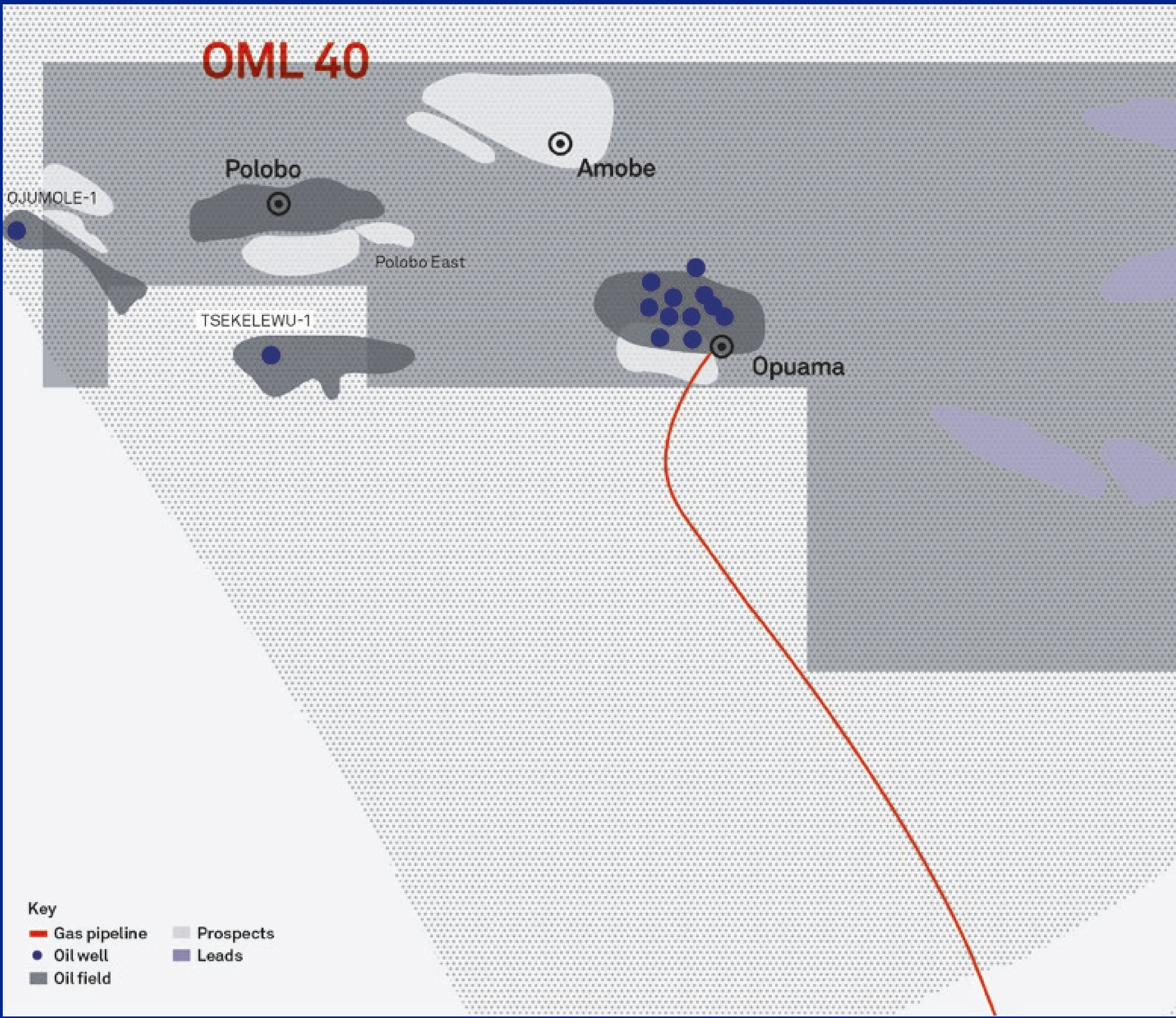
Far beyond it being a simplistic addition of volume and cash flow, a key strategic dimension of the acquisition is the opportunity it provides for Seplat to achieve a broader and interconnected upstream production network in the western Niger Delta with its own dedicated export route, in addition to the multiple third party export routes that presently exist.

Crude from Opuama is presently evacuated by a dedicated 36 kilometre pipeline to the Shell operated Otumara field on OML 43 and then onwards to the Forcados terminal. This northern route into Forcados is separate to the Trans Forcados Pipeline utilised by OMLs 4, 38 and 41. The export pipeline crosses the Benin River where a valve station has been installed and is the injection point for barged crude from the Gbetiokun field. A moored vessel is anchored in the river and accepts Gbetiokun crude from a shuttle tanker. Crude is then offloaded via flexible flowlines connected to the valve station. From there, crude is exported by pipeline. A barge has been moored which can store up to 10 days of production in the event of outages at Forcados. As part of the full field development of Gbetiokun a new pipeline will be installed which will remove dependency on the current barging solution.

The opportunity also exists for Seplat to capitalise on the location of OML 40 and associated infrastructure to develop its own export route and offshore terminal that would be under the Company's control. Our plan is to leverage the 160,000 bopd Amukpe to Escravos pipeline and install a spur line from that to the Otumara manifold where production from OMLs 4, 38 and 41 could be comingled with production from OML 40 and exported via a new pipeline running offshore to a dedicated Floating Storage and Offloading vessel ("FSO") which will be established as a new crude export terminal. Not only will this significantly de-risk the distribution of oil production to market but it will also eliminate reconciliation losses suffered by the Company at the Forcados terminal which typically average around 10%. It will allow the Company to minimise exposure to the Trans Forcados Pipeline that suffers varying and unpredictable levels of downtime as a result of sabotage and leaks and mean that in total the Company will have access to four separate export options for its oil production in the western Niger Delta.

Opportunities upside

Seplat has the financial and technical capacity to further accelerate the development of Eland's assets and also test the upside potential that exists on OML 40 through a focused exploration and appraisal campaign over the near to medium term. In addition to the oil opportunities at OML 40 Seplat believes that substantial prospective gas potential exists. As a preeminent producer and supplier of processed natural gas to the Nigerian domestic market, and with its core processing hub strategically located at Oben, Seplat is uniquely positioned to unlock and monetise the gas potential it sees at OML 40 over the longer term.



Opuama

2P
reserves

43 MMbbls

Gbetiokun

2P
reserves

40 MMbbls

Amobe

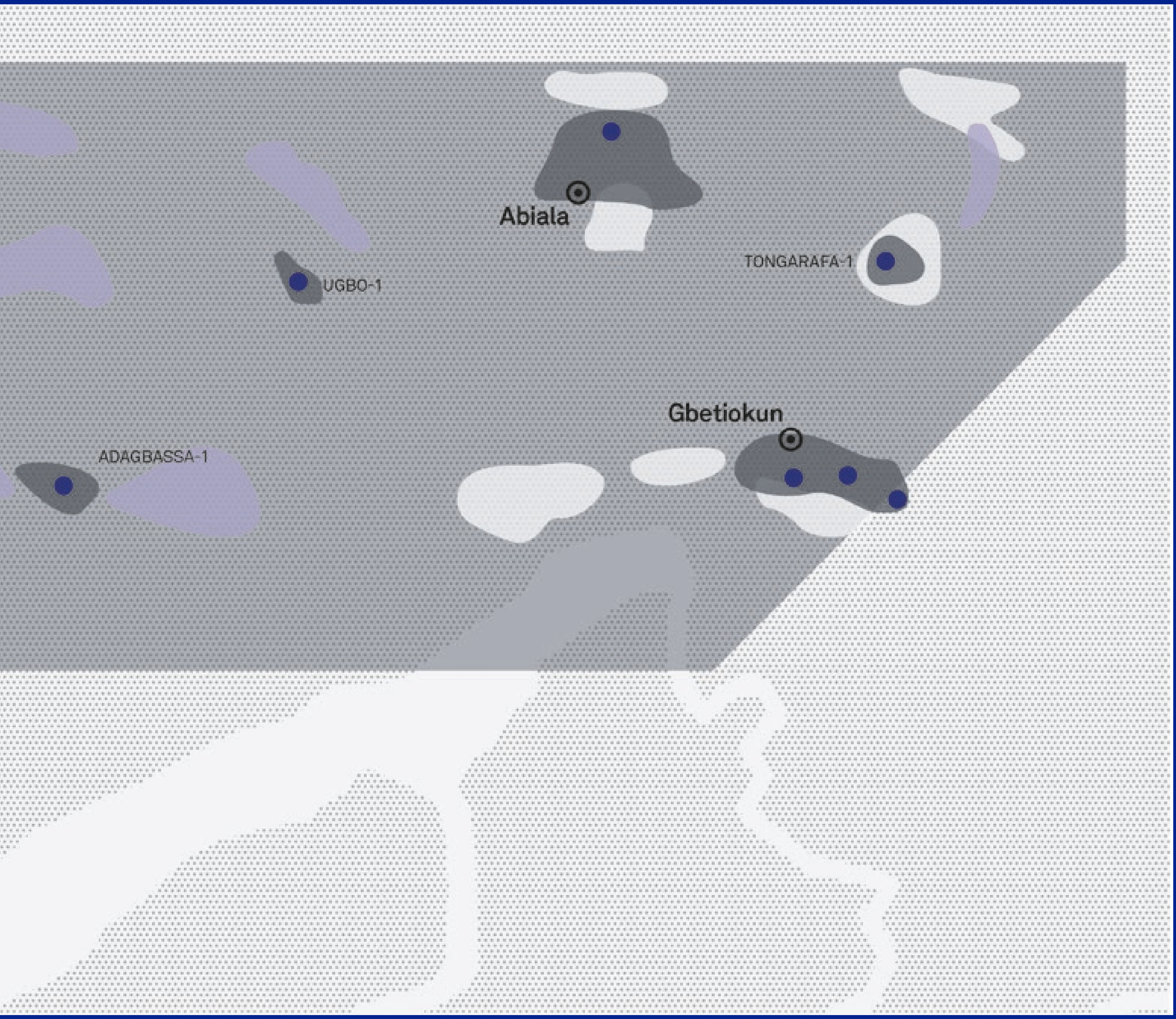
2U
resources

78 MMbbls

Abiala Area

2C
resources

26 MMbbls



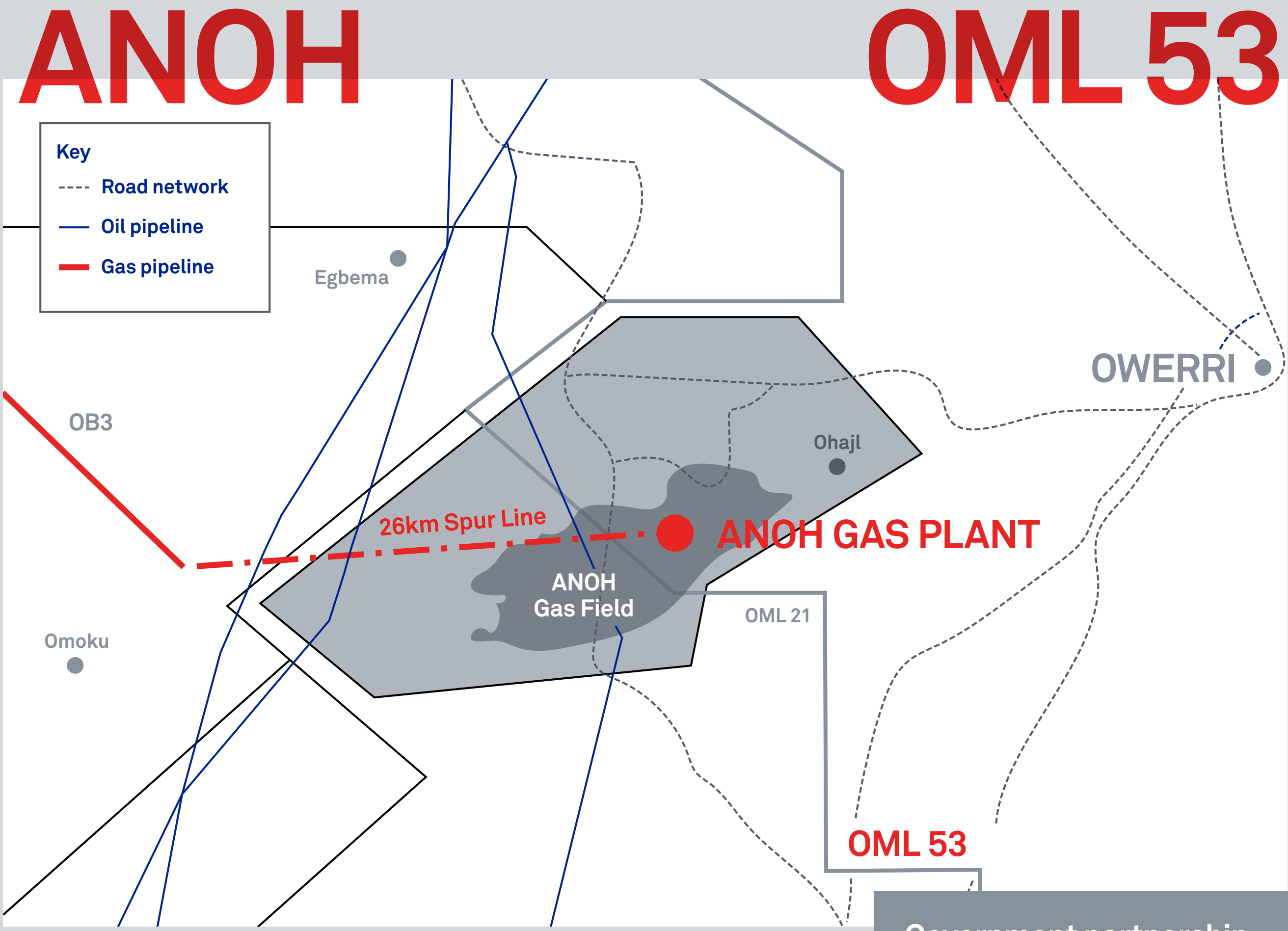
ANOH GAS HUB — A BLUEPRINT FOR NIGERIA'S FUTURE

The ANOH gas development at OML 53 will drive the next phase of growth for the gas business. Seplat's involvement positions it at the heart of one of the largest greenfield gas and condensate developments in the Niger Delta, and positions the Company to be the leading long-term gas supplier of choice for Nigeria.

What is ANOH?

The Assa North / Ohaji South gas development at OML 53 (and adjacent OML 21 with which the upstream project is unitised) will incorporate, in Phase 1, a 300 MMscfd midstream gas processing plant distributed through the Obiafu-Obrikom-Oben (OB3) pipeline network. Shell Petroleum Development Company (SPDC) is operator of the unitised upstream development which is expected to manage the upstream operations to produce 600 MMscfd of wet gas, 300 MMscfd of which will be processed at a new SPDC JV processing plant and the other 300 MMscfd processed by AGPC (Seplat and NGC JV) at the company's gas processing plant.

Seplat is well positioned to leverage the experience gained at the Oben gas processing hub, where it expanded gas processing capacity over two phases from 150 MMscfd to 465 MMscfd, to incorporate operational and cost efficiencies. Seplat took the Final Investment Decision ("FID") to proceed with the ANOH project in March 2019 and first gas is targeted for 2021.



Government partnership

Seplat and the Nigerian government are delivering the midstream development through the ANOH Gas Processing Company ("AGPC"), an incorporated joint venture owned 50:50 by Seplat and the Nigerian Gas Company ("NGC"), a wholly owned subsidiary of Nigerian National Petroleum Corporation ("NNPC").

The project is the most advanced project of the 7CGDP initiative led by the Ministry of Petroleum and the Nigerian National Petroleum Corporation (NNPC).

The importance of ANOH

The ANOH gas development project, which is aimed at producing around 300 MMscfd, is one of the 7 Critical Gas Development Projects (7CGDP) in Nigeria. 7CGDP is a Government programme aimed at improving gas production and infrastructure development for the country.

ANOH is one of the largest greenfield gas and condensate developments in Nigeria which will supply much needed gas volumes for a growing domestic market. As a critical gas supply hub in Nigeria's burgeoning gas-infrastructure network, ANOH is designed to provide supply to the Eastern, Western and Northern gas pipeline systems. Delivery of the ANOH project will be a major contributor to the Nigerian government's aspiration for increased power generation and diverse industrial and economic growth. This would in turn be a significant contributor to GDP growth across Nigeria, as the gas produced will be utilised in-country across diverse industries, while providing economic opportunities for local communities.

$US700m
Estimated total project cost

300 MMscfd
Gas processing plant

It is premier amongst the 7 Critical Gas Development Projects initiative led by the Ministry of Petroleum and the Nigerian National Petroleum Corporation.

ANOH in numbers

	Upstream	
6	Six wells to be drilled in the project area	
	Location	
87	87 hectare plot, accommodating access roads, rights of way, flowlines, gas plant, field logistics base (FLB), LPG loading, utilities and additional accommodation space for future expansion	
	Plant specification	
300	2x150 MMscfd Thompson Trains with 50% turndown capacity with automated operations	
22,500	22,500 bbl/d two train condensate handling plant	
1,200	1,200 bbl/d LPG recovery	
	Ancillary facilities	
200,000	2 x 100,000 bbl condensate storage tanks	
50,000	1 x 50,000 bbl produced water tank	
200	1 x 200 bbl diesel tank	
12,000	8 x 1,500 bbl LPG storage bullets	
	Workforce	
80	80 persons field logistics base, administration and maintenance blocks	

Key events

- Transfer of 40% interest and operatorship of OML 53 to Seplat in January 2016
- FEED completed August 2017
- Gas plant area land acquisition completed in March 2018
- Shareholder & commercial agreement signed in August 2018
- Site clearing and earthworks commenced in November 2018
- FID taken in February 2019
- Site clearing completed in May 2019
- Key contracts to supply process modules and specialist equipment awarded by June 2019
- Awarded integration detailed engineering design in July 2019
- 30% Model and Design review of gas process modules October 2019
- Equity of US$300 million committed (50:50 between Seplat and NGC) by October 2019
- Safety (HAZOP) and 60% Model review of integrated Vendor packages December 2019
- 1st Steel Cutting / commencement of Gas Process Modules achieved December 2019
- Award of Civil foundations, plant roads and drainages scheduled for December 2019.

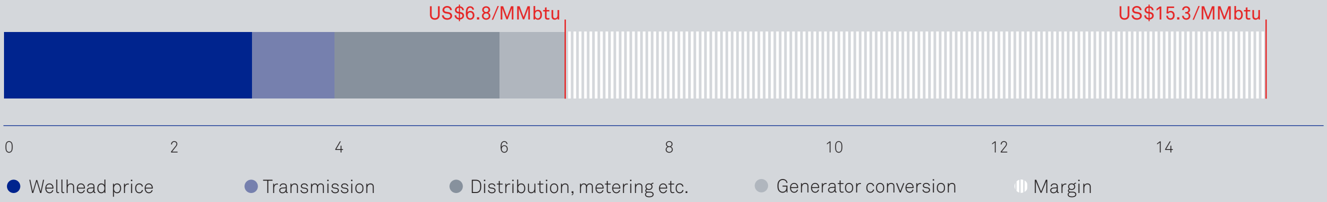
ANOH – The Assa North / Ohaji South Gas Processing Project

Benefits and outcomes

Energy replacement

The economics are compelling of switching from the estimated 25GW diesel generated power to gas fired power generation. Gas is a cheaper and more efficient fuel for energy generation with lower carbon emissions. It also has the added advantage of helping to preserve Nigeria's foreign exchange reserves because unlike imported diesel, gas is paid for in Naira.

The estimated equivalent cost of generating power through burning diesel is in excess of US$15/MMbtu (US$14.6/MMscfd at a conversion factor of 0.9756).



Source: Nexant

9,300

In-country tonnage

Local content

At Seplat, we have consciously put in place practices to promote local business competencies and they continue to play a key role in our operations. Through close engagement and collaboration with the Nigerian Content Development and Monitoring Board (NCDMB), local contractors and vendors are growing capacity. Seplat has consistently purchased locally manufactured goods through our in-sourcing strategy, ensuring local participation throughout our supply chain.

Adopting the 'Seplat Model' for community engagement

AGPC adopted the tested structures and community engagement strategy set up by Seplat. This model promotes partnership and proactive engagement with host communities and other stakeholders. It also ensures an effective community relations governance structure. AGPC is progressing with a needs assessment to determine specific CSR initiatives that reflect the ANOH community aspirations. Whilst this is ongoing, low hanging opportunities that impact the immediate communities are being addressed.

Leading indigenous E&P committed to developing the local oil and gas service industry.

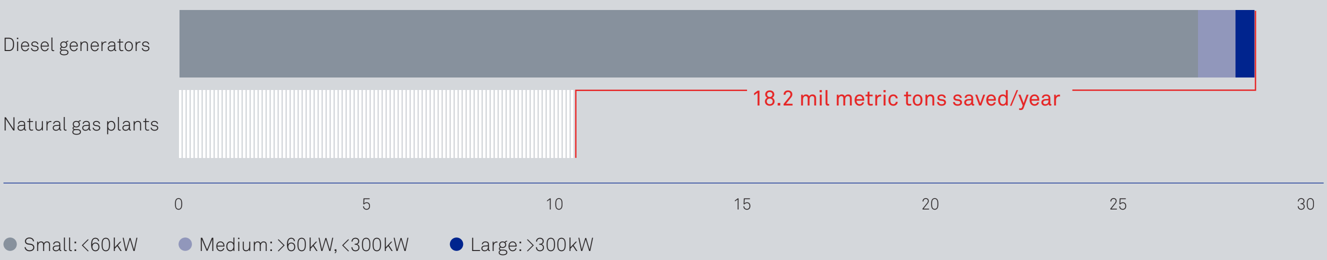
	WBS activity	Status	Design	Procurement & Fabrication	Commissioning & Installation	Operations	Inspection Maintenance & Repair
1	Process units – modules		GPS	GPS	MEIC (TBD)	AGPC	AGPC
2	Power gen rotating equipment		BAKER HUGHES/ GE	BAKER HUGHES/ GE	BAKER HUGHES/ GE	AGPC	BAKER HUGHES/ GE
3	Tanks & blending		GPS	MEIC (TBD)	MEIC (TBD)	AGPC	AGPC
4	Civils		GPS	KENONO-MENA	KENONO-MENA	N/A	N/A
			IESL/DORIS	ZEROCK	ZEROCK		
5	Pipelines		IESL/DORIS	(TBD)	(TBD)		
6	Detailed design - study		IESL/DORIS	N/A	N/A	N/A	N/A
7	Mechanical electrical and installation hook-up		N/A	MEIC (TBD)	MEIC (TBD)		

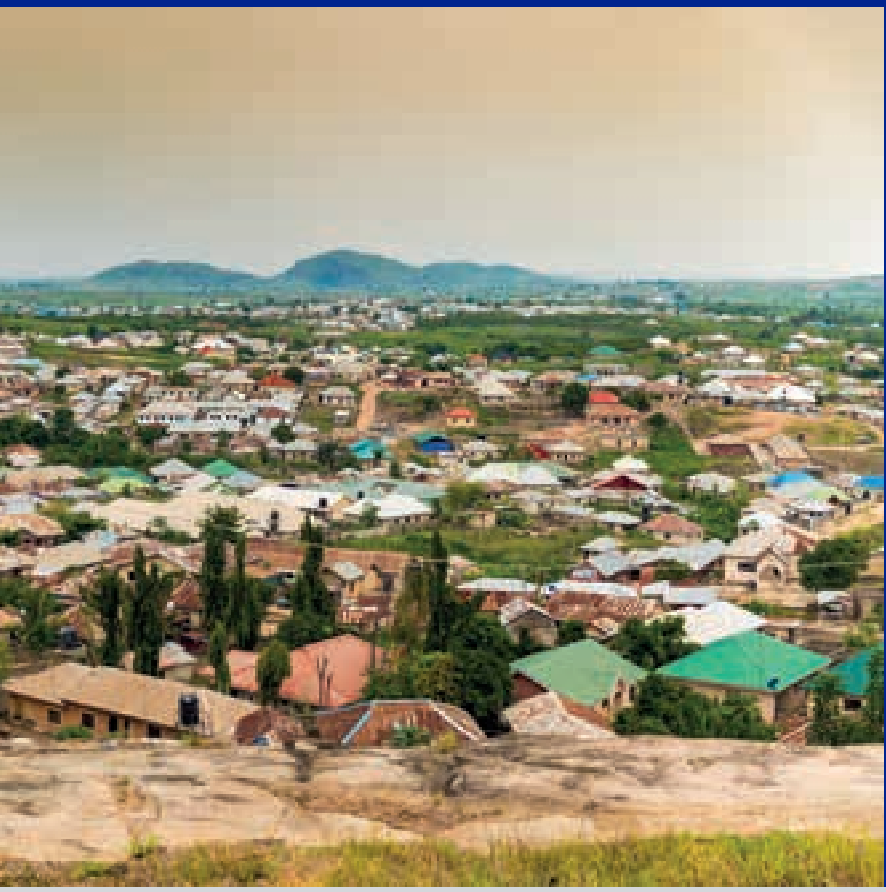
Environmental benefits

In addition to being a domestically abundant and secure energy source for Nigeria, the use of gas also offers a number of environmental benefits over other sources of energy, particularly coal and diesel. For example, the combustion of natural gas emits around 45% less carbon dioxide (CO_2) and 60% fewer greenhouse gases (GHG) than coal; and around 30% less CO_2 and 50% less GHG than diesel.

The combustion of natural gas emits around 30% less CO_2 and 50% less GHG than diesel.

Generator vs grid emissions in Nigeria
Millions metric tons CO_2





Delivering growth for Seplat, Nigeria and shareholders

The long-term outlook for gas in Nigeria and the regional market remains positive and Seplat is leading the charge to grow domestic capacity in the country's midstream gas processing potential; as Nigeria begins to shift from gas being a rental revenue earner to being a source of energy security that drives wider economic growth. Seplat's gas reserves and processing capacity connected to the main demand centres position it to be the leading long-term gas supplier of choice.

An expert team drawing on past experience and repeatability gains to deliver value.

Generating value for all of our stakeholders

Inputs

Unified and motivated workforce

450+

multi-discipline employees

Operational expertise and control

98%

of our production is Seplat operated

Strong financial management and access to capital

US$333m

Cash at bank

Effective HSSE and risk management

0.00

LTIF

Good corporate governance

88%

Corporate Governance Rating System score

Strong relationships with host communities

US$71m

invested in our communities since 2010

Our core activities

1. Acquire

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

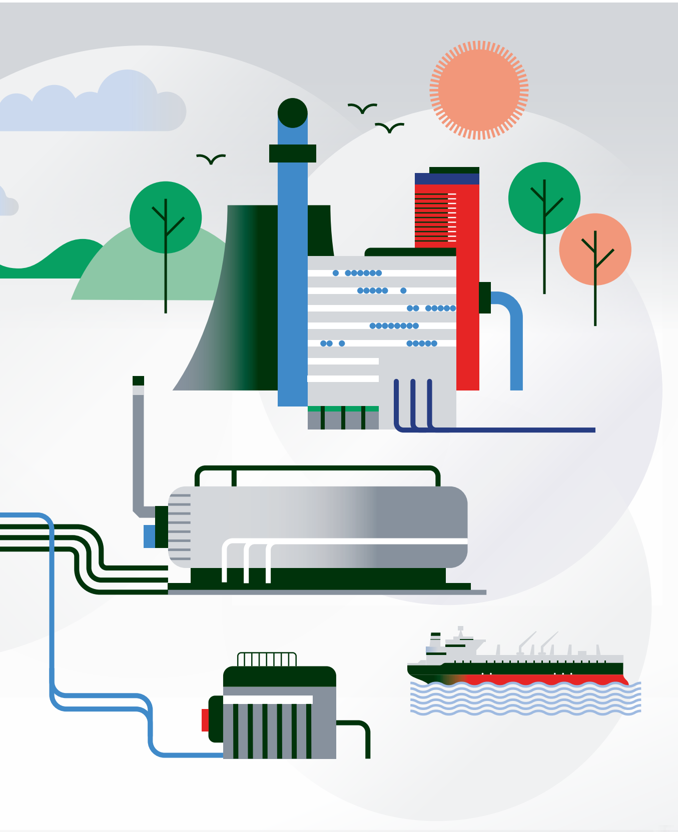
2. Explore & appraise

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

3. Develop

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

Our business model leverages our core strengths, relationships and experience to create long-term value and shared prosperity for all of our stakeholders.



4. Produce, process & sell

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

Our oil production is marketed and sold internationally to offtakers at the export terminal while our gas production is sold under a number of gas sales agreements wholly into the domestic market.

Outcome

The end result of our core activities is a profitable underlying asset base that generates strong margin cash flow and within which we have numerous organic reinvestment opportunities to selectively redeploy this cash flow. We combine this with our access to inorganic growth opportunities, for which we may need to secure additional external capital, to generate sustainable long-term value for our multitude of stakeholders.

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

Strong margin cash flow

- High grading of portfolio opportunities
- Disciplined allocation of capital

Value for our stakeholders

For our shareholders

- Capital growth
- Dividends

LSE

US$59m paid out to shareholders in 2019

13.8% Total Shareholder Return in 2019

For government

- Royalty and tax revenue
- Foreign and local capital investments

US$684m

Payments and production entitlement to government reported in 2019

For Nigeria

- Infrastructure development
- Multiplier effect from improved gas-to-power supply

1/3

of Nigeria's current power generation can be underpinned by our gas production

For our host communities

- Economic empowerment
- Healthcare and education

1,300+

jobs created via Seplat operations

For our employees

- Training and development
- Shares awarded

71%

employees trained; 13,300 hours of training

Acquire

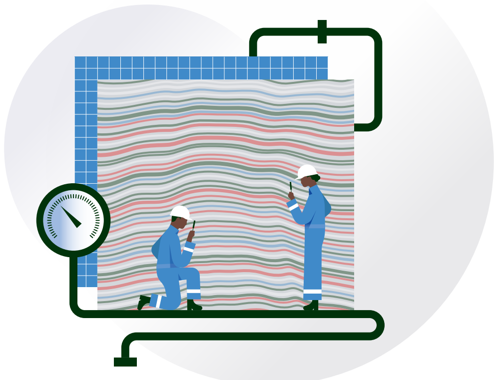
To date, we have acquired direct interests in seven blocks and a revenue interest in one further block, all of which are located in the onshore and swamp areas of the Niger Delta, Nigeria.

In December 2019, we completed an all cash acquisition of Eland Oil and Gas Plc, an AIM listed company. Eland, through its joint venture company, Elcrest, holds a 45% equity stake in OML 40 and a 40% equity state in the Ubima marginal field. This acquisition will leverage Seplat's core production and development expertise to capture potential upsides and increase growth and profitability. Seplat's knowledge of Eland's producing assets and operations will allow the assets to be efficiently integrated into Seplat's existing portfolio.

We will continue to maintain a price-disciplined approach and prioritise opportunities in the onshore and offshore areas of Nigeria that offer near-term production, cash flow and reserve replacement potential.

Key strengths & priorities

- First Nigerian operator to acquire blocks from major IOCs
- First Nigerian company to acquire a London listed company
- Eight blocks acquired to date (seven direct interests and one revenue interest)
- Ability to match opportunities with access to capital
- Upsized the US$350 million revolving credit facility in December 2019 to fund the Eland acquisition



Explore & appraise

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

In 2019, we planned to drill one appraisal well in Owu. However, due to rig mobilisation delays in the first half of the year, we did not drill the appraisal well, electing to focus capital expenditures on development drilling opportunities that would offer the greatest cash returns and rapid payback.

Key strengths & priorities

- Continue to evaluate potential for a new deeper exploration play in OMLs 4, 38 and 41 indicated by the Ogegere-1 exploration well (drilled in 2014)
- OML 40, OML 53 and Ubima add significantly to inventory of E&A opportunities
- Focus on opportunities close to infrastructure that can be monetised rapidly

Develop

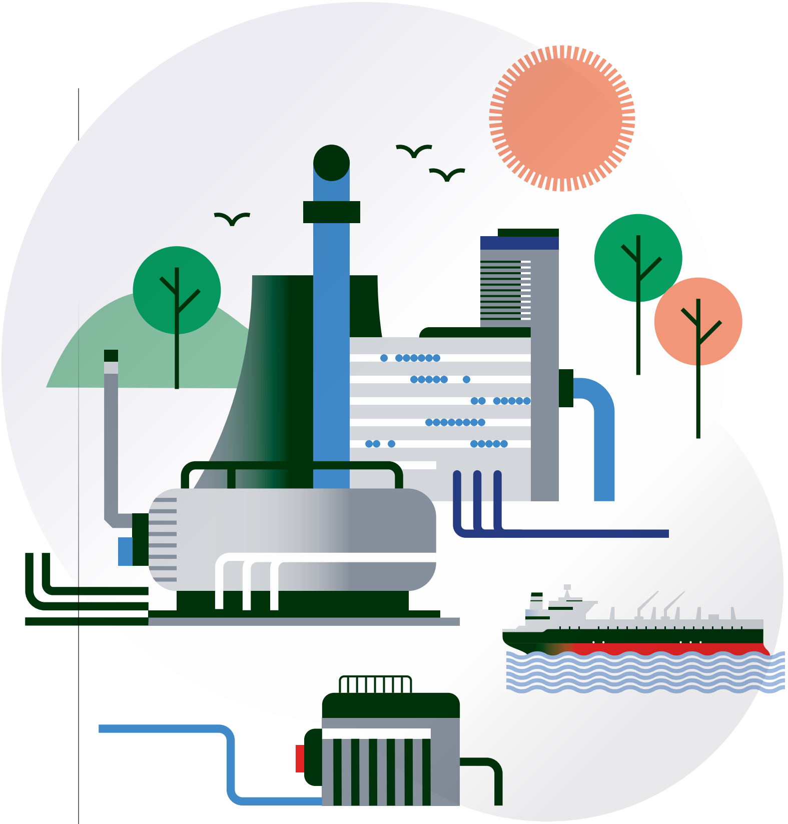
In recent years Seplat has been one of the most active drillers in Nigeria and has successfully undertaken and completed significant facilities and infrastructure projects on a fast-track timetable and within budget. We have drilled 52 new development wells, completed 26 workovers, reactivated production from pre-existing wells, constructed and installed a new liquid treatment facility, upgraded and significantly expanded the Oben gas plant, completed a new liquids pipeline linking our assets directly to the Warri refinery, installed additional storage capacity and implemented gas lift to aid our production with pressure support.

In 2019, we focused rig based work on eight oil wells including three work-over wells executed in 2019. Two additional wells and one gas well were spudded in the fourth quarter of 2019 and completed in the first quarter of 2020.

FID at the ANOH project was sanctioned by the Seplat Board in March 2019. Activities have commenced at the AGPC site. Having reviewed the construction schedule and progress on the OB3 pipeline, project completion is expected in Q4 2021.

Key strengths & priorities

- Proven track record as a skilled operator
- Retain discretion over future work programmes and flexibility to respond to macro conditions
- Prioritise the most cash generative and short-cycle return development opportunities



Produce, process & sell

Seplat has grown oil production capacity since inception and has more than doubled gas production since the Oben gas processing plant Phase I and Phase II expansions were commissioned.

With a significant undeveloped reserves and resource base, which now includes the recently acquired Eland assets, Seplat has a portfolio capable of yielding significant oil and gas production for many years to come.

We have seen our overall annualised average working interest production grow from 21,431 boepd in 2011 (our first full year of operations) to 46,498 boepd in 2019 (excludes Eland's production).

In line with a key priority to establish multiple export routes for all assets, Seplat is actively pursuing alternative crude oil evacuation options in order to reduce any over-reliance on one particular third party pipeline system and/or export terminal. We upgraded two jetties at the Warri refinery as an alternative option for crude oil and condensate produced at OMLs 4, 38 and 41 whereby crude oil is sent to available storage tanks via our own 100,000 bopd capacity pipeline, from where the barrels are sold FOB at a loading jetty.

The Amukpe-Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41. Seplat anticipates the pipeline to be fully commissioned and operational in 2020.

Seplat has grown its natural gas gross processing capacity to 525 MMscfd and in 2019 supplied an average of 291 MMscfd gross exclusively to the domestic market. The development of our gas reserves at OML 53 (ANOH) offers significant growth potential in the medium term.

Key strengths & priorities

- Diversification of oil export routes will see access to multiple options in 2020 with sufficient redundancy to de-risk distribution of product to market
- Grown oil production capacity since inception
- Operate enough gas production to underpin around a third of Nigeria's current power generation
- Significant inventory of future development opportunities in current portfolio to provide continued growth in coming years

Output:

Strong margin cash flow

High grading of portfolio opportunities

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

Disciplined allocation of capital

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

Key strengths & priorities

- Low unit of production opex
- Opportunity to capitalise on cost deflation
- Hedging strategy to provide a level of cash flow assurance
- Good balance between oil and gas derived cash flows
- Discretion over level and timing of capital expenditures

Output:

Value for our stakeholders

Shareholders

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

Government

Our investments to grow oil and gas production both organically and inorganically have also translated into a significant increase in reserves and extended the economic life of our assets. Accordingly, the value that the government will ultimately realise over the life-span of the assets through royalty and taxes has increased dramatically.

Nigeria's economy

Seplat has become the second largest supplier of processed natural gas to the domestic market and we can underpin around one third of the current power grid. Improved security of supply and greater electrification is a critical multiplier effect to drive future inclusive GDP growth for Nigeria.

Host communities

We have directly and indirectly created more than 1,300 jobs, and since 2010 invested US$71 million into numerous impact projects to leave a positive social and economic legacy for our host communities.

Our employees

We invest in developing our people and we empower them to solve today's challenges while preparing for the future. We trained 71% of our employees with 13,300 training hours.

Key strengths & priorities

- Low unit of production opex
- Highly skilled and committed team
- Proactive community relations strategy guided by a GMOU

Looking forward, Seplat plans to position itself for a next phase growth, which would see the expansion of its energy business footprint. We will continue to pursue onshore and offshore prospects as well as opportunity driven entry into different geographies.

The Nigerian opportunity
– a compelling investment proposition

Nigerian oil potential

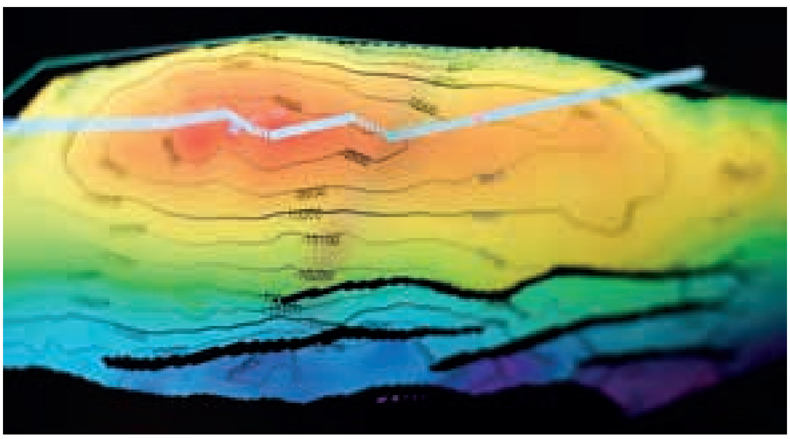
Prolific hydrocarbon geology

Nigeria is estimated to hold remaining recoverable proved reserves of around 37.5 billion barrels of oil, making it a globally significant source of long-term supply and along with a prolific hydrocarbon geology represents a compelling value proposition. Covering an area of approximately 75,000km^2 and with up to 10km sedimentary thickness, it starts below the ground and the critical factors required for hydrocarbon generation have all combined to great effect in the Niger Delta basin. These include the existence of source rocks with high levels of organic content, high rates of sedimentation and rapid burial to allow hydrocarbon generation, and the presence of good quality reservoir rocks and effective trap/seal mechanisms where hydrocarbons have accumulated in vast quantities.

At the corporate level, a mature fiscal regime with limited treasury restrictions including an extensive network of oil pipelines and export facilities, and a well established oil servicing industry increase Nigeria's attractiveness for oil and gas investments.

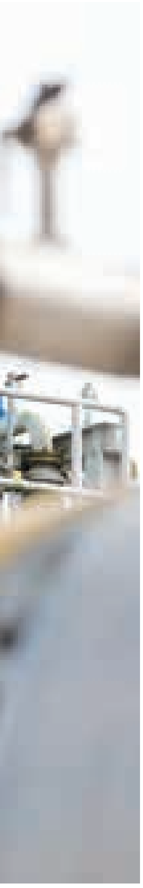
Our response

Seplat is underpinned by a high quality asset base in the prolific Niger Delta and since inception has invested to consistently grow oil and gas production capacity. The asset base comprises high quality fields that are currently in production, undeveloped discoveries awaiting development and undrilled exploration prospects that offer future upside potential. Since inception we have acquired both oil and gas assets that will provide a platform for growth on which we leverage our strengths and exploit the world class opportunities that Nigeria has to offer.



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

Nigeria's oil and gas industry represents a compelling value proposition and is attractive not just to Seplat but the wider industry.



Nigerian ownership of the E&P sector

Nigeria is unique when compared to the countries producing over one million barrels a day, in that a significant proportion of its oil and gas output is controlled by indigenous companies. Compared to a decade ago, local oil and gas operators now control around 19% of oil production and 18% of gas output and are poised to deliver economic gains that Nigeria has always targeted. Through divestment programmes, whereby the Major IOCs have sold a number of blocks to Nigerian bidders and the re-licensing of blocks to Nigerian companies, the level of local Nigerian participation in the oil and gas industry has more than doubled. The last oil licensing bid round was conducted in May 2007 and plans have since been underway to hold a licensing round in a move to fund a growing budget deficit and jumpstart activities in the upstream sector. Future bid rounds will present opportunities to further grow indigenous ownership towards ambitious targets, which include a campaign to improve production capacity to 4 million bopd and grow reserves from the current 37.5 to 40 billion barrels.

Additionally, the enactment of the Nigeria Oil and Gas Industry Content Development (NOGICD) Act presents advantages to Nigerian operators seeking to acquire oil licences in-country, but also guarantees the creation of composite value to the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilisation of Nigerian human resources and services in the Nigerian oil and gas industry. This inclusive approach has gone some way to re-engaging with disenfranchised local communities and militants that can threaten the performance of oil and gas operations.

But while progress has been made, long-term sustainability lies in access to funding and development of local capacity. Those indigenous companies that remain will only continue to succeed if they possess strong fundamentals that ensure low break-even economics, balance sheet strength and access to capital so that they can invest to diversify and dilute asset concentration risk, for example in order to capitalise on the gas-to-power opportunity in the Nigerian market.

Africa's largest oil producer

2.02 mbpd

2019 liquids production

Sub-Saharan Africa's largest remaining proven oil reserves

37.5 bbbls

Nigeria key statistics

193m

Population

US$476 billion

2019 GDP

2.3%

2019 GDP growth

3%

Population growth

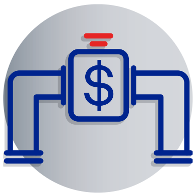
Source: BP Statistical Review of World Energy 2019, IMF, National Population Commission, National Bureau of Statistics

Our response

Seplat is fulfilling the Nigerian local content objective, and was one of the first indigenous Nigerian companies to directly acquire blocks from the Major IOCs. The acquisition of Eland Oil and Gas PLC is a strong statement of intent that Seplat intends to be a consolidator within the independent space in Nigeria. Today, it is estimated that Seplat operated around 20% of Nigerian indigenous oil production and can supply processed gas that underpins up to 1/3 of on grid Nigerian power generation. Once the ANOH project is commissioned, Seplat will be in a position to underpin 3,000MW of power generation.

Seplat is a standout counterparty for incumbent asset owners to transact with and well positioned to capitalise on further asset divestments from the major IOCs, future licensing rounds and farm in opportunities.

Nigerian gas monetisation



Gas opportunity

Nigeria lags behind many of its frontier market peers in electricity production per capita despite considerable domestic demand with power generation deficit, and the associated lack of access to reliable power, is widely recognised as a critical constraint on economic growth. Despite proven benefits to the economy including revenue and energy generation, natural gas development in Nigeria for the domestic market has remained at a relatively early stage. Provided the right backing and incentives, Nigeria could also be among one of the top global natural gas exporters.

The Gas Master Plan (GMP), implemented in phases, seeks to liberalise the domestic gas market and provide fiscal incentives for gas producers to almost triple natural gas production capacity to 12 Bscfd to fulfil electricity generation and industrial development demand. Central to the GMP is an extensive upgrade of gas infrastructure – construction of gas processing plants and pipelines to translate surplus gas production into gas-fired power generation. The presence of gas supply infrastructure will support the development of industrial hubs, bringing cleaner, cheaper and more environmentally friendly fuel to the markets. The prior awarding of Pioneer Tax Status to local Nigerian operators has allowed allocation of significant capital expenditure into gas projects to further gas development and generate employment. To this end, a more favourable policy environment for producers seeking to commercialise their gas reserves has been institutionalised.

With several projects in the pipeline, Nigeria is looking to gas to drive its economy and deliver the Nigerian Government's ambition of using gas as an enabler for energy independence, industrial development, commerce, environmental and social sustainability, and further diversify the revenue base of the country. Key attractions of the domestic gas opportunity include:

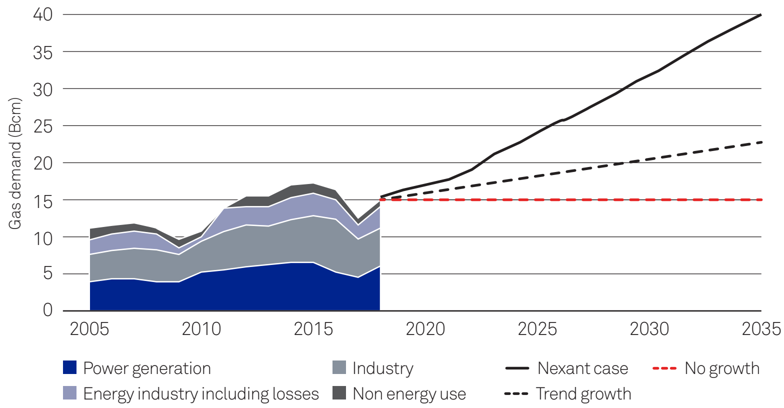
- Large gas reserves which exceed those of its oil at an estimated 188 Tcf, with a reserves life estimated at 110 years and prospective gas resources of an estimated 600 Tcf offer substantial longer-term growth potential, which if proven could move Nigeria into the top five gas reserves globally. Only about 25% of those reserves are developed today with most of the gas exported.
- Strong and growing demand from a current population of around 193 million, meaning Nigeria needs a high-energy grid system to power its factories and cities and sustain a growing economy. The current capacity deficit in thermal power generation provides immediate headroom to place additional gas volumes to allow commissioning of over 4,000MW of installed but non operational generation capacity. In August, the Presidential Power Initiative was launched to modernise the National Grid in three phases: from the existing 5 GW to 7 GW, then to 11 GW by 2023, and finally 25 GW afterwards
- Attractive switching economics through diesel displacement will replace an estimated 25 GW of off-grid diesel generated power in Nigeria at 3-5 times the cost of gas generated power
- Minimum gas pricing in the domestic market has moved to commercial levels. Gas prices are also delinked from oil prices, reducing exposure to oil price volatility and providing revenue visibility through long-term gas sales agreements
- Competitive fiscal terms for gas include a lower royalty at 7% and corporation tax of 30% applied as opposed to PPT. Furthermore there is a gas utilisation incentive of three years' tax holiday, which is renewable for another two years or a capital allowance uplift
- The option to export to the ECOWAS region through the West African Gas Pipeline runs through the Niger Delta area of Nigeria into Benin, Togo and Ghana

In line with the World Bank-led Global Gas Flaring Reduction (GGFR) Partnerships' "Zero Routine Flaring by 2030" initiative, Nigeria seeks to end its own gas flaring a full decade before the GGFR by 2020 and has also committed to prohibit any new oil well developments from flaring natural gas. Realising that harnessing the gas industry constitutes significant development of the economy, the government in 2017 introduced the National Gas Flaring Commercialisation Programme (NGFCP) to reward companies that are compliant with the zero flaring policies, to further encourage investment in this space. Furthermore, the Flare Gas (Prevention of Waste and Pollution) Regulation was approved by the President in July 2018 to provide a legal basis for the implementation of the NGFCP, which adopts the "polluter pays" principle and imposes significant obligations on producers for the reporting of data in activities related to gas flaring.

Our response

Alongside our oil business, we have prioritised the commercialisation and development of the substantial gas reserves and resources identified at our blocks, positioning Seplat today as a leading supplier of processed natural gas to the domestic market in Nigeria. We aim to achieve gas flare out and have commenced activities towards this. Looking ahead, we plan to commission the 300 MMscfd ANOH gas processing plant at OML 53, which will further increase our supply of processed gas, in particular to the gas-to-power sector.

Forecast demand outlook



Source: Nexant (Seplat 2019 capital markets day materials)

Business environment and the reform of Nigeria's oil industry

Progress was made in 2019 through the implementation of the 'Seven Big Wins for the New Nigerian Petroleum Industry' agenda launched in 2017 to reform the oil and gas industry and open up investment opportunities in the country's oil and gas sector.

Recent policy developments include the accelerated lease renewal programme, where licence holders can apply for renewal a year early with government's commitment to timely renewal for operators that comply with the terms of the award.

Through dialogue and engagement, the Presidential Amnesty Programme has curbed the militancy risk in the Niger Delta. The programme focused on people development initiatives to improve the standard of living in the host communities, with zero militancy related activities recorded since 2018. Additional key components of the roadmap include increasing transparency and efficiency in the industry and catalysing a gas revolution to enhance socio-economic growth. Arrears on cash calls in JVs have also stabilised with a portion of the government's share of oil proceeds remaining with the NNPC, allowing the company to honour monthly cash calls. Furthermore, a reform to encourage self-funded JVs will enable incorporated JVs to raise money and distribute profits to shareholders as dividends.

In November, an amendment to the Production Sharing Contract (PSC) Act was signed into law in efforts to ensure that the country receives a "fair share of oil revenues while encouraging private sector investment". The new amendment introduces incremental royalty rate based on the price of oil, periodic review of the PSC arrangement every eight years and significant penalties for non compliance. The Nigerian government estimates that these changes, which will take effect from 2020, will generate about US$500 million in additional revenues for the government in 2020, and over US$1 billion from 2021.

This amendment is touted to be a precursor to the passage of the PIB, which has been contested and amended in Nigerian parliament since 2007. Once passed into law, the PIB is expected to transform and support the growth of the country's petroleum sector, ensuring efficiency and transparency while also providing a strong legal regulatory framework for the petroleum industry.

Africa's largest gas reserve

188 Tcf

Africa's third largest gas producer at

4.8 Bscf per day

The Petroleum Industry Bill remains a critical component of Nigeria's energy sector reform initiatives and was broken up into separate sections in order to try and expedite its passage. The first section, the Petroleum Industry Governance Bill ('PIGB') deals with management of the NNPC and will create four new entities whose powers would include the ability to conduct bid rounds, award exploration licences and make recommendations to the oil minister on upstream licences. The President, Minister of State for Petroleum and the 9th National Assembly have all committed to the bill becoming law in the current dispensation. Another crucial section of the PIB, the fiscal bill (PIFB), which aims to reform the fiscal framework and stimulate oil production under PSCs, was passed by the Senate in July 2017 but has not yet ascended to law. The passage of these is an important milestone as it means that the government will remove uncertainty in key areas that has held back significant upstream investments in recent years.

Government investment in other sectors to diversify the economy will only be made possible by a robust oil and gas industry that is able to make its maximum economic contribution to the state.

With a democratically elected and stable government in place that is committed to social and economic growth in Nigeria, leveraging off the significant contributions of the oil and gas industry, the country is offering an increasingly more secure political and regulatory landscape for foreign investment.

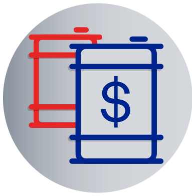
Our response

Seplat has built a commercially viable business that is cognisant of any energy sector reform initiatives and works constructively with all stakeholders towards a mutually beneficial and peaceful co-existence in order to create an enabling environment for Seplat's operations to run safely and securely. The settlement of outstanding JV cash calls and set up of a funding mechanism to keep cash calls current has enabled us to increase investments in oil field developments and reserves growth. Our acquisition of Eland and FID on the ANOH gas development project reinforces our confidence in investing in the sector and as we look to the future, we will seek to further realise the full oil and gas potential of the licences and continue to deliver value to all of our stakeholders.

Global market analysis

Key market trend

Oil prices



Oil price influences our revenue, profitability and cash flow, in turn shaping our capex programme.

Brent oil averaged US$64/bbl in 2019, US$7/bbl lower than in 2018 but US$10 higher than in 2017. Oil prices rose gradually from the low of US$54/bbl in January to peak at US$75 in April. The rise in oil price in the first quarter of 2019 was supported by steady economic growth in China and a decline in US crude inventories. After a price retreat mid-year the Brent oil price rose to US$72/bbl in September 2019 when Saudi Arabia's largest oilfields and the world's biggest crude processing facility at Abqaiq was attacked, temporarily forcing 5.7 million bopd of oil production (around 5% of global supply) to be shut-in. In early December, Aramco finally completed the long-awaited initial public offering. The company's valuation at IPO was approximately US$1.7 trillion and traded up to around US$2 trillion afterwards. Brent prices remained relatively firm into over the remainder of the year and averaged US$67/bbl in December 2019, up US$4/bbl from the average in November and US$10/bbl higher than in December 2018. This was based on speculation that global economic conditions in 2020 would be better than previously anticipated, and the announced first phase of a trade deal between the United States and China to be signed In January.

What this means to us

- Oil price influences our revenue, profitability and cash flow
- This in turn shapes our capex programme and growth strategy

In 2019, our oil business accounted for 71% of total revenues. Global oil prices are therefore a key sensitivity that influences our financial performance and correspondingly the level of ongoing investments we can make through recycling free cash flow into growth opportunities, our ability to service our debt and to deliver shareholder returns. Oil price is also a major factor in driving equity valuations and investor appetite for the sector which can influence our trading performance as a listed company. In terms of evaluating new business opportunities, oil price is a major driver of valuations and projected cash flows. High levels of volatility in oil price can therefore lead to higher levels of risk to the business and introduce uncertainty into decision-making processes.

Key market trend

Global equity markets

Seplat is listed on two stock exchanges. Fluctuations in market conditions can impact Seplat's trading performance.

2019 was dominated by geopolitical risks which only began to show signs of fading in Q4. In the UK, domestic politics drove UK equities as Brexit continued to be in focus throughout the year with negotiations with the EU continuing from 2018. Alongside this a domestic battle between the Conservatives and Labour, fuelled by an approach towards Brexit, led to a snap general election in December, leading to a landslide victory for Boris Johnson's Conservatives. The major UK equity indices, FTSE 100, 250 and All-share, closed the year strongly in 2019 with a late resolution of the political situation, an abating of volatility and improvement of the wider market backdrop. By the end of the year, the FTSE 100 was up 12.1% with its lowest level being at the start of the year on 3 January and the highest level being on 29 July, although it closed at a similar level at the end of the year. The FTSE All Share outperformed against the FTSE 100 but closed near the year's high, finishing 14.2% up for the year with the FTSE 250 outperforming significantly, closing up 25.0%. 2019 followed a difficult period in the equity markets in 2018, which previously marked the end of the longest equity market bull-run in history.

In 2019, tensions between the US and China, and political turmoil across much of Europe continued, with spurts of progress between the US and China and later in the year a resolution around Brexit. Markets continued to be speculative and macro-driven, reacting to newsflow and economic data (particularly in relation to the US economy and trade) rather than company fundamentals. Volatility was abated for the first quarter of the year but was driven higher by geopolitical uncertainties with the VIX peaking in April and July before abating in H2 2019. In the US, the focus was remained on President Trump's foreign policy, primarily on US-China trade relations but US equity markets had a very strong year again. The S&P 500 outperformed the majority of global equity markets and closed the year up 29%. The Federal Reserve cut rates in one quarter and the US economy continued to expand. Emerging markets benefitted from easing geopolitical concerns, with the MSCI Emerging Markets Index outperforming the MSCI World Index. However, the performance of the Nigerian Stock Exchange ASI was weaker, finishing the year 14.8% lower.

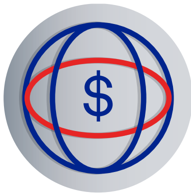
What this means to us

- Seplat is listed on two stock exchanges
- Fluctuations in market conditions can impact Seplat's trading performance

Seplat is the only Nigerian company to be fully dual listed on both the Premium Board of the Nigerian Stock Exchange and the main market of the London Stock Exchange. As such, our trading performance can be driven by both domestic and international market conditions. Equity markets performance can be driven by a number of complex factors outside of our control and returns can differ greatly across different markets and different sectors as a result. We therefore focus on influencing what is in our control, aiming to deliver performance in line with guidance, underpinned by strong risk management, prudent financial management, operational control and demanding investment criteria to help ensure long-term value creation for shareholders.

Key market trend

Global economy



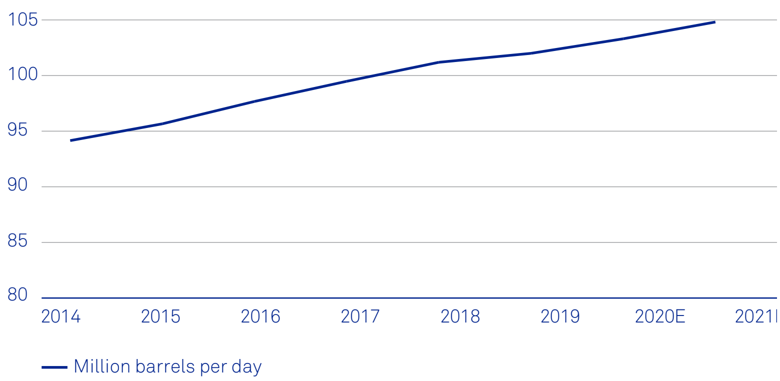
The global economy influences oil supply/demand dynamics. It shapes investment trends and asset allocation.

Global economic growth is estimated to have eased from 3.6% in 2018 to 2.9% in 2019, which would represent the weakest calendar year expansion since the financial crisis. Activity has been dampened over the year by the trade dispute between Washington and Beijing, which has rippled through global supply chains and resultantly weighed on manufacturing volumes.

In response, a number of central banks opted to ease policy over the year. Among these was the Federal Reserve, which opted to take out "insurance" by cutting the Federal funds target rate range three times by a cumulative 75 basis points to 1.50-1.75%. Meanwhile, the European Central Bank (ECB) lowered the Deposit rate by 10 basis points to -0.50% and restarted asset purchases (i.e. Quantitative Easing) in one of Mario Draghi's final acts as President. In contrast, the Bank of England refrained from joining many of its peers by instead electing to hold Bank rate steady at 0.75%.

Over in Asia, Chinese GDP growth slowed from 6.6% in 2018 to a 29-year low of 6.1% in 2019. Still, this was within the scope of the government's target of between 6.0-6.5% which is part of an ongoing effort to shift to a more sustainable pace of growth. A growth target of "around 6%" has reportedly been set for 2020, though the emergence of Covid-19 may well jeopardise this. It is still early to gauge the impact of the outbreak, but at the very least it looks to have heavily disrupted activity in the early part of the year.

Global oil demand



Source: Woodmac Mackenzie

What this means to us

- The global economy influences oil supply/demand dynamics
- Shapes investment trends and asset allocation

The state of the global economy is linked to energy demand and in turn the oil supply/demand balance which is a key driver of oil prices and therefore sector profitability, valuations and investment decisions. Alongside this, the global economy contributes to stability or volatility in global financial markets, including in particular the equities, debt, commodities and currency spaces, all of which can impact business decisions of companies operating in the oil and gas sector. In the investment industry the global economy helps drive investment themes and asset allocation across sectors and type of investment.

Key market trend

Global oil and gas corporate activity

Competitive landscape and cost of inorganic growth drives industry decision-making on allocation of capital.

Whilst the total oil and gas deal count declined in 2019, total value was higher as a result of several mega-deals primarily in upstream and downstream. The deal count struggled in 2019 as a result of depressed commodities prices and challenging market conditions due to geopolitical uncertainties. According to a Deloitte report, deal count declined 40% year-on-year. In total there were 400 oil and gas transactions in 2019, with 44 deals comprising 80% of the total deal value. Total deal value in 2019 was above the five-year average.

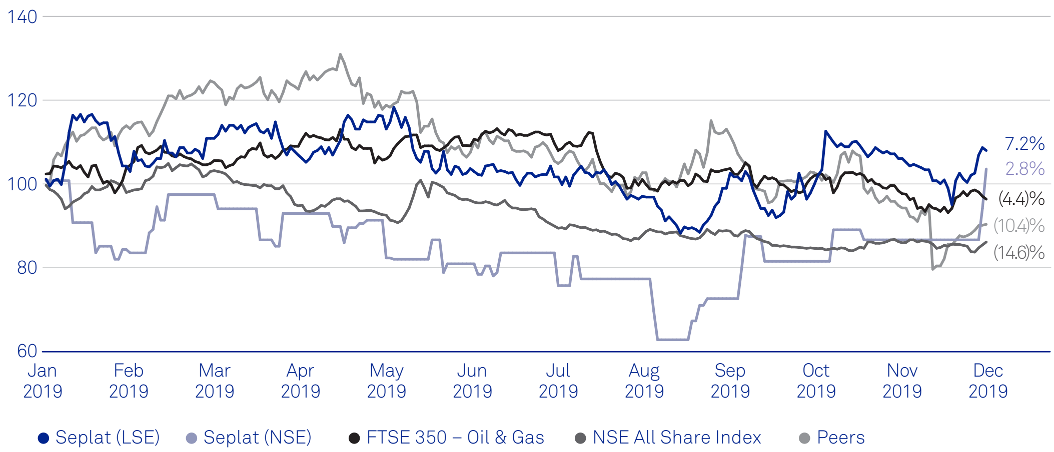
Upstream specific deal value improved from US$130.3 billion to US$156.0 billion during 2019, while deal counts declined by 40%. Consolidation and optimisation continued to be a major driver of deal flow in 2019, with corporate buyers looking to demonstrate their ability to return value to shareholders and reduce debt. More thematically, oil majors were seemingly pushing into energy as companies began to divest high carbon assets and expand into power and renewables as part of a more significant transformation. The US continued to account for the high upstream M&A market, representing more than 60% in terms of both deal volume and value. Downstream activity in North America declined by approximately 60% year-on-year, reaching $20 billion. This was largely driven by a consolidation in the domestic capacity market, and limited opportunities for the bigger transactions. Outside of North America, the South American majors and larger companies saw the highest deal value.

What this means to us

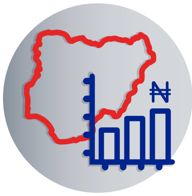
- Competitive landscape and cost of inorganic growth drives industry decision-making on allocation of capital

The oil and gas sector is highly competitive with an often large number of corporate participants pursuing new business opportunities in overlapping areas. The level of competition and relative availability/scarcity of new opportunities can result in competitive tension that can drive up benchmark acquisition multiples. The cost of new business opportunities can also help drive the allocation of capital if opportunities represent good value versus organic investment, or vice versa. Currently, Seplat is solely focused on the Nigerian oil and gas sector where we believe we have distinct competitive advantages as an indigenous operator with a strong track record of delivery and price-disciplined acquisition strategy combined with broad access to multiple classes of international and domestic capital. Seplat, a unique investment and partner of choice, in December 2019 completed the acquisition of Eland Oil and Gas PLC, a London listed company, for cash consideration of GBP382 million.

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



[Source: Bloomberg.]



We are a significant contributor to the Nigerian economy. Nigeria's economic performance influences its attractiveness as an investment destination for capital providers.

Key market trend

Nigerian economy

Nigeria's economic growth in 2019 strengthened as real GDP grew by 2.3% y/y compared to a growth of 1.9% y/y in 2018. For the third consecutive year, growth remained inclusive with both the oil sector and non-oil sector reporting growth of 4.6% y/y and 2.1% y/y respectively. The improvement in growth in 2019 was mostly driven by the oil sector as crude production was higher in 2019 with a quarterly average of 2.01 million barrel per day (mbpd) compared to 1.92mbpd in 2018, leading oil GDP to grow 4.6% y/y compared to a growth of 0.97% y/y in 2018. The non-oil sector also improved to 2.1% y/y from 2% in 2018 supported by the agriculture, telecommunications and financial institutions sectors. Specifically, the financial institutions real GDP improved to 2.4% y/y from 1.4% in 2018, driven by increased loans to the private sector following the implementation of the minimum lending threshold (Loan to funding ratio of 65%) by the Central Bank of Nigeria. Also, agriculture real GDP improved to 2.4% y/y from 2.1% as crop production continued to recover following the slowdown in clashes between cattle herders and farmers that negatively impacted agriculture output previously.

The fiscal position of the economy remains a key issue as despite contributing ca. 8.8% to GDP, the government's revenue remains highly dependent on crude oil production and volatile crude oil price.

In terms of the currency, the Naira at the Investor and Exporter window weakened against the dollar to NGN364 from previous level of NGN360. The official CBN reference rate remains at around NGN307, its level since September 2016. The marginal weakening in the currency was because of increased capital outflows and a slowdown in capital inflows which alongside a current account (CA) deficit has led the foreign reserves to decline to US$38bn from US$42.5bn in 2018.

The monetary policy environment appears tight with the monetary policy rate at 13.5% (50bp to 13.5% in 2019); but the Central Bank of Nigeria has used unorthodox means to lower interest rates and stimulate economic growth. In 3Q19, the CBN exempted domestic corporates (including non-bank financial institutions) and individuals from participating in both the primary and secondary OMO market. As a result, there was increased demand for Treasury bills which led T-bills yields to compress to c.6% from around 13% previously. Government yields are also lower than inflation which averaged 11.4% in 2019 from an average of 12.15% in 2018, supported by moderation in food prices in the first half of 2019. However, in 3Q19, inflationary pressures resurfaced as the closure of the land borders placed upward pressure on food prices.

As a result, headline inflation rose to an average of 11.8% in 4Q19 from 11.3% on average in 9M 19 with the inflation rate in December 2019 at 11.98% y/y.

There is some cautious optimism for an improvement in growth in 2020 supported by the low interest rate environment and the CBN minimum lending threshold for the banks which was introduced to improve credit to the private sector. However, there are concerns such as the likelihood of a currency devaluation, continued squeeze in consumers' wallets as well as further inflationary pressures from the increase in the VAT rate and indefinite closure of the borders, which combined could limit Nigeria's economic growth performance.

What this means to us

- We are a significant contributor to the Nigerian economy
- Nigeria's economic performance influences its attractiveness as an investment destination for capital providers

Seplat contributes positively to Nigeria's economy through payment of royalties and taxes, employment, increasing domestic gas supply and social investments in particular. We have also raised substantial amounts of capital from domestic and international sources that we have cycled into investments in Nigeria to drive growth. Increasing gas supply to underpin domestic power generation and displace burning of more expensive imported USD denominated diesel is seen as a key driver of GDP growth and addressing FX constraints. The overall state of Nigeria's economy also influences Nigeria's and, therefore, Seplat's attractiveness as an investment opportunity, as well as access to and cost of capital.

A robust strategy for growth

Strategic pillars	Maximise production and cash flows from operated assets	Move up 2C resources into 2P reserves category
Description	The development stage of the upstream value chain is where the majority of capital investments are usually made. It is imperative that we do this well, maintaining strict cost control, implementing the most appropriate technical solutions and organising ourselves and our service providers so that we deliver projects on time and within budget. This enables us to generate strong margins and cash flows from our production, which in turn underpins our ability to fund our work programme. At the same time, we seek to improve operational efficiency by maximising uptime and reducing reconciliation losses, mitigating asset concentration and sole reliance on third party export infrastructure.	Our drilling campaigns have, in addition to development wells, an appraisal component built in so that we are constantly testing upside potential at our assets, gathering and interpreting new information to allow us to maximise hydrocarbon recovery from the reservoirs and capitalise on low risk reserve addition opportunities. We also recognise the importance of exploration as a means of growing reserves. It is our intention to drill at least one exploration well per year, with a focus on prospects that if successful can offer rapid monetisation, utilising our existing infrastructure where possible.
Progress	• Highest impact value adding work programme • Acquired two additional blocks that will immediately add to Seplat's production • Established alternative oil export route via Warri refinery jetties with line of sight on access to the Amukpe–Escravos pipeline • Discretion over level and timing of spend allows alignment with cash flow	• Converted 151 MMbbls oil and 84 MMboe gas from 2C resources to 2P reserves and revisions since 2010 • Inorganic 2P + 2C reserves growth by 56 MMbbls with acquisition of Eland Oil and Gas
Measuring our performance See page 40	• Working interest production • Earnings before interest and tax ('EBIT') • Opex per boe	• Reserves replacement
Risk overview	Oil and gas production operations have a number of risks attached, above and below the ground. The Company has a skilled technical team with a detailed knowledge of the geology and reservoir dynamics to allow optimal production solutions to be implemented. Above the ground, the Company has clear systems and procedures in place to ensure the safe and secure operation of its operated oil and gas production, processing and transportation facilities. The Company does, however, rely on third party operated export infrastructure that has been susceptible to interruptions.	Exploration activities are focused on determining the presence of hydrocarbons whilst appraisal activities are focused on better defining and assessing the commerciality of a hydrocarbon discovery. Both activities by definition carry significant geological risk, so the technical maturity of an E&A target is key to narrowing the range of risk and uncertainty. Seplat seeks to use available technologies including seismic analysis to minimise pre-drill risks and maximise chances of a successful drilling outcome.
Risk categories See page 56	• Operational risks • External risks • Financial risks • Strategic risks	• Operational risks • Financial risks • Strategic risks
Outlook	• Access to multiple long-term alternative oil export routes, mitigating concentration risk • Disciplined allocation of capital to growth opportunities that offer strongest cash returns • Right-sizing of capital investments to match prevailing environment and continued downward pressure on cost base	• Continued evaluation and high-grading of the E&A potential within Seplat's portfolio • Execute plans to drill one exploration well a year as oil prices and free cash flow permit

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

Commercialise and produce gas reserves

Nigeria has a vast natural gas resource that, to date, has barely been developed. We see the commercialisation and monetisation of Nigeria's natural gas resource as an attractive long-term opportunity and have strategically positioned ourselves by developing the Oben facility as a core gas processing hub through which Nigeria's greatest demand centres can be accessed and supplied whilst the acquisition of an interest in OML 53 positions Seplat as a key participant in what will be one of Nigeria's largest greenfield gas developments. During periods of oil price weakness, the gas business takes on added importance. Gas prices are de-linked from oil price and have steadily increased to commercial levels, meaning that we can confidently plan, finance and invest in gas opportunities independent of oil price dynamics.

- Seplat has become the second largest supplier of processed gas to the domestic market
- Oben Phase I and II expansion projects expanded plant processing capacity to 465 MMscfd from 90 MMscfd
- FID taken for the large scale ANOH 300MMscfd midstream gas processing and condensate development with first gas targeted for 2021

- Gas reserves, production and revenues

Despite the abundance of resources in the ground, the natural gas sector in Nigeria is at a relatively nascent stage of development and requires significant ongoing investment to grow capacity. The pace at which the sector grows and scale of investment will to a large extent dictate the timing and magnitude of opportunities for producers such as Seplat.

- Operational risks
- External risks
- Financial risks
- Strategic risks

- Capitalise on Oben Phase II expansion of processing capacity to increase production
- Sapele gas plant upgrade delivery
- Progress development of OML 53's strategic gas resource through the delivery of the ANOH project and aim to aggregate additional opportunities
- Increase gas supply to the domestic market

Pursue a focused acquisition and farm-in strategy

We see a rich opportunity set and a wide range of growth opportunities in Nigeria including further asset divestments from the Major IOCs, asset farm-in and acquisition opportunities amongst the independent E&P sector as liquidity in the secondary asset inevitably increases and future licensing awards occur. Our focus is on securing blocks in the onshore and offshore areas of the Niger Delta that offer near-term production growth, cash flow and reserve replacement potential. In the longer term and depending on the opportunity, we plan to geographically diversify our portfolio by pursuing assets outside of Nigeria.

- Acquired direct interests in seven blocks and further revenue interest in one block to date
- Completed the acquisition of Eland Oil and Gas that holds interests in OML 40 and Ubima marginal field
- Well positioned to access future deal flow onshore and offshore

- Portfolio expansion
- 2P reserves and 2C resources
- Working interest production

Competition for upstream oil and gas blocks in Nigeria is intense and there are an increasing number of industry participants seeking to grow their presence in or gain access to the sector. High levels of competitive tension can drive acquisition prices higher. Oil price volatility also presents increased uncertainty when evaluating opportunities and access to capital can also constrain ability to successfully execute transactions.

- Financial risks
- Strategic risks

- Continued long-term pursuit of our focused acquisition strategy
- Price discipline and seek to implement innovative structures to protect the balance sheet
- Targeting both oil and gas

Be a highly responsible corporate citizen

Being a highly responsible and accountable corporate citizen is a key priority of ours. We recognise that minimising the effects of our activities on the environment, understanding local issues, positively contributing to our host communities, being a first-rate employer and providing our staff with a safe working environment and career development opportunities are essential enablers that allow us to achieve our goals. Supporting all of this is a strict adherence to strong corporate governance and business integrity culture throughout our organisation.

- Established and proven community engagement model aligns Seplat with its host communities
- High retention rate of our skilled and motivated workforce

- Lost time incident frequency ('LTIF')
- Corporate responsibility initiatives

Failure to adhere to the highest standards of corporate responsibility can severely impede the Company's ability to efficiently operate its current portfolio, access new business opportunities, secure capital and ultimately deliver value accretion to its shareholders.

- Operational risks
- External risks
- Financial risks
- Strategic risks

- Continually strive to improve environmental, health and safety performance
- Strict adherence and commitment to international governance standards
- Positively contribute to our host communities

Key performance indicators

Key performance indicator	Net working interest production (boepd)	2P reserves movement (% increase/decrease)
	46,498 **2019 46,498** 2018 49,867 2017 36,923 2016 25,877 2015 43,372	**+6%** **2019 509** 2018 481 2017 471 2016 462 2015 480
Year-on-year progress	Below expectations	In line with expectations
Linked to remuneration?	(See page 124)	(See page 124)
Delivering on our strategic pillars:		
Definition	The Company's share of oil and gas produced during the year proportionate to its working interest in each producing block. Volumes expressed are as measured at the Company's facilities, prior to any reconciliation losses.	The number of barrels of oil equivalent added to the 2P reserves base during the year, expressed as a percentage increase/decrease.
Relevance	An indicator of production strength at the Company's current blocks and the impact of development activities at organic and inorganic projects.	An indicator of the Company's ability to capitalise on organic opportunities within its portfolio and inorganic opportunities to replenish its reserves base.
Progress	Four drilling rigs were operated by the second half of 2019 with eight wells executed during the year. The average annual production rate is also influenced by the number of days third party export infrastructure is shut-in. 2019 production performance reflects an uptime level of 92% over the full year. Average reconciliation losses arising from use of third party infrastructure was around 12%.	Working interest 2P reserves at end 2019 stood at 509 MMboe, a significant increase of 6% year-on-year. The main driver to this revision year-on-year is the acquisition of Eland Oil and Gas in 2019.
Outlook	The Company expects to drill a minimum of three wells in 2020 to achieve net average working interest production of 47k - 57kboepd in 2020.	A working interest 2C resource base of 106 MMboe offers good long-term reserves with significant growth potential. Sanctioning of additional exploration projects would increase Seplat's reserves further. The Company will also continue to evaluate acquisition opportunities and undertake a focused E&A drilling programme.
Risk management See page 52	The Company has in depth understanding of the subsurface and constantly monitors individual well and reservoir performance in order to optimise the drawdown rate on each well and maximise long-term economic recovery of oil and gas from the reservoirs. It has also prioritised the establishment of alternative oil export routes to mitigate high concentration risk.	The Company high grades its inventory of exploration and appraisal opportunities, each being subject to rigorous technical and commercial evaluation to de-risk as far as possible prior to committing capital. When evaluating new acquisitions the Company is careful to maintain price discipline and undertakes rigorous analysis.

Strategic pillars

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

Production opex (US$/boe)

6.20

2019	**6.20**
2018	5.77
2017	5.96
2016	8.79
2015	9.31

In line with expectations

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

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

Opex cost per unit of production has remained flat over the last two years. It increased by 7% year on year to US$6.20 per boe as a result of lower production in 2019.

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

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

EBIT (US$m)

312

2019	**312**
2018	310
2017	112
2016	(158)
2015	171

Below expectations

(See page 124)

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

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

EBIT for the year was US$312 million (2018: US$310 million), helped by the gas-tolling revenue recognised but set against the reversal of previously recognised accrued interest of US$40 million on NPDC receivables due to the settlement of these receivables.

Improved oil production levels, tight cost control and anticipated growth in gas production will ensure robust earnings potential in the future.

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

LTIF (number of incidents per million man hours)

0

2019	**0.00**
2018	0.14
2017	0.31
2016	0.33
2015	0.00

Above expectations

(See page 124)

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

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

Rig-based activity increased in 2019 as eight wells were executed in the year. The Company achieved an LTIF of zero during the year, a safety achievement despite one million more man hours compared to 2018.

In 2020 efforts will continue to minimise the frequency of lost time incidents in all areas of operations to achieve the zero target for incidence. The Company will continue to ensure high HSE standards are met and assess opportunities to constantly improve its HSE systems and protocols.

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

Tracking our performance

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

Additional performance metric	**Net cash flow from operating activities (US$m)**	**Capital expenditure (US$m)**
	338	**125**
	2019 338 2018 502 2017 447 2016 172 2015 167	**2019** 125 2018 88 2017 33 2016 52 2015 152
Delivering on our strategic pillars:		
Definition	The Company's operating cash flow in the year before taking into account movements in working capital.	The total amount of capital expenditure made during the year, excluding acquisition costs.
Relevance	An indicator of the cash generative potential of the Company's producing oil and gas blocks.	An indicator of the Company's level of investment activities in production, development and exploration and appraisal activities.
Progress	The Company's operating cash flow was affected by lower oil prices and production levels during the year.	The Company has continued to invest in the development of its portfolio of blocks onshore the Niger Delta and stepped up field development in the second half of 2019. By having discretion over capex, the US$125 million spend was directed mainly towards drilling new development wells and facilities upgrade projects.
Outlook	Strong underlying wellhead oil production capacity and anticipated future growth in gas production will ensure continued robust cash flow generation. Development of the recently acquired OML 40 block together with OML 53 and OPL 283 will also significantly augment future cash flow potential.	The Company will continue to invest in the development of its portfolio, allocating capital to the opportunities that offer the best returns and volume growth potential whilst scaling and timing investments at appropriate levels to closely match cash flow generation.
Risk management See page 52	Prudent financial management and high levels of operating efficiency allow the Company to ensure positive cash generation from its operating activities.	Project investments are monitored closely against budgets to minimise the risk of over-runs. The Company benchmarks every investment opportunity to ensure capital is deployed to only the highest return projects, and adheres to a price disciplined acquisition strategy.

Strategic pillars

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

Realised oil price (US$/bbl)

64.4

Year	US$/bbl
2019	**64.4**
2018	70.1
2017	50.4
2016	40.4
2015	51.2

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

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

Oil prices declined compared to 2018; Brent opened the year at US$54/bbl and ranged between US$54 – 75/bbl, closing at US$66/bbl. The Company put in place dated Brent put options covering a volume of 4.0 MMbbls in 2019 at a combined weighted average strike price of US$50.0/bbl. This hedging programme has been continued in 2020 where upfront premium put options at a strike price of US$45.0/bbl were entered into, protecting a volume of 4.5MMbbls in aggregate for the first three quarters of 2020.

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

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

Staff turnover (%)

3.6

Year	%
2019	**3.6**
2018	2.2
2017	2.7
2016	1.0
2015	1.0

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

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

The Company has continued to develop its employment policies with the aim of attracting and retaining high calibre industry talent. Staff turnover remained low in 2019 at 3.6%.

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

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

Nigeria's transformation in energy, utilities and resources

The Energy, Utilities and Resources sector has long been centre stage of the Nigerian economy and must take some very difficult decisions to solve the structural problems for a sustainable transformation.

WRITER
Bimbola Banjo
Director, PwC
West Market
Area

Introduction

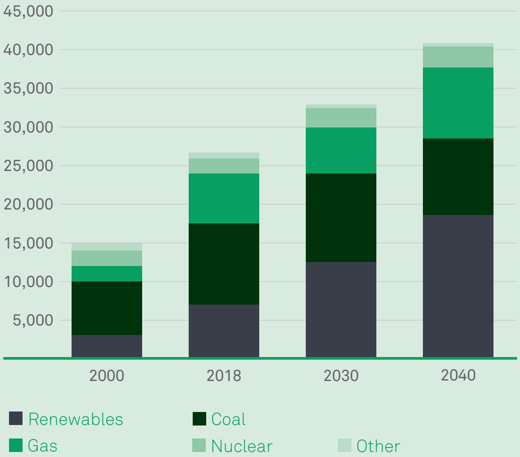
The world is at the midpoint of a massive energy-related transformation. By 2040, the global demand for all forms of fuel and power will be four times what it was in 1990[1]. There is nowhere in the world where this will be felt more than Africa, with the population set to double over the next 30 years. This trend is exemplified in Nigeria where the population looks set to increase from 201 million in 2019 to over 300 million by 2050[2]. The current world population is young and dynamic, and cities are modernizing at a rapid rate; and over the next 50 years, global climate change will have moved from a marginal to critical issue. Institutions everywhere are striving to address these climate-related problems by dramatically decreasing and mitigating carbon use. There is also a growing consciousness from consumers around their individual environmental impact which has increased the demand for access to safe, reliable, green and efficient energy, at an affordable price.

In Nigeria, this poses both a challenge and an opportunity for energy companies. The Energy Utilities & Resources (EU&R) sector has long been centre stage of the Nigerian economy and it will be vital that the industry is strategic in making this shift to more modern practices in order to remain competitive and profitable, whilst addressing its impact on the environment.

1 BP World Energy Outlook 2019
2 United Nations: the World Population Prospect 2017

Transforming the Nigerian economy

Global electricity generation



Source: IEA World Energy Outlook 2019; PwC analysis

Transforming the Nigerian Energy and Utilities sector

The opportunities for transformation to a sustainable energy future in Nigeria are vast, driven by industrialisation, digitisation and changing expectations of customers.

Renewable energy and natural gas will be the largest contributors to global electricity generation by 2040[3].

The African continent has huge renewable energy potential and abundant natural gas (Nigeria holds 37% of total proved gas reserves on the continent) that together can deliver stable and sustainable electricity generation. There needs to be a stronger focus on the use of natural gas in the generation of electricity both at the utility and independent generation level (displacing diesel that is the most common used fuel).

3 IEA World Energy Outlook 2019

151KWH
POWER CONSUMED PER CAPITA

193M
POPULATION

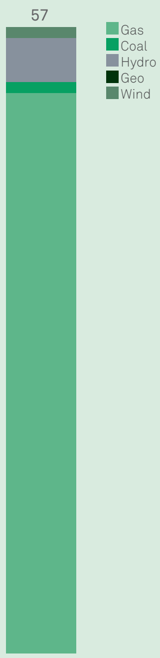
Opportunities for transformation

There are several key areas of focus that need to be addressed by the Nigerian EU&R sector to support the transition:

Decarbonisation – Consumers want energy-related products to be cleaner and less carbon-intensive. Institutions and stakeholders must, therefore, reduce the current reliance on coal and diesel-fired plants and invest heavily in cleaner fuel alternatives to reduce current and future carbon footprints. Fossil fuel-based mobility is coming under scrutiny and legislation is already being proposed to encourage electric vehicle adoption in Nigeria.

Power-generation potential for Nigeria by technology

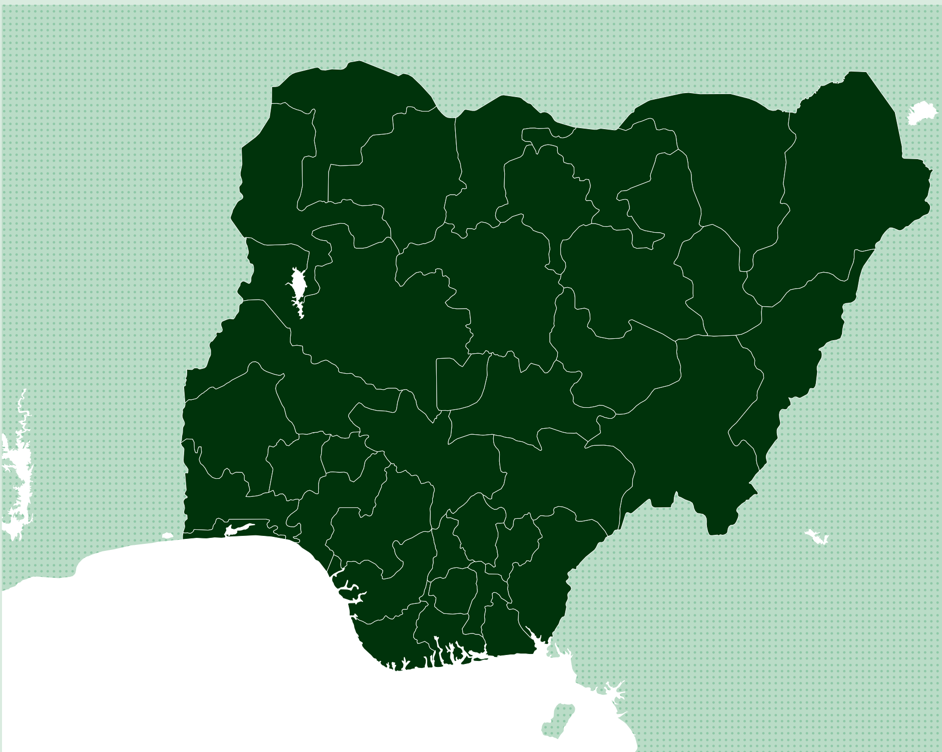
Gigawatts



Microgrids – Microgrids can deliver lower energy costs, promote more sustainable energy sources and demand-side energy efficiency while offering grid resiliency and ease of establishment. They can also be rolled out more easily than centralised grids. For example, India launched a plan to install 10,000 microgrids and minigrids, aiming at a cumulative capacity of 500MW by 2021 as part of its efforts to reduce energy poverty and generate power from renewable energy sources.

Decentralisation – There is a move towards energy decentralisation and towards variants of energy decentralisation frameworks such as district energy offices. Advances in renewable energy technology, and battery storage, enable individuals and local communities to produce, use and sell their own energy and increase access to energy. This democratisation of energy and resources increases focus on the end customer and enables distribution companies to increase capacity by also purchasing power from these individuals.

Digitisation and technical innovation – Advances in technology have allowed the rapid development of new clean energy alternatives and energy storage solutions. This trend looks set to continue as further advances are made in renewables, storage, carbon capture and blockchain, guaranteeing cheap and reliable clean energy. Digitisation and technology are also disrupting the competitive landscape in EU&R, providing an opening for new entrants and cost advantages for competitors from outside the sector.



12.5GW
INSTALLED GENERATION CAPACITY

25.8GW
ESTIMATED PEAK ELECTRICITY DEMAND

54%
POPULATION WITH ACCESS TO ELECTRICITY

The road to transformation

There is no one size fits all approach to EU&R transformation in Nigeria, varying approaches will have to be applied to different areas in order to achieve meaningful change. These include:

Consumer relationships

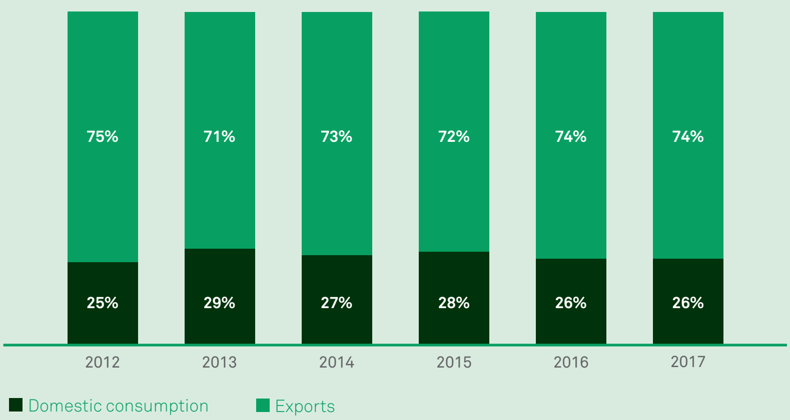
The way businesses interact with consumers and their clients is changing. EU&R businesses in Nigeria will increasingly use digital platforms to communicate with customers and to understand customers' different energy needs.

The companies will need to cultivate closer relationships with technology vendors to enable the development of applications that will enable the delivery of the required quality of customer/ digital experience.

Mobile, social and web interfaces give customers a better view of their energy use and enable richer two-way communication between the businesses and customers. They also improve EU&R companies' ability to test and deliver information to the customer on new products and changes to existing products.

"Nigeria is targeting 25 GW of electricity access by 2030"

Nigeria's natural gas sales (domestic vs exports)



New products, services and business models

The energy business in Nigeria is changing gradually; new technologies, processes and lack of data on consumer behaviour dominate the Nigerian Electricity Supply Industry (NESI). The growing interest in the promise of renewables and the paradigm shift from the traditional and simple contracting of electricity supply on a take-or-pay basis to energy on demand will dominate the power ecosystem for years to come.

Various new products and services which rely on technology are possible in the sector. Some of these include energy storage services, Energy as a Service (EaaS), captive power and Independent Electricity Distribution Networks (IEDN). Companies interested in pursuing these new lines of business will have to evaluate their current competency levels (technical and commercial) and decide to grow or acquire the skills required to create value in these businesses.

Challenges in the Nigerian energy market

Despite the great opportunity the energy transition poses for the Nigerian energy sector, there are still significant challenges which pose a risk to a smooth transition from reliance on diesel generation to cleaner gas powered energy:

Financial viability

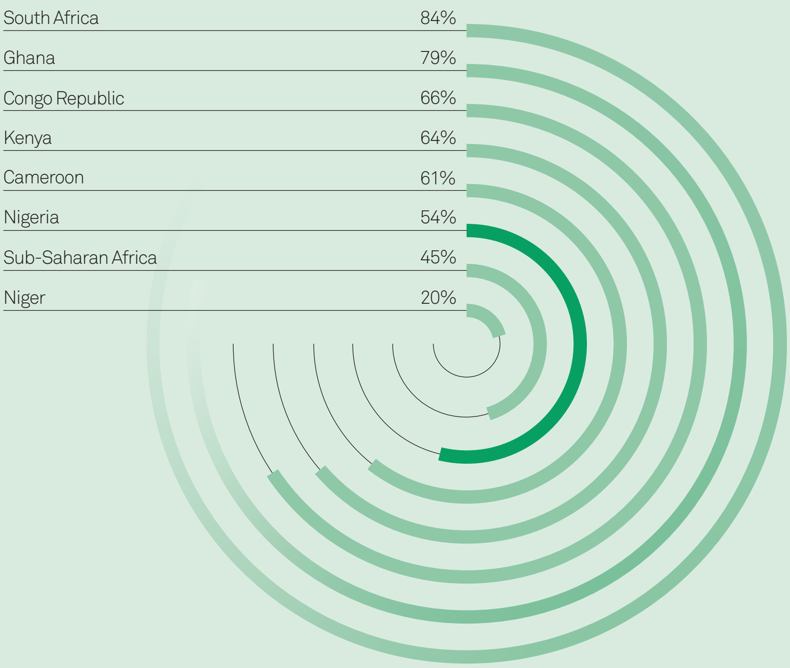
Nigeria will need to reform its energy sector and reduce government and political interference to encourage private sector investment. Reforms must make utilities financially viable and sustainable while ending the subsidisation of inefficient utilities. The tariff shortfall in the electricity sector which technically is the electricity subsidy payable by the FG stood at N1.12 trillion (US$3.7 billion) between 2015 and 2018. Also, international public finance needs to be better coordinated to promote private investment, both for large-scale, low-carbon projects (for example natural gas) and for distributed rural electrification projects. Financing will be required both to increase the output and reliability of current power plants and the grid in order to be inclusive and bring in the huge number of Nigerians (around 50% of the population) who currently have no access to the grid.

Inadequate gas infrastructure

The nation's gas reserves are yet to be fully harnessed. This has left the domestic gas market generally underdeveloped, with a significant percentage of available natural gas exported as liquefied natural gas, re-injected to enhance oil recovery or simply flared. This has exposed the weaknesses in the structure of the nation's power generation mix, thereby being a key contributor to Nigeria's unstable and unpredictable power supply system. This has necessitated the initiation and implementation of an appropriate gas pricing framework, a prerequisite for developing the domestic gas market.

"Reforms must make utilities financially viable and sustainable"

Access to electricity (% of population)



Security of energy infrastructure

The challenge of securing energy infrastructure remains daunting in view of the incessant vandalism of oil and gas installations in the Niger Delta region. This has adversely affected the supply of refined products as well as gas supply to thermal power stations.

Skills gap

Another major operational challenge facing Nigeria's energy sector is the dearth of requisite skills and expertise, particularly in the electricity sub-sector. This is due to long years of neglect pre privatisation of the power sector. Post privatisation, however, massive recruitment and training are ongoing to cover the gap and refresh the ageing workforce in the power sector in Nigeria. A combination of professionals in various areas including engineers, technicians and industry experts with expertise both in low carbon fuels, renewable energy and distributed generation are required to drive the change desired in the industry.

Regulatory developments

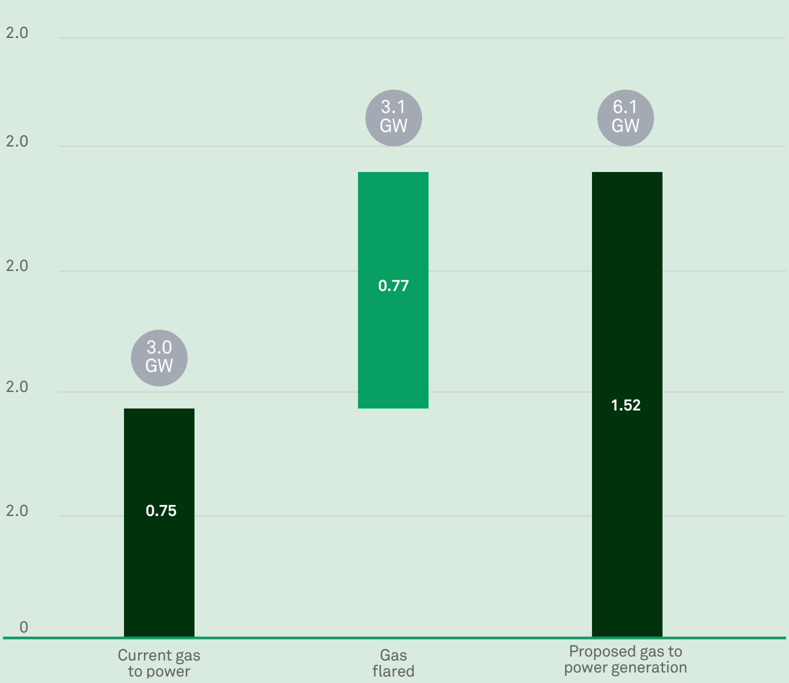
The contributions of the energy sector can broadly be grouped into domestic consumption to power economic activities, source of external and internal revenues and an instrument of political negotiation at the world level. Energy is so vital to the economy that it has been termed the oxygen of the economy. The Nigerian government has been quite active in the development and making of guidelines to transform the energy sector through the DPR for oil and gas and NERC for electricity. Some of the other regulators include NCDMB and PPPRA.

Some of the recent regulatory guidelines designed to enhance the energy sector include:

1. Flare Gas (Prevention of Waste and Pollution) Regulation, 2018

The aim of this regulation is to enable the conversion of flare gas to a marketable gas product, and the development of a competitive bidding process for entities wishing to access and utilise gas that is currently being flared. The aim of the regulation is to create social and economic benefits from the capture of flared gas and reduce the environmental impact. The DPR assigns permits to qualified companies (Permit Holder; PH) giving them the right to access flare gas from sites.

Flared volumes in Nigeria (BSCFD)



Globally, it has been demonstrated that there is a positive correlation between energy consumption and economic growth. Nigeria's GDP per capita has been fuelled through alternative power sources (generators).

2. The Deep Offshore and Inland Basin Production Sharing Contracts (Amendment) Act 2019:
The President recently assented to the Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Bill 2019. The amendment introduces provisions for price reflective royalties, an eight-year periodic review of the Production Sharing Contracts ("PSCs") and penalties for non-compliance with the Act. The Act is aimed at increasing Nigeria's earnings from the oil and gas industry to shore up the Federal Government's revenue.

3. The Petroleum Industry Bill:
The Petroleum Industry Bill was conceived with the intention to restructure the Nigerian oil and gas sector to drive transparency and effective governance. Key elements of the bill include the commercialisation of NNPC and the formation of new commercial entities, an overhaul of the fiscal regime, the establishment of new regulators, and the deregulation of the downstream subsector. The bill has been segmented into the Petroleum Industry Governance Bill (PIGB); the Petroleum Industry Fiscal Bills (PIFB); the Petroleum Industry Fiscal Bill; and the Host Communities Bill. The PIGB was passed into law by the national assembly in 2019, and the president dissented the signing of the bill. The concerns raised by the president are currently being addressed by the national assembly.

4. Consultation paper on Distribution Franchising
The Nigerian Electricity Regulatory Commission (NERC) is officially introducing sub-franchising of Electricity Distribution Companies' (DisCos) operations, in a bid to improve Nigerians' access to safe and reliable electricity services in the country.

The Consultation Paper on Distribution Franchising introduces a concept whereby unserved or underserved communities within a DisCo's franchise area are served by a franchisee operating under the DisCo's distribution licence. Proposals for the franchising arrangement can either be initiated by DisCos or customer groups (community) within a specified geographic boundary. The community, through a registered association, may formally approach the DisCo to declare its interest and initiate franchising arrangements in the areas of supply, metering, billing and collection including additional investment in the distribution networks where appropriate.

Comparative GHG emissions (tCO_2/Cap) (2018)

0.565
NIGERIA

2.372
BRAZIL

8.315
SOUTH AFRICA

5.587
UK

16.144
USA

22.439
UAE

7.954
CHINA

5. Eligible Customer Regulation
The Eligible Customer Regulation allows bulk electricity users who consume 2MWhr/h or more to purchase electricity directly from electricity generation companies. The regulation aimed at ensuring that eligible customers – who are mostly commercial and industrial users – can have access to electricity. The regulation is expected to transform the sector from the monopoly of the distribution companies into a competitive sector. It is also expected to drive increased power generation as the generation companies will have direct access to markets and ready off-takers.

6. NERC Regulation for Mini-Grids 2016
Mini-grids are a system of connected generation and distribution facilities developed to serve no less than two customers. They may be completely independent of the main grid (i.e. isolated) or linked to the grid through a connection with a distribution licensee (interconnected).

The licensing requirement depends on the distributed power of the grid. A permit is required if the distributed power exceeds 100kW and up to 1MW generation capacity while only registration is required if the distributed power is below 100kW.

Small electricity generators can liaise with mini-grid operators for the supply of electricity, provided the generation capacity does not exceed 1MW. A generation licence will be required for this purpose.

7. Independent Electricity Distribution Networks Regulation 2012 (IEDN)

The IEDN regulation addresses distribution networks that are not connected to the transmission system and are licensed by NERC to operate in a geographical location that is either not served by an existing distribution company or is inadequately served by the distribution company within that location.

IEDNs are classified into isolated off-grid rural IEDNs, isolated urban off-grid IEDNs and embedded IEDNs.

Embedded IEDNs are connected to the transmission network through a Distribution Company.

8. Meter Asset Provider Regulations 2018

In a move to address the severe revenue shortfall being recorded by Electricity Distribution Companies (DisCos) and to address the public outcry on the overcharging of end-users for electricity under the estimated billing system, NERC issued the 2018 Meter Asset Provider Regulations. The Regulations relieve the DisCos of metering service obligations by creating a group of new sector entrants to be known as Meter Asset Providers (the "MAPs"). The MAPs are expected to operate the end-user metering aspect of the value chain including the financing, procurement, installation, servicing/maintenance and replacement of metering equipment.

The Regulations are expected to reduce and eventually eliminate overcharging of end-users, which is prevalent under the estimated billing system. From a regulatory perspective, the Regulations will also provide a reliable basis for recording data on energy consumption in Nigeria.

"Seplat's access to gas infrastructure positions it to be a leading long-term gas supplier of choice for Nigeria."

Conclusion

There are massive opportunities for transformation in the EU&R sector in Nigeria to a sustainable technology-driven low carbon future. However, achieving success will require significant diligence from industry players and national/international investment. We must first get a deeper understanding of the opportunities available to ensure investments is directed to the most appropriate avenues.

Conventional diesel off-grid power generation is expected to be displaced with national demand for clean, reliable energy. In the face of a rapidly growing population, Seplat, a critical player in the EU&R sector value chain, is ideally placed to lead this national transition with Nigeria remaining a very attractive investment opportunity. Seplat's access to gas infrastructure positions it to be a leading long-term gas supplier of choice for Nigeria. In addition, market price outlook remain strong and the long-term outlook for gas in Nigeria and the regional market remains positive.

EU&R companies in Nigeria will need to be strategic as they embrace these possibilities and build their future plans around them. This is because the challenges these changes will bring can't be satisfied with tactical responses. There will be a need to adopt these strategies gradually through a series of small initiatives to modify the operating practices and culture enough to be economically viable.

Protecting our business

Basil Omiyi
Chairman, Risk Management and HSSE Committee

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

Managing risk in protecting our business

Risk management is an integral part of all business activities of Seplat. The Company's risk management policy is focused on the early identification of risks and future risks that are central to achieving its strategy, corporate objectives and annual business plans; their possible impacts on the business and measures that can be implemented to mitigate the identified risks so that Seplat can continue to operate safely and effectively. Seplat recognises that risk management is a continuous journey of improvement and not a destination and will continue to develop its risk management processes to ensure the Company is fully equipped to deal with the constantly evolving operating and business environment of the oil and gas industry.

Our risk management framework

ISO 31000 based, top-down and bottom-up approach

Board of Directors
- Company strategy
- Risk appetite
- Strategic risks oversight

Risk Management and HSSE Committee of the Board
- Approves and update risk management policy and system
- Defines risk appetite
- Oversees and monitors enterprise risks

Executive Management
- Delivery of Company strategy
- Identify key risks against the achievement of strategy
- Proffer and deploy actions and controls to address key risks
- Monitor enterprise risks

Risk Management Team
- Coordinate enterprise risk management activities
- Articulate and update risk management policy and system
- Risk identification, assessment, quantification and rating
- Risk reporting and monitoring
- Enterprise risk register and dashboard
- Risk champion activities

Internal Audit
- Independent assurance
- Reports to Audit and Finance Committees of the Board

Business Units
- Business objectives
- Risk identification, assessment and rating
- Mitigation actions and controls
- Monitor risks and mitigation actions
- Report risks and mitigation actions status

Risk identification, monitoring, mitigation action implementation and monitoring are bottom-up from assets, projects and function levels

Our risk management system

The Company's risk management system is based on guidelines provided in ISO 31000, the international standards for risk management. The system is built on top-down and bottom-up approach with the Board of Directors (Board) determining the right risk appetite necessary to achieve the Company's corporate objectives while the business units identify and mitigate risks at the unit and asset levels.

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

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

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

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

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

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

Activities in 2019

In 2019, the Committee analysed and evaluated the various key risk exposures for the Company. In doing so, the Corporate Risk Register was reviewed, and the risk reports presented by management. These reports detail the key risks, the potential impact of the risks and the likelihood of occurrence. Mitigating strategies were comprehensively considered, including but not limited to those related to the stability in the Niger Delta, oil price volatility, export line breaches and alternative crude oil evacuation options. Other risks considered are funding challenges with the majority joint venture partner, liquidity, market, contractual and litigation risks. The status and effectiveness of mitigation actions were reviewed and any residual gaps or follow-up actions were identified. Key performance indicators as well as other risk indicators and trends were monitored. Key risks requiring risk tolerance considerations and strategic actions were presented to and debated by the Board.

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

The first quarter of the year was marred by huge uncertainties on outcomes following the conduct of the 2019 Federal and State elections. The Committee worked with management to ensure that mitigation actions were put in place to curb any severe exposures arising from the elections. The strategic mitigation action plan was designed such that an adequate business continuity plan was put in place to ensure availability of essential duty personnel to keep the business going if election violence resulted in the declaration of state of emergency or movement restrictions. Overall, the elections were conducted peacefully with no remarkable impact on the business.

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

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

High profile risks and uncertainties

Highlighted below are the high-profile risks that the Company dealt with in 2019 and will continue to monitor going into 2020.

1. Niger Delta stability and geo-political risk

Seplat core operations are located in the Niger Delta region of Nigeria and that comes with significant risks. Historically, the Niger Delta has always been a high risk environment. Cases of militancy, crude oil theft, pipeline vandalism, environmental pollution arising from illegal bunkering activities, and other lawless activities are rife in the region. However, in the year 2019, the business recorded a significant reduction in militancy activities compared to the prior two years. Accordingly, the Trans Forcados export system (major export route for Seplat) remained operational throughout the year, with a remarkable improved uptime compared to 2018/2017. The Company, working with other industry players in the region, continue to put pressure on government to find a lasting solution to Niger Delta restiveness and the current government's strategy of dialogue with stakeholders in the region seems to be working.

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

Seplat's primary crude evacuation for its main assets (OMLs 4, 38 & 41) is a third party operated Trans Forcados export system and this poses a significant risk to Seplat. The system was out of operation for more than a year between 2016 and 2017 due to sustained breaches by the militants leading to extended shut-in of production. Even though there was no major breach of the line in 2019, the risk remains significant. The Company is mitigating the risk by seeking a second major export line. Work is already advanced in completion of the line. Even though the target delivery for commissioning of the line could not be achieved in 2019, the Company continues to pursue the delivery of this alternative line and has additional plans to commence FEED/DED and begin construction of a new export line in the coming year 2020. The focus for the Company remains to have at its disposal two major export systems to evacuate crude from its main assets. The Company also continues to maintain a relationship with WRPC to retain use of the jetty facilities as export option albeit for limited volumes.

3. Low oil price environment

Seplat's operating results are highly dependent on the prices of crude oil and natural gas. The Company's estimated proved reserves, revenue, operating cash flows and margins, liquidity and future earnings are all impacted by the volatility of crude oil and natural gas prices. Seplat's price risk management policy is to protect the Company's crude oil cash flow from downside scenarios with hedging. The Company protected about 4 million barrels of crude oil at an average strike of US$50/bbl in 2019. Our long-term natural gas contracts have escalation clauses that protect the Company against severe price decline.

4. JV receivable and future cash call funding

Seplat has the Nigerian government as Joint Venture (JV) partner in significant parts of its business. Cash call funding from the government partners has historically been poor resulting in buildup of legacy cash call receivables over time. In 2019, we secured approval of cash call relating to legacy items such as the Oben gas plant, disputed engineering projects and Home office overheads. This resulted in the build up of cash calls, however, the government JV partners continued to remain current in paying cash calls. The risk of cash calls sliding back to pre-2019 practice of late payments is still there. To mitigate this exposure, the Company continues to manage its JV relationships very closely and actively engages the respective government partners on timely payment of cash calls.

5. Liquidity risk

The Trans-Forcados Pipeline remained mostly operational throughout 2019 and this assisted Seplat's liquidity position significantly in the year. We manage liquidity risk by ensuring that sufficient funds are available to meet commitments as they fall due, using both long-term and short-term cash flow projections to monitor funding requirements for activities; and to ensure there are sufficient cash resources to meet operational needs. Our cash flow projections take into consideration the Company's debts and covenant compliance. Surplus cash held is transferred to the treasury department which invests in interest bearing current accounts, time deposits and money market deposits.

Mapping our risk

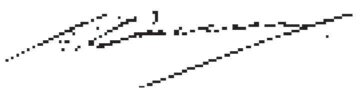
The mapping of our risks considered both quantitative and qualitative factors. Seplat's risk mapping is underpinned by a two-factor spectrum – Likelihood and Impact, which are further plotted on the basis of Seplat 5x5 methodology, to arrive at a final assessment for each risk.

Assessment
- ● Very high
- ● High
- ● Medium
- ● Low

Movement trend
- ∨ Decreasing
- ∧ Increasing
- – Steady

Conclusion

In conclusion, 2019 has been a good year for Seplat as an oil and gas company operating in Nigeria. The TFP export line remained mostly operational throughout the year, Final Investment Decision (FID) was taken on the ANOH project, and a successful acquisition of Eland Oil & Gas PLC was achieved. Overall, the Committee is satisfied that the Company has a robust risk management system that serves to ensure integrity of business processes, decisions and activities going into the future. The Company's HSSE Management System is also mature and reliable and has continued to deliver good HSSE performance year on year.



Basil Omiyi
Chairman, Risk Management and HSSE Committee

Topic	Assessment	Trend
1. Niger Delta stability and security	Very high	Decreasing
2. Third party infrastructure downtime	Very high	Increasing
3. Portfolio concentration risk	High	Steady
4. Sustained E&A programme failure	Very high	Steady
5. Oil price volatility	High	Steady
6. Merger & Acquisition (M&A) risk	Very high	Decreasing
7. Failure to manage stakeholder relationships	High	Steady
8. HSSE risks	High	Steady
9. Availability of capital	Very high	Steady
10. Liquidity	Medium	Steady
11. Changes to tax status and legislation	High	Decreasing
12. Bribery and corruption risk	Very high	Steady
13. Fraudulent activity risk	Very high	Steady
14. Field operations and project deliverability	High	Increasing
15. Geo-political risk	High	Steady
16. Ineffective cost control	High	Steady
17. Foreign exchange	High	Steady
18. Information security risk	High	Steady
19. Loss of key employees	Medium	Steady

Monitoring and mitigating risks to the business

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

Key risk	Description	Mitigation
Operational risks		
Field operations and project deliverability	Failure to manage operational activities in line with planned expectations can lead to production misses, project delays and cost overruns, high production costs and earlier than expected field decommissioning.	Focus on risk management at planning phase and mitigation plans activated. Compulsory 'peer-to-peer' review for high-value projects and better project management techniques. Protracted land acquisition, preparation and rig startup have been contributory factors which have received focused attention and significant process improvements and improved communications with JV partner and approving regulators to mitigate delays. Use of smart/intelligent wells to improve recovery and improved rig performance monitoring and reporting to manage NPTs.
Third party infrastructure downtime	An over-reliance on third party operated transportation infrastructure can expose the Company to extended period of production being shut-in.	Work is ongoing to secure a second export line to complement Forcados. Export via barging is also retained to do limited volumes in extreme cases. Have two contingency tanks in Amukpe for partial storage during shut-in over shorter periods. More tanks are planned. Additional plans to commence FEED/DED and begin construction of a new export line in the coming year 2020.
HSSE	Oil and gas activities carry significant levels of HSSE risks if not properly managed. As activity levels continue to increase there is a strong focus on preventing major environmental, health or safety incidents.	Deployment of an HSSE Management System in line with best practices. Monitoring and reporting of HSSE performance scorecards at management and Board levels. Our HSSE systems and process are subjected to independent review and identified improvement initiatives are deployed. Continual focus on HSSE training and initiatives on incidence prevention. Emergency Response plan set for any eventuality and comprehensive Incident Review panels to identify and channel lessons learnt to improving activities.
Sustained E&A programme failure	Exploration and appraisal activities carry significant levels of subsurface risk. Sustained E&A drilling failure will impact the Company's ability to organically replace reserves and production.	Strict compliance with reservoir management guidelines. Building internal capacity with skilled sub-surface expertise.
External risks		
Niger Delta stability and security	The Company operates in a region where security incidents such as kidnappings, vandalism and criminal attacks on O&G installations can occur.	Continuous security monitoring and intelligence work. Quick mechanism for security advisory to staff and movement restriction for high alert situations. Active participation in the industry pressure groups to find lasting solution.
Failure to manage stakeholder relationships	Failure to manage stakeholders can result in business disruptions and interference. The Company prioritises the effective management of relationships with all stakeholders including host communities, JV partners, government, regulatory bodies and shareholders.	Successful operation of the GMOU agreement with host communities, periodic engagement and feedback forums. Tailored CSR programmes, capacity building and infrastructure developments with the host communities. Sustain local content development with priority to community contractors. Organisational focus and clear strategy to deliver shareholder value pursued by the Board and management. Corporate governance, transparency and proactiveness in dealings with regulators and JV partners.
Geo-political risk	Nigeria has at times in its history faced political uncertainties and threats such as terrorism aimed at de-stabilising and undermining the orderly and effective rule of central government.	Scenarios and response options plan set. Crisis management team in place for high alert political periods. Continue to partner/network with security stakeholders and share intelligence regarding security. Business continuity plans actioned in light of current geo-political situation.

Strategic pillars

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

KPI/Performance metric	Strategic pillars	Assessment		Trend
• Net working interest production • Operating costs per boe		High	We continue to refine our project management approach for improved speed of delivery and efficiency, integrate the newly acquired Eland assets into our business, consolidate performance across the board, maximise production, maintain a strong balance sheet, and strategically position the Company for future growth.	↑
• Net working interest production • Days downtime • EBIT		Very high	Remarkably improved uptime of Forcados export system. However, risk trend is rising as there is no near-term line of sight for an alternative evacuation line, in the sudden event of prolonged outage of the TFP.	↑
• HSSE scorecards • LTIF • TRIR		High	Though the risk is inherent, we will continue to deploy our HSSE risk management in line with best practices and with strong emphasis on prevention.	—
• Reserve replacement		Very high	High grading our exploration portfolio through a thorough prospect screening exercise. In the near term, plan is to commence exploration drilling campaign in the West.	—
• LTIF • TRIR • Security incidents • Operating cash flow		Very high	Efforts by the Government and industry pressure groups aimed at enhancing security in the region seem to be paying off as there was a significant drop in targeted oil and gas facilities attacks in the region in 2019. We will continue our monitoring and vigilance.	↓
• Net working interest production • LTIF • TRIR • Host community incidences		High	We continue to enjoy good working relations with our stakeholders.	—
• Occurrences of civil unrest and terrorism.		High	Elections conducted successfully in 2019, with no remarkable impact to the business.	—

Financial risks

Key risk	Description	Mitigation
Oil price volatility	Oil prices have exhibited a history of volatility and can fluctuate sharply in line with external factors.	Hedging continues to be our price risk management tool. Price sensitisation on project economics and cost discipline for capital projects sanctioning. Aggressive focus on cost reduction.
Changes to tax status and legislation	If the tax regime/legislation under which the Company operates its assets were to change, profitability may be impacted.	Perform evaluation of business plan and performance metrics exclusive of tax benefits. Project economics were determined on maximum tax basis to mitigate the impact of the now expired pioneer tax status. Impact assessment of potential tax legislature monitored at the Board level.
Availability of capital	The oil and gas industry is highly capital intensive. Significant amounts of capital are required to continue development activities and fund M&A. Non funding of cash calls by JV partners impacts activities and liquidity.	Emphasis on compliance with requirements of the JV operating agreement for effective/strict JV partner concurrence. Board review and approval of financial strategy and debt portfolio management with strong banking relationships.
Ineffective cost control	Cost reduction remains central to the Company's current operating strategy. High operating cost and ineffective capital cost control negatively impacts operating cash flows and profitability.	Comprehensive budgeting process approved by the joint venture partner and the Board. Clear cost management targets. Grading of portfolio opportunities and project ranking for capital allocation. Focus on reducing drilling costs at well design phase. Cost monitoring and periodic reporting. Focus on effective contracting strategies for cost reduction.
Liquidity	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	Manage liquidity risk by ensuring that sufficient funds are available to meet commitments as they fall due. Uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Company's debts and covenant compliance. Surplus cash held is transferred to the treasury department which invests in interest bearing current accounts, time deposits and money market deposits.
Foreign exchange	The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US dollar.	The Company has options to manage its foreign exchange exposure including financial hedge instruments such as forward exchange contracts.

Strategic risks

Key risk	Description	Mitigation
Portfolio concentration risk	High dependency on a concentrated portfolio of producing blocks and limited number of wells can leave the Company more susceptible to declining long-term growth and reserves depletion.	Focus on portfolio expansion strategy from the Board level to diversify current portfolio. Integrated long-term planning on crude oil and gas business.
Merger & Acquisition ('M&A') risk	Growth through M&A activities is part of Seplat's strategy to pursue a focused acquisition and farm-in. M&A deals and transactions come with significant risk including structural, commercial and integration risks. There is also the risk of non achievement of acquisition targets due to highly competitive landscape.	New business development unit is always looking for the right opportunities for Seplat. Decision review board (DRB) process is in place to ensure deals are properly vetted and adequate due diligence done on new opportunities. The DRB ensures the commercial, structural, KYC and integration risks are fully considered and addressed with mitigation plan approved and in place prior to deal closing.
Bribery and corruption risk	Bribery and corruption presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company.	Extensive training on anti-bribery and corruption. Embedding corporate governance principles with key focus on areas of the business which may be more susceptible to corruption such as the contracting and procurement process. Processes exist to guide dealings with public officials.
Loss of key employees	The oil and gas industry is very specialised in certain areas and there is competition within the industry to secure talent and highly-skilled and experienced personnel in core areas.	Annual benchmark reviews to ensure competitiveness in reward and recruitment. Succession planning in place as part of business continuity. Focus on training as a key differentiating factor in the operating environment.
Fraudulent activity risk	Fraudulent activity presents a risk throughout the global oil and gas industry and represents an ongoing risk to any oil and gas company.	Extensive whistleblowing campaign. Continuous monitoring and improvement of the system of internal controls by all lines of defence with strong internal audit activity. Automation of processes where possible to reduce manual intervention.
Information security risk	Potential cyber attacks and information technology security breaches could result in loss or compromise of sensitive proprietary information, communication and IT business continuity disruption across operations.	We monitor and regularly upgrade the Company's information technology and security systems. The Company has a clearly defined employee user policy and control of access rights. Our information security framework and infrastructure have been externally reviewed in line with requirements of ISO 27001. IT business continuity plan is in place for quick deployment.

Strategic pillars

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

KPI/Performance metric	Strategic pillars	Assessment	Trend	
• Realised oil price • Operating cash flow	Maximise production and cash flows	High	Though oil price rallied around the $60 - $68/bbl corridor in 2019, our price risk management policy is to protect the Company's cash flow stream from downside scenarios. We will also continue to take hedge positions and apply cost reduction strategies.	—
• Effective tax rate • Tax status	Maximise production and cash flows; Commercialise gas	High	PIB is going through legislative process. Versions in circulation do not have significant impact on Seplat valuation.	↓
• JV receivables • Capex • New M&A activities	Maximise production and cash flows; Commercialise gas; Acquisition	Very high	JV partners continue to remain current in paying cash calls. Secured approval of cash call relating to legacy items such as the Oben gas plant, disputed engineering projects and Home office overheads.	—
• Operating cost per boe • EBIT • Capex • Well costs	Maximise production and cash flows; Commercialise gas; Corporate citizen	High	Cost discipline remains key focus of the business.	—
• Operating cash flow • Capex	Maximise production and cash flows; 2C into 2P; Commercialise gas	Medium	Improved uptime of TFP; improved JV cash call payment; oil price rally; and strategic debt refinance all have greatly improved liquidity risk.	—
• Operating cash flow • Capex	Maximise production and cash flows; Commercialise gas	High	Historically, the Company holds majority of its cash and cash equivalent in US dollar. Gas contracts are indexed in US dollar.	—

KPI/Performance metric	Strategic pillars	Assessment	Trend	
• Successful execution of new acquisition and farm-in opportunities	Maximise production and cash flows; Commercialise gas	High	The Company is in portfolio expansion/build phase.	—
• Successful execution of new acquisition and farm-in opportunities	2C into 2P; Commercialise gas; Acquisition	Very high	DRB process in place to vet opportunities and deals. Risk trend decreasing following successful acquisition of Eland Oil and Gas PLC. But current M&A landscape is competitive.	↓
• Whistleblowing reports • Number of disciplinary cases	Corporate citizen	Very high	As geographical location continues to be susceptible to corruption.	—
• Staff turnover	Maximise production and cash flows; Acquisition	Medium	Risk is rising following crystallisation of actual loss of two personnel during the year.	↑
• Number of reported cases	Corporate citizen	Very high	Risk is kept at very high and the Company continues to maintain a zero tolerance policy.	—
• Information security identification and containment reports	2C into 2P; Corporate citizen	High	While cyber security continues to hold international attention, there has not been material IT breach on our operations.	—

Growing our Portfolio

Effiong Okon
Operations Director; Executive Director

Seplat has acquired an attractive portfolio of assets in the prolific Niger Delta region.

Overview

Seplat's current portfolio comprises direct interests in seven oil and gas blocks and a revenue interest in one further block, all of which are located in the onshore land and 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 and deep water offshore assets of the Niger Delta as an appealing opportunity set and one we hold ambitions to access in the future.

Working interest 2P reserves

	WI 2P reserves at 1/1/2019			WI 2P reserves at 1/1/2020		
	Liquids MMbbls	Gas Bscf	Oil equivalent MMboe	Liquids MMbbls	Gas Bscf	Oil equivalent MMboe
OMLs 4, 38 & 41	174	669	289	164	687	282
OPL 283	6	65	17	5	69	17
OML 53	43	739	170	45	738	172
OML 55[1]	4	0	4	2	0	2
OML 40[2]	–	–	–	29	0	29
Ubima[2]	–	–	–	7	0	7
Total	**227**	**1473**	**481**	**252**	**1494**	**509**

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.
2 Eland has a 45% Working Interest in OML 40 until the Westport loan is fully repaid by end of 2024 in accordance with the loan agreement (US$414 million loan balance as at 31 December 2019), reverting to 20.25%. Ubima has a 88% Working Interest in the Ubima marginal field until the carry has been reached, reverting to 40%. NSAI has assessed the effective WI interest to be 34.9% and 74.1% respectively.

Working interest production

		2019			2018		
	Seplat %	Liquids[1] bopd	Gas MMscfd	Oil equivalent boepd	Liquids bopd	Gas MMscfd	Oil equivalent boepd
OMLs 4, 38 & 41	45.0%	21,031	131	43,593	23,679	145	47,876
OPL 283	40.0%	1,157	–	1,157	1,017	–	1,017
OML 53	40.0%	1,747	–	1,747	974	–	974
Total		**23,935**	**131**	**46,498**	**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.

Working interest reserves

Seplat's working interest 2P reserves, as assessed independently by Ryder Scott at 1 January 2020, stood at 474 MMboe, comprising 216 MMbbls of oil and condensate and 1,494 Bscf of natural gas. This represents an organic decrease in overall 2P reserves of 1.5% year-on-year, due to production but mitigated by movements from the contingent resource category. Working interest 2C resources stood at 85 MMboe, comprising 53 MMbbls of oil and condensate and 188 Bscf of natural gas.

Separately, as assessed independently by Netherland Sewell & Associates Inc. (NSAI) at 1 January 2020, Eland Oil & Gas PLC's working interest 2P reserves stood at 36 MMbbls, with 2P reserves + 2C resources at 56 MMbbls.

Consequently, following the recent business combination, the enlarged Group's working interest 2P reserves and 2C resources increased to 615 MMboe at 1 January 2020, comprising 326 MMbbls oil and condensate and 1,682 Bscf of natural gas.

Working interest production

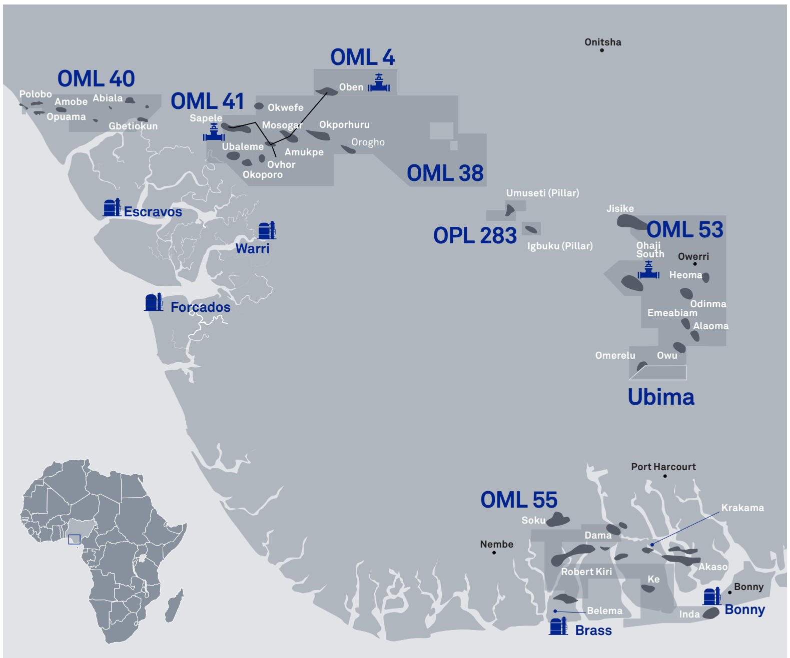
Full-year average working interest production for 2019 was within revised guidance and stood at 46,498 boepd, which represents an overall decrease of 6.8% year-on-year. Within this, liquids production was down 6.8% year-on-year whilst gas production was down 9.7% year-on-year. Full-year production guidance on a working-interest basis was revised in the third quarter, following slippage to the intended production drilling programme as a result of rig mobilisation delays. The figures do not incorporate Eland Oil & Gas PLC's production for the period, which was 8,963 bopd.

Production uptime stood at 92%, whilst the overall reconciliation losses arising from use of third party infrastructure were around 12% for the year.

Oil business performance

Seplat's oil operations produced an average 23,935 bopd on a working interest basis during 2019, down 6.8% on 2018 because of the delays to drilling mentioned above. By the second half of the year, four drilling rigs (two land rigs, one swamp barge and one workover rig) were operational to drill out the revised capex programme with eight oil wells including five new drills and three workovers executed in 2019. The wells flowed at a combined initial rate for the joint venture of approximately 18,700 bopd. Two additional oil wells and one gas well were spudded in the fourth quarter of 2019 and completed in the first quarter of 2020.

The average price realised per barrel in 2019 was $64.40 (2018: $70.10).



Acquisition of Eland Oil & Gas PLC

On 17 December 2019, Seplat completed the acquisition of Eland Oil & Gas PLC, which holds a 45% interest in Elcrest, a company which has a 45% interest in OML 40. Since inception, Eland has been the sole funder of Elcrest through its 100% owned subsidiary Westport, which acts as a lender. The year-end balance on the Westport loan was US$414 million and the loan is due to be fully repaid by 31 December 2024. While the loan is outstanding, Eland will continue to consolidate 100% of Elcrest into its accounts. On full repayment of the loan, the working interest will revert to 20.25%. Eland also has a 40% interest in the Ubima marginal field and is carrying the cost of the development in return for a 88% WI until the carry has been reached.

This acquisition has materially enlarged our inventory of production, development, appraisal and exploration opportunities. Eland's asset management structure fits into Seplat's existing structure well and Seplat's knowledge of Eland's producing assets and operations has enabled an efficient process of integration.

The integration process will be implemented over the course of the year and is being led by an expert team that consists of technical, finance and operations personnel. The integration is proceeding well, achieving synergies, pooling of resources, increased efficiency of operations and streamlining of procedures.

Eland's working interest production averaged 8,963 bopd for the year and has not been reflected in these results given that the acquisition became effective on 31 December 2019. Eland's production will be consolidated from 1 January 2020.

Update on export route

The Company's strategy to create multiple export routes for its assets has resulted in 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, should there be problems with the primary export route, the Trans Forcados Pipeline (TFP). However, it was not necessary for the Company to activate this alternative export route during 2019 as the uptime on the TFP was at 92%. Security initiatives undertaken by the Nigerian government as well as existing strategies held in place by the Company have ensured that minimum downtime was experienced on this previously troubled route.

In 2020, the Amukpe to Escravos pipeline is set to provide a third export option for liquids production from OMLs 4, 38 and 41. While completion work on the 160 kbopd pipeline has been slower than anticipated due to delays in the contractor delivery schedule, final activities including the installation of the LACT unit are progressing well. We expect that the pipeline will be commissioned during the first half of 2020 and become fully operational to the initial permitted volume for the Seplat / NPDC joint venture of 40 kbopd.

In addition, the acquisition of Eland Oil & Gas PLC provides a separate export route from OML 40 along the Trans Escravos Pipeline (TEP), thereby assuring exports do not use the Trans Forcados Pipeline, which suffers from higher reconciliation losses and downtime. There is an option being explored to connect the AEP line to the TEP through a short 8k spur providing an additional route for OML 4, 38 and 41 production. In addition, an option exists to combine the production and secure an offshore Floating Production Storage and Offloading (FPSO) facility and use it as a crude oil export terminal. This should significantly improve sales volumes by reducing downtime and reconciliation losses currently experienced by using third party infrastructure, which are budgeted to be on average an aggregate of 30% per annum. A dedicated team is developing the export options and we will communicate the details in due course.

Gas business performance

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

In 2019, Seplat's working interest production was 131 MMscfd at an average selling price of US$2.84/Mscf.

Oben gas plant

The gas projects planned for 2019 were pushed into 2020 when the Company prioritised oil development drilling that would immediately impact on production, following rig mobilisation delays that compressed the initial work programme for the full year of 2019 to just the second half. Therefore, the focus for gas in 2019 was the drilling of the Oben-48 well, which came onstream in the first quarter of 2020.

During the period, an agreement was reached with NPDC in the operating committee to back in their rights to 55% of the Seplat sole risk funded Oben gas plant 375MMscfd capacity expansion completed in 2015. The transfer of NPDC's 55% interest was concluded in H2 2019 at a total agreed payment of US$168million, US$67million reflecting past gas tolling charges and a balance of US$101 million.

Sapele gas plant

Works commenced towards the new Sapele integrated gas processing facility, which will increase processing capacity from 60 MMscfd to 75 MMscfd. During the year the Front-End Engineering Design (FEED) and Layer of Protection Analysis (LOPA) were completed and the decommissioning of the existing facility began in the final quarter. With the decommissioning of the existing facility ongoing, the Company will take delivery of the major upgrade packages and commence installation at the end of 2020. The project completion date is expected to be first half 2021.

ANOH gas plant development

The ANOH gas plant development at OML 53 (and adjacent OML 21 with which the upstream project is unitised) will drive the next phase of growth for Seplat's expanding gas business. The project will comprise a Phase One 300 MMscfd midstream gas processing plant.

In March 2019, the Seplat Board announced that it had taken the Final Investment Decision ('FID') to proceed with the ANOH project. The upstream development, including the drilling of six production wells, will be delivered by the upstream unit operator SPDC.

The project, managed by the AGPC project management team, is on budget, with site clearing completed in May 2019. Key contracts to supply gas process modules were awarded to GPS, while specialist rotating equipment was awarded to PCSNL, a subsidiary of Baker Hughes (GE). The Integration Detailed Engineering Design was awarded to International Engineering Services Ltd (IESL/Doris).

The civil foundation works, plant roads and drainage contracts were awarded to local contractors Zerock Construction Nigeria Ltd and Kenno-Mena Ltd. Some 60% of the Model and Design Review of gas process modules has been completed, with first steel cutting and commencement of fabrication of gas process modules achieved in December 2019.

The total project cost is budgeted at US$700 million. At year end, NGC and Seplat each made an equity investment of US$150 million (US$300 million combined). Seplat and NGC will each contribute a further US$60 million equity investment (US$120 million total) in 2020 with accompanying debt funding to be finalised.

Having reviewed the construction schedule and progress on the OB3 gas pipeline, the project completion date has been revised from Q1 2021 to Q4 2021.

Operator:
Seplat

Working interest:
45.0%

Partner:
NPDC

Main fields:
Oben, Amukpe, Okporhuru, Ovhor, Orogho, Sapele

Acreage:
267km²/2,094km²/291km²

Available export route:
Forcados, Warri refinery

Concession expiry date:
October 2038

2019 working interest liquids production:
21,031 bopd

2019 working interest gas production:
131 MMscfd

Remaining working interest 2P oil reserves:
164 MMbbls

Remaining working interest 2P gas reserves:
687 Bscf

2020 activities:
Exploration, Production and development

OMLs 4/38/41

Delivering on our strategy:

Links to business model:
– Explore & appraise
– Develop
– Produce, process & sell

2019 activity

On OML 4, the partners drilled a new gas production well at Oben-48, which came onstream in the first quarter of 2020.

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 maximum and produced water injection of ca. 25 kbwpd. By doing this, Seplat has scope to eliminate the cost component of crude handling charges that have historically been incurred for exporting wet crude to the Forcados terminal and free up additional ullage on the export pipeline for dry crude. During the year, phase one and phase two were completed, which enabled the Company to achieve a short-term solution to deliver 40 kbwpd of injectable treated water. Modifications can now allow for more than 40 kbopd of dry crude.

The two development wells completed in the period, Ovhor-18 and Ovhor-19, came onstream at an average rate of 3.9 kbopd.

On OML 41 the ongoing focus was on full development of Sapele Shallow, which overlies the productive reservoirs in the main Sapele field and is estimated to hold a significant accumulation of oil (around 500 MMbbls STOIIP).

In H1 2019 it was necessary for the Company to delay drilling of the planned Sapele oil production wells due to requirements for the drilling contractor to undertake safety upgrades on the allocated 2000 HP rig.

In addition to the Trans Forcados Pipeline system and the back-up export via the Warri refinery, the Amukpe to Escravos pipeline is set to provide a third export option. The pipeline owners, NAPIMS and contractor FENOG, are responsible for completion of the pipeline, which has seen significant delays to date. The 67km pipeline has been hydrotested and is now being dewatered and prepared for production operations. The completion works (at a cost of around $0.5m), include the accommodation of final change to the tie-in location of the production line, installation of the Chevron check meters, completion of the fire and gas system and commissioning of the LACT fiscal meter. Commissioning is expected to occur during H1 2020.

Liquid Treatment Facility Phase 3, which constitutes the final stage of completion of the upgrade project, will begin in 2020 and includes the expansion of Produced Water Management with new water injection wells and water injection infrastructure.

Operator:
Pillar Oil

Working interest:
40.0%

Partner:
Pillar Oil

Main fields:
Umuseti and Igbuku

Acreage:
102.2km²

Available export route:
Forcados

Concession expiry date:
October 2028

2019 working interest liquids production:
1,157 bopd

2019 working interest gas production:
n/a

Remaining working interest 2P oil reserves:
5 MMbbls

Remaining working interest 2P gas reserves:
69 Bscf

2020 activities:
Production and development

OPL 283

Delivering on our strategy:

Links to business model:
– Explore & appraise
– Develop
– Produce, process & sell

2019 activity

The Igbuku 3D seismic data acquired by Pillar-Newton JV was interpreted and formed the basis for the Integrated Petroleum Engineering Studies (IPES) concluded in 2019. The studies and ongoing Field Development Plan will underpin the Igbuku gas development. Further to the Anagba-1 appraisal well, Pillar-Newton JV and other Partners have executed the Ashaka/Anagba PUA, which was forwarded to NAOC to finalise with NNPC. Ashaka/Anagba production allocation to Pillar-Newton JV is expected once all agreements are concluded.

OML 53

Operator:
Seplat

Working interest:
40.0%

Partner:
NNPC

Main fields:
Jisike (producing) and Ohaji South (producing) and Owu (discovery)

Acreage:
1,585km^2

Available export route:
Bonny, Brass

Concession expiry date:
June 2027

2019 working interest liquids production:
1,747 bopd

2019 working interest gas production:
n/a

Remaining working interest 2P oil reserves:
45 MMbbls

Remaining working interest 2P gas reserves:
738 Bscf

2020 activities:
Production and development

Delivering on our strategy:

Links to business model:
- Explore & appraise
- Develop
- Produce, process & sell

2019 activity

Apart from its oil, OML 53 has a substantial gas reserve that will provide feedstock for the ANOH gas processing plant that Seplat is building in partnership with the National Gas Company (NGC).

Seplat undertook a rig-based re-entry and completion of two wells drilled by the previous operator at the Ohaji South (OHS) oil field. The two wells came onstream in 2019 at an average production rate of 5.8 kbopd. In addition to the two OHS wells, the Company carried out workover operations on Jisike-6, thus ramping up production in the acreage from ca.2.5 kbopd to achieve an exit rate of ca. 9.0 kbopd. Other projects carried out during the year were focused on supporting production from OHS field, which included the development of new infrastructure (installation of a 10 kbopd EPF, construction of 4" x 4.5 km flowlines, 6" x 12 km bulkline and 4" x 12 km test line and installation of a production manifold at OHS field).

In line with the Company's strategy to establish multiple evacuation routes, Seplat plans to construct a crude export line to convey production from OHS field into Ebocha-Brass Trunkline via Ebocha manifold. This will provide an alternate evacuation route to Brass Terminal and thereby help alleviate production deferment in the field.

At ANOH, preparation of the well locations is to be completed and two wells are planned to be drilled by the upstream operator, SPDC. With civil works commenced, materials are expected on site by the third quarter, towards the Q4 2021 revised commissioning date.

OML 55

Operator:
Asset Management Team

Working interest:
Revenue interest

Partner:
NNPC, Belemaoil

Main fields:
Robertkiri, Idama and Inda (producing)

Acreage:
840km^2

Available export route:
Brass, Bonny

Concession expiry date:
June 2027

2019 working interest liquids production:
n/a

2019 working interest gas production:
n/a

Remaining working interest 2P oil reserves:
2 MMbbls

Remaining working interest 2P gas reserves:
n/a

2020 activities:
Recovery of discharge sum

Delivering on our strategy:

Links to business model:
- Produce, process & sell

2019 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$36 million in 2019. Total payments received from inception to the end of 2019 stood at US$120 million and the outstanding discharge sum to be paid to Seplat is US$210 million.

The 40% 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.

In 2020, Seplat will continue to monetise liftings towards full recovery of the US$330 million discharge sum.

OML 40

Operator:
NPDC

Working interest:
45%

Partner:
NPDC, Starcrest

Main fields:
Opuama (producing), Gbetiokun, Amobe, Abiala

Available export route:
Forcados, Barging

Concession expiry date:
October 2038

2019 working interest liquids production:
8,963 bopd

2019 working interest gas production:
n/a

Remaining working interest 2P oil reserves:
29 MMbbls

Remaining working interest 2P gas reserves:
n/a

2020 activities:
Production and development

Delivering on our strategy:

Links to business model:
– Explore & appraise
– Develop
– Produce, process & sell

2019 activity

In 2019, first production from the Gbetiokun oil field was achieved in July via the 22,000 bopd early production facility ("EPF"), which will process all reservoir fluids produced under the initial phase of the Gbetiokun development. While the permanent export solution is progressed, evacuation of processed crude will be via shuttle tankers from Gbetiokun to the injection point on the main OML 40 export pipeline.

The Gbetiokun-3 well was completed early in the year as a dual string producer. The Gbetiokun-4 development well was spudded in July, but completion operations were suspended due to technical issues. Additional equipment and resources required to complete the operation were not available in Nigeria and therefore the next planned development well, Gbetiokun-5, was spudded while completion equipment for Gbetiokun-4 was sourced.

Dredging activities to allow rig access for Eland's first exploration well on the Amobe prospect advanced during the year along with other preparatory activities for drilling of the high-impact, near-field prospect. Amobe carries an unrisked best estimate gross prospective oil resource of 78 MMbbls.

With the OES Teamwork drill rig deployed on other projects within the block, the Opuama focus was on reservoir management ranging from incorporation of recent drill well results in subsurface models, production monitoring, well optimisation and the identification of further opportunities to increase overall recovery.

Ubima

Operator:
Eland

Working interest:
40.0%

Partner:
All Grace Energy Ltd

Main fields:
Ubima Acreage: 65km²

Available export route:
Trucking

2019 working interest liquids production:
n/a

2019 working interest gas production:
n/a

Remaining working interest 2P oil reserves:
7 MMbbls

Remaining working interest 2P gas reserves:
n/a

Delivering on our strategy:

Links to business model:
– Explore & appraise
– Develop
– Produce, process & sell

2019 activity

The appraisal well was drilled in October 2018 with dual completion installed, an Extended Well Tested ('EWT') of the E1.0/E2.0 reservoirs was planned for the second half of 2019. The EWT at the Ubima-1 well experienced delays due to various permitting challenges currently being resolved. The EWT is still anticipated to commence in Q4 2019.

2020 guidance

Production guidance for 2020 is set at 47,000 to 57,000 boepd on a working interest basis, comprising 30,000 to 38,000 bopd liquids and 99-110 MMscfd (17,000 to 19,000 boepd) gas production. This includes 6,000 to 10,000 bopd from the Eland assets and subject to continuous evacuation being possible.

In the coming year we will focus our investment only on the highest-returning projects, whilst carefully balancing our future needs with prevailing market realities. With Capex guidance for 2020 set at US$100 million, rig based activity will be managed to suit market conditions to preserve liquidity as we target a minimum of three wells to be drilled.

We are confident that despite the challenges that lay ahead, the resilience and discipline of our business will ensure our position as Nigeria's leading independent oil and gas producer.

Effiong Okon
Operations Director; Executive Director

Investing for the future

Roger Thompson Brown
Chief Financial Officer; Executive Director

A position of financial strength has enabled Seplat to capitalise on significant growth opportunities during the year.

Our growth strategy is underpinned by a clear financial strategy that aims to maintain a strong well funded balance sheet with sustainable operational cash flow. Investments made during the year have significantly progressed our ambitious growth strategy for both oil and gas production.

The 2019 results are lower than expectations and reflect a slippage to our drilling programme and weaker prices. However, the core business remains highly cash generative and we expect to quickly regain momentum in the coming year.

Revenue, production and commodity prices
Brent oil price averaged US$64.04/bbl over 2019 (2018: US$71/bbl), and the average premium to Brent achieved by the Group in 2019 was US$0.36/bbl. Brent remained volatile throughout the year, trading between a low of US$54.91/bbl in January and a high of US$74.97/bbl in April, before exiting the year at US$66.00/bbl.

Total revenue for 2019 stood at US$698 million, down 6.5% from the US$746 million achieved in 2018. Crude oil revenue was US$495 million (2018: US$591 million), a 16.2% reduction compared to 2018, reflecting lower realised oil prices and production.

Average working-interest liquids production was 23,935 bopd, down 6.8% from 25,669 bopd in 2018, whilst the total volume of crude lifted in the year was 7.7 MMbbls compared to 8.4 MMbbls in 2018. The lower production was due to natural decline in the mature fields and rig mobilisation and availability delays that in turn delayed the execution of work that was designed to remediate this natural decline and incrementally increase production.

Gas revenue increased by 30% to US$203 million (2018: US$156 million), including gas tolling income of US$67 million. Gas sales contributed 29% of total Group revenue in 2019 (2018: 21%).

In prior periods, the Group had not recognised the related income or receivable for the tolling service because the basis for determining the fees had yet to be concluded with NPDC. However, during the period, an agreement was reached with NPDC to back-in their right to 55% of the 375MMscfd Oben gas plant expansion, which was financed sole risk in 2015. A payment of US$168 million was agreed between the parties, with US$67 million being booked as gas tolling revenues in the first half of 2019. The remaining US$101 million will be treated as a payment for the plant and, of this, US$51 million was booked in the fourth quarter of 2019. The outstanding US$50 million is expected in the first half of 2020. This exercise will not affect future gas revenue due to Seplat as gas sales have been realised on a 45% working interest basis and no further tolling revenue will be recognised from the NPDC.

The average realised gas price was slightly lower, at US$2.84/Mscf (2018: US$2.94/Mscf), with average daily gas volumes of 131 MMscfd (2018: 145 MMscfd). The lower gas sales volumes reflect lower-than-expected gas production owing to constrained production from the Oben-47 well and delays in completing the Oben-48 gas well.

As Seplat already meets its Domestic Supply Obligation, the Group can pursue new gas offtake customers in order to achieve future contracts at more favourable commercial terms.

Gross profit

Gross profit increased slightly to US$396 million (2018: US$391 million) as a result of higher gas processing revenues and lower non-production costs primarily consisting of royalties and DD&A, which were US$188 million compared to US$244 million in the prior year. The DD&A charge for oil and gas assets decreased to US$91 million during 2019 (2018: US$119 million), reflecting lower depletion of reserves because of decreased production compared to the prior year.

Direct operating costs, which include crude-handling fees, rig-related costs and operations and maintenance costs, amounted to US$105 million in 2019 and remained flat against US$105 million in 2018. Lower crude-handling fees offset the higher rig-related costs that mostly relate to workovers which form part of expenses for the relevant reporting period.

During the year ended 2019, substantial repair and maintenance (work-over) as carried out to ensure adequate running of the wells. The higher operations and maintenance costs in the period reflected increased levels of asset integrity management activities being carried out.

On a cost-per-barrel basis, production opex was higher at US$6.20/boe (2018: US$5.77/boe) because of the decrease in production volumes compared to 2018.

Emphasis on careful cost management led to an 11% reduction year-on-year in general and administrative expenses, which stood at US$71 million (2018: US$80 million).

Operating profit

Operating profit for the year was US$312 million (2018: US$310 million), helped by the gas-tolling revenue recognised but set against the reversal of previously recognised accrued interest of US$40 million on NPDC receivables due to the settlement of these receivables.

Tax

The Group's tax expense for 2019 was US$29 million, compared to US$117 million for 2018. Previously unrecognised deferred tax assets of US$20 million from prior years' tax losses and unutilised capital allowances were recognised, after an assessment of the relevant entity's future profitability showed recoverability of the deferred tax assets. This resulted in a deferred tax charge of US$6 million for the year (2018: US$ 92 million charge).

The estimated applicable average annual tax rate used for the year ended 31 December 2019 was 10% (2018: 44%). The reduction in the effective tax rate was principally due to the recognition of tax losses available for utilisation against future profit.

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 three-year tax holiday with a possible extension of two years. In 2018, upon 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-year tax holiday. The financial statements have

Profit Before Tax(%)

+11%

Realised oil price(%)

-8%

been prepared taking into consideration the impact of the additional tax holiday and this forms the basis for the Group's current income taxation and deferred taxation for the year ended 31 December 2019.

Net profit

Profit before tax adjustments was US$293 million, up 11% compared to US$263 million in 2018. Finance charges for the period were lower due to the positive impact of deleveraging in the year. The net finance charge was US$20 million, compared to US$47 million in 2018. Net profit for 2019 was US$277 million (2018: US$147 million).

The resultant basic earnings per share was US$0.49 in 2019, compared to an EPS of US$0.26 in 2018.

Dividends

In line with the dividend policy, the Board has recommended a final dividend of US$0.05 per share. This will bring the total dividend to US$0.10 per share (2018: US$0.10 per share).

Subject to approval of shareholders, the dividend will be paid shortly after the Annual General Meeting, which will be held in Lagos, Nigeria, on 28 May 2020.

Business combination

On 17 December 2019, Seplat completed the acquisition of Eland Oil & Gas PLC, which was announced on 15 October 2019.

The cash consideration, totalling US$488 million (GBP382 million or 166 pence per share), was wholly funded through a combination of existing cash resources and the amended and restated Revolving Credit Facility (RCF) of $350 million made available to Seplat. After accounting for cash balances at Eland of $31 million, the net consideration was US$457 million.

The acquisition was completed at 31 December 2019 and with no significant items occurring after acquisition close, the profit for Eland was not reflected in the profit and loss account, but has formed part of pre-acquisition reserves. Receivables acquired on business combination were carried at fair value.

The assets and liabilities of Eland were recognised in the balance sheet at 31 December 2019 as follows:

	US$ m
Total assets	692
Total liabilities	(257)
Fair value net assets	435
Net asset acquired	458

Goodwill

Seplat has recorded US$30 million goodwill in respect of the acquisition of Eland Oil & Gas PLC. The goodwill is attributable to the skills and talent of Eland's workforce and the high profitability of the business acquired. The goodwill recognised is not expected to be deductible for tax purposes.

For the non-controlling interests in Eland Oil & Gas PLC, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

Repayment of Elcrest development loan to Seplat

In acquiring Eland, Seplat has acquired the right to be repaid a US$500 million development loan due by 31 December 2024. The loan is advanced to Elcrest by Westport, Eland's 100%-owned financing subsidiary for the development of OML 40. Following its acquisition of Eland, Seplat is entitled to 100% of Elcrest's production and net cash flows until the loan is repaid in full.

As at 31 December 2019, the outstanding balance of the loan was approximately US$414 million. Under a revised loan agreement that became effective on 1 January 2020, there is a grace period until 31 December 2021 after which the loan amount will be reduced so that the maximum amount outstanding is no greater than US$475 million on 31 December 2021, falling to US$325 million on 31 December 2022 and US$175 million on 31 December 2023, with the balance of the loan being due by 31 December 2024.

In 2019, both lines of Seplat's equity on the Nigerian Stock Exchange and the London Stock Exchange outperformed relevant indices and peer average.

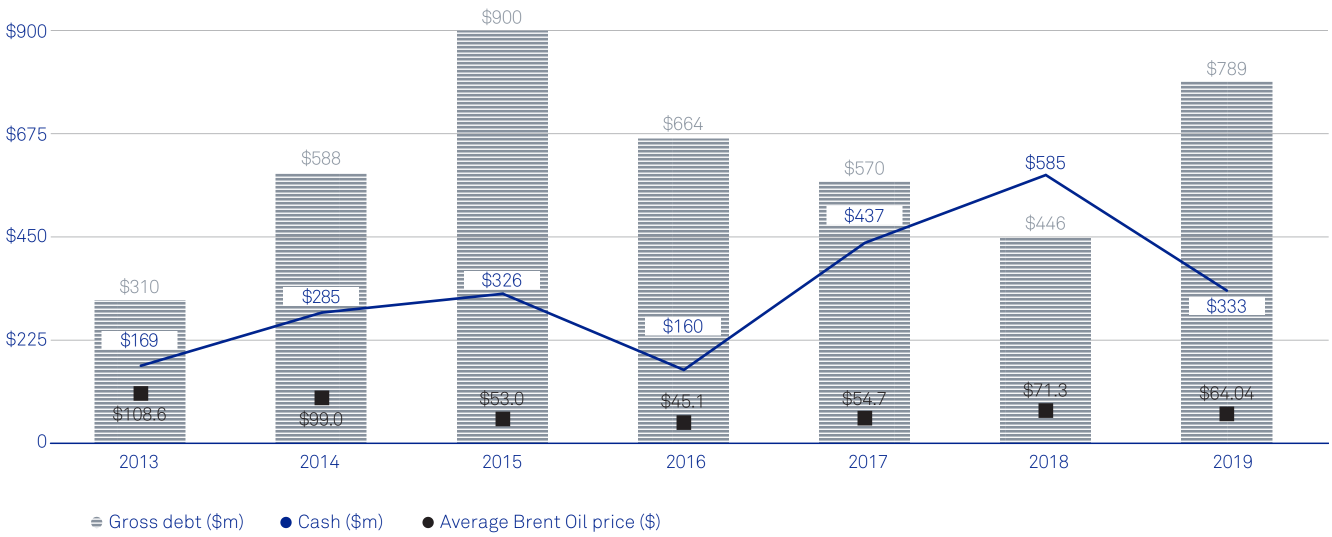
The impact of this loan repayment will be to provide Seplat with significant annual cash repayments during the period end 2022 to end 2024. After repayment of the loan, Seplat's interest in OML 40's production and net cash flows will revert to 20.25%, representing its 45% interest in Elcrest, which in turn owns 45% of OML 40.

In addition to the loan, there is a Reserve based lending facility at Westport which is fully secured against the shares and assets of Elcrest and is serviced by the cash flows from the asset. The year end balance on the loan was US$90 million.

Cash flows from operating activities

Net cash flows from operating activities after movements in working capital were US$338 million (2018: US$502 million). In 2019, Seplat received a total of US$179 million towards the settlement of 2019 cash calls. The business combination with Eland resulted in the booking of an additional US$50 million of receivables, leaving an NPDC receivable balance of US$222 million. Seplat has continued discussions with partner NPDC to ensure that receivables are settled promptly. The Group has continued to receive the proceeds of gas sales from NPDC in lieu of Naira cash calls for ongoing operations.

Successful cash management strategy



Cash flows from investing activities

Capital expenditures were US$125 million in 2019 and included drilling costs in relation to nine development wells, the Ohaji South facility expansion project and the Amukpe Liquid Treatment Facility. Gas project costs included the Sapele gas plant upgrade project.

In response to delays caused by the need to upgrade drilling rigs, the Group's capital expenditure plan was revised downwards during the year, with capital being allocated to highest-impact development projects during the second half. Most of the Group's capital expenditures are discretionary with the flexibility to align investment with cash flow in response to prevailing conditions and future growth opportunities.

Following the acquisition of Eland Oil & Gas PLC, the net cash outflow of US$457 million represents the consideration net of US$31 million cash acquired.

Seplat made a US$103 million equity contribution towards the ANOH project, where first gas is targeted in Q4 2021.

Seplat made a US$103 million equity contribution towards the ANOH project, where first gas is targeted in Q4 2021. Additionally, AGPC's cash balance of US$154 million was deconsolidated from the Group's balance sheet in April 2019.

In 2016, Seplat signed an agreement with OML 55 partner Belemaoil on a revised commercial arrangement that 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. US$36 million was received from Belemaoil in 2019 arising from two liftings in the year that monetised 576 kbbls. The total sum recovered by Seplat to date under this agreement is US$120 million, which is in line with projections.

After adjusting for interest receipts of US$13 million, the net cash outflow from investing activities for 2019 was US$733 million compared to a net cash outflow in 2018 of US$31 million, reflecting the higher capex spend, AGPC deconsolidation, ANOH equity contribution and acquisition costs during the period.

2019 highlights

Revenue (US$m)
-6.4%

2019	698
2018	746
2017	452

Net cash flow from operations (US$m)
-32.7%

2019	338
2018	502
2017	447

Cost of sales (US$m)
-14.9%

2019	302
2018	355
2017	240

Realised oil price (US$/bbl)
-8.1%

2019	64.4
2018	70.1
2017	50.4

Capital expenditure (US$m)
+42.0%

2019	125
2018	88
2017	33

G&A (US$m)
-11.3%

2019	71
2018	80
2017	92

Gross profit (US$m)
+1.3%

2019	396
2018	391
2017	212

Cash position (US$m)
-43.1%

2019	333
2018	585
2017	437

Gearing (total debt/total assets) (%)
+27.8%

2019	23
2018	18
2017	22

Cash flows from financing activities

Following the cash acquisition of Eland Oil & Gas PLC, net debt at year-end was US$456 million, compared to a net cash position of US$135 million at December 2018. Net cash inflows from financing activities were US$145 million (2018: cash outflow US$329 million).

In March 2019, a repayment of US$100 million on the four-year revolving credit facility returned its balance to zero and in December the Group successfully restated and amended the existing RCF with a new four-year US$350 million RCF at LIBOR + 6% (drawn in December 2019). Proceeds from the upsized RCF, along with existing cash resources, were used to fund the acquisition of Eland Oil & Gas PLC, which was finalised in December 2019. Following completion, Eland's existing Reserve-Based Loan was consolidated into the Group's balance sheet.

Overall, Seplat's aggregate indebtedness at 31 December 2019 stood at US$789 million, with cash at bank of US$333 million, leaving net debt at US$456 million.

During the year, the Group returned US$58.7 million to shareholders in the form of dividends.

The Group remains in a good position to achieve its organic growth plans and pursue inorganic growth opportunities as appropriate in line with a price-disciplined approach that aims to fund expansion and provide robust returns to shareholders.

Hedging

Seplat's hedging policy aims to guarantee appropriate levels of cash flow assurance in times of oil price weakness and volatility. During 2019, the Group had in place dated Brent put options covering a volume of 4.0 MMbbls to the year end at a combined weighted average strike price of US$50/bbl. The net cost of these instruments in the year was US$2.7 million.

This hedging programme has been continued in 2020 with up-front premium put options at a strike price of US$45/bbl protecting a volume of 4.5 MMbbls (in aggregate) for the first three quarters of 2020. The Board and management team 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.

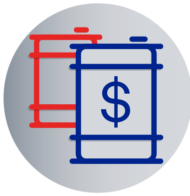
Credit ratings

Seplat maintains corporate credit ratings with Moody's Investor Services (Moody's), Standard & Poor's (S&P) Rating Services and Fitch. In December 2019, Moody's announced a revision to the outlook on Seplat's B2 corporate credit rating from stable to negative outlook (changed following negative outlook rating for Nigeria sovereign). S&P's lowered the notes rating to B- (lowered from B following acquisition of Eland due to incorporation of additional Eland indebtedness as "priority debt" within Seplat group). Fitch remains unchanged with a Corporate Rating B-, positive outlook.

Net debt reconciliation at 31 December 2019	US$ million	Coupon	Maturity
Senior Notes	349	9.25%	June 2023
Revolving Credit Facility	350	Libor+6.00%	June 2022 / December 2023
Westport RBL	90	Libor+8%	November 2023
Total borrowings	789		
Cash and cash equivalents	333		
Net debt	456		

Brexit

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.



At present we are targeting 2020 production of between 47-57 kboepd.

Net debt (US$m)

456

EBITDA (US$m)

457

Outlook

The emergence of the COVID-19 pandemic in the first quarter of 2020, as well as pressure on oil prices in March, have placed a premium on solid financial management that focuses upon low-cost production, robust cash management, a strong balance sheet and focused investment in high-return projects for sustainable future growth.

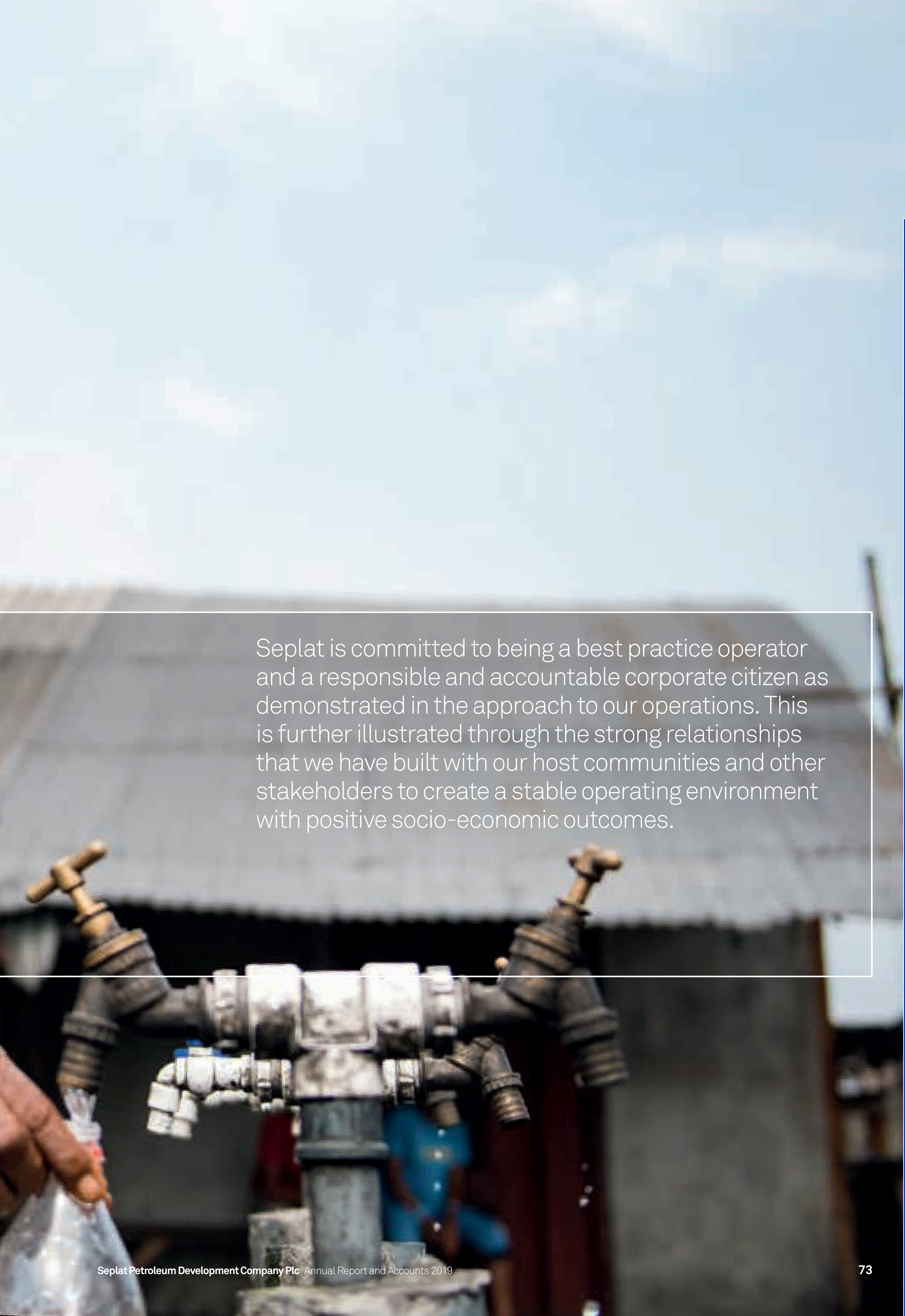
The business is hedged against low oil prices and a significant proportion of our revenues now come from gas, which offers further protection from oil price volatility. The Company has low production costs and can remain profitable even at lower oil prices. We have significant cash resources available and will manage our finances prudently in 2020, expecting now to invest just US$100 million of capital expenditure (US$50 million spent in Q1 2020), with a target of three new wells across our portfolio. We will also continue to focus on our investments in gas and the completion of the ANOH project remains a major priority.

At present we are targeting 2020 production of between 47-57 kboepd, including Eland production of 6-10 kbopd, subject to continuous evacuation being possible.

Seplat has been tested in previous adverse conditions and we are confident that the stronger and more diverse business we operate today will be even more resilient against these unprecedented market events. The integration of Eland Oil & Gas PLC will position the Group strongly when the market recovers and we are pleased to report that on 17 March 2020, OML 40 produced a record 17 kbopd as recorded by its LACT. We remain optimistic about our long-term growth and success.

Roger Brown
Chief Financial Officer

BECOMING THE LEADING INDIGENOUS OIL AND GAS BUSINESS IN NIGERIA



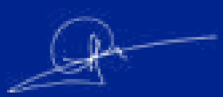
Seplat is committed to being a best practice operator and a responsible and accountable corporate citizen as demonstrated in the approach to our operations. This is further illustrated through the strong relationships that we have built with our host communities and other stakeholders to create a stable operating environment with positive socio-economic outcomes.

Ensuring a healthy workforce, safe operations and environmental conservation

Jay Smulders
Technical Director

At Seplat, the health and safety of our personnel, the communities in which we operate and minimising our environmental impact continued to be at the core of our operations.

The Company's leadership commitment to these ideals was further strengthened in 2019 with the introduction of initiatives that focused specifically on targeted areas of improvement for our HSE performance. Road safety, contractor HSE management and effective supervision of activities to eliminate injuries in our workplace were given prominence, which eventually translated to an improved HSE performance at end of 2019. The Safety Leadership initiative of the Seplat Business Improvement Programme (SBIP) and renewed application of consequence management on wilful HSE infringement has further deepened the Company's HSE culture.



Fatalities

Zero

Groundwater contamination

Zero

HSE strategic principles

Our HSE Policy is implemented with consideration for guidelines stipulated in ISO 45001 & ISO 14001, which are further supported by the Company's management systems to guarantee adherence to local regulations, standards, and international best practices. Management communicates our HSE philosophy to all employees, customers, contractors, and other third parties associated with our business.

At Seplat, we are governed by the three core strategic principles of our HSE policy:

- Healthy employees and safe workplaces
- Environmental protection and sustainability
- Mutual respect with our host communities and local stakeholders

Health

Comprehensive health services and access to all employees

- Provided 24-hour clinical coverage in all our areas of operation
- Encouraged employees and guests to take more actions towards a healthy lifestyle via health campaigns and provision of biometric monitoring equipment in all facilities

Safe operations and prevention of major incidents

2019 ended without any Lost Time Injury or fatality in our operations.

- Incorporated inherent safety in the design of all new facilities
- Sustained focus on asset integrity and maintenance of safety critical systems
- Incident Review sessions by the Company leadership was implemented with renewed vigour
- Engaged our contractors through Quarterly Contractors HSE Workshop to share Company HSE performance and receive feedback
- Leadership commitment continued to be demonstrated through senior management review of all high potential incidents and facilities inspections
- Ensured the sharing of lessons learnt from incident investigation and recommendations Company-wide
- Continued our Employees Recognition programme that rewards exemplary HSE performance by our personnel and contractors
- Road safety performance improved by 44%, a direct benefit of the introduction of drivers' education programmes with Federal Road Safety Commission, Lagos and Delta States Traffic Management agencies, and instituting a Drivers' Certification Programme.

Environment

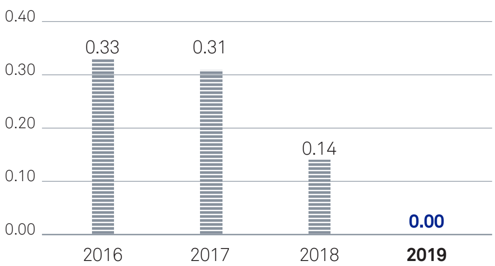
Continued to monitor and report on environmental impact in our operations.

- Conducted environmental impact assessment and environmental evaluation studies with approvals secured from the regulatory agencies. Regulators' approval of our environmental studies for nine of our facilities/projects was received in 2019
- Ensured compliance with all regulatory requirements and benchmark of our performance with international standards
- Deliberately selected and executed projects that promote continuous reduction of environmental impacts in our operations

Performance review

In 2019, we sustained our performance in keeping people safe with zero lost time injury incidents (LTI). Loss Time Injury Frequency (LTIF) dropped steadily from 0.31 in 2017 to 0.14 in 2018 and 0.00 in 2019; and we continually strive to reduce the risk of injury.

4-year Lost Time Injury Frequency (LTIF) trend

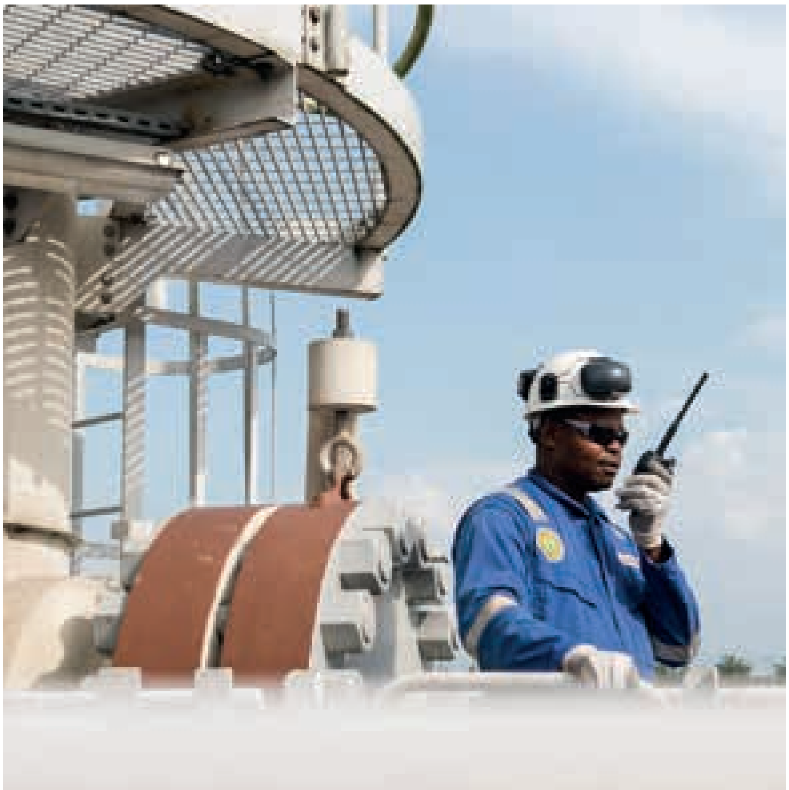


As part of Seplat's drive to achieve flares out in our operations, the off-gas rich in C3 / C4 component (LPG) shall be recovered and monetised by the installation of LPG plants to harness the remaining gas. The plants are planned to become operational in 2021.

We continue to make steady improvement on environmental impact from production via effective pipeline integrity management. Volume of oil spilled in 2019 was the lowest achieved in the last five years. Effective engagement of our host communities has resulted in minimal acts of sabotage to our operations.

We are conscious of conservation and protection of groundwater and proactively take steps to ensure that in the course of our operations groundwater contamination is prevented. In 2019, the effects of our operations on groundwater contamination remained nil.

In the coming years we will strive for continued improvement in our HSE performance across all Seplat operations.



Health and Safety – 2019 performance review:

	2015	2016	2017	2018	2019	2020 targets
Fatalities (employee and contractor)	0	0	0	0	0	0
Lost Time Injury Frequency ('LTIF')	0	0.33	0.31	0.14	0	0

Environment – 2019 performance review:

	2015	2016	2017	2018	2019	2020 targets
Flaring – million standard cubic feet (MMscf)	7,642	4,757	8,418	6,488	8,910	0
Volume of oil spilled through own operations (thousand tonnes)	0.1089	0.002	0.002	0.0032	0.001	0
Volume of oil spilled through sabotage (thousand tonnes)	0.0021	0.002	Nil	0.0001	0.0001	0
Groundwater contamination	Nil	Nil	Nil	Nil	Nil	0
Freshwater consumption (MMbbls)	1.5	0.28	0.24	0.19	0.19	0.19
Total greenhouse gas presence emissions (MM tonnes CO_2 equivalent)	0.01	0.0001	0.0001	0.00001	0.0005	0.0005

Sustaining community relationships, building on partnerships and creating positive impacts on local communities

Lord Mark Malloch-Brown
Independent Non-Executive Director

At Seplat, we understand the critical role we must play to drive positive socio-economic impact among our communities. We endeavour to align our activities with the United Nation's Sustainable Development Goals (SDG), ensuring that our investments deliver tangible, inclusive growth to our host communities. Through proactive collaboration and communication with our local stakeholders, we identify those opportunities with our local stakeholders.

The outcome of regular dialogue with our communities has broadened our social investment programmes from health, education and infrastructure and into entrepreneurship. We recognise that although decades away, oil and gas reserves are ultimately finite; therefore supporting our host communities to diversify the local economies is a key priority. This will ensure robust, resilient communities long after the reserves have been extracted. We are excited to extend our impact within the Delta and to prepare our communities with the skills to thrive alongside and independently of our operations.

We want our businesses to have a transformational impact on our host communities and look forward to working with our local stakeholders to deliver real impact where it is most needed.

Seplat continuously creates conditions that enable the Company to manage its above ground risk and preserve its social licence to operate. Seplat's community engagement strategy is to: inform, consult, involve, collaborate and empower; which has enabled the Company to understand community interests and concerns, and strengthen relationships.

To maintain peaceful and mutually beneficial relationships with the local communities within the areas where we operate, we carry out proactive engagement with the local stakeholders, providing them clear and necessary information about our presence and operations, obtaining their support and cooperation and collaborating with them to create positive social and economic outcomes for the people.

We build trust with our host communities by operating in a transparent and fair manner, engaging in open dialogue, managing expectations, and carrying out our activities with utmost respect for their cultural and ethnic traditions while helping them to understand the social, environmental and economic potential impact of our operations.

To clearly understand and respond appropriately, we analyse local needs and then design and implement Sustainable Development Projects accordingly. Our social investment is aligned with the United Nation's Sustainable Development Goals and our development projects are designed to promote the socio-economic development for the benefit of the population.

This edition of our social performance reporting will focus on the following:

- Local community stakeholder engagement and relationship management;
- Grievance / conflict resolution mechanism;
- Capacity development and economic empowerment; and
- Sustainable community infrastructure development and other initiatives.

Local community stakeholder engagement and relationship management activities

During the year we promoted Seplat's model of community relationship management which emphasises transparency, fairness, dialogue, cooperation and shared local development with our local communities. In line with the principles of the General Memorandum of Understanding (GMOU) and community engagement procedure with our host communities we pursued proactive open two-way dialogue, which we believe is a critical element of our business success.

The GMOU local community stakeholder engagement mechanism (a formal agreement signed between Seplat and its host communities) helps to manage the overall relationship between the Company and the people in the territories. The same principles guide the relationship management and social investment strategy for those communities that are impacted by the business (due to pipeline or access) but do not have a GMOU.

We sustained our good relationship with the communities through meaningful, honest and constructive dialogue, we listened to their requests, addressed their concerns, shared our value creation objectives including community development and our operations objectives, identified and analysed local needs and contributed positively towards their development.

Through continuing dialogue with our communities, starting from before the commencement of our projects, throughout our operation landscape and to the decommissioning phase of our activities, we achieved no community induced deferment and operation disruption.

We sustained our good relationship with the communities through meaningful, honest and constructive dialogue.

Annual Open Forum

In the Western Assets (OMLs 4, 38 and 41), the annual Open Forum was attended by:

- 228 stakeholders from 75 communities
- 25 others including government officials, JV partner, regulatory agencies, security agencies, and Seplat personnel

Western Assets (OMLs 4, 38 and 41)

The following engagements were held with key stakeholders from local communities in the Western Assets in 2019.

Quantity	Activity
269	Proactive meetings
315	Project related engagements
2	Town hall meetings
73	Conflict resolution and grievance management engagements
24	Relationship management meetings
1	Open Forum

Eastern Assets (OML 53)

In the Eastern Assets the following engagements were held with stakeholders from local communities in 2019.

Quantity	Activity
126	Proactive meetings
2	Town hall meetings
27	Conflict and grievance management and intervention meetings
8	Relationship management meetings

Grievance mechanism/ conflict resolution and peace building

Our grievance management mechanism equips us to listen, identify relevant problems or grievances at the local level, monitor and handle complaints and prepare adequate response or communicate appropriate actions aimed at satisfying local needs that are in line with company business/ development objectives.

Our conflict management guidelines ensure that any conflicts, disagreements, misunderstandings and disputes between any community or their representatives and Seplat or its agents /contractors in the course of our operations shall be resolved peacefully and amicably through dialogue and in line with the grievance mechanism and conflict resolution processes.

In addition to the direct grievance management and conflict resolution efforts by the community relations team, we used reliable and unbiased third party or independent mediator and arbitrators including local traditional rulers and other key influencers as well as key state government offices (state Ministry of Justice and the Ministry of Oil and Gas). The traditional rulers were particularly helpful in matters regarding intra community dispute, while the state government provided support in resolving boundary disputes and multiple well head ownership claims.

We also held the following workshops on Peace Building and Conflict Resolution for community representatives:

• cycle by contractors, etc.) and compensation payment as well as local trade groups such as Welders and Fitters Associations recognition/ direct dealings with Seplat.

Capacity development and economic empowerment

We recognise the need to promote initiatives that create long-term value including stimulating the development of the economies of the local communities where we operate in the Niger Delta. Our social and economic activities are aimed at boosting inclusive and sustainable economic growth, the creation of small businesses and thereby quality employment opportunities, in line with the UN's Sustainable Development Goal 8. To address the levels of poverty and unemployment among youth and women, and militancy in the communities we implement economic development programmes that help to develop capacity though skills acquisition and enhance the growth of small and medium enterprise and community vendors. This is complemented by the direct employment by Seplat from the community when appropriate.

These programmes are implemented with Seplat's technical support and oversight, and are monitored throughout all phases of the initiative.

The beneficiaries are selected from a wide range of communities within our operational map and the candidates can choose trades or courses that best fit their individual skills and interests at designated training centres. At the end of the training period, the students are provided with the tools and equipment and a set-up grant to establish a small business.

In 2019, 121 youths from the Oben and Sapele field communities were trained while 66 youths from the Ovhor field community commenced skills acquisition training in various vocations.

Grievance management mechanism

	Specific activities	Specific achievements Western Assets	Eastern Assets
1.	Potential operation disruption dispute averted	29	11
2.	Mediation/ arbitration efforts requiring support of traditional rulers, regulatory agencies and government	31	27
3.	Training on grievance management/ conflict resolution	2	1
4.	Environmental scanning/ heads off & detected early warning signs of conflicts	20	N/A
5.	Peaceful community awards	1*	1
6.	Major issue raised during grievance	i. More employment opportunity ii. Employment of community person into managerial position iii. More contract awards to community vendors**	i. More labour slots during projects

* Under the terms of the GMOU, communities that ensured peaceful/disruption free operations during the year receive incentive in the form of peaceful community awards. All the host oil and gas bearing and facility hosting communities qualified for the awards in 2019 in the Western Assets. Awards are presented retroactively in the following year

**Quality employment opportunities and award of more contracts to qualifying community vendors

The range of trades includes Welding/Fabrication, Hair Dressing, Auto Mechanics, Catering/Event Management, Information and Communication Technology/Computer Appreciation, amongst others. In addition to those that were selected to participate in the various projects during the year, health and safety and environment (HSE) induction was conducted to over 100 youths in preparation for local drilling operations.

As part of the efforts to strengthen local governance structures and grow the capability of community leaders, Seplat organised training programmes on Small Scale Business Development, and on Grievance Management /Conflict Resolution and Peace Building in both the Western and Eastern Assets. The Company also provided community vendors capacity development training during which they were taught how to manage their business, finance, opportunities for growth including partnership with more technically qualified companies, registration and prospects in Nigerian Petroleum Exchange (NipeX, the electronic one-stop transaction centre that improves on value procurement in the oil and gas industry and institutionalises world-class contracting processes in Nigeria).

To encourage the community leaders to maintain peace in their areas and to continue to ensure there is no disruption of operations, all deserving communities (in all host communities in 2019 in the Western Assets met the condition) were awarded peaceful community awards. Additionally, various communities received freedom to operate (FTO) payments for projects which were carried out by community vendors in line with the terms of the GMOU.

Social Investment Programmes

Aim to target immediate impact projects at the community level, identified following the completion of all Environmental and Social Impact Assessment (ESIA) studies.

Sustainable community development infrastructure & other initiatives

In addition to our direct business investments, and direct contribution to the local and national economy through the payment of taxes and levies to the various tiers of government, we fund a significant amount of sustainable community development initiatives with the aim of creating long lasting benefits which contribute to the improvement of human development indexes including increasing the quality of lives in our communities.

These social investment activities align with the UN's Sustainable Development Goals (SDGs). Working with the local communities' approved leaders to create shared value for communities, Seplat channels investment to areas that align local priorities to its business objectives whilst addressing the broader development objectives of the people.

In 2019, we continued in our upward social investment trajectory, making significant investments in strategic community development projects and programmes in such core areas as community infrastructure, education, health and water schemes. Our social development approach aligns with the UN's Sustainable Development Goals 6 (clean water and sanitation), 4 (quality education), 3 (good health and wellbeing) and 2 (zero hunger), amongst others.

Education

Making interventions that help to improve the quality of education and increase education system efficiency as well as a more positive impact on future generations through education are Seplat's key priorities where it operates. The Company recognises the need to raise the level of literacy, discourage school dropout and provide infrastructure that helps to improve positive teaching outcomes. Seplat provides for students from its communities post primary school scholarships, builds and renovates classrooms and teachers' offices, provides laboratory equipment, library and teachers' living quarters. During the year, 162 students drawn from the various communities within the Western Assets' operation map received post primary scholarships. Renovation projects carried out during the year include a block of three classrooms at the Okuno Primary School, a library building for the Orogun Grammar School, a block of five classrooms for Ikeresan Primary School and a block of six classrooms at the Abbi Girls Comprehensive Secondary School.

Quality education and the impact it has on future generations is a key priority for Seplat in the areas where it operates.

Infrastructure development

Our local infrastructure development projects are targeted at addressing key needs of the communities in line with our participatory partnership approach and the SDGs. Working with community representatives, projects are identified, analysed and assessed using Seplat's standard which is based on a function of needs assessments conducted in our communities.

Community infrastructure development

Our projects include provision of access to fresh water supply and construction of network of water distribution pipeline, road construction, improvement in healthcare through the provision of hospital equipment, construction of drainage channels, market stalls construction, town hall buildings construction and rural electrification programme.

Location	Project
Orogho & Boboroku	Completion of 5km Orogho-Boboroku road
Elume & Okuovu	Rehabilitation of failed sections of Elume-Ugborhen road
Ugbevwe	Construction of Ugbevwe Community road
Oben & Iguelaba	– Oben-Iguelaba drainage road expansion – Oben, Iguelaba and Okirighwre road rehabilitation – Expansion of Iguelaba-Oben road, 103m access road and car park
Ekpan	Purchase and installation of 500KVA/33KV/415V Transformer at Ekpan Community
Ifie-kporo	Purchase and installation of 500KVA/33KV/415V Transformer at Ifie-kporo Community

Social impact projects

Our social investment projects are targeted at meeting the most pressing needs of the different host communities in line with the SDGs. Choice of projects is a function of a needs assessment conducted in our communities. Some of our flagship projects and programmes include: the Seplat Skills Acquisition Training Programme and Post Primary Scholarship Scheme. Others are construction and renovation of classroom buildings, roads construction and expansion projects, water schemes, construction of community market stalls and low-cost housing schemes amongst others.

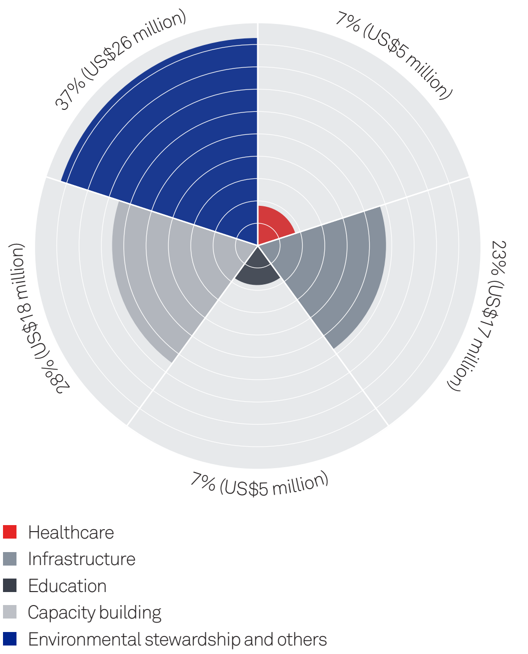
Community security infrastructure

We completed the Police Area Command Administrative Block and Quarter Guard in Sapele. We also provided security patrol vehicles to community vigilante groups to strengthen existing security of life and property in our communities and maintain existing peaceful operating environment.

Eastern Assets

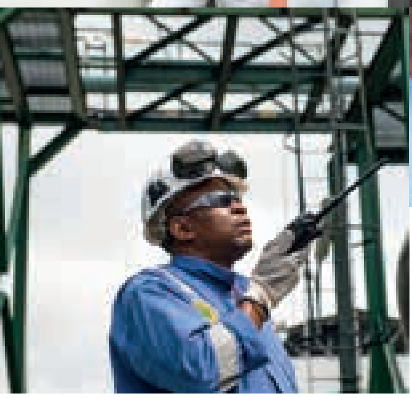
- Our social investment: is focused on improving community infrastructure, capacity development and economic empowerment opportunities, fostering economic stability and improving quality of livelihoods in line with the United Nations Sustainable Development Goals in the communities where we operate.
- Social impact projects: included provision of community security infrastructure; donated a 300 KVA Transformer to Umuanyaan Kindred in Ohuba to ease their energy/power challenge in the community. Ohuba is one of the prominent communities in the Ada Palm clustered communities in Ohaji South.

Investments in our communities 2010-2019



Our people are our greatest assets

The health, happiness and professional development of our employees is at the heart of our Human Resources and employment development policies.



Career development

We work hard to attract, hire and retain the best and develop them into the highest calibre of professionals. This includes our Graduate Trainee Programme, where recent graduates launch their careers. Alongside our formal learning and development programmes, we offer coaching and mentorship to ensure that our employees have the internal support they need to develop professionally. We undertake rigorous skills and competency management, to ensure employees make the most of the career development opportunities that Seplat has to offer.

Employee engagement

Seplat recognises that effective communication and consultation with employees is essential to an engaged workforce. We deployed a number of policies and internal structures to make sure employees have the opportunity to engage with the wider company. The Seplat Joint Consultative Committee (JCC) is one example, made up of managers and representatives of the employees who come together on a regular basis to discuss issues of mutual concern. The JCC plays an advisory role to management and has additional jurisdiction on matters concerning industrial relations in the workplace such as safety, work organisation, business tools and more.

In 2019 we also introduced an Employee Assistance Programme (EAP), a confidential workplace service that helps employees discuss internal concerns. The EAP provides outside counsellors, resources and referrals to assist employees so that they remain happy and fulfilled at work.

Employee welfare

The safety and welfare of our employees remains our top priority. In 2019 we continued to take a proactive approach to offer a safe and reliable business environment for our employees. We continued to promote best practice operating procedures and safety culture at every Seplat location, and our ongoing review of our safety and training procedures makes sure that we are always improving.

Welfare initiatives

- Provided gyms in our offices, enabling employees to keep fit and reduce stress
- Provided creches in our office, to helping parents strike a balance between their responsibilities at home and work and reducing undue stress
- Provided comprehensive health service access to employees in all our locations
- Provided free 24-hour medical care for all employees and their families through designated hospitals and clinics
- Provided group life insurance cover for the benefit of our employees

Employee remuneration and incentive policies

Seplat operates a Remuneration and Benefits Policy which enables the Company to attract, retain and motivate our employees. The Long Term Incentive Plan (LTIP) is a reward system designed by Seplat to improve employees' long-term performance by providing rewards that are tied to performance conditions. The Company shares are awarded to employees from Grade level 4 and above including Executive Directors.

Governance

86–
140

Corporate Governance: At the Core of Organisational Transformation

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

In the uncertain times in which we live, an effective corporate governance ethos has become a pre-requisite for our forward looking and self-transforming organisation.

Dear shareholders,

I am delighted to present the Corporate Governance report for the year ended 31 December 2019.

In Seplat, corporate governance remains at the heart of our business. We believe that no corporate entity can effectively transform its business operations or achieve its strategic objectives without a good and effective governance framework.

Our Company has established its foothold as a major independent oil and gas company locally and internationally because of the effective corporate governance and compliance framework, principles, standard and practices we have put in place over the years. These principles, standards and practices derive and draw their strength from applicable legislations and global best practices adopted.

As a dual listed company, Seplat is bound by several corporate governance regulations in Nigeria and in the United Kingdom. These regulations include but are not limited to, the Companies and Allied Matters Act ('CAMA'), the Financial Reporting Council of Nigeria ("FRCN")'s Nigerian Code of Corporate Governance, 2018 ("NCCG"), the Securities & Exchange Commission ('SEC') Code of Corporate Governance for Public Companies in Nigeria (the 'Nigerian Code'), the Nigerian Stock Exchange ('NSE') Rulebook, the United Kingdom ("UK") Corporate Governance Code, 2018 (the 'UK Code'), UK Listing Rules ('LRs') and the Market Abuse Regulations, 2016 ('MAR').

It is against this backdrop that the Board continues to seek new ways of strengthening and improving on its corporate governance practice implementation within the organisation and in the engagement of our inestimable stakeholders. For us in Seplat, establishing a corporate governance framework and implementing a corporate governance strategy is not enough but we continue to ensure that the Company adheres to high standards of ethical and corporate behaviour in its business practices.

The Board remains focused on building and maintaining a strong reputation that is defined by good corporate governance especially in the area of business conduct and culture. The Board is confident that with our well-thought-out and well-articulated business and strategic objectives, the Company's vision to be a world class independent energy company delivering premium value to all stakeholders shall be achieved.

The 2019 financial year commenced on a strong footing, with the Board and Management corporate governance retreat ("session") with facilitators drawn from our listing regulator and the Exchanges – the Securities and Exchange Commission ("SEC") in Nigeria, the Nigerian Stock Exchange and the London Stock Exchange.

The decision of the Board to commence the year with the session actively coordinated by our regulator and the Exchanges is based on our conviction that an in-depth understanding of the principles that underpin the applicable Codes of Corporate Governance would set the right tone for the Company's corporate governance practice and compliance. The topics covered during the session focused on salient provisions of the SEC Code and the Exchanges' rules on disclosure obligations and compliance requirements. The session, which was quite engaging and thought provoking, equally afforded Seplat the opportunity to showcase to our regulator and the Exchanges our positive traits of honesty, openness and fairness in our corporate governance practice and business dealings. These enviable traits continue to afford Seplat a competitive edge in the industry and form the firm foundation upon which the transformational journey of the Company rests.

Our Company embarked on several noteworthy corporate governance and compliance initiatives during the 2019 financial year. These initiatives include but are not limited to, refreshing of Board membership, establishment of a Corporate Governance, Compliance & Culture Board Committee, appointment of a new Company Secretary, completion of the succession process for the Chief Executive Officer ("CEO") and announcement of the CEO designate, and conduct of a health check/review of all our corporate governance policies, just to mention a few. We have provided in-depth information regarding these corporate governance and compliance initiatives in the ensuing corporate governance statement.

The successes recorded by Seplat over the years, particularly in the Company's growth and the strengthening of shareholder value, are attributable to the strong corporate governance framework, principles, standards, practices as well as an effective Board and management team.

I would like to thank the Board, management and especially our employees for all the hard work and contribution in what has been a challenging and exciting year for Seplat. We believe that the initiatives and the hard work in the course of the 2019 financial year place Seplat in a good position to take advantage of the existing and potential opportunities in the coming year.

I would like to thank our shareholders for their continuing support and together we are persuaded that we will transform our Company into the world class organisation of our dream.

A.B.C. Orjiako
Chairman

Board of Directors

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

Board members

As at 31 December 2019, Seplat had a Board of 12 Directors:

Key
- Chairman
- Executive Directors
- Non-Executive Director

A.B.C. Orjiako	Non-Executive Chairman
Austin Avuru	Chief Executive Officer
Roger Brown	Chief Financial Officer
Effiong Okon	Operations Director
Michael Alexander	Senior Independent Non-Executive Director
Michel Hochard	Non-Executive Director
Madame Nathalie Delapalme	Non-Executive Director
Basil Omiyi	Independent Non-Executive Director
Lord Mark Malloch-Brown	Independent Non-Executive Director
Charles Okeahalam	Independent Non-Executive Director
Ifueko M. Omoigui Okauru	Independent Non-Executive Director
Damian Dodo, SAN	Independent Non-Executive Director

Board structure

Board of Directors

Chairman

Finance Committee

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

The committee assists the Board in providing financial oversight. Main task areas include financial strategy, policy and treasury matters; budgeting and financial planning, integrity of financial reporting, internal financial controls, financial risk management systems and accountability policies.

Page102

Remuneration Committee

Michael Alexander (Chair)
Basil Omiyi
Charles Okeahalam
Damian Dodo

The committee assists and advises the Board on matters relating to the remuneration of the Board and senior management; to attract, motivate and retain the best, relevant and skilled talents in the market in order to maximise shareholder value.

Page 105

Nomination and Establishment Committee

Damian Dodo, SAN (Chair)
Basil Omiyi
Michael Alexander

The committee assists and advises the Board on its size, composition, balance of the Board and its Committees. It also evaluates the balance of skills, experience, independence and knowledge on the Board and reviews the performance and effectiveness of the Board and subsidiary boards in the achievement of the Company's objectives.

Page 107

Corporate Governance, Compliance & Culture Committee

Ifueko M. Omoigui Okauru (Chair)
Damian Dodo, SAN
Michael Alexander

The committee assists the Board in promoting, modelling, institutionalising and maintaining sound ethical culture and good corporate governance.

Page 115

Gas Committee

Basil Omiyi (Chair)
Charles Okeahalam
Michael Alexander

The committee develops and oversees the deployment of the long-term strategic Gas Master Plan; oversees the midstream investments of the Company and reviews the investment portfolio and opportunities of Seplat's gas subsidiary company.

Page 109

Risk Management and HSSE Committee

Basil Omiyi (Chair)
Ifueko M. Omoigui Okauru
Effiong Okon

The committee assists the Board with the review of the Company's Risk Management Policy, Risk Management Register and Risk Dashboard including risk appetite and risk strategy and makes necessary recommendations for the Board's approval. It also reviews the adequacy and effectiveness of risk management and controls; carries out periodic review of changes on the economic and business environment, including trends and other factors relevant to the Company's risk profile.

Page 111

Corporate Social Responsibility Committee

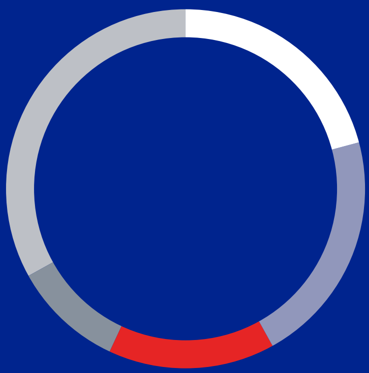
Lord Mark Malloch-Brown (Chair)
Ifueko M. Omoigui Okauru
Madame Nathalie Delapalme
Damian Dodo, SAN

The committee has oversight of the Company's Community Relations Policy, practices and procedures and CSR initiatives. It is also responsible for the review of key issues which impact community relations and advises the Board on broader societal related matters in addition to key issues which may impact the Company's reputation, brand, management and successful business operations.

Page 113

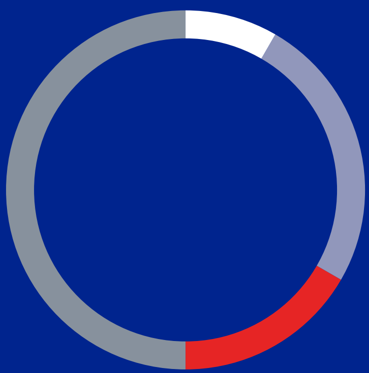
Experienced, proactive and effective leadership

Board meetings and main subjects discussed in 2019[1]



Corporate strategy	21
Finance	21
Structure and capital	15
Risk management and internal control	10
Corporate governance and ESG	33

Board composition as at 23 March 2020



Chairman	1
Executive Directors	3
Non-Executive Directors	2
Independent Non-Executive Directors	6

Board skills and experience 2019

1. Executive and strategic leadership	12
2. Governance and Board	10
3. Work health, safety, environment and sustainability	7
4. Financial and risk management	10
5. Capital management	8
6. Oil & gas	8
7. Strategy	10

1. Senior executive experience including international experience exposed to a range of political, cultural, regulatory and business environment
2. Experience as a board member or member of a governance body
3. Experience related to health, safety, environmental, sustainability or social responsibility
4. Senior executive or equivalent experience in financial accounting and reporting, corporate finance, risk and internal controls
5. Experience in capital management strategies, including capital partnerships, debt financing and capital raisings
6. Experience in oil and gas industry with knowledge of markets, competitors, operational issues, technology and regulatory concerns
7. Track record of developing and implementing successful business strategies including assets or business portfolio

Non-Executive Chairman

Dr. Ambrosie Bryant Chukwueloka (ABC) Orjiako
Non-Executive Chairman

Biography

Dr. A.B.C. Orjiako is the Chairman and co-founder of Seplat since inception in 2009. He is a fellow of the West African College of Surgeons in Orthopaedics and Traumatology. Dr. Orjiako ventured into full-time business in 1996 after 11 years of active medical practice and has developed extensive experience in the Nigerian oil and gas sector.

Since the inception of Seplat, Dr. Orjiako has spearheaded new business development, providing leadership on strategy and stakeholder management. Seplat under his leadership, has become a highly reputable Nigerian Independent recording several milestones and firsts; successfully closing landmark acquisitions, growing exponentially under a strong and transparent corporate governance framework.

He is also a founding member of the London Stock Exchange Group's Africa Advisory Group ('LAAG'). He is a recipient of several awards for his service to humanity and entrepreneurial achievements, including a knighthood award from Pope John Paul II and Officer of the Order of the Niger (OFR) among others.

Experience

Dr. Orjiako brings a wealth of leadership experience in the Nigerian oil and gas sector having established and managed several companies in the upstream, downstream and service sectors of the industry in Nigeria. These include: Abbeycourt Trading Company Ltd, Abbeycourt Energy Services Ltd, Zebbra Energy Ltd and Shebah Exploration and Production Company Ltd. He also has other business interests in construction, real estate development, pharmaceuticals and shipping.

Date of appointment

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

Board meetings attended

- 11/11

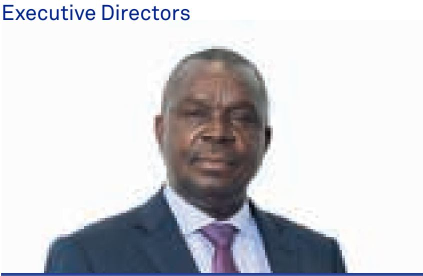
Committee membership

- No longer applicable

Independent

- Not applicable

Executive Directors



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

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

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

Experience
Mr. Avuru has over 39 years' experience (1980 – 2019), working in the Nigerian Oil and Gas Sector in increasingly senior technical and management roles. He has spent the last 15 years in CEO roles at Platform Petroleum and Seplat Petroleum, and has built up a strong reputation as a reference resource professional on the Nigerian Oil and Gas Industry play.

Date of appointment
• 1 May 2010

Board meetings attended
• 11/11

Committee membership
• Not applicable

Independent
• Not applicable

Roger Thompson Brown
Chief Financial Officer; Executive Director

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

Mr. Brown has over 25 years' experience in the financial sector, primarily focused on emerging markets with extensive experience in structuring energy and infrastructure transactions on the African continent. Prior to joining the Company, he held the position of Managing Director of Oil and Gas EMEA for Standard Bank Group.

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

Date of appointment
• 22 July 2013

Board meetings attended
• 11/11

Committee membership
• Not applicable

Independent
• Not applicable

Effiong Okon
Operations Director; Executive Director

Biography
Mr. Effiong Okon joined Seplat in January 2018 as Operations Director bringing 26 years' experience in upstream and integrated oil and gas operations across Africa, Europe, the Middle East, and Nigeria. He is primarily a Petroleum Reservoir Engineer but combines this with experience across all aspects of the E&P sector including petroleum engineering, exploration, front end development studies, project execution, and production and asset management.

Prior to joining Seplat, Mr. Okon was most recently General Manager Deepwater Production for Shell Nigeria. Previous appointments at Shell also include Deputy Vice President Technical and Manager North Field Wells and Reservoir during the commissioning, start-up and early production phase of mega projects Qatar Shell Pearl GTL and Qatar Gas LNG Trains 7 & 8.

Experience
Mr. Okon brings extensive experience in safety leadership, field development, project delivery, asset management, managing and safely running significant and complex oil and gas upstream and midstream operations in the onshore and offshore sectors of a diverse range of geographies, successfully leading multi-disciplinary teams, driving change, managing service providers and controlling significant budgets. Mr. Okon is a member of several professional organisations, including the Society of Petroleum Engineers ('SPE').

Date of appointment
• 23 February 2018

Board meetings attended
• 10/11

Committee membership
• Risk Management & HSSE Committee

Independent
• Not applicable

Board of Directors

Non-Executive Directors

Michael Richard Alexander
Senior Independent Non-Executive Director

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

Experience
Over the course of his wide-ranging career, Mr. Alexander has acquired considerable experience in executive leadership roles specifically within the energy sector. More recently he has been asked to apply this knowledge across a number of non-executive chairman, directorship and associated committee roles in new energies, mining, construction, transportation, retail, and bank regulation. This breadth allows him to bring wide-reaching international board and corporate governance experience to Seplat.

Date of appointment
- 1 June 2013

Board meetings attended
- 11/11

Committee membership
- Remuneration Committee (Chairman)
- Corporate Governance, Compliance & Culture (Member)
- Finance Committee (Member)
- Gas Committee (Member)
- Nomination and Establishment Committee (Member)

Independent
- Yes

Basil Omiyi
Independent Non-Executive Director

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

Mr. Omiyi also holds board positions in a range of other companies including as Chairman of a Banking and Financial Services company as well as Chairman of a Real Estate Company.

In 2011, he was awarded the National Honour of Commander of the Order of the Niger by the President of Nigeria for pioneering Nigerian leadership in the oil and gas sector.

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

Date of appointment
- 1 March 2013

Board meetings attended
- 11/11

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

Independent
- Yes

Lord Mark Malloch-Brown
Independent Non-Executive Director

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

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

Date of appointment
- 1 February 2014

Board meetings attended
- 10/11

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

Independent
- Yes

Charles Okeahalam
Independent Non-Executive Director

Biography
Dr. Okeahalam is a co-founder and Chairman of AGH Group, a private equity and diversified investment holding company with assets in several African countries. Prior to co-founding AGH Group in 2002, he was a professor of finance and banking at the University of the Witwatersrand in Johannesburg. His other roles have included advising a number of African central banks and government ministries, the World Bank and the United Nations. He has held board positions in several companies including ABSA, South African Airways, Sun International and is a former non-executive chairman of Heritage Bank Limited, Nigeria and non-executive chairman of the Nigeria Mortgage Refinance Company. He is the chairman of the board of directors of AMREF Health Africa.

Experience
Dr. Okeahalam brings extensive corporate finance, banking and capital markets expertise and experience to the Board.

Date of appointment
- 1 March 2013

Board meetings attended
- 11/11

Committee membership
- Finance Committee (Chairman)
- Gas Committee (Member)
- Remuneration Committee (Member)

Independent
- Yes

Ifueko M. Omoigui Okauru
Independent Non-Executive Director

Biography
Mrs. Okauru is the Managing Partner of Compliance Professionals Plc, a Compliance Consulting firm. She is also a Commissioner in the Independent Commission for the Reform of International Corporate Taxation ('ICRICT'). She serves as an Independent Director in other Nigerian public companies and is a founding member of the Board of Trustees of DAGOMO Foundation Nigeria Ltd/Gte.

Previously, she worked as Chief Responsibility Officer for ReStraL Ltd, a company she founded and, before that, had spent 12 years at Arthur Andersen & Co. where she became National Partner of the firm's strategy practice. She has served as Executive Chairman of Nigeria's Federal Inland Revenue Service, Chairman of Nigeria's Joint Tax Board, and part-time member of the United Nations Committee of Experts on International Cooperation in Tax Matters.

Mrs. Okauru received a Master of Public Administration degree from Harvard Kennedy School, Harvard University in 2014; a Master of Science, Management Science from Imperial College, University of London in 1986; and a Bachelor of Science (First Class), Accounting from the University of Lagos in 1983. She is a Fellow of the Institute of Chartered Accountants of Nigeria ('FCA'), 2001 and a Fellow of the Chartered Institute of Taxation of Nigeria ('FCTI'), 2007. She was awarded a Member of the Order of Nigeria ('MON') in 2000, and a Member of the Federal Republic of Nigeria ('MFR') in 2006.

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

Date of appointment
- 1 March 2013

Board meetings attended
- 11/11

Committee membership
- Corporate Governance, Compliance & Culture (Chairman)
- Statutory Audit Committee (Member)
- CSR Committee (Member)
- Finance Committee (Member)
- Risk Management and HSSE Committee (Member)

Independent
- Yes

Damian Dinshiya Dodo, SAN
Independent Non-Executive Director

Biography
A renowned lawyer, Mr. Dodo has acted and continues to act for a wide range of major Nigerian corporations, governmental and regulatory bodies across a number of business sectors and has served on a number of panels and commissions in Nigeria, including the NNPC Commission of Inquiry, the Governing Board of the National Agency for the Prohibition of Trafficking in Persons (NAPTIP) and National Lottery Regulatory Commission where he served as Chairman at all.

In 2001, Mr. Dodo was awarded Nigeria's highest legal practice rank of Senior Advocate of Nigeria ('SAN'). In 2011, he was awarded the National Honour of Officer of the Order of the Federal Republic of Nigeria by the President of Nigeria. Mr. Dodo was also awarded a fellowship by the Nigerian Institute for Advanced Legal Studies. In 2017, Mr. Dodo was appointed a Fellow of the Nigerian Chartered Institute of Arbitrators; a Member of the Taraba State Judicial Service Commission; and a life Bencher. He is also an alumnus of the Said Business School of the University of Oxford; an alumnus of the IMD Business School, Lausanne, Switzerland; an associate of the Chartered Institute of Arbitrators in London; a Member of the Institute of Directors; a member of the Nigerian Institute of International Affairs; and a member of the National Judicial Council (NJC).

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

Date of appointment
- 30 June 2014

Board meetings attended
- 9/11

Committee membership
- Nomination and Establishment Committee (Chairman)
- Statutory Audit Committee (Member)
- Corporate Governance, Compliance & Culture Committee (Member)
- Remuneration Committee (Member)

Independent
- Yes

Non-Executive Directors

Macaulay Agbada Ofurhie
Non-Executive Director

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

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

Date of appointment
- 14 December 2009

Board meetings attended
- *2/11

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

Independent
- Not applicable

* Mr Ofurhie voluntarily retired from the Board effective 30 June 2019.

Michel Hochard
Non-Executive Director

Biography
Mr. Hochard was appointed to the Board of Seplat as a nominee of Maurel et Prom. Mr. Hochard is presently the Chief Executive Officer of Maurel et Prom. Mr. Hochard is a Chartered Accountant whose experience includes serving as Internal Auditor for the Department of Finance of ELF Aquitaine, Head of the Finance Division for Africa and the Middle East, and Director of Finance of the SNEAP, then of ELF Aquitaine production.

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

Date of appointment
- 14 December 2009

Board meetings attended
- 10/11

Committee membership
- Statutory Audit Committee (Member)

Independent
- Not applicable

* Mr. Hochard retired from the Board effective 1 January 2020

Madame Nathalie Delapalme
Non-Executive Director

Biography
Madame Delapalme is an Independent Director on the Board of Directors of Maurel et Prom, and since 30 June 2014, acted as an alternate to Maurel et Prom's nominee, Michel Hochard until 18 July 2019, when she was appointed a Non-Executive Director on the Board of Seplat.

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

Date of appointment
- 18 July 2019

Board meetings attended
- *9/11

Committee membership
- CSR Committee (Member)

Independent
- Not applicable

* Attended three meetings as an Alternate Director to Mr. Michel Hochard and all five meetings from date of appointment as Non-Executive Director (July – November 2019)

This corporate governance statement sets out the steps, events, activities and initiatives taken by the Board to ensure effective corporate governance policies, processes, procedures, practices and systems are in place and observed in Seplat. The statement also showcases how the Board directed the affairs of Seplat in the course of the 2019 financial year.

The Board, as the highest governing body in Seplat, is aware and alive to its overall responsibility for corporate governance, setting the Company's short, medium and long-term strategies, providing oversight in the achievement of the Company's objectives and supporting management in their day to day running of the Company's business. We are gratified that the Board is comprised of the appropriate mix and balance of individuals with very rich skillset, diversity, industry knowledge and experience as well as independence; which they brought to bear in the discharge of their duties in the financial year under review.

As a Company with dual listing under both the Nigerian and the London Stock Exchanges, Seplat is subject to a number of listing and governance provisions. Some of the key provisions that apply to Seplat for the year ended 31 December 2019, are the Companies and Allied Matters Act ('CAMA'), the Nigerian Securities Exchange Commissions' Rules and Regulations on Code of Corporate Governance for Public Companies (2011) ("SEC Code"), the Nigerian Code of Corporate Governance 2018 ("NCCG"), UK Listing Rules ('LRs'), the Market Abuse Regulations, 2016 ('MAR'), and the UK Corporate Governance Code as updated and published by the Financial Reporting Council (FRC) in July 2018 (UK Code).

In line with the requirements of these acts, rules and regulations, the Board of Directors of Seplat strives to ensure that the Company meets high standards of environmental, social and governance performance in order to sustain and improve on shareholders' value. The Board has ultimate authority over, and maintains oversight of, the Company and regards corporate governance as a critical factor in the achievement of the Company's objectives. Consequently, the Board has put in place and adopted appropriate charters, policies and processes.

Board processes

Scope and authority

In line with relevant codes of corporate governance and regulations, the Board is responsible for ensuring compliance with all applicable laws, rules and regulations. In discharging this responsibility, the Board is supported by the Company Secretariat/Governance Compliance Unit headed by the Company Secretary/Chief Governance Compliance Officer ("CS/CGCO"). In addition, the Board is also supported by key members of the Management Team as are required from time to time. To aid the Directors' effective participation and making of informed decisions at Board and committee meetings, all Board and Board Committee papers are distributed to each Director in advance of their meetings using the Board pad software that is designed for that purpose. Formal minutes of Board and all Committee meetings are taken by the Company Secretariat team and are reviewed, discussed by the Board prior to approval and adoption by the Board at the subsequent Board meeting. The Company Secretary also advises and gives guidance to the Board in the discharge of its obligations as stipulated in the applicable Nigerian and UK laws. Members of the Board are aware of their right to obtain independent professional advisers at the Company's expense, where required.

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

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

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

Board meetings
During the 2019 financial year, highlights of the Board's activities included:

January	• Performance review and strategy • Corporate Governance Workshop
February	• Approval of 2018 FY Audited Financial Results • ANOH FID
April	• Structure and capital, Corporate strategy, Performance review
May	• Annual General Meeting
July	• Performance review, strategy and ESG strategy • Review of Corporate Governance Policies
September	• Succession planning, Corporate governance
October	• Eland Acquisition, Performance and Budget review • 2020 Budget and Work Programme
November	• Eland integration • CEO Succession
December	• Refinancing • Completion of Eland Acquisition

In compliance with the Nigerian Code of Corporate Governance 2018 and the UK Code of Corporate Governance, the Board carried out an extensive review of the Board Charter to bring it in conformity with the enshrined principles and recommended practices in the Codes.

To facilitate an efficient and effective discharge of its responsibilities, the Board has established seven (7) Board Committees and has delegated specific aspects of its responsibilities to these Committees. These Board Committees are:

1. The Finance Committee (established in line with the UK Code's requirement for an Audit Committee).
2. The Remuneration Committee.
3. The Nomination and Establishment Committee.
4. The Risk Management and HSSE Committee.
5. The Corporate Social Responsibility ('CSR') Committee.
6. The Gas Committee.
7. The Corporate Governance, Compliance & Culture Committee.

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

All eight (8) Committees (including the Audit Committee) have their respective terms of reference that guide their members in the discharge of their assigned duties, and these Terms of Reference are available for review by the public. All the Committees present a report to the Board, highlighting matters deliberated upon as well as each Committee's proposals/recommendations on the matters within the remit of their respective Terms of Reference. The details of these eight (8) Committees are contained in the individual Committee reports in this governance section.

Board review and evaluation

To sustain the efficient performance of its oversight role and in line with the Nigerian Code of Corporate Governance, which requires that Board evaluation be carried out by an independent evaluator. The Board in 2018, undertook an independent review and evaluation of its performance, the Chairman, Board Committees and individual Directors, which was facilitated by an external consultant. Several recommendations and suggested actions to achieve development, including potential competence development, were made.

The key components of the Board review included:

- Board composition and structure;
- role and accountability of the Board;
- strategic alignment and engagement with business issues, processes and practices;
- Board culture and dynamics;
- Board interaction and relationship with management; and
- ethics and values.

In the year under review, the Board, ably supported by external consultants, concluded a major task of reviewing and evaluating successors for the role of the Chief Executive Officer (CEO) for the Company, which was carried out through a global CEO mapping as a benchmark for the process. After a very rigorous process, the Board emerged with a CEO Designate in the person of Mr. Roger Brown (who is the current CFO of the Company).

Board meetings

One of the ways in which the Board performs its oversight function and monitoring of the Company's performance is through Board meetings. In accordance with regulatory requirements, the Board meets at least once every quarter. However, additional meetings are scheduled as matters which require the attention of the Board prior to the convening of next quarterly Board meeting arise.

The Board held eleven (11) meetings during the 2019 financial year. The dates of the meetings and attendance of each Director at the meetings is as reflected below. During the year, the Non-Executive Directors held exclusive meetings, without the Executive Directors. In addition, the Chairman and the Senior INED each held different meetings with the Non-Executive Directors, in the absence of the Executive Directors. In compliance with the Nigerian Code and the UK Code, it is the policy and practice of Seplat that no Director is involved in any deliberation pertaining to his/her remuneration.

Director	Meetings attended
A.B.C. Orjiako	11/11
Austin Avuru	11/11
Michael Alexander (Senior INED)[1]	11/11
Roger Brown	11/11
Lord Mark Malloch-Brown[2]	10/11
Michel Hochard	10/11
Effiong Okon	10/11
Charles Okeahalam[2]	11/11
Basil Omiyi[2]	11/11
Ifueko Omoigui Okauru[2]	11/11
Damian Dodo[2]	9/11
Madame Nathalie Delapalme[3]	9/11
Macaulay Ofurhie[4]	2/4

1. Senior Independent Non-Executive Director.
2. Independent Non-Executive Directors.
3. Joined the Board 18 July 2019.
4. Retired from the Board 30 June 2019.

Board policies and insurance cover

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

The Board has also adopted the Market Abuse Regulations ('MAR') which replaced the Model Code for Directors' dealings. The MAR governs the disclosure and control of inside information and the reporting of transactions by persons discharging managerial responsibilities ('PDMRs').

The Board is responsible for taking appropriate steps to ensure observance of the Article provisions of MAR by the Directors. The Company is therefore committed to observing the MAR provisions as part of its commitment to good corporate governance practices.

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

Appointment, development and evaluation of Directors

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

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

The Company believes in and provides continuous training and development opportunities for its Directors.

Appointment of new Chief Executive Officer (CEO)

On 18 November 2019, the Company announced that its pioneer Managing Director/ CEO, Mr. Austin Avuru will be retiring in July 2020 after ten (10) years of leading the Company. In the span of a decade, Mr. Avuru led the development of a strong organisation, the deployment of agile systems, processes and stakeholder relationships that allowed the Company to grow rapidly into a leading independent oil and natural gas producer in Nigeria. The Board is grateful to Mr. Avuru for these accomplishments and is looking forward to his continued service at the Board level.

The Board is pleased to have Mr. Roger Brown as the successor to Mr. Avuru as the CEO. Mr. Brown brings to the CEO role a deep knowledge of the Company in his six (6) years as the Chief Financial Officer (CFO) and a member of the Board. Mr. Brown has strong financial, commercial and Mergers and Acquisition (M&A) experience as well as proven people skills which will be an asset as the Company embarks on the next phase of its growth plan. Prior to joining the Company, Mr. Brown was an advisor to the Company since 2010 while he was the Managing Director and head of EMEA Oil and Gas at Standard Bank Group. During his time at the bank, he was instrumental in providing advice and deploying capital across the African continent in the Oil & Gas, Power & Infrastructure and the renewable energy sectors.

Rotation of Directors
In the last twelve (12) months, the Board went through a few changes with a view to strengthening its capabilities in terms of fresh perspective and promoting diversity. The following two (2) Independent Non-Executive Directors, who have stayed longest in office, retired during the last AGM and were duly re-elected: (1) Mrs. Ifueko M. Omoigui Okauru; and (2) Mr. Damian Dodo, SAN.

The Board also appointed the following Directors as representatives on the Audit Committee: (a) Mr. Damian Dodo, SAN; (b) Mrs. Ifueko M. Omoigui Okauru; and (c) Mr. Michel Hochard. These three (3) Directors are to serve alongside the three (3) shareholders' representatives who were elected at the last AGM: Chief Anthony Idigbe SAN, Dr. Faruk Umar; and Sir Sunday Nwosu.

Appointment of new Non-Executive Director
The Board is pleased to formally introduce Madame Nathalie Delapalme as the newly appointed Non-Executive Director, effective from 18 July 2019. Madame Delapalme replaces Mr. Macaulay Agbada Ofurhie who voluntarily retired as a Non-Executive Director on 30 June 2019.The Board appreciates the contributions of Mr. Ofurhie to the growth of the Company and wishes him a happy retirement.

The Board is excited to have Madame Nathalie Delapalme onboard. Madame Delapalme is an Independent Director on the Board of Directors of Maurel et Prom and has acted as an alternate to Maurel et Prom's nominee on the Board of Seplat, Mr. Michel Hochard, since 30 June 2014. Madame Delapalme served the French Government as an Inspector of Finance at the Ministry of Economy and Finance, an advisor for the Finance and Budgetary Commission in the French Senate, and an advisor for Africa and Development in the offices of various Foreign Affairs Ministers. She remains deeply involved in governance and leadership in Africa and continues to provide strong support to the Company's CSR Board Committee and the Board intends to leverage on her wealth of experience on both the CSR Board Committee and the newly inaugurated Corporate Governance, Compliance & Culture Board Committee.

Appointment of new Company Secretary/Chief Governance Compliance Officer ("CS/GCCO")
In view of the increase in operational activities of the Company, heightened governmental and regulatory requirements and the need to ensure both Board and operational effectiveness, the Board approved the separation of the role of the General Counsel and the Company Secretary.

As a result of the separation of these two roles, the Board appointed Mrs. Edith Onwuchekwa as the Company Secretary/Chief Governance Compliance Officer ("CS/CGCO"). The process leading to the appointment of Mrs. Onwuchekwa was a rigorous one, with the Board enlisting the assistance of an external consultant in both the shortlisting and the interviewing of candidates for the role. In her role as the CS/CGCO, Mrs. Onwuchekwa will guide and support the Board of Directors of Seplat in ensuring compliance with regulatory and statutory requirements. Mrs. Onwuchekwa has over twenty (20) years post-call experience as a Barrister and Solicitor of the Supreme Court of Nigeria and over fifteen (15) years combined experience as a Company Secretary in a publicly listed company. She holds a Bachelor of Laws (LLB) from University of Uyo; Barrister at Law from the Nigerian Law School, Abuja; she is a member of the Institute of Chartered Secretaries & Administrators UK and Nigeria and holds a Master of Business Administration from the University of Bradford, United Kingdom. Prior to joining Seplat, Mrs. Onwuchekwa was the Legal and Compliance Director at Lafarge Plc. She replaced Dr. Mirian Kene Kachikwu who held the position from November 2014 to June 2019.

Dr. Mirian Kene Kachikwu still remains the General Counsel of the Company to manage the Legal Department in supporting the CEO, management and the business units. The Board is grateful to Dr. Mirian Kachikwu for the commendable work performed in her role as the General Counsel/Company Secretary since 2014.

Accountability
Details of the Directors' responsibility for preparing the Company's financial statements and accounts, and a statement that they consider the financial statements and accounts, taken as a whole, to be fair, balanced and understandable and to contain the information necessary for shareholders to assess the Company's position and performance, business model and strategy, are given on page 140 of this report. Seplat's business model and strategy for delivering the objectives of the Company and the assumptions underlying the Directors' assessment of the business as a going concern are given on pages 26 and 29 of this report, respectively.

The Board, during the financial year under review, carried out an assessment of the Company's risk management and internal controls systems, including financial, operational and compliance controls, and reviewed their effectiveness, details of which are given on pages 52 to 59 of this report.

In compliance with CAMA and the NCCG, the Company has established a statutory Audit Committee (mentioned earlier), and in compliance with the UK Code's requirement for an Audit Committee, the Board has established a Finance Committee comprising four Independent Non-Executive Directors. Details of the Finance and Audit Committees' membership and activities are given in their respective reports, on pages 102 and 117. The Board has also established the Risk Management and HSSE Committee, which is responsible for reviewing on behalf of the Board, operational risk, health and safety, and environment matters. Details of the Committee's membership and activities are given in its report on page 111.

Corporate Governance
In line with the recommended practices under the Nigerian Code of Corporate Governance, the Board established a Board Committee on Corporate Governance, Compliance & Culture ("CG, C& C") Committee. The CG, C & C Committee, which comprises only Independent Non-Executive Directors has the responsibility of assisting the Board in promoting, modelling, institutionalising and maintaining sound ethical culture and good corporate citizenship. The Committee, which is chaired by Mrs. Okauru, advises the Board on modalities of strengthening the Company's corporate governance, compliance and cultural ethos, to achieve the Company's continued survival and prosperity. Details of the Committee's membership and activities are given in page 102.

Remuneration
In compliance with the Nigerian Code of Corporate Governance and UK Code, the Board has established a Remuneration Committee solely comprising Independent Non-Executive Directors, under the chairmanship of Mr. Michael Alexander (S.I.D.). Details of the Committee's membership and activities are given in its report on page 105. Details of how Seplat's remuneration policy links remuneration to the achievement of the Company's strategy and the level of remuneration paid to each of the Directors during the year are outlined on pages 127 and 128.

Seplat stated at the time of the IPO that remuneration for certain Non-Executive Directors may include performance-related elements and certain Executive Directors' service contracts may include an initial fixed term of more than one year. In compliance with both the Nigerian Code and the UK Code, no Executive Director is a member of the Remuneration Committee and no Director is involved in any deliberation of his/her remuneration. The Company's remuneration policy and practices are outlined on page 123 of this report.

Engaging with our stakeholders
The Board recognises the need to nurture successful relationships with our stakeholders in securing the Company's long-term goals. Through regular engagement, the Board is able to understand the views of all stakeholders and considers them in its decision-making process.

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

Communication with shareholders
Seplat values effective communication with its shareholders. As a matter of practice and based on regulatory requirements, the Company reports formally to shareholders four (4) times a year with the announcement of quarterly and full-year results as well as providing disclosure on material changes to the business as and when required. However, with the new SEC requirement for public companies to elect whether to file its fourth (4th) quarter report, the Company has elected the option of filing its Annual Audited Financial Statement within the regulatory stipulated period. The full-year Annual Report and Accounts are issued to shareholders and are posted on the Company's website. Results presentations are also made available on the Company's website together with replays of webcasts.

Seplat's sixth AGM was held on 16 May 2019 in Lagos, Nigeria, and was attended by 532 shareholders in person while 242 shareholders were represented by proxies. The business transacted at the meeting was based on CAMA requirements and as such, diverged in some respects from that common to UK companies. The Company's AGM affords shareholders present the opportunity to discuss matters regarding the Company's business with the Chairman, the Committee Chairmen and individual Directors. The AGM also provides the opportunity for shareholder and Board representatives to be elected to sit on the Audit Committee, as required by CAMA.

The notice of 2020 AGM has been sent to shareholders with this Annual Report and Accounts and it is intended that the best practice for AGMs as detailed in the Nigerian Code and the UK Code will be followed.

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

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

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

The Company conducts an active investor relations programme with institutional investors and analysts. This includes participation at conferences, both within and outside Nigeria, where a few one-on-one meetings and group presentations are made, and the undertaking of investor roadshows in key financial centres. In 2019, the Company held over 300 meetings with institutional investors and expanded its analyst coverage to 18. The Company held two Capital Markets Days in London and Lagos in June and July respectively for investors and analysts, providing a detailed overview of Seplat's gas business and the ANOH project in particular.

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

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

Host community engagement
Sustainable community development remains a priority and we have continued to work collaboratively with our local partners to foster positive social and economic development. Executive Directors met with leaders of the host communities, visited community events and projects in areas of operations. Additionally, Directors met with ministers and other key government officials during the year.

Employee engagement
The Company has over the years established a Joint Consultative Council ("JCC") which comprises of Senior Management and representatives of Seplat employees drawn from across the various business units of the Company. The JCC, which is headed by the General Manager Human Resources, meets at least once every quarter to update employee representatives on key management decisions regarding the Company and to address issues which are of concern to employees. Deliberations, suggestions, and recommendations made during such meetings are cascaded to all employees and where required, recommendations which require approval are cascaded to the Leadership Team headed by the CEO and to the Board, where necessary.

The CEO also facilitated (4) four town hall interactive sessions, where all employees were kept abreast of happenings and developments within the organisation.

In line with the UK Corporate Governance Code relating to employee engagement, the Board, during the year under review, approved the nomination of one (1) of the Independent Non-Executive Directors (INED), Mrs. Okauru, as the employee engagement representative of the Board, to work with the General Manager Human Resources to engage with employees, gather their views and report its findings to the Board.

Disclosure of information

As a company listed on both the Premium Board of the NSE and on the Main Board of the LSE, Seplat strives to comply with the highest standards of disclosure. As a matter of practice, the Company simultaneously releases announcements through the relevant regulatory channels in both Nigeria and the UK. It also ensures that all announcements are available on the Company's website together with copies of its latest results, financial reports and other relevant information. The Company has controls and processes in place for the management of inside information. The Executive Directors are ultimately responsible for the approval of Company announcements and ensuring that such documents comply with relevant legal and regulatory requirements.

Corporate governance framework and compliance initiatives

The Board places high premium on corporate governance as a tool for compliance risk management, ensuring the Company's sustainability, achievement of the Company's strategic objectives and enhancement of shareholders' value. Consequently, the Board in fulfilment of its primary responsibility has put in place a corporate governance framework with "tone from the top" approach to governance compliance. The Board regularly subjects itself to evaluations of its level of corporate governance compliance and takes remedial action to resolve any areas of potential or perceived non-compliance.

At the onset of the financial year under review, the Board, alongside key senior management team, on 24 January 2019, subjected themselves to a rigorous and an engaging session with representative from the Nigerian Securities and Exchange Commission ("SEC") as well as the Nigerian Stock Exchange and the London Stock Exchange top representatives. The engagement focused on the following key areas – The SEC Corporate Governance Score Card, Compliance Process; Relationship Management; The Nigerian Code of Corporate Governance, 2018; NSE's Premium Board Expectations; Corporate Governance as a compliance risk management tool; Compliance; the UK Code and Company's reporting guidelines; Governance and Disclosure aspects that are most important to stakeholders; and current market reporting practices.

The engagement with the SEC, NSE and LSE also served as an opportunity for SEC and the Exchanges to assess and comment on the performance of the Company regarding compliance with the Codes of Corporate Governance as well as the Listing Rules and requirements. The session also highlighted areas where the Company was doing well and areas that required improvements. In the course of the financial year under review, the Board continued to improve on its existing relationship with its regulatory stakeholders through proactive engagement and prompt response to regulatory enquiries. The Board, during the year, had engagement with its industry regulators to discuss and explain the steps the Company has and is taking to ensure compliance with the relevant provisions of applicable laws, codes, regulations and sectorial guidelines.

To foster an effective day to day implementation of our well-established corporate governance framework, a dedicated Governance Compliance team has been put in place in the Company. The Company collaborates with the Company's regulators (NSE, SEC, FRCN, CAC, LSE and FCA) as and when necessary to ensure the Company maintains its robust corporate governance framework and an effective compliance programme. The Company frequently attends engagement sessions with the Nigerian regulators, particularly the NSE. One of such engagements sessions for the reporting period is the NSE engagement with listed companies on 3 December 2019 and the mandatory Compliance Training organised by the NSE in December 2019.

As part of the ongoing embedding of effective corporate governance and compliance in the Company, a lot of effort was put into the automation of the Company's Insider Lists. In the course of the financial year under review, the Company continued to monitor compliance with applicable laws, codes, rules and regulations through the respective compliance officers within the various business units.

We are mindful that the goal of strengthening the culture of compliance can only be achieved by creating an enabling environment that fosters openness, integrity and zero tolerance for wrongdoing. It is against this backdrop that a Company-wide workshop on whistleblowing was carried out in the year under review. The workshop was facilitated by our Business Integrity unit in conjunction with KPMG. The workshop was designed to further sensitise and to encouraged employees to report concerns openly without fear of any form of victimisation and/or reprisals. Employees were also reminded that they may elect to make a report anonymously by making use of the Seplat/KPMG Ethics Line which includes dedicated whistleblowing hotline – 0800 444 1234 (Toll Free) or KPMG's MTN toll free number: 0703-000-0026. Employees could also report their concerns by sending an email to speakup@seplatpetroleum.com or kpmgethicsline@ng.kpmg.com. To further encourage anonymity, the Business Integrity unit recently introduced 'Whistleblowing Drop Boxes' which are stationed at the front entrances of our various office locations. The facilitators also demonstrated to employees that all reported cases in times past were treated with utmost confidentiality.

As part of our continuous corporate governance awareness campaign in 2019, the corporate governance online recertification programme was implemented for all employees and contract staff.

As of the date of this Annual Report and Accounts, the Board has adopted the under-listed corporate governance policies and practices; most of which can be found on the Corporate Governance page in the Investor Relations section of the Seplat's website: https://seplatpetroleum.com/investor-centre/corporate-governance/corporate-governance-policies/

In the financial year under review, the Board, alongside the Company's management and external consultant, carried out a comprehensive review of the Company's Corporate Governance policies and series of recommended updates were proposed to bring the respective policies and procedures to date with new laws, listing rules as well as the Nigerian Code of Corporate Governance, 2018 and the UK Code of Corporate Governance, 2018.

To ensure completeness, the Board further mandated the newly established Corporate Governance, Compliance & Culture Board Committee to carry out a second level review of the recommended updates and to present the updated policies in tranches for the Board's formal adoption. This is an ongoing process which should be completed in the 2020 financial year. The already adopted corporate governance policies/practices are:

1) Board Charter.

2) Code of Conduct.

3) Anti-Bribery and Corruption Policy.

4) Community Relations Policy.

5) Complaint Management Policy.

6) Conflicts of Interest for Directors Policy.

7) Conflicts of Interest for Employees Policy.

8) Corporate Communications Policy.

9) Electronic Information & Communication Systems Policy.

10) Inside Information Policy.

11) Political and Charitable Contributions Policy.

12) Related Party Transactions Policy and Guideline

13) Risk Management Policy.

14) Share Dealing Policy.

15) Whistleblowing Policy.

1) Board Charter

The Board has adopted a Board Charter which is updated from time to time to align its provisions with international best practice. The Board Charter sets out the responsibilities of the Board; the establishment of the Board Committees with clear delegated responsibilities; the matters reserved for the exclusive approval of the Board; and the conduct of Board proceedings. In the year under review, Board through the Corporate Governance, Compliance & Culture Committee (CG, C&C) carried out an extensive review and restructuring of the Board Charter to ensure alignment with the provisions of the NCCG and the UK Code. Some of the updates to the Board Charter are – detailed enumeration of the separate and distinct duties of the Board Chairman and the CEO, appendage of Sample Appointment Letter of the Board of Directors, inclusion of the role of the Non-Executive Directors ("NEDs") and the Independent Non-Executive Directors (INEDs), the role of the Company Secretary/ Chief Governance Compliance Officer; the respective Terms of Reference for all the Board Committees, and Matters Reserved for the Board.

2) Code of Business Conduct

The Board has adopted a Code of Conduct, which outlines the ethical framework under which Seplat conducts business – with the highest standards of ethics, accountability and transparency. The Code of Conduct has been designed into an easy-to-read aesthetic handbook with memorable slogans, such as *"Integrity ... Do more, Go further"*. This handbook was circulated Company-wide, together with a statement of acknowledgement for the recipients to sign. The Code of Conduct is an implied contract between the Company and its employees, contract staff and business partners to conduct business with the highest ethical standards. The Board in the year under review carried out a major review to the Code of Conduct to bring it up to date with the new codes of corporate governance. The Code was also restructured to provide for the following – (i) The Code (which summarises the principles and values by which the Company conducts its business); (ii) The Charge (which requires Directors, employees and contractors to embrace the enshrined ethical values of the Code); (iii) Personal Commitment Statement (which models a top-down commitment to professional business and ethical standards from Directors, to employees and contractors and which everyone is expected to subscribe to by appending their signatures); (iv) The Code of Business Conduct Policy (which states the principles and values that the Code should embody, including guidance notes) (v) The Code's Practice Guide; and (vi) Frequently Asked Questions ("FAQs"), which states examples of dilemmas that could arise in the course of carrying out work for and on behalf of Seplat. The reviews carried out are all in line with the NCCG and UK principles and recommended practices.

3) Anti-Bribery and Corruption Policy

The Board has adopted an Anti-Bribery and Corruption Policy which is updated from time to time. The Policy demonstrates Seplat's zero tolerance and commitment to the eradication of bribery and corruption. It prohibits payment or receipt of facilitation payments, misappropriation, 'kickbacks' and blackmail/extortion. It also sets the parameters under which Directors and employees may give or receive gifts and hospitality, deal with public officials, and make political and charitable donations. The Policy includes reporting, documentation and whistleblowing provisions as well as provisions regarding Company's zero tolerance and disciplinary action for any violation.

Due diligence process

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

4) Community Relations Policy

The Board has adopted a Community Relations Policy which is updated from time to time. The Policy demonstrates Seplat's value for the communities in which it operates, and the Company's commitment to developing the communities through capacity building, business opportunities, employment, academic scholarships, charitable donations, awareness creation, etc. The details of Seplat's CSR activities are contained in the CSR section of this report.

5) Complaint Management Policy

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

6) Conflicts of Interest for Directors Policy

The Board has adopted a Conflict of Interest policy for Directors. This Policy applies to Seplat Directors and the shareholder representatives on our statutory Audit Committee. The Policy clearly sets out the legally imposed duties of the Board and its members, along with some ethical requirements adopted by the Company. Particular attention is given to conflicts involving Independent Directors to ensure compliance with both the letter and spirit of corporate governance regulations on such Directors. The Policy outlines a clear disclosure, review and documentation process for all conflicts of interest involving a Director, beginning with a yearly declaration to the Company, for the consideration of a dedicated conflict of interest review panel. During the year under review, all members of the Board participated in the annual declaration of conflicts of interest. This policy has been further reviewed to include special requirements on Independent Directors as provided in the code of corporate governance.

7) Conflicts of Interest for Employees Policy

The Board has adopted a Conflict of Interest policy for Employees, which is updated from time to time. The Policy outlines Seplat's commitment to avoiding and managing conflicts of interest in order to preserve the integrity of its business decisions and operations. It also sets a clear disclosure, approval, documentation and monitoring process for conflicts of interest within the Company, beginning with a mandatory annual conflict of interest declaration to the Company. Declared conflicts are presented to the constituted review panel for their consideration. The review panel has the responsibility of recommending control measures for approval by the CEO. During the year, employees participated in the annual declaration of conflicts of interest.

8) Corporate Communications Policy

The Board has adopted a Corporate Communications Policy which is updated from time to time. The Policy sets out the process for communicating, interacting with, and disseminating information regarding the operations and management of the Company to shareholders, other stakeholders and the general public.

9) Electronic Information & Communications Systems Policy

The Board has adopted an Electronic Information & Communications Systems Policy which is updated from time to time. The Policy demonstrates Seplat's commitment to responsible, secure and efficient use of communication systems, such as the internet, electronic mail, social media, intellectual property, etc.

10) Inside Information Policy

The Board has adopted an Inside Information Policy. The Policy clearly defines what constitutes 'inside information' and sets a clear process for the confidential preservation of such information. It also prohibits Seplat Directors, employees, contract staff, business partners and their connected persons from using inside information to deal in Seplat shares or securities or those of another public company. This policy has equally been reviewed to bring it in line with the Market Abuse Regulation (MAR).

11) Political and Charitable Contributions Policy

The Board has adopted a Political and Charitable Contributions Policy. The Policy prohibits Directors, employees, contract staff and business partners from making political donations or engaging in other political activities on behalf of Seplat. It also sets the standard and processes for making charitable donations to lawfully constituted charitable organisations, in line with the Corporate Social Responsibility ('CSR') initiatives of the Company.

12) Related Party Transactions Policy and Guidelines

The Company has adopted a Related Party Transaction Policy which sets out the policy statement, stringent disclosure requirements as well as the review and decision-making process for such transactions. The Policy also sets out the special requirements on Interested Person Transactions as well as transfer pricing guidelines. The Related Party Transactions Policy and Guidelines is a live document that is revised from time to time to reflect changes in both the Nigerian and the UK laws and regulations.

The list of Seplat's related party transactions is outlined in Note 42 to the financial statements of the Annual Report and Accounts. Seplat is committed to conducting all related party transactions in accordance with the arm's length principles and good corporate governance practices.

Directors' interest in contracts

The Chairman and the CEO have disclosable indirect interest in contracts with which the Company was involved as at 31 December 2019 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria. These are contained under related party disclosures in Note 42.

13) Risk Management Policy

The Board has adopted a Risk Management Policy which is updated from time to time. The Risk Management Policy demonstrates Seplat's commitment to the enterprise risk management and reporting system that ensures efficient identification of operational, financial, health, safety and environmental risks, and risk eradication and management.

14) Share Dealing Policy

The Board has adopted a Share Dealing Policy which is updated from time to time. The Policy demonstrates Seplat's commitment to trading securities in compliance with the requirements of the NSE Amended Listing Rules ('ALR'), the Nigerian Code, the UK Listing Rules and European Union Market Abuse Regulations ('MAR'). The Share Dealing Policy reflects the Company's dual participation in the Nigerian and UK Stock Exchanges and highlights the Company's respective obligations under both Nigerian and UK listing regulations. The Share Dealing Policy sets the parameters under which Directors and employees of Seplat and its subsidiaries, and their connected persons, must deal with the Company's shares, securities and inside information. This Policy has been further reviewed by the Board in line with MAR provisions which took effect from 3 July 2016.

15) Whistleblowing Policy

The Board has adopted a Whistleblowing Policy which is updated from time to time. In addition to this Policy, whistleblowing provisions are entrenched in all Seplat corporate governance policies. The Company has a dedicated whistleblowing hotline for employees and other stakeholders to confidentially report unlawful and unethical conduct involving the Company, its Directors or employees. The Company's whistleblowing system comprises an internal and an external channel, which are operated concurrently. The internal whistleblowing channel is managed by the Company's Business Integrity Unit, reporting directly to the CEO, while the external whistleblowing channel is managed by KPMG. The Business Integrity Unit and KPMG ensure that all reports are kept confidential and appropriately investigated and resolved.

Declaration of compliance

In compliance with Section 14.4(b) of the NSE ALR, following specific enquiry, all Directors acted in compliance with the NSE ALR and Seplat's Share Dealing Policy in respect of their securities transactions during the financial year ending 31 December 2019.

Directors' declarations

None of the Directors have:

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

Signed by:

A.B.C Orjiako
Board Chairman

Edith Onwuchekwa
Company Secretary /Chief Governance Compliance Officer

Statement of Compliance with Nigerian Stock Exchange on Listing on the Premium Board

In compliance with Section 12.4 of the Rules of the Nigerian Stock Exchange on Listing on the Premium Board, we wish to state that the SEC Code of Corporate Governance for Public Companies in Nigeria, the Financial Reporting Council of Nigeria's Nigerian Code of Corporate Governance, 2018 and the UK Corporate Governance Code govern the operations of Seplat Petroleum Development Company Plc.

We hereby confirm that to the best of our knowledge, Seplat is in compliance with the Codes.

A.B.C. Orjiako
Chairman

Edith Onwuchekwa
Company Secretary/Chief Governance Compliance Officer

Finance Committee report

5

Finance Committee meetings in 2019

2019 Members	23 Jan	27 Feb	17 Apr	16 Jul	23 Oct	
Charles Okeahalam[1], Chairman	●	●	●	●	●	5/5
Michael Alexander[1], Member	●	●	●	●	●	5/5
Lord Mark Malloch-Brown[1], Member	–	●	●	●	●	4/5
Ifueko M. Omoigui Okauru[1], Member	●	●	●	●	●	5/5

1. Independent Non-Executive Director.

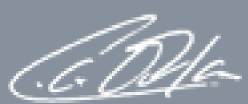
Charles Okeahalam and Ifueko M. Omoigui Okauru have recent and relevant financial experience, as highlighted in the profile of Directors on page 91.

In the financial year ended 31 December 2019, the Committee held five meetings, dates and attendance records for which can be seen in the table above.

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

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

I shall be available at the AGM of the Company to be held on 28 May 2020 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.



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

1. Independent Non-Executive Director.

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

The Finance Committee assists the Board in:

- monitoring the integrity of financial statements and any formal announcements relating to its financial performance, reviewing any significant financial reporting judgements contained in them;
- reviewing the Company's financial controls and financial risk management systems;
- overseeing financial strategy, policy and treasury matters;
- reviewing and approving major capital expenditures;
- making recommendations to the Board for presentation to the shareholders for approval at the AGM in relation to the appointment, re-appointment and removal of the external auditor; and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- monitoring and reviewing the effectiveness of the Company's internal audit function and its activities;
- providing advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and
- overseeing and evaluating the effectiveness of (and compliance with) the Company's corporate governance policies (including without limitation: conflicts of interest, related-party transactions and whistleblowing).

The Committee's activities during 2019

The Committee met five times during 2019. In compliance with the Committee's terms of reference, it considered the following:

- Financial statements: the Committee reviewed the report from the external auditors and management on the interim and annual financial statements and the accompanying public releases. In doing so, it considered the following:
  - the oil and gas reserve estimates;
  - revenue recognition;
  - recoverability of deferred tax assets;
  - fraud and management override;
  - decommissioning provisions estimations;
  - stock based compensation;
  - assessment of recoverable amount of exploration and production assets;
  - new accounting standards (IFRS 16 – Leases);
  - impact of the fair value adjustments on oil hedges;
  - accounting treatment of the proceeds from OML 55;
  - amount provisioned on OML 25;
  - areas that required significant estimation, judgement or uncertainty;
  - compliance with financial reporting and governance standards;
  - the basis for the going concern assessment;
  - related party transactions; and
  - NPDC receivables.
- Major acquisitions: the Committee reviewed the proposals by Management on the Company's 100% acquisition of Eland Oil and Gas "Eland" as part of the strategic growth of the Company and provided advice and recommendation.
- Strengthening the Company's statement of financial position: the Committee worked closely with management to explore the immediate and long-term strategies for improving the Company's statement of financial position. Management amended and restated the existing US$300 million RCF to US$350 million which was drawn in December 2019 to part fund the cash consideration paid on the Eland acquisition. The Company's position of established financial strength ensures the Company is now positioned to fund growth opportunities.
- Cash flow analyses: the Committee worked closely with management and ensured the disciplined approach to capital allocation was achieved following a substantial leverage of the statement of financial position.
- Alternative export routes: management had continued to achieve considerable progress to ensure completion of the Amukpe-Escravos Pipeline Project. The Trans-Forcados pipeline uptime in the period was significantly higher than prior years at over 88%. The Amukpe Escravos Pipeline is expected to be commissioned in 2020.
- Cost management: the Committee reviewed the continuous efforts by management to efficiently manage costs. General and administrative costs were maintained at relatively flat levels during the year.
- Oil hedging: the Committee reviewed the implementation of the existing oil hedging strategy and ensured that appropriate levels of revenue protection were considered at the same time as ensuring that the risks and costs of hedging were manageable.
- Budgets: the Committee reviewed the annual budget in detail to ensure the assumptions were consistent with the business environment and appropriate growth targets. Oil price sensitivities, alternative export routes, cost reductions, impact of major acquisitions and impact of Naira devaluation were considered as a part of the process.
- Deferred tax: the Committee reviewed the appropriateness of deferred tax charges in the year.
- Internal and external audit: the Committee reviewed and made recommendations on the internal and external audit plans and the underlying activities, and monitored the extent and timing of remediation by management.
- Internal controls and risk management: the Committee reviewed the business risks including the management and mitigation of financial risks and the timeline for remediation.
- Corporate governance compliance: the Committee reviewed the corporate governance framework to determine and make recommendations on its alignment with current Nigerian and UK regulations as well as the levels of compliance in the Company. The Committee also reviewed the effectiveness of the Business Integrity Unit, the whistleblowing policy, as well as reports made through the whistleblowing system and efforts to resolve them.
- Interim and final dividend: the Committee considered the impact of declaring an interim and final dividend.
- Group Tax Strategy: the Committee reviewed and made recommendations to the Board on the Seplat Group Tax Strategy and the abridged Tax strategy document published on the Company's website.

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

- Payment of dividends in foreign currency: the Committee considered the implication of the Central Bank of Nigeria foreign exchange directive on the ability of the Company to pay dividends and contracts in foreign exchange.
- Related party transactions: the Committee undertook a thorough review as to the number and extent of related party transactions. It was decided that the Committee would continue to monitor these closely with a goal of reducing the number and value of related party transactions through the introduction of other service providers.
- Impairment: the Committee reviewed the impairment tests performed by management which was also an area of focus for the external auditor. In assessing the impact of impairment, oil price assumptions were compared with a number of external reference points to ensure that the management estimates were appropriate.

Internal audit

During 2019, the Finance Committee on behalf of the Board reviewed the audit plan and received quarterly reports on the internal audit activities. PwC supported the Internal Audit team under a manpower call-off contract to provide resources as required in delivering the Internal Audit plan.

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

- evaluating the adequacy, reliability and effectiveness of governance, risk management and internal controls systems;
- evaluating the reliability and integrity of information and the means used to identify, measure, classify and report on such information;
- evaluating the means of safeguarding assets and verifying the existence of such assets, as appropriate;
- evaluating the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the organisation; and
- performing consulting and advisory services on new initiatives and matters related to governance, risk management and internal controls as appropriate for the Company.

The internal audit strategy in 2019 provided greater focus on operational areas of capital spend to provide assurance about the effectiveness of operational controls, project management efficiency and delivery and achievement of strategic objectives underpinning the capital deployment. Internal audit focused on risk areas in the selection of key projects for audits, detailed testing of contracts and procurement processes and controls, regulatory compliance and reporting of corporate governance, review of information technology general controls and processes.

The results of the internal audit findings were considered by the Committee at the majority of the meetings and the remedial plans were discussed with management. Control findings led to further testing on contract performance and community relations activities to address specific control gaps and assertions. As a quarterly activity, internal audit also conducted checkpoint remediation reviews to ensure that management was effectively closing out identified control gaps from prior audit findings.

Internal Audit continued to work through the approved implementation roadmap following the external assessment of its function and activities which occurred in the previous year. This included the implementation of an internal audit management software to further enhance effectiveness and quality of the audit function.

External audit

The objectiveness and independence of the external auditor are taken seriously by the Company and this is reviewed each year prior to commencement of the audit process. The Committee has a policy of ensuring that the external auditors' independence is maintained by minimising the provision of non-audit services. This is monitored closely throughout the year and the non-audit services are generally limited to services related to the audit such as review of the quarterly financial statements which the Company is required to publish. This practice was followed in 2019.

The statutory audit fees earned by the external auditor for the audit services can be found in Note 10 to the financial statements. There were no non-audit services rendered by the auditors during the year.

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

The Committee has reviewed the external auditors' performance and independence taking into account input from management as well as interaction with the external auditor without management present. In making its assessment, the Committee focused on the robustness of the audit, the extent of investigation into the business and the quality and objectiveness of the audit team. Based on this information, the Committee concluded that the audit process is operating effectively. The Company complies with the Nigerian corporate governance regulations, while observing those in the UK by strategically adopting the most stringent conditions under both sets of regulations. This results in the audit partner being rotated every five years and the audit being put out to tender at least every 10 years.

E&Y was first appointed on 20 December 2010 and in line with the Corporate Governance requirements on the rotation of the external auditors every 10 years, the Company carried out a tender process to replace E&Y, who will cease to continue as statutory auditors after the accounting period ended 31 December 2019. Following completion of a detailed assessment and evaluation process, PwC was selected and recommended to the Board for appointment as the new external auditors to replace the outgoing auditors. The external auditors will be presented to the shareholders at the AGM for approval.

Remuneration Committee report

6

Remuneration Committee meetings in 2019

2019 Members	23 Jan	27 Feb	17 Apr	15 May	16 Jul	23 Oct	
Michael Alexander ('S.I.D.')[1], Chairman	●	●	●	●	●	●	6/6
Charles Okeahalam[2], Member	●	●	●	●	●	●	6/6
Basil Omiyi[2], Member	●	●	●	●	●	●	6/6
Damian Dodo[2], Member	●	●	●	–	–	●	4/6

1. Senior Independent Non-Executive Director.
2. Independent Non-Executive Director.

In the financial year ended 31 December 2019, the Committee held six meetings, dates and attendance records for which can be seen in the table above.

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

The Remuneration Committee is established to ensure that remuneration arrangements for Seplat's Chairman, Executive Directors, Non-Executive Directors and senior management support the strategic aims of the business and enable the recruitment, motivation and retention of relevant skilled personnel while satisfying the expectations of shareholders. Details of the Company's remuneration policy are outlined on pages 123 to 133 of the 2019 Annual Report and Accounts. In the interest of transparency, no Director by reason of being a member of the Committee is involved in any decisions relating to his/her own remuneration.

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

MR Alexander

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

1. Senior Independent Non-Executive Director.

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

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

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

In accordance with its terms of reference, the Remuneration Committee assists the Board in:

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

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

- Monitoring the implementation of the Company's remuneration policy and practice.
- Ensuring the appropriate cascade of the remuneration policy to the senior management grades.
- Setting the forthcoming year Annual Bonus Performance targets for the CEO; CFO; Board executives; and senior management. These targets are cascaded throughout the Company to ensure alignment.
- Review executive management performance over the past year to determine the appropriate levels of Annual Bonus – the consequence of this review cascades throughout the Company.
- Determining the 2020 fee and salary levels for the Chairman, Executive Directors and senior management.
- Reviewing the LTIP performance measures and targets to ensure continued appropriateness of the incentive structure and alignment with underlying corporate performance.
- Granting awards under the Company's LTIP as well as monitoring performance progress of outstanding awards and determining the vesting of the 2016 LTIP awards in the current financial year.
- Drafting the Company's Directors' Remuneration Report.
- Reviewing the Committee's remit and terms of reference to ensure it has appropriate oversight of the Directors and senior management pay as well as the operation of reward arrangements throughout the organisation.
- Reviewing the role of the Remuneration Committee and its compliance with the 2018 UK Corporate Governance Code and the 2018 Nigerian Code of Corporate Governance.

Nomination and Establishment Committee report

4

Nomination and Establishment Committee meetings in 2019

2019 Members	27 Feb	16 Apr	16 Jul	23 Oct	
Damian Dodo, SAN[3], Chairman	●	●	–	●	3/4
Michael Alexander (SINED)[2], Member	●	●	●	●	4/4
Basil Omiyi[3], Member	●	●	●	●	4/4
A.B.C. Orjiako[1], Member*	●	●	●	●	4/4

1. Non-Executive Director.
2. Senior Independent Non-Executive Director.
3. Independent Non-Executive Director.
* Dr. Orjiako ceased being the Committee Chairman and a member of the Committee in October 2019 while Mr. Damian Dodo, SAN was appointed the new Committee Chairman.

In the financial year ended 31 December 2019, the Committee held four meetings. The dates and attendance records for all the meetings are reflected in the table above.

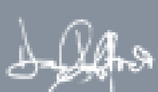
The Nomination and Establishment Committee was very active during the year. The Committee considered the existing combined role of the General Counsel and Company Secretary and took a decision to split the role for better effectiveness in providing the necessary support to the Board. The split was followed by the recruitment of a new Company Secretary/Chief Governance Compliance Officer who started in June 2019. The Committee also considered the need to refresh the Board membership through a clear process that would be captured in the Board Succession Policy.

Following the need to review all the CG policies in line with both the Nigerian and UK CG requirements, the Committee engaged an external consultant, Deloitte, an auditing firm to carry out an extensive review of these policies. A new Board Committee "Corporate Governance, Compliance & Culture Committee" was then inaugurated to develop its terms of reference with oversight of all the CG policies including the Company's Code of Business Conduct, corporate culture for the organisation, transparency parameters around the implementation of the policies, etc.

Another key task that was undertaken by the Committee within the period was the new CEO engagement exercise which was carried out through a global CEO mapping as a benchmark for the process.

The Committee also received a letter from Mr. Macaulay Ofurhie (Non-Executive Director) of his voluntary retirement from the Board of Seplat effective 30 June 2019. Following the retirement of Mr. Ofurhie from the Board, a vacancy was created which led to the appointment of Madame Nathalie Delapalme as a Non-Executive Director. The appointment was approved by the Board; but would be subject to Shareholders' approval at the next AGM and re-election every three years at the relevant AGM.

Other 2019 activities of the Committee are outlined opposite. For further clarification, I shall be available at the AGM of the Company to be held on 28 May 2020 in Lagos, Nigeria to speak with shareholders. If you are not able to meet me at this year's AGM, I can be contacted via the Company Secretary.



Damian Dinshiya Dodo SAN
Chairman of the Nomination and Establishment Committee

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

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

- reviewing and making recommendations on the size, composition and balance of the Board and its Committees;
- evaluating the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment and ascertaining that nominees are fit and proper to carry out the duties of a Director;
- reviewing the criteria for Board and Board Committee memberships, reviewing candidates' qualifications and any potential conflict of interest, assessing the contribution of current Directors in connection with their re-nomination and making recommendations to the Board;
- ensuring that a Board Succession Policy and plan exists for the positions of Chairman, CEO, Executive Directors and managing directors for the subsidiary companies;
- reviewing the performance and effectiveness of the subsidiary company boards on an annual basis where applicable;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- preparing a job specification for the Chairman's position, including an assessment of time commitment required of the candidate;
- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- recommending to the Board any proposed appointments or removals of Directors to be made in accordance with Seplat's Memorandum and Articles of Association; and evaluating the performance of Directors and making recommendations on the addition or replacement of Executive and Non-Executive Directors and the Chairman of the Board;
- overseeing management's implementation of the Company's human capital development policies and procedures;
- recruiting, promoting, developing succession planning or disciplinary measures affecting Executive Directors and senior management; and
- overseeing the implementation of Seplat's Code of Business Conduct as it relates to the functions undertaken or overseen by the Committee and reporting any lapses and recommending remedial actions to the Board.

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

- split of role for the General Counsel and Company Secretary;
- recruitment of a new Company Secretary/Chief Governance Compliance Officer;
- review of the Company's organisational structure;
- engagement of an external consultant, Deloitte, an auditing firm to carry out an extensive review of all CG policies in line with both the Nigerian and UK CG requirements;
- critical review of the following CG policies: (i) Diversity, Inclusiveness and Equity Policy; (ii) Board Succession Policy; (iii) Revised Board Charter and its appendices;
- quarterly review of the HR Dashboard which highlighted the following key updates: (i) new hires and departures including resignations; (ii) total number of males & females; (iii) appraisal performance between 2016 and 2018; (iv) 2019 HR Priorities such as expanding the succession planning to GL5, individual development plan rollout, mapping competence and appropriate interventions, etc.; (v) Ongoing initiatives were CEO's Awards, Departmental Recognition Awards, Seplat Employee Assistance Programme, Update on 360 Degrees Assessment, etc.
- re-election of retiring Directors by rotation at the AGM;
- review and approval of the Committee's report for the 2018 Annual Report;
- appointment of an Executive Director to the Risk Management & HSE Board Committee in line with the requirement of the NCCG;
- considered staff redeployment and restructuring of the Internal Audit Unit;
- considered and approved the proposal on change of the Nomination and Establishment Committee Chairman;
- engagement of an executive recruiting firm, Pedersen & Partners to oversee the CEO's Succession Plan and benchmark exercise on the engagement process;
- recommendation for promotion of members of the senior management team;
- considered a paper on succession plan into top level positions within the Company;
- proposal on nomination of Directors to the Statutory Audit Committee;
- review of membership of the various Board Committees;
- voluntary retirement of Mr. Macaulay Ofurhie (Non-Executive Director) from the Board of Seplat;
- appointment of Madame Nathalie Delapalme as a Non-Executive Director of the Company.

The Board appointment process

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

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

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

Diversity at Seplat

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

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

The Board also promotes diversity throughout the business. Seplat's senior management team consists of men and women from different cultures in Nigeria and internationally, who have varying skills and experience in the different sub-sectors of the oil and gas industry. The Board is proud of the increasing number of women within the senior management team. Overall, the Company's full-time workforce comprises of 24% women and *five different nationalities.

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

*Note: Some have dual nationalities.

Gas
Committee report

4

Gas Committee meetings in 2019

2019 Members	28 Feb	17 Apr	17 Jul	23 Oct	
Basil Omiyi[1], Chairman	●	●	●	●	4/4
Michael Alexander ('S.I.D.')[2], Member	●	●	●	●	4/4
Macaulay Ofurhie[3], Member	●	●	–	–	2/4
Charles Okeahalam[4], Member	–	–	●	●	2/4

1. Independent Non-Executive Director.
2. Senior Independent Non-Executive Director.
3. Retired in 30 June 2019.
4. Independent Non-Executive Director. Appointed Committee Member in 18 April 2019.

In the financial year ended 31 December 2019, the Committee held four (4) meetings, dates and attendance records are as shown in the table above.

I am pleased to present to you the Gas Committee report for the 2019 financial year. The Gas Committee was constituted by the Board in 2018 with the goal of fine tuning Seplat's gas strategy and to bring greater focus to the management of the Company's gas business risks. The Gas Committee is to help the Company successfully navigate the dynamic landscape of the gas market and to position the gas business as a robust stand-alone midstream business. I shall be available at the AGM of the Company to be held on 28 May 2020 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Basil Omiyi[1]
Chairman of the Gas Committee

1. Independent Non-Executive Director.

The Gas Committee is comprised of three (3) Independent Non-Executive Directors who have strong leadership experience in the Nigerian and international gas industry as well as in-depth knowledge of finance. Details of the terms of reference for the Gas Committee and a summary of the activities carried out during the financial year are as shown below.

In accordance with its terms of reference, the Gas Committee is established to assist the Board in:

1. periodic review of a long-term strategic Gas Master Plan for Seplat that is consistent with the vision of the Company, and a framework for implementing the plan;
2. overseeing the Company's successful transition from the upstream gas into midstream value chain and beyond, including the gas prospects, commercial activities and legislative implications;
3. reviewing issues as they arise in major ongoing midstream investments of the Company, such as the Assa-North Ohaji-South ('ANOH') project;
4. reviewing the investment portfolio and opportunities of Seplat's gas subsidiary company, Seplat Gas Company Limited;
5. receiving and considering reports relating to the gas business, including gas prospects, commercial activities and legislative updates; and
6. overseeing other activities which are related to the gas business of Seplat as the Board may approve from time to time.

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

- **Study of the Nigerian gas market:** In the course of the year, the Committee requested that a market study be carried out on the Nigerian gas market. The aim of the study, which had a 15-20-year outlook at the Nigerian gas market, is to assist the Company in developing strategy for transforming the Company's gas business with a view to cementing the Company's leading domestic market position. Key take-aways from the market study are as follows:
  - **Resolution of challenges in the Gas to Grid Power Sector.** i.e. poor liquidity and infrastructure deficit. Study forecast indicates a resolution of these challenges between now and 2026;
  - **Tariff Reform / Deployment of Pre-paid Meters/Power Assurance Facility (PAF).** It is envisaged that the plans by the National Electricity Regulatory Commission (NERC) to increase electricity tariffs, deployment of pre-paid meters across the country and approval of the new ₦600 billion PAF to settle 2019 Domestic Supply Obligations (DSO) invoices, should improve the liquidity challenges;
  - **Future Under-Supply in the Gas to Power Market.** It is estimated that an undersupply of gas would develop from 2027 due to the estimated 500MMscfd to 1Bcfd gas growth. Plan is to focus on targeting this supply gap;

- –**Major opportunity in the off-grid market with a capacity of 20GW.** There is a strong business case for displacing diesel with gas considering the significant cost reductions between cost of using diesel ($20/MMBtu) as against cost of using gas ($5/MMBtu);
- –**Consideration of investment in the Downstream infrastructure / Mergers & Acquisitions ("M&A") opportunities**;
- –**Consideration of gas based industries**;
- –**DSO Advantage.** Seplat is currently meeting its DSO allocations and so able to realise greater value from gas;
- –**Hydropower competition.** Study indicates that Hydro generation is not expected to pose a major threat over the next fifteen (15) years;
- –**Additional gas processing plant.** Considering that the only two (2) major domestic gas development projects identified in the near term are the AGPC's ANOH Gas Project and Shell Petroleum Development Company (SPDC) ANOH plant, focus is on leveraging on the gap in the market;
- –**Regional gas market.** Study indicates opportunities in the regional gas market with a long-term net back wellhead price. The regional opportunities gives an exit outside the grid power sector in Nigeria.

- **Reduction in outstanding debts and overdue receivables:** The Committee during the course of the year also considered the progress made by the Company in the recovery of outstanding gas debts and overdue receivables.
- **Diversification of customer base and markets:** The Committee along with the Company, made good progress in its drive for diversification of customer base so as to achieve a good balance between power and other sectors. Attention was given to the development of off-grid opportunities by looking into delivery of gas to various enterprise and industrial parks. The Committee also considered the progress made by the Company in its discussions regarding delivery of gas to the regional gas markets such as Ghana, Togo and South Africa.
- **Review of opportunities in the gas downstream sector:** During the year, the Committee reviewed opportunities in the gas downstream, with focus on supporting gas hubs/captive markets development.
- **Extraction of value from gas stream via the Liquefied Petroleum Gas (LPG) business:** The Company continued to make progress in regard to the addition of an LPG module to its gas plants particularly the ongoing Sapele and Oben LPG projects.
- **Restructuring of the gas business into upstream and midstream:** The Committee also received a report on the proposed restructuring of the gas business into upstream and midstream so as to better underscore the midstream value and to align with the Petroleum Industry Bill (PIB).
- **Risk management:** The Committee considered the identified risks associated with the Company's gas business, the likelihood/impact of such risks, the management plan put in place to mitigate such risks and to reduce the overall exposure of the business.
- **ANOH Project:** Key highlights of activities relating to the ANOH Project include:
  - –Review of the proposal for the taking of the Final Investment Decision ("FID") on the ANOH Project which includes:
    - –Project Cost – in the sum of US$700 million which is to be funded through 60% equity (US$420 million) and 40% debt (i.e. US$280 million);
    - –Equity Funding – Seplat and the Nigerian Gas Company Limited (NGC), as the shareholders of the ANOH Gas Processing Company Limited ("AGPC"), would inject equity funding of US$210 million each.
  - –recommendation of the ANOH FID proposal to the Seplat Board for approval. The AGPC, an incorporated joint venture between Seplat and the Nigerian Gas Company (NGC), will develop a midstream gas processing plant to process future wet gas production from the unitised upstream gas fields. The Phase I of the ANOH project, which has been identified by the Nigerian Government as one of the seven key Critical Gas Development Projects (CGDP) to supply the domestic market, will comprise 300MMscfd gas processing plant in OML 53 with scope for future expansion.
  - – approval by the Corporate Affairs Commission (CAC) of the change in the AGPC ownership structure as between Seplat and NGC (i.e. 50%: 50%).
  - –change in the Seplat and NGC nominees to the AGPC Board. This change was necessitated due to changes that occurred within both organisations in the course of the year. The change in nominees resulted in the appointment of Mrs. Yetunde Taiwo as the Chief Executive Officer (CEO) of AGPC.
  - –consideration of the readiness of the Dry Gas Export Pipelines, i.e. the Obiafu-Obrikom-Oben (OB3) and Spur line particularly on the River Niger crossing and engagement with key stakeholders on resolution of challenges as well as discussions regarding alternative gas evacuation routes.
  - –review of strategies for condensate evacuation via readily available pipeline routes and possible alternatives.
  - –consideration of collaborative initiatives for Upstream Wet Gas Delivery via alignment of common facilities, location and specifications particularly wet gas distribution system and metering.
  - –consideration of Project execution risks to cost and delivery schedule arising from the competition for key industry contractors in view of the increased number of oil and gas projects taking FID during the financial year under review.
  - –consideration of the Project Economics and its value drivers i.e. condensate production, condensate price, sales gas price and project delivery cost.

Risk Management and HSSE Committee report

4

Risk Management and HSSE Committee meetings in 2019

2019 Members	15 Jan	11 Apr	12 July	15 Oct	
Basil Omiyi[1], Chairman	●	●	●	●	4/4
Macaulay Agbada Ofurhie, Member[2]	●	●			2/2
Ifueko M. Omoigui Okauru[1], Member	●	●	●	●	4/4
Effion Okon			●	–	1/2

1. Independent Non-Executive Director.
2. Mr. Ofurhie retired from the Board of Seplat in June 2019.

In the financial year ended 31 December 2019, the Committee held four meetings. The dates and attendance records for all the meetings can be seen in the table above.

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

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

The activities of the Risk Management and HSSE Committee are summarised below with highlights on certain key activities carried out in 2019.

I shall be available at the AGM of the Company to be held on 28 May 2020 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

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

1. Independent Non-Executive Director.

The Risk Management and HSSE Committee consists of three members – two Independent Non-Executive Directors (one of whom is the Committee Chairman), and one Non-Executive Director. During the year, one of the members of the Committee (a Non-Executive Director) retired from the Board of the Company with effect from end of June 2019. However, in line with the provisions of the National Code of Corporate Governance ("NCCG") which states that, "Members of the Risk Management Committee should include Executive Directors and Non-Executive Directors, a majority of whom should be Non-Executive Directors", the Operations Director, Mr. Effiong Okon was appointed a member of the Committee. This is the only committee recommended by the NCCG to comprise Executive Directors.

The Risk Management and HSSE Committee meets at least four times a year, and when required, the meetings are attended by appropriate senior management of the Company, such as the Chief Executive Officer, Chief Financial Officer, Technical Director, Company Secretary/Chief Governance Compliance Officer, General Manager Operations Support, General Manager Assets, General Counsel and Head of Internal Controls and risk management. specialists with appropriate technical expertise are invited to attend and present to meetings of the Committee.

The Risk Management and HSSE Committee assists the Board to:

- review and recommend for approval of the Board, the risk management policies and framework, as well as assist the Board in its oversight of risk management strategy;
- review the adequacy and effectiveness of risk management and controls in the Company;
- receive reports from, review with, and provide feedback to, senior management on the categories of risk that Seplat faces, including credit, market and operational risk, the exposures in each category, significant concentrations within those risk categories, the metrics used to monitor the exposures and management's views on the acceptable and appropriate levels of those risk exposures;
- evaluate the adequacy of the Risk Management function;
- review the adequacy and frequency of risk reporting to the Board;
- review Seplat's credit, market, liquidity and operational risk management frameworks, including significant policies, processes and systems that senior management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing;
- oversight of senior management's processes for the identification of significant risk across Seplat and adequacy of prevention, detection and reporting mechanisms;
- review Seplat's level of compliance with applicable laws and regulatory requirements including those that may impact Seplat's risk profile;
- periodically review relevant changes in the economic and business environment, including emerging trends, management procedures, controls for risk associated with new business and other factors relevant to Seplat's risk profile and those trends which may threaten Seplat's business model, key strategies, future performance, solvency and liquidity and make recommendations to the Board as appropriate;
- procedures and controls for any new businesses acquired or developed by Seplat;

Governance

- receive information from the CFO, Operations Director, Technical Director, General Manager Assets, Internal Controls and Risk Management Unit, the General Counsel, others from senior management, Seplat's independent auditors, regulators and outside experts as appropriate regarding matters related to risk management;
- in consultation with the Audit Committee, review and discuss with senior management, at least annually: (a) the key guidelines and policies governing Seplat's significant processes for risk assessment and risk management; and (b) Seplat's major financial risk exposures and the steps senior management has taken to monitor and control such exposures;
- exercise oversight over the process for the identification and assessment of risks across the Company and the adequacy of prevention, detection and reporting mechanisms;
- perform other activities related to these terms of reference as requested by the Board;
- review the Company's policies and procedures for detecting fraud and prevention of bribery including review of the Company's whistleblowing policy and procedures;
- evaluate the effectiveness of Seplat's policies and systems for identifying and managing environmental, health and safety risks within its operations;
- assess the policies and systems within Seplat for ensuring compliance with environmental, health and safety regulatory requirements, etc.

In the financial year ended 31 December 2019, the Risk Management and HSSE Committee held four meetings, the dates of which are listed above in this report.

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

- quarterly review of the high risks on the Enterprise Risk Dashboard and associated risk mitigations put in place;
- quarterly review of the Enterprise Risk Register;
- highlights of high-level technical, operational and financial business activities including ongoing capital projects;
- quarterly review of report on HSSE performance activities which includes: Safety Leadership Programme to drive improved compliance with Online Fire Safety training and certification for Company personnel, On-screen HSE awareness campaign established in addition to periodic publication of Lessons from Incidents; etc.;
- quarterly update on Community Relations operations;
- quarterly review of risk notes on the ANOH Gas Project including the ANOH Risk Dashboard;
- quarterly update on government receivables;
- review for update provided on the Management Dashboard in respect of both Western and Eastern Assets;
- review of 2019 Corporate HSSE Business Plan;
- quarterly review of report on risk framework and policy deployment in the Company;
- quarterly review of report on security within the Niger Delta region;
- review of the update on crude oil evacuation performance forecast;
- quarterly review of updates on the alternative export routes;
- quarterly review of the Legal Risk Dashboard and Litigation Matrix which highlights the key legal risks and high-profile litigations within the Company; and
- review of risk papers on the operations of the business such as implementation of online/real time condition monitoring for well heads at Sapele and Amukpe; allocation of adequate training and resourcing for FEED/Concept selection of PDAS to address completion of the development, sign-off and rollout of operational manuals for Asset Integrity and Process Safety Management, Operations & Procedures Manual for all Oil and Gas Stations – Oben, Sapele, Amukpe and Jisike etc., Online condition monitoring of equipment performance and health status to improve the equipment availability by 2-5% etc.

CSR Committee report

4
CSR Committee meetings in 2019

2019 Members	**27 Feb**	**18 Apr**	**17 Jul**	**24 Oct**	
Lord Mark Malloch-Brown[1], Chairman	●	●	●	●	4/4
Macaulay Agbada Ofurhie[2], Member*	●	●			2/2
Ifueko M. Omoigui Okauru[1], Member	●	●	●	●	4/4
Madame Nathalie Delapalme[2], Member	●	●	–	–	2/4
Mr. Damian Dodo, SAN[1], Member*			–	●	1/2

1. Independent Non-Executive Director.
2. Non-Executive Director.

* Mr. Ofurhie retired from the Board of the Company in June 2019 while Mr. Dodo, SAN was appointed to replace him as a member of the Committee in July 2019.

In the financial year ended 31 December 2019, the Committee held four meetings. The dates and attendance records for all the meetings can be seen in the table above.

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

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

Although the Company's CSR activities began when the Company commenced operations in 2010, the CSR Committee was constituted in 2014 to strengthen the Company's CSR commitment and initiatives. You will see below details of the activities carried out during the year. Further details of the Company's CSR activities during 2019 are also contained on pages 76 to 81.

I shall be available at the AGM of the Company to be held on 28 May 2020 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

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

1. Independent Non-Executive Director.

The CSR Committee comprises four Non-Executive Directors, three of whom are Independent. The Committee meets at least three times a year, and when required, the meetings are attended regularly by the Seplat Chairman as well as appropriate senior management of the Company (such as the Chief Executive Officer, Operations Director, Company Secretary, General Manager External Affairs & Communication, and the General Manager Operations Support). External advisers also attend but only upon invitation.

The CSR Committee assists the Board to:

- review, agree and establish Seplat's Corporate Strategy to ensure that CSR is and remains an integral part of the strategy and its implementation in practice and that the Group's social, environmental and economic activities are aligned;
- ensure that there is recognition by all within the Group of the impact of its activities upon all stakeholders including shareholders, customers, suppliers, employees and the wider community and environment; and that those activities are regulated such that they are consistent with sustainable business and development, conducted in a socially responsible manner and have a positive impact on communities;
- oversee the development of strategy and implementation of Seplat's Community Relations Policy, CSR programmes, Corporate Branding efforts and policies on all key areas of CSR including standards of business conduct, ethics, charitable activities, community initiatives while ensuring that Seplat maintains a cooperative relationship with relevant environmental, health and safety agencies (public and private) as well as with community representatives;
- develop and support the activities necessary to convert CSR policies into an effective plan for implementation across the Group and to agree a programme of specific CSR activities and focus for each financial year, supported by appropriate targets and key performance indicators;
- develop a comprehensive Environmental Sustainability policy/strategy and monitor its total compliance by all parties with respect to protecting the sanctity of the environment;
- oversee and ensure compliance with the CSR Policy and review performance against agreed targets;
- have full responsibility for all environmental matters in relation to the activities and operations of Seplat;
- oversee and monitor implementation of the newly executed Global Memorandum of Understanding ('GMOU') between Seplat and its host communities towards ensuring that equity and fairness are promoted in the distribution of CSR related initiatives amongst the various communities and that the programmes/activities impact the lives of all host community indigenes positively;
- ensure that other communities which are impacted by Seplat's operations though not necessarily designated 'host communities' are given due regard in allocation of CSR initiatives as may be necessary;

- assess the performance of Seplat with regards to the impact of CSR decisions and actions upon employees, communities and other third parties. It shall also assess the impact of such decisions and actions on the reputation of the Group;
- evaluate and oversee on an ongoing basis, the quality and integrity of any reporting to shareholders and external stakeholders concerning community relations issues and approve the annual CSR report for submission to the Board for ratification and publication in the Company's Annual Reports and Accounts;
- ensure that Seplat has a system to identify and evaluate the interests of all stakeholders (both internal and external) and review the Seplat Stakeholders' Map and Matrix on a regular basis in order to be aware of changes and initiatives required to address stakeholders' interests;
- review the results of any independent audits of the Group's performance in regard to community relations matters, review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning the same;
- ensure appropriate monitoring tools are put in place to measure the impact of programmes under the CSR Policy;
- review and oversee other related matters and topics in relation to CSR as may be assigned to it by the Board from time to time; and
- lay down policy guidelines for charitable donations and CSR of Seplat, in line with Seplat's corporate social strategy and as allowed by the Memorandum and Articles of Association of the Company, having considered the recommendations of the CSR Committee.

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

- engagement of PricewaterhouseCoopers ("PWC") to carry out a socio-economic impact assessment on CSR & CR project using a four-step methodology and a benchmark exercise in order to provide insight on how Seplat's CSR initiatives measure up in the industry within and outside Nigeria;
- consideration and adoption of the CSR Committee Report for 2018 Annual Report;
- update on mid-year review of the GMOU for the host communities;
- review of Seplat's CSR Initiatives for the communities: (i) Health Programmes – Eye Can See; Safe Motherhood; (ii) Education Programmes – Seplat Pearls Quiz; National Undergraduate Scholarship; Economic Empowerment Programmes, etc. and CR projects – Water supply projects, town hall building/centre construction projections, road & drainage construction projects, market projects, etc.
- considered the three key strategic themes where Seplat would anchor its CSR footprint: (i) Pillar of Education – to provide support for quality education and training of teachers, support for Vocational & Technical Education; support for Science, Technology, Engineering, Arts & Mathematics (STEAM); (ii) Economic Empowerment; and (iii) Health including short, medium and long-term goals;
- new focus on Education as the lead pillar of Seplat's future CSR Strategy to be implemented through investing in local economies, particularly alternatives to oil and gas (promoting diversification and self-sustainability); increasing local skills and employability and creating jobs and training opportunities within the region;
- reviewed the Political and Charitable Contributions Policy;
- considered two educational programmes: (i) Seplat Teachers Empowerment Programme (STEP) designed to train secondary school teachers to enhance their ability to facilitate development of life skills amongst students in their own schools; and (ii) Science Made Easy (SME) designed to support STEM education and aimed at providing secondary schools with modern laboratories equipped with the latest laboratory equipment and supplies to enable the schools to prepare students adequately for science subjects as well as develop students' interest in scientific research in science labs.
- reviewed update on building Seplat Eye Centres within the Western and Eastern Assets, in view of the resounding achievements of the programme in providing the much-needed premium eye care, which would be done in phases over a two-year period;
- successfully submitted the 2018 Sustainability Report to the Exchange in compliance with the NSE Directive to all listed companies to submit and publish their sustainability reports before March of every year;
- reviewed and approved the 2019 Work Programme which focused on Community Development and Capacity Development/Economic Empowerment; etc.

Corporate Governance, Compliance & Culture Committee report

2

Corporate Governance, Compliance & Culture Committee meetings in 2019

2019 Members	17 Sep	24 Oct	
Ifueko M. Omoigui-Okauru[1], Chairman	●	●	2/2
Michael Alexander ('S.I.D.')[2], Member	●	●	2/2
Damian Dinshiya Dodo SAN[1], Member	●	●	2/2

1. Independent Non-Executive Director.
2. Senior Independent Non-Executive Director.

In the financial year ended 31 December 2019, the Committee held two meetings. The meeting dates and attendance records are as shown in the table above.

I am pleased to present to you the first Corporate Governance, Compliance & Culture Committee ("CG, Compliance & Culture") report for the 2019 financial year. The CG, Compliance & Culture Committee was constituted by the Board on 18 July 2019 with the goal of bringing to greater focus of the Board, the corporate governance, compliance and corporate culture of the Company. The CG, Compliance & Culture Committee is to assist the Board in promoting, modelling, institutionalising and maintaining sound ethical culture and good corporate governance within the Company. The CG, Compliance & Culture Committee intends to achieve this goal by working alongside management in the establishment of parameters for measuring corporate governance, compliance and corporate culture within the Company. I shall be available at the AGM of the Company to be held on 28 May 2020 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted through the Company Secretary/Chief Governance Compliance Officer.

Mrs. Ifueko M. Omoigui Okauru, MFR
Chairman, CG, Compliance & Culture Committee

The CG, Compliance & Culture Committee is comprised of three (3) Independent Non-Executive Directors who have strong leadership experience in board governance, compliance and human capacity building as well as in-depth knowledge of board development, change management, management and board integration. Details of the terms of reference for the CG, Compliance & Culture Committee and a summary of the activities carried out during the financial year is as shown below.

In accordance with its terms of reference, the CG, Compliance & Culture Committee is established to assist the Board in achieving, amongst others, the following:

1. strengthening the Company's corporate governance and compliance ethos, so as to achieve Seplat's continued survival and prosperity;
2. reviewing and assessing all aspects of the Company's corporate governance, compliance and cultural practices, reviewing the effectiveness of relevant governance and compliance issues such as – ethics, culture, integrity, transparency, including opportunities for improving the governance and compliance framework, compliance with all applicable legislations and making necessary recommendations to the Board with respect to changes to the Company's governance and compliance practices.
3. reviewing developments in corporate governance space and advising the Board periodically with respect to significant developments in the law and practice of corporate governance and recommending the approach to be taken by the Company in relation to such corporate governance standards;
4. reviewing all Board-related policies and recommending to the Board such changes as it considers appropriate;
5. assessing all aspects of the Company's culture and ensuring that a healthy corporate culture is promoted as vital to the creation and protection of long-term value;
6. making recommendations to the Board regarding the development of the Company's values, purpose and culture and associated behaviours for approval by the Board;
7. periodically recommending and driving correct behaviours by linking the Company's overall purpose to its values;
8. monitoring and advising the Board on the implementation of the values, purpose, and behaviour within the Company; and
9. keep under review the Company's culture and ensure that it is embedded throughout the organisation at every level and in all aspects.

Highlights of business carried out by the CG, Compliance & Culture Committee during the year include:

- Terms of Reference (ToR): The first assignment of the Committee during the financial year under review was the development and submission for Board's review and approval of a draft Committee ToR. The ToR was developed in consultation with external consultant, with emphasis on the three (3) key focus areas of the Committee i.e., corporate governance, compliance and culture. The proposed ToRs were then presented to the Board for deliberation and ultimate approval.
- Committee's Goals and Targets: The Committee deliberated extensively on setting goals and targets based on the three (3) focus areas of its ToR (i.e. Corporate Governance, Compliance and Culture). To ensure effectiveness, the Committee, in conjunction with management, has resolved to identify key issues under the respective three (3) focus areas to be addressed by the Committee from time to time.
- Corporate Governance Policies: In line with its ToR, the Committee carried out an extensive review of some of the corporate governance policies with focus on key changes proposed by external consultant, Messrs. Deloitte and Touche and management. Some of the policies reviewed/ developed by the Committee in the year under review include – the Board Charter; Code of Business Conduct; Anti-Fraud Conflict of Interest for Directors and employees; Bullying & Harassment; Whistleblowing; Share Dealing Policy; and Inside Information Policy. In reviewing these policies, emphasis was placed on – the new Nigerian Code of Corporate Governance, the UK Code of corporate governance and best practices. The review of the Company's corporate governance policies is an ongoing task being carried out by the Committee, after which such policies are submitted for consideration and adoption by the Board.
- Corporate Culture: During the financial year under review, the Committee extensively engaged management regarding the corporate culture in the Company. The Committee also considered the survey carried out on employees by an independent corporate culture consultant, Hofstede Insights; with a view to determining the current corporate culture versus the desired corporate culture and steps required to achieve the desired outcomes.

Audit Committee report

4

Audit Committee meetings in 2019

2019 Members	27 Feb	17 Apr	16 Jul	23 Oct	
Chief Anthony Idigbe SAN., Chairman and shareholder member	●	●	●	●	4/4
Dr. Faruk Umar, Shareholder member	●	●	●	●	4/4
Sir Sunday N. Nwosu, KSS Shareholder member	●	●	●	●	4/4
Macaulay Agbada Ofurhie[1], Director member	●	●			2/2
Ifueko Omoigui Okauru[2], Director member	●	●	●	●	4/4
Michel Hochard, Director member	●	●	●	●	4/4
Damian Dodo, SAN[2], Director member			–	●	1/2

1. Following a proposal made by the Board of Directors, Damian Dodo was elected at the 16 May 2019 AGM as a Director member on the Audit Committee in the place of Macaulay Agbada Ofurhie. Two of the Audit Committee meetings held in 2019 took place before this 16 May 2019 change.
2. Independent Non-Executive Director.

In the financial year ended 31 December 2019, the Committee held four meetings, dates and attendance records for which can be seen in the table above.

In compliance with Section 359(6) of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004 ('CAMA'), we the members of the Audit Committee have reviewed the financial statements of the Company for the year ended 31 December 2019 and reports thereon, and confirm as follows:

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

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

- review of the implementation of the Company's corporate governance framework;
- review of the 2019 external audit plan and the 2019 internal audit plan, including an assessment of the external auditors' independence; and
- review of the proposed 2020 budget and work programme.

The Committee received a report from the UK Financial Reporting Council "FRC" on its review of the audit of the Financial Statements of the Company for the year ended 2017. Following the receipt of the report of the FRC's audit quality review, the Committee carried out the following actions:

a. Held a joint meeting of the Statutory Audit Committee and Board Finance Committee of Seplat with the Company's external auditors, Ernst & Young ('EY') to deliberate extensively on the issues raised by FRC in its audit review report;

b. Engaged EY on the following issues raised in the FRC review report: (i) Receivables due from Nigerian Petroleum Development Company; (ii) Provision for Decommissioning Obligation; (iii) Other Assets – Fair value of investment in OML 55; (iv) Journals testing; and (v) Deferred Tax Asset.

c. Received and deliberated on EY's action plan to address the above issues and obtained EY's assurance to close out all the issues raised therein;

d. Completed an online survey of the FRC detailing all the actions undertaken by the Committee following the receipt of the review report.

Chief Anthony Idigbe, SAN
Chairman of the Audit Committee

FRC/2015/NBA/00000010414

Remuneration Committee Chairman's Annual Statement

Michael Richard Alexander
Senior Independent Non-Executive Director

2019 has been a year of sustained strong cash generation and stable share price performance combined with substantial progress against our strategic growth objectives which allowed the Company to continue to deliver on its promise to share returns with shareholders.

Dear shareholder,

As the Chairman of the Remuneration Committee (the 'Committee'), I am delighted to present the report of the Board covering the implementation of our remuneration policy for the year ended 31 December 2019.

Corporate performance highlights for the 2019 financial year

2019 has seen us make significant progress towards furthering our ambitious growth strategy. While our production has dipped in the second half of the year as a result of slippage to our drilling programme and weaker pricing, the core business remained highly cash generative and strong financial performance sustained, and with four rigs now operational in the field we expect to quickly regain momentum.

The key areas of FY19 performance and FY18 comparative performance are set out below:

Metric	2019	2018
Profit before tax (US$ million)	293	263
Oil production volume (MMbbls)	8.7	9.4
Gas production (average daily rate, MMscfd)	131	145
2P Reserves (MMboe)	509	481
Lost time incident frequency rate ('LTIF rate')	nil	0.14

2P Reserves includes 36 MMboe increase resulting from the Eland acquisition.

We have set the next major growth phase of our gas business in motion having taken FID for the large scale ANOH gas and condensate development to position us as Nigeria's largest supplier of processed gas to the domestic market. In another major step, and in line with our overall growth strategy, we have completed the acquisition of a London Stock Exchange listed company, Eland, for £382 million. This represents a rare opportunity to secure a well run asset base that lies firmly within our core geographical area of focus and expertise. The enlarged asset base will enhance our inventory of production, development, appraisal and exploration opportunities and enable us to ensure capital continues to be deployed to the most value creative opportunities for shareholders.

How the Committee determines remuneration outcomes:

Assess performance against targets	Review outcomes with management and other committees to ensure holistic reflection of performance	Consider outcomes in the context of the wider workforce and environment	Use judgement to reflect whether discretion is required, considering the market and shareholder interests

Remuneration outcomes for the 2019 financial year

Our remuneration policy is closely aligned to our strategy, the market and shareholder interests. Our 2019 annual bonus was linked to production, sales, profitability, corporate responsibility and strategic progress, whilst the 2017 LTIP award measured our success in maintaining and expanding quality reserves, and delivering long-term relative shareholder value. In line with this approach, the performance levels set out below resulted in reduced 2019 pay outcomes compared to 2018.

The main remuneration outcomes are set out below:

- The Committee reviewed the Company's performance against the bonus scorecard and established that the Company overall had performed between Threshold (30% of maximum payout) and Target (50% of maximum payout). The resulting 2019 annual bonus outcomes were 45% of maximum for the CEO, 47% for the CFO and 44% for the Operations Director. The bonus levels represent a reduction from 2018 reflecting that a number of operational and technical objectives were not met in 2019. The determination of the corporate scorecard is cascaded through the organisation, affecting not only the Executive Directors, but also the bonuses of senior and middle management. The Committee is cognisant of the impact on the wider workforce when determining outcomes using the process laid out above. The Committee considered the levels of scorecard achievement reflective of the Company's underlying performance and therefore no discretion was exercised in relation to the annual bonus outcome.
- The 2017 LTIP awards, for which the performance period ended on 31 December 2019, will vest in April 2020. I am delighted to announce that the Company placed significantly above the upper quartile of the TSR comparator group. The level of reserves growth delivered between FY16 and FY19 was 2.55%, excluding growth resulting from M&A activity, which resulted in overall LTIP vesting of 81.4%. 60% of these awards will be released immediately, with the remaining 40% being released in equal instalments after a one- and two-year holding period. Seplat's TSR growth of 67% over the three-year period and placing in third position amongst the comparator group was considered a strong outcome given the sustained adverse external conditions. The Committee felt that this achievement, combined with the downward adjustment resulting from the application of the reserves growth underpin, warranted the 81.4% vesting and therefore no discretion was exercised in relation to the LTIP.

Main Remuneration Committee actions and decisions in 2019

- The Committee approved the 2019 Annual Bonus targets for the Executive Directors and senior management. These targets are cascaded throughout the Company to ensure alignment.
- The Committee reviewed and approved the mix of performance measures and targets for the 2019 LTIP award, replacing reserves growth underpin with an operational and technical scorecard underpin for future awards. The Committee also approved the grant of 2019 LTIP award to the Executive Directors, senior management and selected junior management and reviewed performance progress of outstanding awards.
- The Committee approved the annual bonus and LTIP performance outcomes which were cascaded throughout the Company.
- The Committee considered salary and fee levels for its employees and Directors for 2020. Given the current competitive market positioning and in order to apply consistent treatment to all senior employees and Directors, the Committee determined that no salary increases should be awarded to Executive and Non-Executive Directors as well as senior management. Increases broadly aligned to inflation and up to a maximum of 12% were awarded to other employees in UK and Nigeria.
- The Committee reviewed compliance with the Nigerian and UK corporate governance codes and considered relevant disclosure in the Directors' Remuneration Report.

CEO succession

In November 2019 it was announced that our CEO, Mr. Austin Avuru, will be retiring in July 2020 after 10 years of leading the Company. I would like to thank Mr. Avuru for his accomplishments. The Board has selected Mr. Roger Brown as the successor to Mr. Avuru as CEO, when Mr. Avuru steps down on 31 July 2020.

In respect of Mr. Avuru, the Committee will communicate the treatment of remuneration upon his stepping down from the role of CEO, noting that the approach taken to incentives will be in line with the approved Directors' remuneration policy and plan rules.

The Committee has begun the process of determining the suitable arrangements for Mr. Brown upon appointment as CEO. These arrangements will be communicated to shareholders later in 2020 with details being fully disclosed in the 2020 Directors' Remuneration Report.

Corporate governance

Seplat follows the relevant corporate governance standards in both the UK and Nigeria. The extensive remuneration governance review completed in 2018 resulted in a number of changes to the operation of the remuneration policy, as disclosed in the 2018 Annual Report. In addition, in 2019 the Committee undertook the following further steps to reaching compliance with best governance practice:

- Reviewed its remit and terms of reference to ensure it has appropriate oversight of the Directors and senior management pay as well as the operation of reward arrangements throughout the organisation.
- Assessed workforce policies and the effectiveness of existing workforce engagement mechanisms and the alignment of our reward structure with culture and values (in cooperation with the Board). We present additional disclosure relating to these areas on pages 125-126.
- Periodically monitored the Company's position in respect of the compliance with the relevant governance provisions and alignment with investor expectations.

The Committee continues to regularly review and monitor governance developments and market context in both the UK and Nigeria in order to ensure the appropriateness of the policy and may introduce more changes in 2020.

To reflect our commitment to the highest standards of reporting we have reviewed our approach to disclosure of Directors' remuneration to include one-off buy-out awards made to Directors on joining the Company.

Operation of remuneration policy in 2020

- As set out above, the Committee determined that no salary or fee increases should be awarded to Executive and Non-Executive Directors as well as senior management.
- The annual bonus will be operated in line with the remuneration policy. Awards at a maximum opportunity of 150% of salary for the CEO and 100% for the CFO and the Operations Director, in line with prior years. The performance conditions will remain a mix of financial, operational and strategic metrics, as set out on page 128.
- LTIP awards will be granted in 2020 which vest over three years subject to relative TSR and an underpin related to operational and technical performance. This will ensure a close alignment of payouts for participants with the long-term interests of shareholders.
- We note that Eland’s operational and financial contribution will form part of the bonus targets and LTIP underpin operational scorecard going forward.
- Overall total remuneration opportunity will be kept under review and any changes required for Mr. Brown’s compensation arrangements upon his promotion to the CEO role will be in line with the standard provisions for promotions at Board level under the Directors’ remuneration policy.

Engagement with stakeholders

The Company operates an extensive range of mechanisms and instruments for workforce engagement which cover all employee populations, including a Joint Consulting Committee, a workshop on remuneration philosophy, the HR quarterly dashboard, visiting employees, Town Hall meetings, Seplat’s voice survey and the whistleblowing policy. Please see page 126 for details of actions undertaken in 2019.

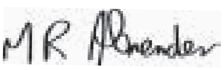
In addition, in 2019 the Board nominated Ifueko Okauru to be the designated Non-Executive Director who will be working with GM HR to engage with employees, gather their views and report any feedback to the Board to inform their decision-making.

The Board and investor relations team manage and develop Seplat’s external relationships with current and prospective investors. The Company regularly monitors shareholder reaction and commentary regarding its remuneration practices. The main shareholder engagement activities take place at our Annual General Meetings where we address any questions and provide clarifications on issues raised by shareholders. The Board and senior management team of the Company are also available to discuss any issues with shareholders before the Annual General Meeting. Details of the shareholder voting outcomes in respect of the remuneration policy and Remuneration Report are presented on page 134.

Additionally, the Board maintains a dialogue with investors outside the AGM so as to foster mutual understanding of objectives and to gain a balanced view of key issues and concerns of shareholders.

Summary

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



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

Notes

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

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

The report consists of three sections:

- the Annual Statement by the Remuneration Committee Chairman (pages 118 to 120);
- the At a Glance section (pages 121 to 126); and
- the Annual Report on Remuneration which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2019 financial year (pages 127 to 134).

The Company’s full remuneration policy report which sets out the Company’s remuneration policy for Directors and the key factors that were taken into account in setting the policy can be found in our 2019 Annual Report and Accounts on our website (http://ar2019.seplatpetroleum.com/#downloads).

At a glance

Introduction
In this section, we highlight the performance and remuneration outcomes for the 2019 financial year, how the remuneration policy will be implemented in 2020 and the wider employee context.

2019 single total figure of remuneration
The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2019 financial year.

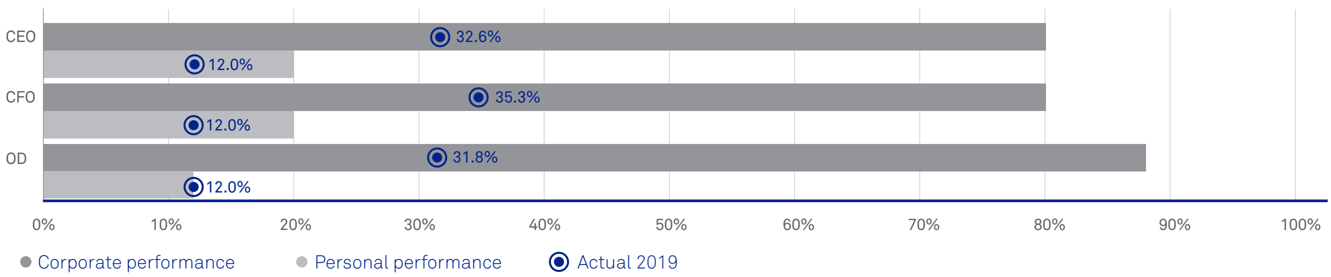
Executive Directors	Period US$'000	Salary[1] US$'000	Taxable benefits US$'000	Bonus US$'000	LTIP[2] US$'000	Pension US$'000	Other US$'000	Total US$'000
Austin Avuru (CEO)	2019	1,130	507	756	1,965	192	0	4,550
	2018	1,097	527	1,125	2,221	187	0	5,158
Roger Brown (CFO)	2019	643	123	304	1,195	97	0	2,362
	2018	653	78	465	1,350	98	0	2,644
Effiong Okon (Operations Director)[3]	2019	719	174	315	0	122	0	1,330
	2018	609	126	384	0	103	800	2,022

1. Salaries for Executive Directors are set in GBP – 2019 salaries were £663,000 for the CEO and £504,000 for the CFO whilst for the Operations Director 2019 salary was set at $719,000 inclusive of housing and 13th month allowances. For the CEO, the July 2014 USD: GBP exchange rate has been used to calculate 2019 and 2018 remuneration. For the CFO the average 2019 USD: GBP exchange rate of 1.28 has been used where applicable. The Operations Director's salary and benefits are set in USD on the date of appointment and therefore no conversion is required.
2. The value of the 2017 LTIP awards vesting in April 2020 is shown in 2019 as the performance period ended on 31 December 2019. The estimated value of these awards uses a 2019 Q4 average share price of $1.50; the actual value will be updated in the 2020 Directors' Remuneration Report when the awards vest on 20 April 2020. The value of the 2016 LTIP awards that vested in March 2019 is shown in 2018. The value has been restated based on the actual share price on 24 March 2019 ($1.68) and includes dividend equivalents.
3. Effiong Okon (Operations Director) joined the Board on 23 February 2018 and therefore received a pro-rated remuneration package for the proportion of the year he was in office. His 2018 remuneration has been restated to take account of the one-off buyout award received on appointment. For the avoidance of doubt, Mr Okon's salary includes housing and 13th month allowance.

Further detail regarding the disclosures in the table above is presented in the Annual Report on Remuneration on page 127.

Variable pay outcomes for 2019
The Remuneration Committee determined both the 2019 annual bonus outcome and the vesting level of the 2017 LTIP awards (where the performance ended on 31 December 2019). We set out below a summary of the 2019 annual bonus performance outcomes, together with details of the determination of the 2017 LTIP vesting level. Further detail is set out in the Annual Report on Remuneration on page 128.

2019 annual bonus performance assessment
The chart below summarises the 2019 annual bonus performance assessment against the corporate and personal targets for the Executive Directors:



2017 LTIP awards vesting
The 2017 LTIP awards vest on 20 April 2020. However, the performance period for these awards ended on 31 December 2019 and their value is included in the single figure table above.

Seplat's TSR performance resulted in 100% vesting for this element of the award as the Company was placed above the upper quartile of the comparator group. The FY19 audited reserves are 473.8 mmboe which represents a 2.55% increase from the FY16 reserves of 463 mmboe, based on excluding the increase in reserves from the Eland acquisition. Given the audited reserves, excluding Eland assets, have increased by less than 10% then the 100% relative TSR vesting level has been reduced in line with the underpin vesting schedule, such that overall vesting is 81.4%.

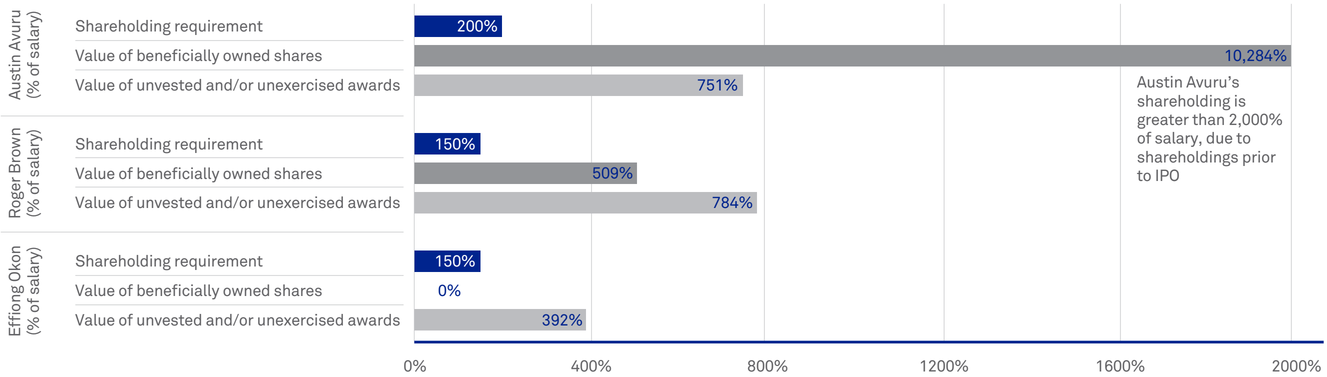
	TSR performance vs comparator group			2P Reserves growth underpin			
Seplat TSR growth	Median TSR growth (25% vesting)	Upper quartile TSR growth (100% vesting)	Vesting under TSR condition	Seplat reserves growth between FY16 and FY19	Reserves growth required to fully satisfy underpin	Reduction in vesting based on the underpin	Final vesting level
67.4%	-34.3%	-2.7%	100%	2.55%*	10%	18.6%	81.4%

* Reserves exclude growth resulting from M&A activity.

Summary of application of discretion
In summary, the Committee is satisfied that the formulaic outcomes described above are a fair reflection of the performance of management in the year in the context of the wider business performance. Therefore, no discretion has been applied to the variable pay outcomes.

Executive Director shareholdings

We also set out below how our executive's shareholdings compare to the requirements of our policy using the 31 December 2019 share price of $1.62. In addition, we provide the pre-tax value of the Executive Directors' unvested or unexercised equity awards.



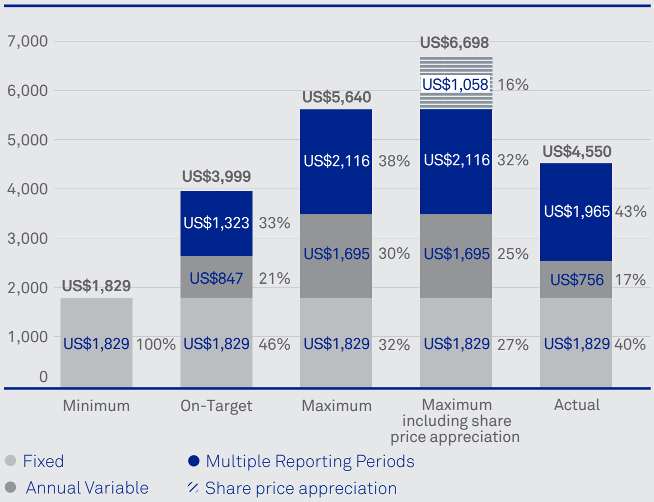
Remuneration alignment to performance

The following analysis compares executives' pay and movement in wealth through their Seplat shareholding against their remuneration opportunity and Company performance:

Actual pay versus opportunity

The chart below illustrates how the 2019 total single figure of remuneration for the CEO compares to minimum, on-target and maximum opportunity in accordance with the remuneration policy that applied in the year. 2019 remuneration is between the on-target and maximum opportunity due to the slightly above on-target bonus outcome and 81.4% vesting of the 2017 LTIP.

CEO (US$'000)

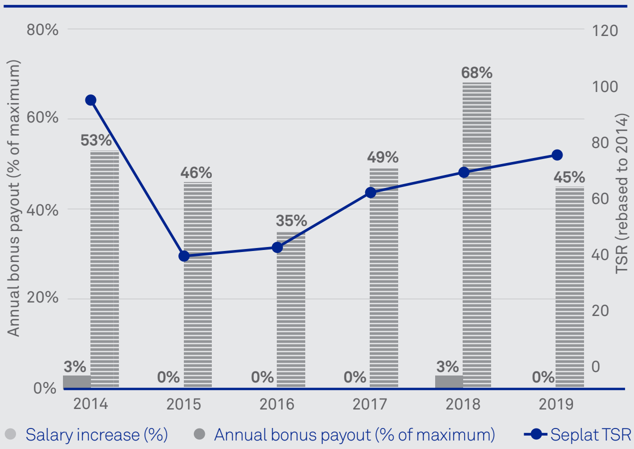


Actual CEO pay versus total shareholder return ('TSR')

The Company feels it is critical that CEO pay reflects the returns delivered to shareholders, where TSR is the core performance measure chosen to reflect shareholder experience.

In 2019 the Committee took the decision to not award base salary and fee increases to Executive and Non-Executive Directors for 2020. Annual bonus resulted in between threshold and on target payout as, whilst financial performance was strong, a number of operational and technical objectives were not met in 2019. Seplat remains one of the sector's stocks of choice by continuing to perform above the upper quartile TSR. This is illustrated in the chart below.

CEO pay vs. TSR performance



The Committee considered disclosing CEO pay ratios and the Company's gender pay gap in 2019. However, given the Company's main operations are based in Nigeria whilst the UK workforce consists of significantly fewer than 250 employees, the results would not be representative of our business, statistically significant and provide little or no insight to investors. We will reassess this disclosure as the Company embeds Eland into its UK operations in future years.

Implementation of the remuneration policy for 2020

Our Directors' remuneration policy applies for three years starting from 6 June 2018, when it was approved by shareholders, and can be found in full in the 2017 Annual Report and Accounts on our website (http://ar2017.seplatpetroleum.com/#downloads).

Our principles of remuneration

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

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

We set out below a summary of the Directors' remuneration policy and its implementation for 2020. We note that the remuneration arrangements for Mr. Brown will be reviewed in 2020 as part of his promotion to the CEO role, and that the arrangements will be in line with the provisions for promotions at Board level under the Directors' remuneration policy.

Element	2020 Operation
Base salary	There will be no salary increase for Executive Directors, in line with the treatment applied to other senior management. The base salaries (US$000s) from 1 January 2020 will be: • CEO: US$1,130 • CFO[1]: US$643 • Operations Director: $719[2] 1. Actual amount paid in 2020 will depend on the USD: GBP exchange rate in the year. 2. The Operations Director's base salary includes Housing and 13th month allowance, in line with local market practice.
Benefits	No change from 2019 policy on the basis that benefits are dependent on the working location and are either in the form of a cash allowance or the actual benefit itself.
Pensions	No change from 2019. Pensions contributions as % of base salary will remain as follows: • CEO: 17% • CFO: 15% • Operations Director: 17% Levels of pension contributions for the Executive Directors are in line with those provided to the wider workforce.
Annual bonus	No change to the maximum opportunity as % of base salary from 2019 and remains as follows: • CEO: 150% • CFO: 100% • Operations Director: 100% No change from 2019. 25% of the Executive Directors' bonus will be deferred into shares and will be released at the end of year 3 subject to continued employment. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial, operational and strategic targets used for the annual bonus, disclosing precise targets for the bonus plan in advance would not be in the best interests of shareholders. The performance measures, achievement against targets and the value of awards made will be published at the end of the performance periods, so shareholders can assess the basis for any pay-outs under the annual bonus.
Long Term Incentive Plan	No change to the LTIP opportunity as % of base salary from 2019 and remains as: • CEO: 250% • CFO: 200% • Operations Director: 200% All awards will vest subject to performance measures (and the Executive Director's continued employment) at the date of vesting after three years and are then subject to a two-year holding period. Malus and clawback will continue to apply to LTIP awards. The 2020 LTIP awards will be subject to the following performance measures: • Relative TSR performance against a bespoke group of E&P companies will continue to be the primary measure of performance. • The primary measure will be moderated by an underpin linked to the achievement of an acceptable level of performance against the annual operational and technical bonus scorecard metrics over the three-year LTIP performance period. In addition, to ensure that remuneration outcomes are not unreasonable and are truly reflective of underlying corporate and individual performance, the Committee will scale back the formulaic outcome from the 2020 and future LTIP awards where the value of the shares vesting is in excess of 2.5 times their value at grant, i.e. by scaling back the number of awards vesting (unless the Committee feels that this would be unreasonable). The structure of the targets for the 2020 LTIP will be unchanged from 2019.

Element	2020 Operation
Non-Executive Director fees	Non-Executive Directors are paid a base fee and additional fees for chairmanship / membership of Committees and Senior Independent Directorship. In special circumstances additional Director fees can be paid for Board commissioned specific longer-term activities led by the Director. There will be no fee increase for Non-Executive Directors for 2020, in line with the Executive Directors and other senior management. The fees (US$000s) from 1 January 2020 will be: • Chairman: US$989 • Board: US$136 • Senior Independent Director: US$197 • Committee Chairmanship: US$40 • Finance Committee Chairmanship[1]: US$53 • Committee membership: US$27 • Finance Committee membership[1]: US$33 1. Only applicable to those Directors who have additional responsibilities. 2. For all Non-Executive Directors except the Chairman actual amount paid in 2020 will depend on the USD: GBP exchange rate in the year.
Shareholding requirement	Executive Directors are given five years from the date of the policy implementation or date of appointment, if later, to satisfy the following shareholding requirement: • CEO: 200% of base salary • Other Executive Directors: 150% of base salary The Committee determined that the shareholding requirement would continue to apply for one year post cessation of employment for the Executive Directors and at 50% of the requirement between one and two years post-cessation.

It is the Committee's intention that commitments made in line with its current remuneration policy and policies prior to Admission will be honoured.

In line with our remuneration principles, the Committee designed the incentive arrangements such that they are closely aligned with business objectives, as outlined below:

Strategic pillar	Performance indicator	How our incentives support this
Maximise production and cash flows from operated assets	**Oil and gas production** **Profit before tax**	**Annual bonus** To ensure we act as a team, the Committee, on behalf of the Board, sets management a challenging annual bonus performance scorecard. Whilst many scorecard elements are financial and operational at the Executive Director level, they do contain a number of quality targets (for example, around health and safety and corporate governance) designed to ensure we deliver the longer-term goals as a responsible and sustainable company. This scorecard is devolved down into the management line with an increasing emphasis on the quality and technical component elements needed to sustain corporate progress. The content of this annual scorecard will change to mitigate short-term pressures and exploit short-term opportunities – all aligned to deliver the longer-term strategic objectives.
Commercialise and produce gas reserves	**Gas development projects**	
Be a highly responsible corporate citizen	**Health & Safety**	
Move up 2C resources into 2P reserves category	**Operational and technical milestones**	**LTIP** Our overall strategic goal is to be a high performing oil & gas company – a shareholder stock of choice, within our sector and region. To achieve this, we align Executive Director equity awards with the fortunes of the shareholders through a relative TSR measure – based on performance against comparable oil & gas companies – seeking to attain regular upper quartile results. If we achieve median positioning or above over a three-year cycle, management are well rewarded in that year; if we fall below the median position, management share the financial disappointment. This strategic three to five-year reward structure is further underpinned by the need to sustain strong operational and technical performance through the LTIP cycle.
Deliver shareholder value	**Share price growth and dividends (TSR)**	
	Alignment to shareholder interests	**Shareholding requirement** Success will deliver growing management share-ownership with extended retention periods, clawback in case of mis-statement, ability to override formulaic outcomes if they are out of line with corporate performance and sizable personal retained shareholdings. This is all working towards aligning the Company's executive leadership with the interests of shareholders.

In addition to supporting strategy, the policy also aligns with the six factors under provision 40 of the UK Corporate Governance Code, as set out below:

Factor	Description	How the remuneration policy is aligned
Clarity	Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	Our Directors' remuneration policy is based on the remuneration principles (see page 124) which are aligned with the strategic priorities. The policy is cascaded throughout the organisation as shown on page 126. The Company promotes meaningful engagement with its key stakeholders, including shareholders (via Annual Report / AGM / investor events where the remuneration structure and main pay-related decisions made in the year are communicated) and workforce (via annual engagement).
Simplicity	Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	The remuneration structure is based on a simple principle of maximising the long-term shareholder value. Key metrics are chosen to fulfil this objective by encouraging strong operational and financial performance. We are constantly seeking feedback on the remuneration structure and are reviewing ways in which it could be simplified. In 2019 the Committee reviewed the operation of the LTIP underpin seeking to directly align it with operational performance.
Risk	Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	The Remuneration Committee constantly monitors potential risks arising from the operation of the remuneration arrangements. We closely monitor compensation arrangements provided to joiners and leavers, including senior management, to ensure that any payments are appropriate and aligned with the remuneration policy. The Committee also has discretion to override formulaic outcomes to ensure that any payments are reflective of the underlying performance. In order to prevent excessive awards and payout under the LTIP, the Company operates a £1 floor share price for share awards and a cap on LTIP payout of 2.5 times the value at grant. Post-vesting holding period and post-cessation shareholding requirement apply to Executive Directors.
Predictability	The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy	The Remuneration Committee actively manages expectations of its key stakeholders in relation to the remuneration outcomes. The Company provides in its Annual Report an illustration of the potential levels of remuneration receivable by the Executive Directors under a number of performance scenarios. In addition, the operation of the floor share price and the cap on the LTIP value allow us to manage expectations of the participants. As set out on page 118, the Committee has discretion to override formulaic outcomes of the incentives to ensure alignment with the underlying performance.
Proportionality	The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance	The Committee annually reviews the continued appropriateness of the remuneration policy to ensure that the structure and performance metrics remain aligned to the strategic objectives and long-term value creation. As set out on page 118, the Committee has discretion to override formulaic outcomes of the incentives to ensure alignment with the underlying performance.
Alignment to culture	Incentive schemes should drive behaviours consistent with company purpose, values and strategy	The Board reviewed culture in 2019 and the Committee is comfortable that incentive schemes operate in line with the key values of the organisation. Alignment of our incentives structure to strategy is illustrated on page 124.

Employee value proposition

1. Competitive tool rewards

Our policy is to provide industry competitive benefits and various incentive schemes to retain and attract high performing employees, carrying out market benchmarking annually to ensure this.

2. Employee engagement

Seplat holds annual meetings of the Employee Forum and conducts an annual online survey to gather employee views on a range of matters.

3. Workforce policies

Seplat operates a number of policies which apply to both our Directors and employees including diversity, conflict of interests and share dealing. Detailed description is provided on pages 82-83.

4. Talent development

We support our employee development with individually tailored training programmes. We provide educational assistance and subscriptions to various professional bodies. Detailed description is provided on pages 82-83.

1. Reward structure cascade

The table below illustrates the cascade of our reward structure from Executive Directors to the wider employee population. As shown below, senior management and key employees participate in the LTIP and annual bonus schemes. Additionally, pension contribution levels are consistent for all employee levels.

		Employee level – % of salary			
Number of participants	Element of pay	CEO	Board	Senior management (grades 1-4)	Other key employees
Executive Directors, senior management, other key employees	**LTIP**	250%	200%	50-150%	25-35%
Executive Directors	**Annual bonus – Deferred shares**	37.5%	25%	n/a	n/a
All employees	**Annual bonus – Cash**	112.5%	75%	40-75%	Up to 30%
All employees	**Pension**	17%	15-17%	Up to 17%	Up to 17%
All employees	**Benefits**				All employees
All employees	**Salary**				All employees

2. Employee engagement

The Remuneration Committee oversees compensation of the Chairman, Executive Directors and senior management, having regard to remuneration trends across the Company. The Remuneration Committee and management are committed to fair pay practices across the organisation. The Company holds annual meetings of the Employee Forum chaired by the General Manager, HR. Additionally, an online survey platform exists to gather views of the workforce on a wide range of matters.

When setting remuneration policy and making decisions on remuneration, the Committee references a number of factors including the general workforce pay structure, workforce policies, talent development needs and wider stakeholder impact, as illustrated below.

Employee engagement activities in 2019

In 2019 the Board nominated Ifueko Okauru to be the designated Non-Executive Director who will be working with GM HR to engage with employees, gather their views and report any feedback to the Board to inform their decision-making.

At the HR Forum the Company presented pay structure for all grades of employees including Executive Directors and addressed questions from employees to explain any differences between executive pay and the broader Company pay structure. Summary of the reward framework for all grades is presented above.

Gender pay gap and CEO pay ratio

The Committee considered disclosing CEO pay ratio and the Company's gender pay gap in 2019. However, given the Company's main operations are based in Nigeria whilst the UK workforce consists of significantly fewer than 250 employees, the results would not be representative of our business, statistically significant and provide little or no insight to investors. We will reassess this disclosure as the Company embeds Eland into its UK operations in future years.

Annual report on remuneration

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the 2019 financial year, on a receivable basis in accordance with the policy as approved by shareholders. Comparative figures for the 2018 financial year have also been provided.

Executive Directors	Period US$'000	Salary[1] US$'000	Taxable benefits[2] US$'000	Bonus[3] US$'000	LTIP[4] US$'000	Pension[5] US$'000	Other US$'000	Total US$'000
Austin Avuru (CEO)[6]	2019	1,130	507	756	1,965	192	0	4,550
	2018	1,097	527	1,125	2,221	187	0	5,158
Roger Brown (CFO)	2019	643	123	304	1,195	97	0	2,362
	2018	653	78	465	1,350	98	0	2,644
Effiong Okon (Operations Director)[6]	2019	719	174	315	0	122	0	1,330
	2018	609	126	384	0	103	800	2,022

1. Salaries for Executive Directors are set in GBP – 2019 salaries were £663,000 for the CEO and £504,000 for the CFO whilst for the Operations Director 2019 salary was set at $719,000 inclusive of housing and 13th month allowances. For the CEO, the July 2014 USD: GBP exchange rate has been used to calculate 2019 and 2018 remuneration. For the CFO the average 2019 USD: GBP exchange rate of 1.28 has been used where applicable. The Operations Director's salary and benefits are set in USD on the date of appointment and therefore no conversion is required.
2. The taxable benefits for each Executive Director comprise those which are quantifiable.
3. Bonus payments planned for 2020 relate to 2019 performance.
4. The value of the 2017 LTIP awards vesting in April 2020 is shown in 2019 as the performance period ended on 31 December 2019. The estimated value of these awards uses a 2019 Q4 average share price of $1.50; the actual value will be updated in the 2020 Directors' Remuneration Report when the awards vest on 20 April 2020. The value of the 2016 LTIP awards that vested in March 2019 is shown in 2018. The value has been restated based on the actual share price on 24 March 2019 ($1.68) and includes dividend equivalents.
5. Pension contributions are provided as a cash supplement/contribution into a personal pension fund and equal 17% of salary for the CEO, 15% for the CFO and 17% for the Operations Director.
6. Effiong Okon (Operations Director) joined the Board on 23 February 2018 and therefore received a pro-rated remuneration package for the proportion of the year he was in office. His 2018 remuneration has been restated to take account of the one-off buyout award received on appointment. For the avoidance of doubt, Mr Okon's salary includes housing and 13th month allowance.

Non-Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director for 2019 on a receivable basis in accordance with the policy as approved by shareholders.

Name	2019 Fees[1,2] (US$'000)	2018 Fees[1,2] (US$'000)	Role
A.B.C. Orjiako	1,037	1,011	Non-Executive Chairman and Nomination and Establishment Committee member
Michael Alexander	472	465	Senior Independent Director, Remuneration Committee Chairman, Finance, Gas and Nomination and Establishment Committee, Corporate Governance, Compliance & Culture member
Michel Hochard	136	138	
Macaulay Agbada Ofurhie[3]	108	218	Risk Management and HSSE, CSR and Gas Committee member
Basil Omiyi	269	271	Gas and Risk Management Committee Chairman, Remuneration, Nomination and Establishment Committee member
Ifueko M. Omoigui Okauru	241	224	Corporate Governance, Compliance & Culture Committee Chairman Finance, CSR and Risk Management Committee member
Charles Okeahalam	229	218	Finance Committee Chairman, Remuneration and Gas Committee member
Lord Mark Malloch-Brown	209	204	CSR Committee Chairman and Finance Committee member
Damian Dodo	218	191	CSR and Nomination and Establishment Committee Chairman, Remuneration, Corporate Governance, Compliance & Culture member
Nathalie Delapalme[4]	74	0	CSR Committee member

1. Fees shown are those receivable in GBP, converted at the average exchange rate for the relevant year. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD: GBP exchange rate. Although the NED fees increased by 3% for 2019, fees expressed in USD have slightly decreased from 2018, reflecting the fluctuations in the average USD:GBP exchange rate for 2019 compared to 2018.
2. The Company has settled, on behalf of each Non-Executive Director, the local Nigerian withholding tax on Directors' fees and this not included above.
3. Macaulay Agbada Ofurhie stepped down as Non-Executive Director on 30 June 2019.
4. Nathalie Delapalme joined the Board as a Non-Executive Director of the Company with effect from 18 July 2019.

Annual fees

Position	2019 Annual fee[2] (US$'000)	2018 Annual fee[2] (US$'000)
Chairman	989	960
Board	136	138
Senior Independent Director	197	200
Committee Chairmanship	40	40
Finance Committee Chairmanship[3]	53	53
Committee membership	27	27
Finance Committee membership[3]	33	33

1. In special circumstances additional Director fees can be paid for Board commissioned specific longer-term activities led by the Director.
2. Fees shown are those receivable in GBP, converted at the average exchange rate for the relevant year. This is with the exception of the Chairman, whose fees are converted at the July 2014 USD: GBP exchange rate. Although the NED fees increased by 3% for 2019, fees expressed in USD have slightly decreased from 2018, reflecting the fluctuations in the average USD: GBP exchange rate for 2019 compared to 2018.
3. Only applicable to those Directors who have additional responsibilities.

Additional information regarding single figure table

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

Annual bonus

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

In respect of the 2019 financial year, the bonus awards payable to Executive Directors were approved by the Committee having reviewed the Company's underlying performance. On this basis, the Committee was comfortable not to exercise discretion in relation to the formulaic outcomes set out below. Details of the achievement of the measures used to determine bonuses in respect of the 2019 financial year and the extent to which they were satisfied are shown in the table below. These resulting bonus figures are included in the single figure table.

Achievement of corporate performance conditions

The Executive Directors' bonus scorecard is weighted in favour of corporate measures, as shown below. Additionally, individual strategic goals are set for each Executive Director annually based on the Company's strategic priorities for the respective year. These measures would typically fall under one of the following categories: development of strategic focus, team development and succession planning, technical and operational excellence. It is the Committee's view that the specific individual performance conditions are commercially sensitive and therefore details cannot be fully disclosed.

Overall, the annual bonus reward level for Executive Directors was above on-target as set out below:

		Performance achieved against targets				
Performance measure	Specific	Below Threshold	Threshold to Target	Target to Maximum	Maximum	Resulting level of award for element (% of maximum opportunity)[1]
Production and operational excellence	Oil and gas production volume		✓			35%
	Escravos pipeline transport	✓				0%
	Drilling targets	✓				0%
Financial	Profit before tax				✓	100%
	Net cash flow	✓				0%
Health and safety	LTIF rate				✓	100%
	Reduction in flares out	✓				0%
Non-financial corporate objectives	Development projects		✓			31%
	Corporate governance		✓			30%
Strategy	Strategic objectives (set for each Director individually)			✓		60%

1. The levels of award for each element of the 2019 bonus is shown as per the CEO scorecard for simplicity. Other Executive Directors' scorecards are calibrated to ensure greater focus on areas most relevant for their roles.

Annual bonus pay-out

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

	CEO		CFO		Operations Director	
Performance measures	Achieved (% of max)	Bonus earned (US$'000)	Achieved (% of max)	Bonus earned (US$'000)	Achieved (% of max)	Bonus earned (US$'000)
Corporate measures	32.6% out of 80%	$553	35.3% out of 80%	$227	31.8% out of 88%	$229
Individual performance	12% out of 20%	$203	12% out of 20%	$77	12% out of 12%	$86
Total	44.6% out of 100%	$756	47.3% out of 100%	$304	43.8% out of 100%	$315

In line with policy, 25% of the Executive Directors' bonus will be deferred into shares and will be released at the end of year 3 subject to continued employment.

Long-term incentives vesting in 2019

The 2017 LTIP awards were made to the CEO and CFO on 20 April 2017. The awards vest on 20 April 2020; however the performance period for these awards ended on 31 December 2019. The performance conditions for these awards are relative TSR measured against a bespoke group of E&P companies underpinned by a reserves growth target.

Seplat's TSR performance resulted in 100% vesting for this element of the award as the Company was placed above the upper quartile of the comparator group. The FY19 audited reserves are 473.8 mmboe which represents a 2.55% increase from the FY16 reserves of 463 mmboe, based on excluding the increase in reserves from the Eland acquisition. Given the audited reserves, excluding Eland assets, have increased by less than 10% then the 100% relative TSR vesting level has been reduced in line with the underpin vesting schedule, such that overall vesting is 81.4%.

TSR performance vs comparator group				2P Reserves growth underpin			
Seplat TSR growth	Median TSR growth (25% vesting)	Upper quartile TSR growth (100% vesting)	Vesting under TSR condition	Seplat reserves growth between FY15 and FY18	Reserves growth required to fully satisfy underpin	Reduction in vesting based on the underpin	Final vesting level
67.4%	-34.3%	-2.7%	100%	2.55%[1]	10%	18.6%	81.4%

1 Reserves exclude growth resulting from M&A activity.

The following table presents the number of 2017 LTIP awards that will vest in April 2020 based on the assessment of the performance conditions and the resulting value of awards on vesting for each Executive Director.

Role	Number of 2017 LTIP awards granted	Number of 2017 LTIP awards vesting in April 2020	Value of vested awards[1]	Value attributable to share price growth
Austin Avuru	1,609,375	1,310,031	$1,965,047	$497,812
Roger Brown	978,500	796,499	$1,194,749	$302,670

1. Based on Q4 2019 average share price of $1.50 and excludes dividend equivalents.

The Operations Director joined the Board in 2018 and as such, he was not awarded an LTIP in 2017.

The Committee was comfortable that the value attributable to share price growth was commensurate with the underlying performance and as such, did not exercise any discretion to change the outcomes of the 2017 LTIP.

We also present detail on the number of 2016 LTIP awards that vested in March 2019 based on the assessment of the performance conditions and the resulting value of awards on vesting for each Executive Director. This has been restated from last year to reflect the actual share price at vesting and dividend equivalents due on the vested awards.

Role	Number of 2016 LTIP awards granted	Number of 2016 LTIP awards vesting in March 2019	Value of vested awards[1]	Value attributable to share price growth
Austin Avuru	1,621,536	1,220,374	$2,221,081	$329,501
Roger Brown	985,894	741,987	$1,350,416	$200,336

1. Based on closing share price on 24 March 2019 and includes dividend equivalents.

Long-term incentives awarded in 2019

The table below sets out the details of the long-term incentive awards made in the 2019 financial year where vesting will be determined according to the achievement of performance conditions that will be tested at the end of the three-year performance period.

			Relative TSR measure		Operational and technical scorecard underpin		
Name	Basis on which award made	Face value of award (US$'000)	Percentage of award vesting at threshold performance	Maximum percentage of face value that could vest	60% and below of objectives met at threshold over 3 years	70% of objectives met at threshold over 3 years	80% and above of objectives met at threshold over 3 years
Austin Avuru	Annual	2,271	25%	100%	TSR vesting reduced by 75%	TSR vesting reduced by 35%	TSR vesting not reduced
Roger Brown	Annual	1,381					
Effiong Okon	Annual	1,513					

The share price used to calculate the face value of awards was that at the date of award, being 2 May 2019 of US$1.70.

There is straight-line vesting between the threshold and maximum TSR and straight-line reduction between the levels of operational and technical performance.

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

- Africa Oil
- Cairn Energy
- DNO
- Enquest
- Frontera Energy
- Genel Energy
- Gran Tierra Energy
- Kosmos Energy
- Nostrum Oil & Gas
- Ophir Energy
- Parex Resources
- Phoenix Global Resources
- Premier Oil
- Serica Energy
- Soco International (Pharos Energy)
- Sound Energy
- Tullow Oil

Payments to past Directors

As disclosed in the 2017 Directors' Remuneration Report, when Stuart Connal stepped down from his role as Chief Operating Officer on 30 March 2017, in line with Seplat's policy for loss of office and the rules of the LTIP, the Committee determined he was a good leaver. In 2019, Stuart's 2016 deferred bonus and 2016 LTIP awards vested during the year. The value of the 2016 bonus, including deferred shares, has already been disclosed in the 2016 single total figure of remuneration and therefore no further detail is provided. Performance conditions and targets for the 2016 LTIP award have been fully disclosed in the 2018 Directors' Remuneration Report. Below is the number of 2016 LTIP shares vested for Mr. Connal.

Award	Date of grant	Date of vesting	Number of shares granted	Vesting (% of maximum)	Pro-ration for time	Number of shares vested	Value of shares vested[1]
2016 LTIP	24/03/2016	24/03/2019	985,894	75.3%	36.1%	267,938	$487,647

1. Based on closing share price on 24 March 2019 and includes dividend equivalents.

Payments for loss of office

There were no payments in the financial year.

Fees retained for external non-executive directorships

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

Statement of Directors' shareholdings

The table below sets out the number of shares of the Company in which current Directors had a beneficial interest and details of long-term incentive interests as at 31 December 2019.

	Shareholding						
Director	Shares required to be held % of salary	Beneficially owned[1]	Shareholding requirement met[2]	Interests subject to performance conditions[3]	Interests not subject to performance conditions	Vested but unexercised interests	Total interests held as at 31/12/2019
Austin Avuru	200%	71,727,906	Yes	4,195,117	193,785	850,406	76,967,214
Roger Brown	150%	2,022,363	Yes	2,550,630	76,418	488,720	5,138,131
Effiong Okon[4]	150%	0	No	1,668,810	70,866	0	1,739,676

1. Beneficial interests include shares held directly or indirectly by connected persons and include shares held by Stanbic IBTC Trustee Limited/Seplat LTIP.
2. Shareholding required to be met by April 2019 or five years after joining if later. The share price of $1.62 on 31 December 2019 was used for this calculation.
3. Includes 2017 LTIP awards which vest in April 2020.
4. Effiong Okon joined the Board on 23 February 2018.

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

Director	Shares held as at 31/12/2019[1]
A.B.C. Orjiako	37,818,522
Michael Alexander	115,238
Michel Hochard	95,238
Macaulay Agbada Ofurhie[2]	4,001,611
Basil Omiyi	495,238
Ifueko M. Omoigui Okauru	95,238
Charles Okeahalam	495,238
Lord Mark Malloch-Brown	31,746
Damian Dodo	0
Nathalie Delapalme[3]	0

1. Beneficial interests include shares held directly or indirectly by connected persons and include shares held by Stanbic IBTC Trustee Limited/Seplat LTIP in relation to vested awards made on Admission.
2. Macaulay Agbada Ofurhie stepped down as Non-Executive Director on 30 June 2019.
3. Nathalie Delapalme joined the Board as a Non-Executive Director of the Company with effect from 18 July 2019.

Directors' interest in contracts

Between 31 December 2019 and 23 March 2020 12,828,161 shares held by Austin Avuru was transfered to certain shareholders of Platform Petroleum.

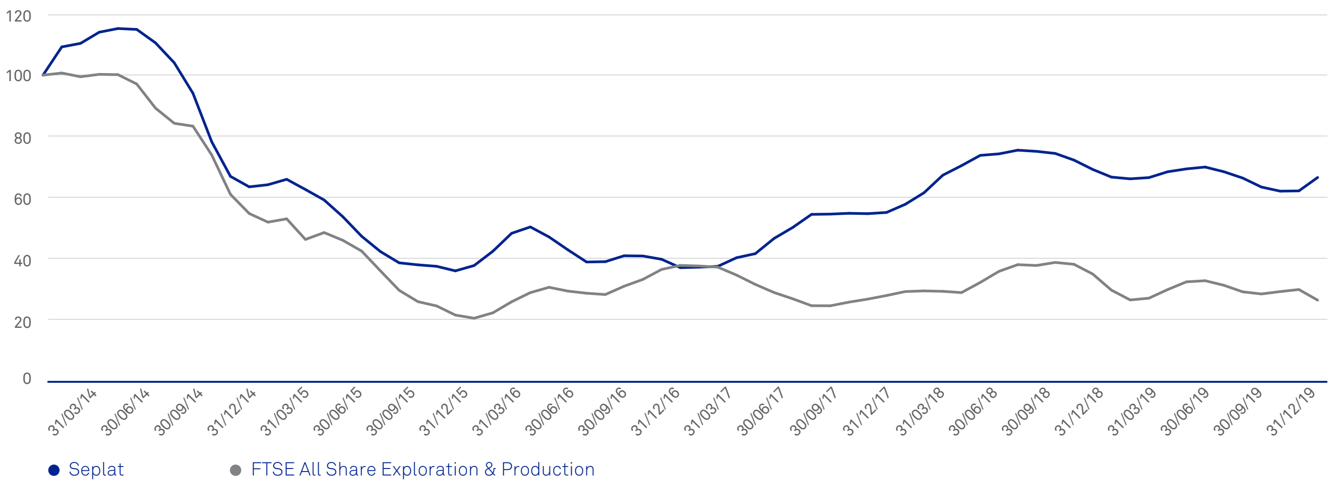
There were no other changes to Directors' shareholdings between 31 December 2019 and 23 March 2020.

Comparison of overall performance and pay

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

The Committee considers that the FTSE All Share Exploration & Production is an appropriate comparator group as it contains the UK companies that are constituents of Seplat's TSR comparator group. This graph has been calculated in accordance with the Regulations. It should be noted that the Company began trading conditionally on the London Stock Exchange on 9 April 2014 and therefore only has a listed share price for the period of 9 April 2014 to 31 December 2019.

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



Source: Thomson Reuters Datastream

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

CEO historical remuneration

The table below sets out the total remuneration delivered to the CEO between 2014 and 2019 valued using the methodology applied to the single total figure of remuneration. The Committee does not believe that the remuneration payable in its earlier years as a private company bears any comparative value to that paid in its later years and therefore the Remuneration Committee has chosen to disclose remuneration only from 2014:

CEO (Austin Avuru)	2019	2018	2017	2016	2015	2014
Total single figure (US$'000)[1]	4,550	5,158	4,987	3,143	3,004	2,866
Annual bonus payment level achieved (% of maximum opportunity)	45%	68%	49%	35%	46%	53%
LTIP vesting level achieved (% of maximum opportunity)	81%	75%	100%	97%	N/A[2]	N/A[2]

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

Change in the CEO's remuneration compared with employees

Year-on-year change	Chief Executive Officer[1] (%) (US$)	Average employee pay[2] (%) (Naira)
Base salary	3%	9%
Taxable benefits	-1%	354%
Annual bonus	-35%	5%

1. CEO year-on-year change has been expressed in USD to reflect the currency in which he is paid (for his base salary and taxable benefits). The annual bonus change for the CEO reflects the change in maximum bonus opportunity achieved.
2. Average employee pay year-on-year change is expressed in Naira as a significant majority of employees are paid in Naira. The numbers are provided for all employees of Seplat. The large change in average value of benefits provided to all employees is due to an increase in the eligibility of individuals for certain benefits at lower grades.

Relative importance of the spend on pay

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

Significant contributions	2019 ($m)	2018 ($m)	% change
Overall spend on pay[1]	83.6	72.4	15%
Distributions to shareholders (dividends)[2]	58.8	88.3	-33%

1. Calculated by converting 2019 and 2018 figures (from Naira) at the relevant year's average NGN: USD exchange rate and excludes LTIP.
2. For 2018 this includes a special dividend paid in June 2018, an interim dividend paid in December 2018 and a final dividend paid in May 2019. For 2019 this includes an interim dividend paid in December 2019 and a final dividend to be paid in May 2020.

Service agreements and letters of appointment

Executive Directors

Name	Date of service contract	Nature of contract	Notice period from Company	Notice period from Director	Compensation provisions for early termination
Austin Avuru	27 March 2014	Rolling	12 months	12 months	Payment in lieu of notice equal to 12 months' salary and benefits, including any payments accrued at the date of termination.
Roger Brown	20 May 2013	Rolling	12 months	12 months	
Effiong Okon	1 February 2018	Rolling	12 months	12 months	

Non-Executive Directors

Name	Date of appointment/ re-appointment	Nature of letter of appointment	Notice period from Company	Notice period from Director	Compensation provisions for early termination
A.B.C. Orjiako	1 June 2017	Fixed term to 31 May 2020	12 months	12 months	None.
Michael Alexander	6 June 2018	Fixed term to 2021 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Michel Hochard	14 December 2009	Rolling	6 months	6 months	None.
Macaulay Agbada Ofurhie[1]	14 December 2009	Rolling	6 months	6 months	None.
Basil Omiyi	1 June 2017	Fixed term to 2020 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Ifueko M. Omoigui Okauru	30 June 2014	Fixed term to 2022 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Charles Okeahalam	1 June 2017	Fixed term to 2020 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Lord Mark Malloch-Brown	6 June 2018	Fixed term to 2021 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Damian Dodo	30 June 2014	Fixed term to 2022 AGM	6 months	6 months	6 months' fees if not re-elected or retired.
Nathalie Delapalme	18 July 2019	Fixed term to 2022 AGM	6 months	6 months	6 months' fees if not re-elected or retired.

1. Macaulay Agbada Ofurhie stepped down as Non-Executive Director on 30 June 2019.

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

The Non-Executive Directors of the Company do not have service contracts. The Non-Executive Directors are appointed by letters of appointment, which are kept at Seplat's registered office along with Executive Director service contracts.

As required by Nigerian law, the Company follows the provisions set out in its Memorandum and Articles of Association and annually places one-third of its Independent Non-Executive Directors for re-election.

Composition and terms of reference of the Remuneration Committee

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

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

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

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

Advisers to the Remuneration Committee

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

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

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

Shareholder voting at general meeting

At the AGM held on 6 June 2018, the Company received a vote of 99.7% in favour of its remuneration policy and the Remuneration Report through the acceptance of the 2017 Directors' Remuneration Report. At the most recent AGM on 16 May 2019 the Company received a vote of 99.86% in favour of its Remuneration Report.

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

1. Independent Non-Executive Director.

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 2019.

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

Operating results

	Nigerian ₦ million		US$'000	
	2019	2018	2019	2018
Revenue	214,157	228,391	697,777	746,140
Operating profit	95,749	94,859	311,975	309,901
Profit before taxation	89,914	80,599	292,967	*263,364
Profit for the period	85,016	44,867	277,008	146,576

*2018 Operating Profit and Profit Before Tax include $49,747 (₦16 million) profit from ANOH Gas Processing Company Limited which was deconsolidated from the Group in 2019

Dividend
During the year, the Directors recommended and paid to members an interim dividend of US$0.05 per share declared in October in line with our normal dividend distribution timetable (2018: US$0.05).

Further to this, the Board of Seplat is recommending a final dividend of US$0.05 per share, which is subject to approval of shareholders, at the AGM which will be held on 28 May 2020 in Lagos, Nigeria.

Unclaimed dividend
The total amount outstanding as at 31 December 2019 is US$223,365.26 and ₦319,495,955.07. 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 20 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 Mr. Basil Omiyi and Dr. Charles Okeahalam.

Board changes
During the year, the Board accepted the voluntary resignation/retirement of Mr. Macaulay Agbada Ofurhie from the Board of the Company effective 30 June 2019. Mr. Ofurhie was appointed to the Board in March 2010 and served meritoriously before his resignation.

The Board appointed a Non-Executive Director since the last Annual General Meeting. Nathalie Delapalme was appointed effective 18 July 2019. Her appointment will be ratified by shareholders at the 2020 Annual General Meeting. Madame Delapalme is an Independent Director on the Board of Directors of Maurel & Prom and has acted as an alternate to Maurel et Prom's nominee, Mr. Michel Hochard, since 30 June 2014. She is also an Executive Director of the Mo Ibrahim Foundation. Madame Delapalme served the French Government as an Inspector of Finance at the Ministry of Economy and Finance, is an advisor for the Finance and Budgetary Commission in the French Senate, and an advisor for Africa and Development in the offices of various Foreign Affairs Ministers. She remains deeply involved in governance and leadership in Africa and continues to provide strong support to the Company's CSR Board Committee.

Post period end, Mr. Michel Hochard retired as a Non-Executive Director of the Company. Mr. Hochard in his role as the Chief Executive Officer of Maurel & Prom ("M&P") was appointed to the Board of Seplat in 2009 as a nominee of M&P and served meritoriously before his retirement. Following the retirement of Mr. Hochard as the Chief Executive Officer of M&P and from the Board of Seplat, the Board appointed Mr. Olivier de Langavant (who is now the Chief Executive Officer of M&P) as a Non-Executive Director of the Company effective 28 January 2020. Mr. Langavant now replaces Mr. Hochard as a nominee of M&P on the Board of the Company. Mr. Langavant who is presently the Chief Executive Officer of M&P holds an Engineering degree from the National School of Mines of Paris. He has served in various capacities within the Total Group. His appointment will be ratified by shareholders at the 2020 Annual General Meeting

The Seplat Board is indeed privileged to have Nathalie and Olivier on Board and look forward to their contribution towards the continued success of the Board and 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.

Appointment of a new Company Secretary/Chief Governance Compliance Officer
Mrs. Edith Onwuchekwa was appointed Company Secretary/Chief Governance Compliance Officer effective 24 June 2019. In her role as the Company Secretary/Chief Governance Compliance Officer, Mrs. Onwuchekwa will guide and support the Board and the Company in ensuring compliance with regulatory and statutory requirements. She holds a Bachelor of Laws (LLB) from University of Uyo; Barrister at Law from the Nigerian Law School, Abuja; and a Master of Business Administration from the University of Bradford, United Kingdom. She is an Associate of the Institute of Chartered Secretaries and Administrators, United Kingdom.

Prior to joining Seplat, Mrs. Onwuchekwa was the Legal and Compliance Director at Lafarge Plc. She replaced Dr. Mirian Kene Kachikwu who held the position from November 2014 till June 2019, but remains the General Counsel of the Company to manage its Legal Directorate.

Corporate governance

The Board of Directors 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 and ensures that the Company is in compliance. The Board is responsible for keeping proper accounting records with reasonable accuracy. It is also responsible for safeguarding the assets of the Company through prevention and detection of fraud and other irregularities.

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

Finance Committee	
Charles Okeahalam	Committee Chairman
Michael Alexander	Member
Ifueko M. Omoigui Okauru	Member
Lord Mark Malloch-Brown	Member
Nomination and Establishment Committee	
Damian Dinshiya Dodo, SAN	Committee Chairman
Basil Omiyi	Member
Michael Alexander	Member
Remuneration Committee	
Michael Alexander	Committee Chairman
Basil Omiyi	Member
Charles Okeahalam	Member
Damian Dinshiya Dodo, SAN	Member
Risk Management and HSSE Committee	
Basil Omiyi	Committee Chairman
Effiong Okon	Member
Ifueko M. Omoigui Okauru	Member
Corporate Social Responsibility Committee	
Lord Mark Malloch-Brown	Committee Chairman
Damian Dodo, SAN	Member
Ifueko M. Omoigui Okauru	Member
Madame Nathalie Delapalme	Member
Gas Committee	
Basil Omiyi	Committee Chairman
Charles Okeahalam	Member
Michael Alexander	Member
Macaulay Agbada Ofurhie[1]	Member
Corporate Governance, Compliance & Culture Committee	
Ifueko M. Omoigui Okauru	Committee Chairman
Michael Alexander	Member
Damian Dodo, SAN	Member

1. Mr. Ofurhie retired from the Board of Seplat in June 2019.

The Board constituted the Corporate Governance, Compliance & Culture Committee in 2019 to assist the Board in promoting, modelling, institutionalising and maintaining sound ethical culture and good corporate governance.

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. Following the resignation of Mr. Ofurhie in June 2019, Damian Dodo assumed his position as a Non-Executive Director representative.

Statutory Audit Committee	
Chief Anthony Idigbe, SAN	Committee Chairman (Shareholder Member)
Dr. Faruk Umar	Shareholder Member
Sir Sunday Nnamdi Nwosu	Shareholder Member
Ifueko M. Omoigui Okauru	Director Member
Macaulay Agbada Ofurhie[1]	Director Member
Michel Hochard	Director Member
Damian Dodo, SAN[2]	Director Member

1. Mr. Ofurhie retired from the Board of Seplat in June 2019.
2. Following a proposal made by the Board of Directors, Damian Dodo was elected at the 16 May 2019 AGM as a Director member on the Audit Committee in the place of Macaulay Agbada Ofurhie. Two of the Audit Committee meetings held in 2019 took place before this 16 May 2019 change.

All eight 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.

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-18	31-Dec-19		23-Mar-20	
	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]	45,951,325	37,818,522	6.43%	37,818,522	6.43%
Austin Avuru[2]	70,823,189	71,727,906	12.19%	58,970,463	10.02%
Roger Brown	1,327,207	2,022,363	0.34%	2,022,363	0.34%
Effiong Okon	0	0	0.00%	0	0.00%
Michel Hochard	95,238	95,238	0.02%	95,238	0.02%
Macaulay Agbada Ofurhie[3]	4,001,611	n/a	n/a	n/a	n/a
Michael Alexander	115,238	115,238	0.02%	115,238	0.02%
Charles Okeahalam	495,238	495,238	0.08%	495,238	0.08%
Basil Omiyi	495,238	495,238	0.08%	495,238	0.08%
Ifueko M. 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%
Nathalie Delapalme	n/a	0	0.00%	0	0.00%
Olivier de Langavant	n/a	n/a	n/a	0	0
Total	**123,431,268**	**112,896,727**	**19.19%**	**100,139,284**	**17.02%**

1 24,318,522 ordinary shares are held directly by A.B.C. Orjiako and 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.

2 At 31 December 2019, total direct holdings were nil and indirect ordinary shares were 71,727,906.
At 23 March 2020, total direct holdings were nil and indirect ordinary shares were 58,970,463. During the period, there was a transfer of 7,831,534 ordinary shares held by Platform Petroleum Limited (an entity in which Austin Avuru has an equity interest) to Professional Support Limited (an entity wholly controlled by Austin Avuru). Similarly, a transfer of 12,828,161 shares held directly by Platform Petroleum was made to certain shareholders of Platform Petroleum and they are therefore no longer considered to be connected persons. A further 95,933 LTIP awards for Austin Avuru were released to him and transferred to Professional Support on 24 January 2020. Following these transfers, Platform Petroleum holds 20,000,000 shares (3.40%) and Professional Support holds 38,970,463 shares (6.62%). As a result of the transfers, Mr. Avuru has now increased his equity interest in Platform Petroleum from 23% to 37.11% interest.

3. Macaulay Agbada Ofurhie voluntarily resigned/retired from the Board effective 30 June 2019.

Directors' 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 2019 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, LFN, 2004. These have been disclosed in Note 42.

Substantial interest in shares

At 23 March 2020, the following shareholders held more than 5.0% of the issued share capital of the Company:

Shareholder	Number of holdings	%
MPI	120,400,000	20.46
Petrolin	81,015,319	13.76
Allan Gray	40,509,143	6.84
Professional Support	38,970,463	6.62

Free float

The Company's free float at 31 December 2019 was 54.34%.

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 2019 is as stated below:

Share range	Number of shareholders	% of shareholders	Number of holdings	% shareholding
1-10,000	2,286	88.47	1,571,222	0.27
10,001-50,000	152	5.88	3,834,164	0.65
50,001-100,000	45	1.74	3,282,113	0.56
100,001-500,000	68	2.63	15,598,760	2.65
500,001-1,000,000	10	0.39	6,790,312	1.15
1,000,001-5,000,000	16	0.62	37,197,353	6.32
5,000,001-10,000,000	2	0.08	13,506,800	2.30
10,000,001-50,000,000	3	0.12	82,408,839	14.00
50,000,001-100,000,000	0	0	0	0.0000
100,000,001-500,000,000	2	0.08	424,254,998	72.10
Total	**2,584**	**100.00**	**588,444,561**	**100.00**

Share capital history

Year	Authorised increase	Cumulative	Issued increase	Cumulative	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 N1.00 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
Dec-19	–	1,000,000,000	-	588,444,561	No change

Donations

The following donations were made by the Group during the year (2018: ₦122 million, US$397,672)

Name of beneficiary	NG₦	US$
AGRAFAIR LBS Conference	450,147	1,466
Aspen Energy	225,477	734
Association of Energy Correspondents of Nigeria	1,223,787	3,986
Capital Market Correspondents Association of Nigeria	225,037	733
CBI Meetings	1,708,197	5,564
Chartered Institute of Procurement & Supply	112,500	366
Clarion Energy Ltd	2,067,442	6,734
Divine Destiny Orphanage	135,066	440
Enactus Nigeria	450,073	1,466
Energy Institute Nigeria	3,100,581	10,100
Frontier Communications Ltd	2,190,285	7,134
Institute of Chartered Accountants of Nigeria	450,073	1,466
Majorwaves Communications Ent.	180,029	586
Milan Industries Ltd	1,170,381	3,812
Ministry of Solid Minerals, Oil and Gas	450,147	1,466
Nigeria & Entrepreneurship Summit & Honors	450,147	1,466
Nigeria LPGAS Association	675,221	2,199
Nigeria Oil & Gas Industry Games	2,025,330	6,597
Nigerian Association of Petroleum Explorationists	4,501,466	14,663
Nigerian Conservation Foundation	675,110	2,199
Nigerian Environmental Society	450,073	1,466
Nigerian Gas Association	6,759,914	22,019
Nigerian Institute of Chartered Arbitrators	1,350,440	4,399
Nigerian Medical Association	1,350,659	4,400
NOGOF	2,251,100	7,333
Oracle Newspapers Limited	450,147	1,466
Others	8,131,158	26,486
Paediatric Association of Nigeria	903,975	2,945
Pearl Awards Nigeria	486,079	1,583
Pillar Oil Limited	1,080,054	3,518
Richardson Oil & Gas	450,220	1,467
Sapele Athletic Club	391,501	1,275
Society of Petroleum Engineers	4,503,081	14,668
The Business Intelligence Africa	337,610	1,100
The Nigerian Stock Exchange	1,000,326	3,258
Tran4 Media Ltd	1,125,367	3,666
Undergraduate scholarship	19,171,871	62,449
Total	72,660,069	236,678

Employment and employees

a) Employee involvement and training: The Company continues to observe industrial relations practices such as the 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 HSSE training to all staff, and Personal Protective Equipment ('PPE') to the appropriate staff.

b) Health, safety and welfare of employees: The Company continues to enforce strict health and safety rules and practices at the work environment which are reviewed and tested regularly. The Company provides free medical care for its employees and their families through designated hospitals and clinics. Fire prevention and fire-fighting equipment is 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 Auditors, Messrs Ernst & Young, have served the Company for over 10 years and in line with the provisions of the Section 33.2 of the SEC Code of Corporate Governance and Section 20.2 of the Nigerian Code of Corporate Governance, 2018 ("NCCG"), will not seek re-appointment. A resolution will be proposed at the Annual General Meeting for the appointment of PriceWaterhouseCoopers ("PWC") as the new Auditors of the Company and to authorise the Directors to determine their remuneration.

By Order of the Board

Edith Onwuchekwa
FRC/2013/NBA/00000003660
Company Secretary,
Seplat Petroleum Development Company Plc
16 Temple Road,
Ikoyi,
Lagos,
Nigeria

23 March 2020

Statement of Directors' responsibilities
For the year ended 31 December 2019

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 judgements and estimates, and are consistently applied.

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of its financial performance and cash flows 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 12 months from the date of this statement.

Signed on behalf of the Directors by:

A.B.C. Orjiako
Chairman
FRC/2014/IODN/00000003161

23 March 2020

Austin Avuru
Chief Executive Officer
FRC/2014/IODN/00000003100

23 March 2020

142–237

Consolidated financial statements

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57, Marina
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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 statements of profit or loss and other comprehensive income for the year ended 31 December 2019

Consolidated and Separate statements of financial position as at 31 December 2019

Consolidated and Separate statements of changes in equity for the year ended 31 December 2019

Consolidated and Separate statements of cash flows for the year ended 31 December 2019

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 2019, 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 Auditors' 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.

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
The impact of oil and gas reserves and resources on a number of material elements of the financial statements, particularly on depreciation, depletion and amortisation (DD&A) charges, decommissioning provisions, impairments and the going concern assessment As at 31 December 2019, Seplat reported 509.3 mmboe (2018: 480.6 mmboe) of proved plus probable reserves. The estimation of oil and natural gas reserves and resources is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Group's share of reportable volumes. Reserves and resources are also a fundamental indicator of the future potential of the Group's performance. Hence, it has been considered as a key audit matter.	We performed the following procedures for the audit of reserves and resources: • We assessed the competence, objectivity and independence of the internal and external technical and commercial reserves experts, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation; • We gave specific consideration to Seplat's reported share of reserves in joint arrangements and associates, including Eland and other relevant subsidiaries; • We performed analytical review procedures on reserve revisions based on the CPR reports which management obtained from its external experts – Netherland, Sewell and Associates for OML 40 and Ubima and Ryder Scott Company (RSC) for Western Asset (OMLs 4, 38 & 41), OML53 and OML56. As at December 2019, the Group proved plus probable reserves was estimated at 509.3 million barrels (2018: 480.6 mmboe) with a decrease in asset life from 2045 to 2042; • We validated volumetric movements against underlying information and documentation, along with checking that assumptions used to estimate reserves and resources were made in accordance with market forecasts; • We validated that the updated reserves and resources estimates were appropriately included in the Group's consideration of accounting for DD&A charges, decommissioning provisions, and in the going concern assessment; and • We reviewed disclosures in the Group financial statements to ensure consistency with the reserves data that we have reviewed.

Key audit matter	How the matter was addressed in the audit
Business combination of Eland Oil and Gas Limited On 31 December 2019 Seplat completed the 100% acquisition of the issued share capital and control of Eland Oil and Gas PLC (now Eland Oil and Gas Limited) for an overall purchase consideration of USD 487.683 million. The acquisition of Eland was significant to our audit due to the financial magnitude of the transaction and due to significant judgements and assumptions involved in the recognition and measurement of the acquired assets and assumed liabilities for Eland. Because of the acquisition of Eland, goodwill of USD 29.54 million was recognised by Seplat. We have determined this to be a key audit matter based on the significant management judgement and estimates made on valuation of the net assets of Eland and the Purchase Price Allocation (PPA). Disclosure about the acquisition of Eland are included in Note 9.	As part of our audit procedures on the accounting for the acquisition: • We read the purchase agreements to obtain an understanding of the transactions, key terms and conditions; • We assessed the competence of the external specialists to consider whether they were appropriately qualified to carry out the valuation; • We involved our internal valuation specialists in assisting us in reviewing the management expert's valuation methodologies and assessing the key assumptions and inputs used in measuring the fair value of the net identifiable assets; • We assessed the key assumption used in the computation of the fair value of the identifiable assets acquired and liabilities assumed; • We included internal tax specialists on our team for the assessment of deferred taxes; and • We also assessed the adequacy of the related disclosures in Note 9 to the financial statements.

Other information

The Directors are responsible for the other information. The other information comprises the Report of the Directors, Audit Committee's Report, Statement of Directors' Responsibilities and Other National Disclosures, which we obtained prior to the date of this report, and the Annual Report, 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.

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.
- 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/00000000670
For: Ernst & Young
Lagos, Nigeria.

23 March 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Notes	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Continuing operations					
Revenue from contracts with customers	8	214,157	228,391	697,777	746,140
Cost of sales	9	(92,698)	(108,641)	(302,039)	(354,926)
Gross profit		121,459	119,750	395,738	391,214
Other income	10	9,170	4,585	29,876	14,977
General and administrative expenses	11	(21,675)	(24,400)	(70,617)	(79,711)
Impairment losses on financial assets	12	(14,911)	(4,483)	(48,581)	(14,643)
Fair value gain/(loss)	15	1,706	(593)	5,559	(1,936)
Operating profit		95,749	94,859	311,975	309,901
Finance income	16	4,134	3,032	13,471	9,905
Finance cost	16	(10,294)	(17,292)	(33,539)	(56,492)
Finance cost		(6,160)	(14,260)	(20,068)	(46,587)
Share of profit from joint venture accounted for using the equity method	25	325	–	1,060	–
Profit before taxation		89,914	80,599	292,967	263,314
Income tax expense	17	(8,939)	(35,748)	(29,125)	(116,788)
Profit from continued operations		80,975	44,851	263,842	146,526
Profit from discontinued operations	13	4,041	16	13,166	50
Profit for the period		85,016	44,867	277,008	146,576
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		(243)	2,283	(750)	1,244
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	37	(201)	178	(656)	579
Deferred tax credit/(expense) on remeasurement (gains)/losses	37	171	(80)	558	(261)
		(30)	98	(98)	318
Other comprehensive income/(loss) for the year (net of tax)		(273)	2,381	(848)	1,562
Total comprehensive income for the year (net of tax)		84,743	47,248	276,160	148,138
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Group:					
Basic earnings per share (₦)/($)	40	142.25	78.89	0.46	0.26
Diluted earnings per share (₦)/($)	40	139.22	77.77	0.45	0.25
Earnings per share for profit attributable to the ordinary equity holders of the Group:					
Basic earnings per share (₦)/($)	40	149.35	78.92	0.49	0.26
Diluted earnings per share (₦)/($)	40	146.17	77.80	0.48	0.25

Notes 1 to 52 on pages 149 to 238 are an integral part of the financial statements.

Consolidated statement of financial position

As at 31 December 2019

	Notes	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Assets					
Non-current assets					
Oil & gas properties	20	478,372	390,481	1,558,213	1,271,923
Other property, plant and equipment	20	4,360	1,300	14,201	4,237
Right-of-use assets	46	4,026	–	13,115	–
Intangible assets	22	53,592	8,994	174,566	29,297
Other asset	21	40,190	51,299	130,915	167,100
Investment accounted for using equity accounting	25	49,448	–	161,071	–
Prepayments	24	19,309	7,950	62,892	25,893
Deferred tax	18	68,367	42,488	222,697	138,393
Total non-current assets		717,664	502,512	2,337,670	1,636,843
Current assets					
Inventories	26	25,944	31,485	84,508	102,554
Trade and other receivables	27	149,436	41,874	486,762	136,393
Prepayments	24	1,965	3,549	6,397	11,561
Contract assets	28	6,527	4,326	21,259	14,096
Derivative financial instruments	29	457	2,693	1,486	8,772
Current tax assets	17	–	723	–	2,356
Cash and bank balances	30	102,240	179,509	333,028	584,723
Total current assets		286,569	264,159	933,440	860,455
Total assets		1,004,233	766,671	3,271,110	2,497,298
Equity and liabilities					
Equity					
Issued share capital	31	289	286	1,845	1,834
Share premium	31	84,045	82,080	503,742	497,457
Share-based payment reserve	31	8,194	7,298	30,426	27,499
Capital contribution	32	5,932	5,932	40,000	40,000
Retained earnings		259,690	192,723	1,249,156	1,030,954
Foreign currency translation reserve	33	202,910	203,153	2,391	3,141
Non-controlling interest	25	(7,252)	–	(23,621)	–
Total shareholders' equity		553,808	491,472	1,803,939	1,600,885
Non-current liabilities					
Interest bearing loans and borrowings	34	207,863	133,799	677,075	435,827
Lease liabilities	46	2,617	–	8,518	–
Contingent consideration	35	–	5,676	–	18,489
Provision for decommissioning obligation	36	45,411	43,514	147,921	141,737
Defined benefit plan	37	3,012	1,819	9,808	5,923
Total non-current liabilities		258,903	184,808	843,322	601,976
Current liabilities					
Interest bearing loans and borrowings	34	34,486	3,031	112,333	9,872
Lease liabilities	46	212	–	692	–
Trade and other payables	38	143,925	87,360	468,804	284,565
Contingent liability	35	2,215	–	7,217	–
Contract liabilities	39	5,005	–	16,301	–
Current tax liabilities	17	5,679	–	18,502	–
Total current liabilities		191,522	90,391	623,849	294,437
Total liabilities		450,425	275,199	1,467,171	896,413
Total shareholders' equity and liabilities		1,004,233	766,671	3,271,110	2,497,298

Notes 1 to 52 on pages 149 to 238 are an integral part of the financial statements.

The financial statements of Seplat Petroleum Development Company Plc and its subsidiaries (the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 23 March 2020 and were signed on its behalf by

A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
23 March 2020

A.O. Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
23 March 2020

R.T. Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
23 March 2020

Consolidated statement of changes in equity

For the year ended 31 December 2019

₦ million

	Issued share capital	Share premium	Share-based payment reserve	Capital contribution	Retained earnings	Foreign currency translation reserve	Non-controlling interest	Total equity
At 1 January 2018	**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 31.4)	–	–	2,969	–	–	–	–	2,969
Vested shares	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**
At 1 January 2019	286	82,080	7,298	5,932	192,723	203,153	–	491,472
Profit/(loss) for the year	–	–	–	–	85,016	–	–	85,016
Other comprehensive income	–	–	–	–	(30)	(243)	–	(273)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**84,986**	**(243)**	**–**	**84,743**
Transactions with owners in their capacity as owners:								
Dividends paid	–	–	–	–	(18,019)	–	–	(18,019)
Share-based payments (Note 31.4)	–	–	2,864	–	–	–	–	2,864
Vested shares	3	1,965	(1,968)	–	–	–	–	–
Non-controlling interest on acquisition of subsidiaries	–	–	–	–	–	–	(7,252)	(7,252)
Total	3	1,965	896	–	(18,019)	–	(7,252)	(22,407)
At 31 December 2019	**289**	**84,045**	**8,194**	**5,932**	**259,690**	**202,910**	**(7,252)**	**553,808**

Notes 1 to 52 on pages 149 to 238 are an integral part of the financial statements.

US$ '000

	Issued share capital	Share premium	Share-based payment reserve	Capital contribution	Retained earnings	Foreign currency translation reserve	Non-controlling interest	Total equity
At 1 January 2018	**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 31.4)	–	–	9,698	–	–	–	–	9,698
Vested shares	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**
At 1 January 2019	1,834	497,457	27,499	40,000	1,030,954	3,141	–	1,600,885
Profit for the year	–	–	–	–	277,008	–	–	277,008
Other comprehensive loss	–	–	–	–	(98)	(750)	–	(848)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**276,910**	**(750)**	**–**	**276,160**
Transactions with owners in their capacity as owners:								
Dividends paid	–	–	–	–	(58,708)	–	–	(58,708)
Share-based payments (Note 31.4)	–	–	9,223	–	–	–	–	9,223
Vested shares	11	6,285	(6,296)	–	–	–	–	–
Non-controlling interest on acquisition of subsidiary		–	–	–	–	–	(23,621)	(23,621)
Total	11	6,285	2,927	–	(58,708)	–	(23,621)	(73,106)
At 31 December 2019	**1,845**	**503,742**	**30,426**	**40,000**	**1,249,156**	**2,391**	**(23,621)**	**1,803,939**

Notes 1 to 52 on pages 149 to 238 are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2019

	Notes	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Cash flows from operating activities					
Cash generated from operations	19	104,704	153,624	341,571	501,750
Tax paid	17	(1,084)	–	(3,533)	
Defined benefits paid	37	(86)	(63)	(280)	(206)
Net cash inflows from operating activities		103,544	153,561	337,758	501,544
Cash flows from investing activities					
Payment for acquisition of oil and gas properties	20	(35,091)	(17,159)	(114,339)	(56,146)
Payment for acquisition of intangible assets	22	–	(9,070)	–	(29,543)
Proceeds from disposal of oil and gas properties	20	15,527	–	50,614	–
Payment for acquisition of other property, plant and equipment	20	(3,203)	(705)	(10,438)	(2,302)
Payment for acquisition of subsidiary, net of cash acquired	14	(138,479)	–	(451,199)	–
Cash on loss of control of subsidiary	13	(47,352)	–	(154,240)	–
Payment for investment in joint venture	25	(31,627)	–	(103,050)	–
Proceeds from disposal of other property, plant and equipment	20	–	71	–	231
Receipts from other asset	21	11,106	14,777	36,185	48,276
Payments for plan assets	37	–	(502)	–	(1,635)
Interest received	16	4,134	3,032	13,471	9,905
Net cash outflows from investing activities		(224,985)	(9,556)	(732,996)	(31,214)
Cash flows from financing activities					
Repayments of loans	34	(30,690)	(207,532)	(100,000)	(678,000)
Proceeds from loans	34	106,345	163,775	346,500	535,045
Dividends paid	41	(18,019)	(18,036)	(58,708)	(58,888)
Principal repayments on crude oil advance	38	–	(23,193)	–	(75,769)
Interest repayments on crude oil advance	38	–	(530)	–	(1,730)
Payments for other financing charges	34	(2,696)	(1,809)	(8,783)	(5,910)
Interest paid on loans	34	(10,364)	(13,343)	(33,770)	(43,465)
Net cash inflows/(outflows) from financing activities		44,576	(100,668)	145,239	(328,717)
Net (decrease)/increase in cash and cash equivalents		(76,865)	43,337	(249,999)	141,613
Cash and cash equivalents at beginning of the year		178,460	133,699	581,305	437,212
Effects of exchange rate changes on cash and cash equivalents		(1,411)	1,424	(4,976)	2,480
Cash and cash equivalents at end of the year	30	100,184	178,460	326,330	581,305

Notes 1 to 52 on pages 149 to 238 are an integral part of the 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 2013, 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: 16a Temple Road (Olu Holloway), 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 ₦104 billion ($340 million) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of ₦10 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 ₦24,560 ($80) per barrel. ₦110 billion ($358.6 million) was allocated to the producing assets including ₦5.7 billion ($18.6 million) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of ₦10 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 Limited. 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 ₦79.6 billion ($259.4 million).

On 16 January 2018, the Group incorporated a subsidiary, Seplat West Limited ('Seplat West'). Seplat West was incorporated to manage the producing assets of Seplat Plc.

On 31 December 2019 Seplat Petroleum Development Company acquired 100% of Eland Oil and Gas PLC's issued and yet to be issued ordinary shares. Eland is an independent oil and gas company that holds interest in subsidiaries and joint ventures that are into production, development and exploration in West Africa, particularly the Niger Delta region of Nigeria.

On acquisition of Eland Oil and Gas PLC (Eland), the Group acquired indirect interest in exiting subsidiaries of Eland.

Eland Oil and Gas (Nigeria) Limited is a subsidiary acquired through the purchase of Eland and is involved in the exploration and production of oil and gas.

Westport Oil Limited which was also acquired through the purchase of Eland is a financing company.

Elcrest Exploration and Production Company Limited (Elcrest) which became an indirect subsidiary of the Group purchased a 45% interest in OML 40 in 2012. Elcrest Exploration and Production Nigeria is a Joint Venture between Eland Oil and Gas (45%) and Starcrest Nigeria Energy Limited (55%). It has been consolidated because Eland is deemed to have power over the relevant activities of Elcrest to affect variable returns from Elcrest at the date of acquisition by the Group. (See details in Note 4.1.vi.) The principal activity of Elcrest is exploration and production of oil and gas.

Wester Ord Oil & Gas (Nigeria) Limited, which also became an indirect subsidiary of the Group, acquired a 40% stake in a licence, Ubima, in 2014 via a joint operations agreement. The principal activity of Wester Ord Oil & Gas (Nigeria) Limited is exploration and production of oil and gas.

Other entities acquired through the purchase of Eland are Tarland Oil Holdings Limited (a holding company), Brineland Petroleum Limited (dormant company) and Destination Natural Resources Limited (dormant company).

1. Corporate structure and business continued

The Company together with its subsidiaries as shown below are collectively referred to as the Group.

Subsidiary	Date of incorporation	Country of incorporation and place of business	Percentage holding	Principal activities	Nature of holding
Newton Energy Limited	1 June 2013	Nigeria	100%	Oil & gas exploration and production	Direct
Seplat Petroleum Development Company UK Limited	21 August 2014	United Kingdom	100%	Technical, liaison and administrative support services relating to oil & gas exploration and production	Direct
Seplat Gas Company Limited	12 December 2014	Nigeria	100%	Oil & gas exploration and production and gas processing	Direct
Seplat East Onshore Limited	12 December 2014	Nigeria	100%	Oil & gas exploration and production	Direct
Seplat East Swamp Company Limited	12 December 2014	Nigeria	100%	Oil & gas exploration and production	Direct
Seplat West Limited	16 January 2018	Nigeria	100%	Oil & gas exploration and production	Direct
Eland Oil and Gas Limited	28 August 2009	United Kingdom	100%	Holding company	Direct
Eland Oil and Gas (Nigeria) Limited	11 August 2010	Nigeria	100%	Oil and gas exploration and production	Indirect
Elcrest Exploration and Production Nigeria Limited	6 January 2011	Nigeria	45%	Oil and gas exploration and production	Indirect
Westport Oil Limited	8 August 2011	Jersey	100%	Financing	Indirect
Tarland Oil Holdings Limited	16 July 2014	Jersey	100%	Holding company	Indirect
Brineland Petroleum Limited	18 February 2013	Nigeria	49%	Dormant	Indirect
Wester Ord Oil & Gas (Nigeria) Limited	18 July 2014	Nigeria	100%	Oil and gas exploration and production	Indirect
Wester Ord Oil and Gas Limited	16 July 2014	Jersey	100%	Holding company	Indirect
Destination Natural Resources Limited	–	Dubai	70%	Dormant	Indirect

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

In order to fund the development of the ANOH gas processing plant, on 13 August 2018, the Group entered into a shareholders' agreement with Nigerian Gas Processing and Transportation Company (NGPTC). Funding is to be provided by both parties in equal proportion representing their ownership share and will be used to subscribe for the ordinary shares in ANOH. The agreement was effective on 18 April 2019, which was the date the Corporate Affairs Commission (CAC) approval was received. Given the change in ownership structure, the Group no longer exercises control and has now deconsolidated ANOH in the consolidated financial statements. However, its retained interest qualifies as a joint arrangement and has been recognised accordingly as investment in joint venture.

2. Significant changes in the current accounting period

The following significant changes occurred during the reporting period ended 31 December 2019:

- During the period, the Group changed its registered office address and relocated its offices to 16a Temple Road (Olu Holloway), Ikoyi, Lagos.
- The Group's interest-bearing borrowings included a four-year revolving loan facility of ₦61 billion ($200m). In October 2018, the Group made principal repayments on the four-year revolving facility for a lump sum of ₦30.7 billion ($100 million). In the reporting period, the Group repaid the outstanding principal amount of ₦30.7 billion ($100m) on the revolving loan facility.
- There was a change in the ownership structure of the Group's wholly owned subsidiary, ANOH Gas Processing Company Limited on 18 April 2019 to a joint venture after Nigerian Gas Processing and Transportation Company Limited's (NGPTC) equity investment. As a result, the Group has deconsolidated ANOH in its financial statements and its retained interest has been recognised as an investment in joint venture.
- The Group adopted the new leasing standard IFRS 16 Leases on 1 January 2019 (see Note 46).
- The acquisition of Eland Oil and Gas Limited on 31 December 2019 (see Note 14) which resulted in an increase in property, plant and equipment (Note 20) and the recognition of goodwill and other intangible assets (Note 22).
- During the year, the Group obtained a four-year revolving loan facility of ₦107 billion ($350 million). An upfront fee of ₦1.1 billion ($3.5 million) was deducted from the proceeds of the loan; following the deduction an amount of ₦106.4 billion ($346.5 million) was credited to the Group on 20 December 2019. The amortised cost of the loan as at year end has been disclosed in Note 34. The loan was primarily obtained to facilitate the acquisition of Eland and settle its shareholders.
- During the year, the Group acquired land and building worth ₦1.2 billion ($4 million).

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. The financial statements are for the Group consisting of Seplat and its subsidiaries.

3.2 Basis of preparation

i) Compliance with IFRS

The consolidated financial statements of the Group for the year ended 31 December 2019 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 statements have been prepared under the going concern assumption and historical cost convention, except for contingent liability and consideration, and financial instruments measured at fair value on initial recognition, defined benefit plans – plan assets measured at fair value and assets and liabilities acquired on business combination. 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 12 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 reporting period commencing 1January 2019.

a. IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and became effective for reporting periods beginning on or after 1 January 2019. It replaces the provisions of IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The Group has adopted IFRS 16 from 1 January 2019 using the simplified transitional approach, and thus has not restated comparative figures for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. There was no impact on the Group's retained earnings at the date of initial application (i.e. 1 January 2019).

The adoption of IFRS 16 resulted in the recognition of right-of-use assets and corresponding lease liabilities for leases that were formerly classified as operating leases under the provisions of IAS 17, with the exception of the Group's short-term leases, as the distinction between operating and finance leases has been removed.

The impact of the adoption of this standard and the related new accounting policy are disclosed in Note 46.

b. Amendments to IAS 19 Employee benefit

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 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. It also confirms that entities separately recognise any changes in the asset ceiling through other comprehensive income. These amendments had no impact on the consolidated financial statements of the Group as at the reporting date.

c. 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 had no impact on the consolidated financial statements of the Group as at the reporting date.

d. IFRS 3 Business combinations

These amendments were issued in December 2017. These amendments clarify how an entity 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.

e. Amendments to IFRS 11 Joint arrangements

These amendments were issued in December 2017. These amendments clarify 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.

f. Amendments to IAS 12 Income taxes

These amendments were issued in December 2017. These amendments clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

3. Summary of significant accounting policies continued

g. Amendments to IFRS 9 Prepayment features with negative compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group as at the reporting date.

h. Amendments to IAS 28 Investments in associates and joint ventures
These amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures. These amendments had no impact on the consolidated financial statements of the Group at the reporting date.

i. IFRIC 23 Uncertainty over income tax treatment
This interpretation was issued in June 2017. The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. It discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty.
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored.
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment.
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Where there is an uncertainty, an entity shall recognise and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined using this interpretation. This interpretation impacted the recognition of contingent liability acquired through business combination. See Notes 3.23, 4.1vii and 14 for more information. This interpretation had no further impact on the consolidated financial statements of the Group as at the reporting date.

3.3 New standards, amendments and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 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. 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 amendment before its effective date and does not expect it to have a material impact on its current or future reporting periods.

b. Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors
These amendments were issued on 31 October 2018. The amendments clarify the definition of 'material' and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of what is material is consistent across all IFRS Standards.

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.

c. Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture
These amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business (as defined in IFRS 3 Business Combinations).

Where the non-monetary asset constitutes a business, the investor will recognise the full gain or loss on the sale or contribution of the asset. If the asset does not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. These amendments apply prospectively.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

d. Amendments to IFRS 3: Definition of a business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

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

3.4 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 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date control ceases.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

ii. Change in the ownership interest of subsidiary

The acquisition method of accounting is used to account for business combinations by the Group (Note 14).

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

Interest in the joint venture is accounted for using the equity method, after initially being recognised at cost in the consolidated statement of financial position. All other joint arrangements of the Group are joint operations.

v. Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in associates are accounted for using the equity method of accounting (see (vi) below) after initially being recognised at cost.

3. Summary of significant accounting policies continued

vi. Equity method

Under the equity method of accounting, the Group's investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of loss in an equity accounting investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other party.

Unrealised gains on transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees are changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity accounted investments is tested for impairment in accordance with the policy described in Note 3.16.

vii. Changes in ownership interest

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

viii. Accounting for loss of control

When the Group ceases to consolidate a subsidiary because of a joint control, it does the following:

- deconsolidates the assets (including goodwill), liabilities and non-controlling interest (including attributable other comprehensive income) of the former subsidiary from the consolidated financial position.
- any retained interest (including amounts owed by and to the former subsidiary) in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or a joint venture.
- any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings if required by other IFRSs.
- the resulting gain or loss, on loss of control, is recognised together with the profit or loss from the discontinued operation for the period before the loss of control.
- the gain or loss on disposal will comprise the gain or loss attributable to the portion disposed of and the gain or loss on remeasurement of the portion retained. The latter is disclosed separately in the notes to the financial statements.

If the ownership interest in a joint venture is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

ix. Non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis.

x. Goodwill

Goodwill is measured as described in Note 14. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

3.5 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 Great Britain Pound. The consolidated financial statements are presented in Nigerian Naira and 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. They are deferred in equity if attributable to net investment in foreign operations.

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 at the date of the reporting date;
- 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 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. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.6 Oil and gas accounting

i. Pre-licensing costs

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

ii. Exploration licence cost

Exploration licence costs are capitalised within intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made to establish development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss. The exploration licence costs are initially recognised as cost and subsequently amortised on a straight-line basis based on the economic life. They are subsequently carried at cost less accumulated amortisation and impairment losses.

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.

3. Summary of significant accounting policies continued

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.

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 Group 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.

3.7 Revenue recognition (IFRS 15)

IFRS 15 uses 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. 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 sales, 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 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 provide 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.

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.

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.

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 barging costs incurred, demurrage and freight costs. These do not represent a distinct service transferred and are 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 the 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.

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. Conversely, if there are remaining performance obligations which are not separately identifiable, revenue will be recognised on a cumulative catch-up basis when crude oil or gas is transferred.

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 revenue 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 7.1.1.

3. Summary of significant accounting policies continued

3.8 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:

Plant and machinery	20%
Motor vehicles	25%-30%
Office furniture and IT equipment	10%-33.33%
Buildings	4%
Land	–
Intangible asset	5%
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.

3.9 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.

3.10 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.

3.11 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 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.

3.12 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.

3.13 Inventories

Inventories represent the value of tubulars, casings, spares 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.

3.14 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.

3.15 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 of the Chief Financial Officer, the General Manager (Finance), the General Manager (Gas) and the Financial Reporting Manager. See further details in Note 7.

3. Summary of significant accounting policies continued

3.16 Financial instruments

IFRS 9 provides guidance on 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 are dependent on the Group's business model for managing the asset and the cash flow 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 2019 satisfy the conditions for classification at amortised cost under IFRS 9 except for derivatives which are reclassified at fair value through profit or loss.

The Group's financial assets include trade receivables, NPDC receivables, NAPIMS receivables, other receivables, cash and bank balances and derivatives. 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.

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) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was ₦14.8 million, $48.4 (2018: nil) The Group seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

e) 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.

f) 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.

g) 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.

h) 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 within operating profit in profit or loss for the period. An analysis of the fair value of derivatives is provided in Note 6, 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 are 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.

i) 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.

3. Summary of significant accounting policies continued

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.

3.17 Share capital

On issue of ordinary shares, any consideration received net of any directly attributable transaction costs is included in 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.

3.18 Earnings per share and dividends

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 awards arising from the share-based payment scheme) into ordinary shares.

Dividends

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

3.19 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 statement of financial position 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 other comprehensive income 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

3.20 Provisions

Provisions are recognised when

i. the Group has a present legal or constructive obligation as a result of past events;

ii. it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and

iii. the amount can be reliably estimated.

Provisions are not recognised for future operating losses. In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted (where the effects of the time value of money 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.

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.

3.21 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.

3.22 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.

3.23 Income taxation

i. Current income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

ii. Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

3. Summary of significant accounting policies continued

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, 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, respectively.

iii. New tax regime

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 request was granted, and the new tax holiday is expected to end in May 2020. Tax incentives do not apply to Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for this entity in the financial statements.

Pioneer status is granted by the Nigerian Investment Promotion Commission ('NIPC') upon approval of applications in line with Section 2 of the Industrial Development (Income Tax Relief) Act ('IDITRA'). Elcrest (newly acquired indirect subsidiary) made an application for Pioneer tax relief with effect from 1 May 2014 for the five-year period, covering both the initial period of three years and extended period of a further two years.

iv. Uncertainty over income tax treatments

The Group examines where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. It considers each uncertain tax treatment separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The factors it considers include:

- how it prepares and supports the tax treatment; and
- the approach that it expects the tax authority to take during an examination.

If the Group concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it determines the accounting for income taxes consistently with that tax treatment. If it concludes that it is not probable that the treatment will be accepted, it reflects the effect of the uncertainty in its income tax accounting in the period in which that determination is made (for example, by recognising an additional tax liability or applying a higher tax rate).

The Group measures the impact of the uncertainty using methods that best predict the resolution of the uncertainty. The Group uses the most likely method where there are two possible outcomes, and the expected value method when there are a range of possible outcomes.

The Group assumes that the tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. As a result, it does not consider detection risk in the recognition and measurement of uncertain tax treatments. The Group applies consistent judgements and estimates on current and deferred taxes. Changes in tax laws or the presence of new tax information by the tax authority are treated as a change in estimate in line with IAS 8 Accounting policies, changes in accounting estimates and errors.

Judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. The absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

3.24 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

3.25 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).

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 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 and 41 are grouped together as a cash generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced when the Group has an unconditional right to receive payment.

ii. Deferred tax asset

Deferred income 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 18.

iii. Lease liabilities

In 2018, the Group entered into a lease agreement for its new head office building. The lease contract contains an option to purchase and right of first refusal upon an option of sales during the initial non-cancellable lease term of five (5) years.

In determining the lease liability/right-of-use assets, management considered all facts and circumstances that create an economic incentive to exercise the purchase option. Potential future cash outflow of $45 million (Seplat's 45% share of $100 million), which represents the purchase price, has not been included in the lease liability because the Group is not reasonably certain that the purchase option will be exercised. This assessment will be reviewed if a significant event or a significant change in circumstances occurs which affects the initial assessment and that is within the control of management.

iv. Lease term

Management assessed that the purchase option in its head office lease's contract would not be exercised. If management had assessed that it was reasonably certain that the purchase option would be exercised, the lease term used for depreciating the right-of-use-asset would have been fifty (50) years rather than the non-cancellable lease term of five (5) years. For the lease contracts, the Group assessed that it could not reasonably determine if the leases would be renewed at the end of the lease term. As a result, the lease term used in determining the lease liability was the contractual lease term. The sensitivity of the Group's profit and net assets to this purchase option is disclosed in Note 46.

v. Foreign currency translation reserve

The Group 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 ₦21.4 billion, 2018: ₦22.8 billion. See Note 52 for the applicable translation rates.

4. Significant accounting judgements, estimates and assumptions continued

vi. Consolidation of Elcrest

On acquisition of 100% shares of Eland Oil and Gas PLC, the Group acquired indirect holdings in Elcrest Exploration and Production (Nigeria) Limited. Although the Group has an indirect holding of 45% in Elcrest, Elcrest has been consolidated as a subsidiary for the following basis:

- Eland Oil and Gas PLC has power over Elcrest though due representation of Eland in the board of Elcrest, and clauses contained in the Share Charge agreement and loan agreement which gives Eland the right to control 100% of the voting rights of shareholders.
- Eland Oil and Gas PLC is exposed to variable returns from the activities of Elcrest through dividends and interests.
- Eland Oil and Gas PLC has the power to affect the amount of returns from Elcrest through its right to direct the activities of Elcrest and its exposure to returns.

vii. Contingent liability

A contingent liability of $7.2 million was recognised on the acquisition of Eland Group for a pending investigation into the UK's Controlled Foreign Company (CFC) tax regime. This amount is the present value of estimated probability of exposure from the pending case. On 25 April 2019, the European Commission released its decision in relation to the Group/Company finance exemption in the UK's CFC rules, finding that the exemption constitutes unlawful state aid if the exempted profits arise in connection with UK activity. It is expected that that HM Revenue and Customs will have reached a decision on this case within the next 12 months. The potential undiscounted amount of all future payments that the Group could be required to make, if there was an adverse decision related to the investigation, is estimated at $45.4 million. As at 31 December 2019, there has been no change in the probability of the outcome of the lawsuit.

viii. 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 judgements 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 gas customers simultaneously receive and consume 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 judgemental 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 cost 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 cost is accounted for as a direct deduction from revenue i.e. revenue is recognised net of barging costs.

Exploration and evaluation assets
The accounting for exploration and evaluation ('E&E') assets require management to make certain judgements and assumptions, including whether exploratory wells have discovered economically recoverable quantities of reserves. Designations are sometimes revised as new information becomes available. If an exploratory well encounters hydrocarbon, but further appraisal activity is required in order to conclude whether the hydrocarbons are economically recoverable, the well costs remain capitalised as long as sufficient progress is being made in assessing the economic and operating viability of the well. Criteria used in making this determination include evaluation of the reservoir characteristics and hydrocarbon properties, expected additional development activities, commercial evaluation and regulatory matters. The concept of 'sufficient progress' is an area of judgement, and it is possible to have exploratory costs remain capitalised for several years while additional drilling is performed or the Group seeks government, regulatory or partner approval of development plans.

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 7.

5. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i. 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.

ii. Contingent consideration
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 35 for further details.

In 2018, the Group de-recognised contingent consideration of ₦5.7 billion, 2018: ₦5.7billion ($18.5 million, 2018: $18.5 million) fair value loss on contingent consideration in relation to the remeasurement of contingent consideration on the Group's acquisition of participating interest in OML 53. The contingency criterium was set on oil price rising above $90/bbl. over a one-year period and expiring on 31 January 2020. The contingency criterium was not achieved during the reporting period, and as a result, the contingent consideration has been derecognised. See Note 35.

iii. 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.

iv. 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.

v. 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 31.4.

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.

5. Estimates and assumptions continued

vi. 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.

vii. 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 OMLs 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 2019 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 2019 and 2018 reporting periods.

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

viii. 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.

ix. 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.

x. 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 in Note 6.1.3.

xi. Intangible asset
The contract based intangible assets were acquired as part of a business combination (see Note 14 for details). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis over their estimated useful lives which is also the economic life of the asset.

The fair value of contract based intangible assets is estimated using the multi period excess earnings method. This requires a forecast of revenue and all cost projections throughout the useful life of the intangible assets. A contributory asset charge that reflects the return on assets is also determined and applied to the revenue but subtracted from the operating cash flows to derive the pre-tax cash flow. The post-tax cash flows are then obtained by deducting out the tax using the effective tax rate. An applicable discount rate of 16% was used to reflect the time value of money. The discounted post tax cash flow is the fair value of the intangible asset. Sensitivity of the intangible assets and goodwill recognised on acquisition to the contributory asset charge and discount rate has been considered.

The value of the intangible asset directly impacts the estimated goodwill on the acquisition of Eland. 10% increase in the contributory asset charge with other factors held constant will increase the identified intangible asset by ₦1.5 billion ($5 million) approximately with an inverse impact on the goodwill. 10% increase in the discount rate with other factors held constant will increase the identified intangible asset by ₦0.6 billion ($2 million) approximately, with an inverse impact on the goodwill.

xii. Estimating fair value of acquiree's assets/liabilities
Following the acquisition of Eland, the Group estimated the goodwill on acquisition using the purchase price allocation method. The purchase consideration was compared to the fair value of the acquiree's assets/liabilities and the difference represents goodwill. The fair value of acquiree's assets/liabilities that were not traded in an active market on acquisition date were determined using valuation techniques. The Group applied judgement to select methods/approaches such as income, market and cost approaches to determine the fair value of acquired assets and liabilities. Assumptions were also made based on market conditions existing at the end of the acquisition date. Some assets and liabilities for which the income approach was used (lease liability, borrowings and NPDC receivables) were discounted at 10% because the rate reflects the average market borrowings rate for the acquiree.

6. Financial risk management

6.1 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 receivables and derivative financial instruments	Ageing analysis Credit ratings	Diversification of bank deposits.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The profit or loss and equities sensitivities shown below excludes the newly acquired subsidiary, as the acquisition did not impact the profit or loss and equity of the Group during the year.

6.1.1 Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign exchange rates, interest rates and commodity prices.

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.

Crude hedge

On 28 June and 19 December 2019, the Group entered economic crude oil hedge contracts with Standard Chartered Bank and J.P. Morgan Bank respectively. Strike price of ₦13,815 ($45/bbl.) for 3 million barrels at an average premium price of ₦338 ($1.1/bbl.) was agreed at the contract dates.

These contracts, which will commence in 1 January 2020 and 1 July 2020 for the respective banks, are expected to reduce the volatility attributable to price fluctuations of oil. The Group has pre-paid a premium of ₦838 million, 2018: ₦1.6 billion ($2.73 million; 2018: $5.2 million) and has recognised an unrealised fair value gain of ₦337 million, 2018: ₦2.7 billion ($1.1 million; 2018: $8.8 million) for these hedges. The termination date is 31 March and 30 September 2020 respectively. Hedging the price volatility of forecast oil sales is in accordance with the risk management strategy of the Group.

Currency forwards

Upon acquisition of Eland, the Group assumed forward contracts with Investec Bank plc which are expected to reduce the volatility attributable to exchange risk. The contracts commenced on 31 July 2019 and are expected to mature between 2 January 2020 to 1 July 2020 with an exercise price of 1 GBP: $1.2379.

A 5% change in the closing exchange rate of Pound to Dollar will increase the fair value by ₦121 million ($0.4 million) with an inverse impact on goodwill recognised on acquisition. A 5% decrease in the exchange rate will reduce the fair value by ₦121 million ($0.4 million) with an inverse impact on goodwill recognised on acquisition.

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

	Less than 6 months	6 to 9 months	9 to 12 months	Above 12 months	Total	Fair value ₦ million	Fair value US$ '000
As at 31 December 2019							
Crude oil hedges Volume (bbl.)	1,500,000	1,500,000	–	–	3,000,000	308	1,002
Currency forwards (Notional amount – $'000)	500	1,500	2,000	2,000	6,000	149	484
						457	**1,486**

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

6. Financial risk management continued

The following table summarises the impact of the commodity options on the Group's profit before tax due to a 10% change in market inputs, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	31	–	100	–
-10%	31	–	(100)	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+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 on the Group's profit before tax of a 10% change in crude oil prices, with all other variables held constant:

Increase/decrease in market inputs	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million
+10%	15,195	–	18,075	–
-10%	(15,195)	–	(18,075)	–

Increase/decrease in market inputs	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	49,510	–	59,050	–
-10%	(49,510)	–	(59,050)	–

The following table summarises the impact on the Group's profit before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	4,167	–	13,576	–
-10%	(4,167)	–	(13,576)	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	4,764	–	15,564	–
-10%	(4,764)	–	(15,564)	–

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. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and short-term fixed deposits held at variable rates. Fixed rate borrowings 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. The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant increases and reductions in market interest rates would result in a decrease in the interest earned by the Group.

The contractual re-pricing date of the interest-bearing loans and borrowings is between 3-6 months. The exposure of the Group's variable interest-bearing loans and borrowings at the end of the reporting period is shown below.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Corporate loan	135,112	29,558	440,130	96,282

The following table demonstrates the sensitivity of the Group's profit before tax to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million
+1%	(41)	–	(296)	–
-1%	42	–	296	–

Increase/decrease in interest rate	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+1%	(135)	–	(963)	–
-1%	136	–	963	–

6.1.2 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, trade and other payables. The following table demonstrates the carrying value of monetary assets and liabilities exposed to foreign exchange risks for Naira exposures at the reporting date:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Financial assets				
Cash and bank balances	31,945	64,748	103,892	210,923
Trade and other receivables	15,201	14,003	49,515	44,191
Contract assets	6,527	4,327	21,259	14,096
Inventory	248	–	807	–
	53,921	83,078	175,473	269,210
Financial liabilities				
Trade and other payables	(41,847)	(28,945)	(126,116)	(94,283)
Net exposure to foreign exchange risk	12,074	54,133	49,357	174,927

The following table demonstrates the carrying value of monetary assets and liabilities exposed to foreign exchange risks for Pound exposures at the reporting date:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Financial assets				
Cash and bank balances	611	679	2,153	2,210
Trade and other receivables	1,624	–	5,290	–
	2,235	679	7,443	2,210
Financial liabilities				
Trade and other payables	(4,948)	(469)	(16,117)	(1,527)
Net exposure to foreign exchange risk	(2,713)	210	(8,674)	683

6. Financial risk management continued

Sensitivity to foreign exchange risk is based on the Group's net exposure to foreign exchange risk due to Naira and pound 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 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million
+5%	(722)	–	(2,557)	–
-5%	798	–	2,826	–

Increase/decrease in foreign exchange risk	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+5%	(2,350)	–	(8,330)	–
-5%	2,598	–	9,207	–

If the Pound 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 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million
+5%	127	–	(10)	–
-5%	(140)	–	11	–

Increase/decrease in foreign exchange risk	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+5%	413	–	(33)	–
-5%	(457)	–	36	–

6.1.3 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 financial assets as well as credit exposures to customers (i.e. Mercuria, Shell Western, Pillar, Azura, and NGMC receivables), and other parties (i.e. NAPIMS receivables, NPDC receivables and other receivables).

a. Risk management

The Group is exposed to credit risk from its sale of crude oil to Mercuria and Shell Western. The off-take agreement with Mercuria runs for five years until 31 July 2020 with a 30-day payment term while the payment term for Shell Western is also agreed at 30 days. The Group is exposed to further credit risk from outstanding cash calls from Nigerian Petroleum Development Company (NPDC) and National Petroleum Investment Management Services (NAPIMS).

In addition, the Group is exposed to credit risk in relation to the sale of gas to its customers.

The credit risk on cash and cash balances is managed through the diversification of banks in which the balances are held. The 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.

b. Impairment of financial assets

The Group has six types of financial assets that are subject to IFRS 9's expected credit loss model. Contract assets are also subject to the expected credit loss model, even though they are not financial assets, as they have substantially the same credit risk characteristics as trade receivables. The impairment of receivables is disclosed in the table below.

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

Reconciliation of impairment on financial assets

	Notes	₦ million	US$ '000
As at 1 January 2019 (A)		6,871	22,382
Increase in provision for Nigerian Petroleum Development Company (NPDC) receivables	27.6	12,836	41,813
Increase in provision for National Petroleum Investment Management Services (NAPIMS) receivables	27.8	23	77
Increase in provision for trade receivables	27.4	525	1,710
Decrease in provision for cash and bank balances: short-term fixed deposits	30	(13)	(39)
Increase in provision for other receivables – Crestar	27.10	1,540	5,020
Impairment charge to the profit or loss (B)		14,911	48,581
Total impairment before acquisition (A+B)		21,782	70,963
Receivables written off during the year as uncollectible	27.6	(14,871)	(48,439)
As at 31 December 2019		**6,911**	**22,524**

The parameters used to determine impairment for NPDC receivables, NAPIMS receivables, other receivables and short-term fixed deposits are shown below. For all receivables presented in the table, the respective 12-month Probability of Default (PD) equate to 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	Short-term fixed deposits
Probability of Default (PD)	The PD for base case, downturn and upturn is 2.03%, 2.10% and 2.10% respectively.	The 12-month PD and lifetime PD for Stage 1 and Stage 2 is 3.9%.The PD for Stage 3 is 100%.	The 12-month PD and lifetime PD for Stage 1 and Stage 2 is 0.05%.The PD for Stage 3 is 100%.	The 12-month PD and lifetime PD for Stage 1 and Stage 2 is 0.09%.The PD for Stage 3 is 100%.
Loss Given Default (LGD)	The 12-month LGD and lifetime LGD were determined using Moody's recovery rate for senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined to be 100% as no collateral was used.	The 12-month LGD and lifetime LGD were determined using management's estimate of expected cash recoveries.	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 short-term fixed deposits to credit risk.
Macroeconomic indicators	The historical inflation, unemployment 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	80%, 10% and 10% 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 macro-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.

6. Financial risk management continued

i. 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).

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.

During the year, the Group wrote off ₦14.9 billion ($48.4 million) which was netted off from NPDC payables in 2018. (See details in Note 27.5 and 27.6.)

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	68,712	–	–	**68,712**
Loss allowance	(448)	–	–	**(448)**
Net Exposure at Default (EAD)	68,264	–	–	**68,264**

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

				31 December 2019
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	223,817	–	–	**223,817**
Loss allowance	(1,460)	–	–	**(1,460)**
Net Exposure at Default (EAD)	222,357	–	–	**222,357**

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

ii. 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 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. There were no receivables as at 31 December 2018, therefore, the tables below show the expected credit losses for the year ended 31 December 2019.

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	377	–	–	**377**
Loss allowance	(23)	–	–	**(23)**
Net Exposure at Default (EAD)	354	–	–	**354**

				31 December 2019
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	1,229	–	–	**1,229**
Loss allowance	(77)	–	–	**(77)**
Net Exposure at Default (EAD)	1,152	–	–	**1,152**

iii. Trade receivables (Nigerian Gas Marketing Company)

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.

The impairment of trade receivables (NGMC) was estimated by applying the provision matrix. The 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 2019 and 31 December 2018 are as follows:

							31 December 2019
	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	Total
Gross carrying amount	2,515	–	1,790	–	–	12,176	16,481
Expected loss rate	0.16%	0.16%	0.17%	0.17%	0.17%	3.0%	
Lifetime ECL (Note 27.4)	(4)	–	(3)	–	–	(333)	(340)
Total	2,511	–	1,787	–	–	11,843	16,141

							31 December 2018
	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	Total
Gross carrying amount	4,639	–	2,392	4,035	–	3,080	14,146
Expected loss rate	0.5%	0.5%	0.5%	0.5%	0.5%	2.2%	
Lifetime ECL (Note 27.4)	(25)	–	(13)	(21)	–	(63)	(122)
Total	4,614	–	2,379	4,014	–	3,017	14,024

							31 December 2019
	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	Total
Gross carrying amount	8,192	–	5,831	–	–	39,661	53,684
Expected loss rate	0.16%	0.16%	0.17%	0.17%	0.17%	3.0%	
Lifetime ECL (Note 27.4)	(11)	–	(8)	–	–	(1,090)	(1,109)
Total	8,181	–	5,823	–	–	38,571	52,575

							31 December 2018
	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	Total
Gross carrying amount	15,111	–	7,792	13,142	–	10,033	46,078
Expected loss rate	0.53%	–	0.53%	0.53%	–	2.16%	
Lifetime ECL (Note 27.4)	(80)	–	(41)	(70)	–	(205)	(396)
Total	15,031	–	7,751	13,072	–	9,828	45,682

6. Financial risk management continued

iv. Trade receivables (Mercuria)

The impairment of trade receivables (Mercuria) was estimated by applying the provision matrix. The 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 2019 are as follows:

							31 December 2019
	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	Total
Gross carrying amount	15,863	–	–	–	–	–	15,863
Expected loss rate	0.4%	–	–	–	–	–	0.4%
Lifetime ECL (Note 27.4)	(68)	–	–	–	–	–	(68)
Total	15,795	–	–	–	–	–	15,795

							31 December 2019
	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	Total
Gross carrying amount	51,669	–	–	–	–	–	51,669
Expected loss rate	0.4%	–	–	–	–	–	–
Lifetime ECL (Note 27.4)	(219)	–	–	–	–	–	(219)
Total	51,450	–	–	–	–	–	51,450

v. Trade receivables (Pillar)

The impairment of trade receivables (Pillar) was estimated by applying the provision matrix. The 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 2019 and 31 December 2018 are as follows:

							31 December 2019
	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	Total
Gross carrying amount	915	–	555	–	–	274	1,744
Expected loss rate	1.2%	1.2%	15%	15%	15%	54%	
Lifetime ECL (Note 27.4)	(11)	–	(83)	–	–	(149)	(243)
Total	904	–	472	–	–	125	1,501

							31 December 2018
	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	Total
Gross carrying amount	1,606	–	–	–	–	–	1,606
Expected loss rate	0.2%	–	–	–	–	–	0.2%
Lifetime ECL (Note 27.4)	(4)	–	–	–	–	–	(4)
Total	1,602	–	–	–	–	–	1,602

							31 December 2019
	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	Total
Gross carrying amount	2,980	–	1,808	–	–	894	5,682
Expected loss rate	1.2%	1.2%	15%	15%	15%	54%	
Lifetime ECL (Note 27.4)	(35)	–	(272)	–	–	(483)	(790)
Total	2,944	–	1,536	–	–	411	4,891

							31 December 2018
	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	Total
Gross carrying amount	5,232	–	–	–	–	–	5,232
Expected loss rate	0.2%	–	–	–	–	–	–
Lifetime ECL (Note 27.4)	(12)	–	–	–	–	–	(12)
Total	5,220	–	–	–	–	–	5,220

vi. Contract assets

The expected credit losses on contract assets have been assessed to be immaterial and the loss rates insignificant.

vii. 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 Group applied the general approach in estimating the expected credit loss.

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	–	29,633	3,070	**32,703**
Loss allowance	–	(2,685)	(3,070)	**(5,755)**
Net Exposure at Default (EAD)	–	26,948	–	**26,948**

				31 December 2018
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	–	10,770	3,045	**13,815**
Loss allowance	–	(1,186)	(3,029)	**(4,215)**
Net Exposure at Default (EAD)	–	9,584	16	**9,600**

				31 December 2019
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	–	96,571	10,000	**106,571**
Loss allowance	–	(8,790)	(10,000)	**(18,790)**
Net Exposure at Default (EAD)	–	87,781	–	**87,781**

				31 December 2018
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	–	35,042	10,000	**45,042**
Loss allowance	–	(3,875)	(9,895)	**(13,770)**
Net Exposure at Default (EAD)	–	31,167	105	**31,272**

viii. Cash and cash equivalent

Short-term 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.

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	29,741	–	–	**29,741**
Loss allowance	(23)	–	–	**(23)**
Net Exposure at Default (EAD)	29,718	–	–	**29,718**

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

6. Financial risk management continued

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	31 December 2019 Total US$ '000
Gross Exposure at Default (EAD)	96,878	–	–	**96,878**
Loss allowance	(79)	–	–	**(79)**
Net Exposure at Default (EAD)	96,799	–	–	**96,799**

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

Other cash and bank balances

The Group assessed the other cash and bank balances to determine their expected credit losses. Based on this assessment, they identified the expected credit loss to be insignificant as at 31 December 2019 (2018: nil). The assets are assessed to be in Stage 1.

Credit quality of cash and bank balances

The credit quality of the Group's cash and bank balances are assessed on the basis of external credit ratings (Fitch national long-term ratings) as shown below; cash and bank balances are all in Stage 1 based on the ECL assessment:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Non-rated	6	4	19	12
B	25,987	–	84,649	–
B+	1,713	–	5,580	–
BBB+	–	36	–	117
BBB	–	619	–	2,015
A	4,182	–	13,623	–
A+	65,684	94,128	213,956	306,608
AA	–	47,920	–	156,090
AA-	750	28,688	2,444	93,451
AAA	3,941	8,150	12,836	26,548
	102,263	179,545	333,107	584,841
Allowance for impairment recognised during the year (Note 30)	(23)	(36)	(79)	(118)
Net cash and cash bank balances	102,240	179,509	333,028	584,723

c. Maximum exposure to credit risk – financial instruments subject to impairment

The Group estimated the expected credit loss on NPDC receivables, NAPIMS receivables and short-term fixed deposits by applying the general model. The gross carrying amount of financial assets represents the Group's maximum exposure to credit risks on these assets.

All financial assets impaired using the General model (NPDC, NAPIMS and short-term fixed deposits) are graded under the standard monitoring credit grade (rated B under Standard and Poor's unmodified ratings) and are classified under Stage 1, except for the other receivables which are graded under the investment grade (rated AA under Standard and Poor's unmodified ratings) and classified in Stage 2 and Stage 3.

d. Roll forward movement in loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stage 2 or Stage 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Discount unwind within ECL due to passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslation for assets dominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-off of receivables and allowances related to assets.

The following tables explain the changes in the loss allowance between the beginning and end of the annual period due to these factors:

Nigerian Petroleum Development Company (NPDC) receivables

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	–	–	2,475	–	**2,475**
Movements with profit or loss impact					
New financial assets originated or purchased	448	–	–	–	**448**
Write offs	–	–	12,388	–	**12,388**
Total net profit or loss charge during the period	448	–	12,388	–	**12,836**
Other movements with no profit or loss impact;					
Exchange difference	–	–	8	–	**8**
Write offs	–	–	(14,871)	–	**(14,871)**
Loss allowance as at 31 December 2019	448	–	–	–	**448**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	–	–	8,086	–	**8,086**
Movements with profit or loss impact					
Transfers within Stages					
New financial assets originated or purchased	1,460	–	–	–	**1,460**
Write offs	–	–	40,353	–	**40,353**
Total net profit or loss charge during the period	1,460	–	40,353	–	**41,813**
Other movements with no profit or loss impact;					
Write offs	–	–	(48,439)	–	**(48,439)**
Loss allowance as at 31 December 2019	1,460	–	–	–	**1,460**

National Petroleum Investment Management Services (NAPIMS) receivables

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	–	–	–	–	**–**
Movements with profit or loss impact					
New financial assets originated or purchased	23	–	–	–	**23**
Total net profit or loss charge during the period	23	–	–	–	**23**
Loss allowance as at 31 December 2019	23	–	–	–	**23**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	–	–	–	–	**–**
Movements with profit or loss impact					
New financial assets originated or purchased	77	–	–	–	**77**
Total net profit or loss charge during the period	77	–	–	–	**77**
Loss allowance as at 31 December 2019	77	–	–	–	**77**

6. Financial risk management continued

Other receivables

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	–	1,186	3,029	–	**4,215**
Movements with profit or loss impact					
Changes in PDs/LGDs/EADs	–	–	1,499	–	**1,499**
Unwind of discount	–	41	–	–	**41**
Total net profit or loss charge during the period	–	41	1,499	–	**1,540**
Loss allowance as at 31 December 2019	–	1,227	4,528	–	**5,755**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	–	3,875	9,895	–	**13,770**
Movements with profit or loss impact					
Changes in PDs/LGDs/EADs	–	–	4,915	–	**4,915**
Unwind of discount	–	105	–	–	**105**
Total net profit or loss charge during the period	–	105	4,915	–	**5,020**
Loss allowance as at 31 December 2019	–	3,980	14,810	–	**18,790**

Short-term fixed deposits

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	36	–	–	–	**36**
Movements with profit or loss impact					
New financial assets originated or purchased	23	–	–	–	**23**
Derecognised financial assets	(36)	–	–	–	**(36)**
Total net profit or loss charge during the period	(13)	–	–	–	**(13)**
Loss allowance as at 31 December 2019	23	–	–	–	**23**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	118	–	–	–	**118**
Movements with profit or loss impact					
New financial assets originated or purchased	79	–	–	–	**79**
Derecognised financial assets	(118)	–	–	–	**(118)**
Total net profit or loss charge during the period	(39)	–	–	–	**(39)**
Loss allowance as at 31 December 2019	79	–	–	–	**79**

e. 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.

i. Expected cash flows recoverable

The table below demonstrates the sensitivity of the Group's profit before tax to a 20% change in the expected cash flows from financial assets, with all other variables held constant:

Increase/decrease in estimated cash flows	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+20%	94	–	305	–
-20%	(94)	–	(305)	–

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

ii. Significant unobservable inputs

The table below demonstrates the sensitivity of the Group's profit before tax to movements in the Loss Given Default (LGD) for financial assets, with all other variables held constant:

Increase/decrease in Loss Given Default	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	(46)	–	(145)	–
-10%	46	–	145	–

Increase/decrease in Loss Given Default	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	(222)	–	(725)	–
-10%	222	–	725	–

The table below demonstrates the sensitivity of the Group's profit before tax to movements in Probability of Default, with all other variables held constant:

Increase/decrease in Probability of Default	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	(49)	–	(159)	–
-10%	49	–	159	–

Increase/decrease in Probability of Default	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	(279)	–	(908)	–
-10%	279	–	908	–

The table below demonstrates the sensitivity of the Group's profit before tax to movements in the forward-looking macroeconomic indicators, with all other variables held constant:

Increase/decrease in forward-looking macroeconomic indicators	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	(46)	–	(145)	–
-10%	46	–	145	–

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

6.1.4 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 interest bearing current accounts, time deposits and money market deposits.

6. Financial risk management continued

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

31 December 2019	Effective interest rate %	Less than 1 year ₦ million	1 – 2 year ₦ million	2 – 3 years ₦ million	3 – 5 years ₦ million	Total ₦ million
Non-derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	10,105	10,077	10,077	112,475	142,734
Variable interest rate borrowings						
Citibank, N.A., London Branch	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
Nedbank Limited London	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
Stanbic IBTC Bank Plc	6.0% +LIBOR	510	2,539	2,375	2,211	7,635
The Standard Bank of South Africa Limited	6.0% +LIBOR	510	2,539	2,375	2,211	7,635
RMB International (Mauritius) Limited	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
The Mauritius Commercial Bank Ltd	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
JPMorgan Chase Bank, N.A., London Branch	6.0% +LIBOR	764	3,808	3,564	3,316	11,452
Standard Chartered Bank	6.0% +LIBOR	764	3,808	3,564	3,316	11,452
Natixis	6.0% +LIBOR	764	3,808	3,564	3,316	11,452
Société Générale, London Branch	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
Zenith Bank Plc	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
United Bank for Africa Plc	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
First City Monument Bank Limited	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
		8,924	44,430	41,566	38,686	133,606
Acquired through business combination – Stanbic IBTC Bank Plc & The Mauritius Commercial Bank Ltd	8.0% +LIBOR	10,230	9,461	7,844	5,835	33,370
Total variable interest borrowings		19,154	53,891	49,410	44,521	166,976
Other non – derivatives						
Trade and other payables**		114,388	–	–	–	114,388
Lease liability		247	155	1,059	2,036	3,496
		114,635	155	1,059	2,036	117,884
Total		**143,894**	**64,123**	**60,546**	**159,032**	**427,594**

31 December 2018	Effective interest rate %	Less than 1 year ₦ million	1 – 2 year ₦ million	2 – 3 years ₦ million	3 – 5 years ₦ million	Total ₦ million
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 Limited	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
Total variable interest borrowings		2,602	2,607	2,602	31,577	39,388
Other non-derivatives		48,152	–	–	–	48,152
Trade and other payables**		–	5,680	–	–	5,680
Contingent consideration		48,152	5,680	–	–	53,832
Total		60,884	18,362	12,650	153,797	245,693

31 December 2019	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
Non-derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	32,915	32,825	32,825	366,367	464,932
Variable interest rate borrowings						
Citibank, N.A., London Branch	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,734
Nedbank Limited London	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,734
Stanbic IBTC Bank Plc	6.0% +LIBOR	1,661	8,270	7,736	7,201	24,868
The Standard Bank of South Africa Limited	6.0% +LIBOR	1,661	8,270	7,736	7,201	24,868
RMB International (Mauritius) Limited	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,734
The Mauritius Commercial Bank Ltd	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,734
JPMorgan Chase Bank, N.A., London Branch	6.0% +LIBOR	2,491	12,405	11,604	10,802	37,302
Standard Chartered Bank	6.0% +LIBOR	2,491	12,405	11,604	10,802	37,302
Natixis	6.0% +LIBOR	2,491	12,405	11,604	10,802	37,302
Société Générale, London Branch	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
Zenith Bank Plc	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
United Bank for Africa Plc	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
First City Monument Bank Limited	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
		29,063	144,727	135,376	126,020	435,186
Acquired through business combination – Stanbic IBTC Bank Plc & The Mauritius Commercial Bank Ltd	8.0% +LIBOR	33,322	30,820	25,549	19,005	108,696
Total variable interest borrowings		62,385	175,547	160,925	145,025	543,882
Other non-derivatives						
Trade and other payables**		372,599	–	–	–	372,599
Lease liability		803	505	3,449	6,632	11,389
		373,402	505	3,449	6,632	383,988
Total		**468,702**	**208,877**	**197,199**	**518,024**	**1,392,802**

31 December 2018	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
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**

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

6. Financial risk management continued

6.1.5 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	
	2019 ₦ million	2018 ₦ million	2019 ₦ million	2018 ₦ million
Financial assets at amortised cost				
Trade and other receivables*	35,225	29,466	35,225	29,466
Contract assets	6,527	4,327	6,527	4,327
Cash and bank balances	102,240	179,509	102,240	179,509
	143,992	213,302	143,992	213,302
Financial assets at fair value				
Derivative financial instruments (Note 29)	457	2,693	457	2,693
	457	2,693	457	2,693
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	242,349	136,830	229,805	143,158
Contingent consideration	–	5,676	–	5,676
Trade and other payables	106,260	48,152	106,260	48,152
	348,609	190,658	336,065	196,986

	Carrying amount		Fair value	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Financial assets at amortised cost				
Trade and other receivables*	114,740	95,982	114,740	95,982
Contract assets	21,259	14,096	21,259	14,096
Cash and bank balances	333,028	584,723	333,028	584,723
	469,027	694,801	469,027	694,801
Financial assets at fair value				
Derivative financial instruments (Note 29)	1,486	8,772	1,486	8,772
	1,486	8,772	1,486	8,772
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	789,408	445,699	748,551	466,314
Contingent consideration	–	18,489	–	18,489
Trade and other payables	346,125	156,847	346,125	156,847
	1,135,533	621,035	1,094,676	641,650

* Trade and other receivables exclude NGMC 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 (exclude 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.

6.1.6 Fair value hierarchy

As at the reporting period, the Group had classified its financial instruments into the three levels prescribed under the accounting standards. There are recurring fair value measurements and non-recurring fair value measurements resulting from the acquisition of Eland. There were no transfers of financial instruments between fair value hierarchy levels during the year.

- 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.

Recurring fair value measurements

Financial assets

31 Dec 2019	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial assets:						
Derivative financial instruments	457	–	–	1,486	–	–

31 Dec 2018	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial assets:						
Derivative financial instruments	2,693	–	–	8,772	–	–
	2,693	–	–	8,772	–	–

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.

Financial liabilities

31 Dec 2019	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial liabilities:						
Interest-bearing loans and borrowings	–	229,805	–	–	748,551	–
	–	229,805	–	–	748,551	–

31 Dec 2018	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial liabilities:						
Interest-bearing loans and borrowings	–	143,158	–	–	466,314	–
Contingent consideration	–	–	5,676	–	–	18,489
	–	143,158	5,676	–	466,314	18,489

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 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.

Non-recurring fair value measurements – Acquired in business combination

Financial assets

31 Dec 2019	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Receivable from NPDC (Note 14.1)	–	16,075	–	–	52,360	–

The fair value of NPDC acquired through business combinations is determined using the discounted cash flow model. The cash flows were determined based on probable expected future receipt. The estimated future cash flow was discounted to present value using a discount rate that depicts the market rate of interest for the borrower.

Financial liabilities

31 Dec 2019	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Interest-bearing loans and borrowings (Note 14.1)	–	27,704	–	–	90,242	–
Lease liability (Note 14.1)	–	461	–	–	1,500	–
	–	28,165	–	–	91,742	–

The fair value of the interest-bearing loans and borrowings acquired through business combinations is determined by using discounted cash flow models (income approach) which uses the market interest rates specific to the borrower as at the end of the period. These borrowings have also been classified as a level 2 instrument.

The fair value of the lease liability acquired through business combinations is determined by using discounted cash flow models (income approach) that uses the incremental borrowing rate specific to the borrower as at the end of the period. This lease liability has also been classified as a level 2 instrument.

The carrying amounts of the other financial instruments acquired in business combination are the same as their fair values.

6. Financial risk management continued

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 35) 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.

6.1.7 Reconciliation of fair value measurements of Level 3 financial instruments

Refer to Note 35 for reconciliation of fair value measurements of level 3 contingent consideration.

6.1.8 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.

In 2019, the contingent consideration was written back. (See details in Note 35.1.)

Increase/decrease in estimated cash flows	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million
+10%	181	–	56	–
-10%	(185)	–	(57)	–

The fair value of the contingent consideration of $18.5 million for OML 53 was estimated by calculating the present value of the deferred payment of $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, 5 February 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.

6.1.9 Capital management

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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Interest bearing loans and borrowings	242,349	136,830	789,408	445,699
Lease liabilities	2,829	–	9,210	–
Less: cash and bank balances	(102,240)	(179,509)	(333,028)	(584,723)
Net debt	142,938	(42,679)	465,590	(139,024)
Total equity	553,668	491,472	1,803,486	1,600,885
Total capital	696,606	448,793	2,269,076	1,461,861
Net debt (net debt/total capital) ratio	21%	(10%)	21%	(10%)

During the year, the Group's strategy which was unchanged from 2018, was to maintain a net debt gearing ratio of 20% to 40%. Capital includes share capital, share premiums, capital contribution and all other equity reserves.

The net debt to equity ratio increased by 0.33% following the adoption of IFRS 16 Leases. Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019.

As the Group continuously reviews its funding and maturity profile, it continues to monitor the market in ensuring that it is well positioned for any refinancing opportunities for the current debt facilities – including potentially the US$350 million 9.25% 144A/Reg S bond maturing in 2023.

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 six-month period must be achieved.
- The Cash Adjusted Debt Service Cover Ratio should be equal to or greater than 1.20 to 1 for each Calculation Period through to the applicable Termination Date.

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

7. Segment reporting

Business segments are based on the Group's internal organisation and management reporting structure. The Group'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 2019, revenue from the gas segment of the business constituted 29% (2018: 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 its cash flows, will be largely independent of other business units within the Group, 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).

The Group accounting policies are also applied in the segment reports. The results of the discontinued operation have not been included in the segment reporting information.

7.1 Segment profit disclosure

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Oil	26,623	8,421	86,743	27,512
Gas	54,352	36,430	177,099	119,014
Total profit from continued operations for the year	80,975	44,851	263,842	146,526

				Oil
	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue from contract with customers				
Crude oil sales (Note 8)	151,954	180,751	495,104	590,503
Operating profit before depreciation, amortisation and impairment	81,984	94,502	268,597	308,729
Depreciation and amortisation	(25,570)	(31,244)	(84,792)	(102,061)
Impairment	(14,692)	(4,829)	(47,869)	(15,781)
Operating profit	41,722	58,429	135,936	190,887
Finance income (Note 16)	4,134	3,032	13,471	9,905
Finance costs (Note 16)	(10,294)	(17,292)	(33,539)	(56,492)
Profit before taxation	35,562	44,169	115,868	144,300
Income tax expense (Note 17)	(8,939)	(35,748)	(29,125)	(116,788)
Profit for the period	26,623	8,421	86,743	27,512

				Gas
	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue from contract with customer				
Gas sales (Note 8)	41,668	47,640	135,761	155,637
Gas processing (Note 8)	20,535	–	66,912	–
	62,203	47,640	202,673	155,637
Operating profit before depreciation, amortisation and impairment	60,277	42,302	188,835	138,198
Depreciation and amortisation	(6,031)	(6,218)	(12,084)	(20,322)
(Impairment loss)/reversal of impairment loss	(219)	346	(712)	1,138
Operating profit	54,027	36,430	176,039	119,014
Finance income	–	–	–	–
Finance cost	–	–	–	–
Share of profit from joint venture accounted for using equity accounting	325	–	1,060	–
Profit before taxation	54,352	36,430	177,099	119,014
Taxation	–	–	–	–
Profit for the year	54,352	36,430	177,099	119,014

During the reporting period, impairment losses recognised in the gas segment relate to NGMC. Impairment losses recognised in the oil segment relate to receivables from trade receivables (Pillar and Mercuria), NPDC, NAPIMS and other receivables. See Note 12 for further details.

7.1.1 Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of commodities at a point in time or over time and from different geographical regions.

	2019 Oil ₦ million	2019 Gas ₦ million	2019 Total ₦ million	2019 Oil US$ '000	2019 Gas US$ '000	2019 Total US$ '000
Geographical markets						
Nigeria	13,424	62,203	**75,627**	43,740	202,673	**246,413**
Switzerland	138,530	–	**138,530**	451,364	–	**451,364**
Revenue from contract with customers	151,954	62,203	**214,157**	495,104	202,673	**697,777**
Timing of revenue recognition						
At a point in time	151,954	–	**151,954**	495,104	–	**495,104**
Over time	–	62,203	**62,203**	–	202,673	**202,673**
Revenue from contract with customers	151,954	62,203	**214,157**	495,104	202,673	**697,777**

	2018 Oil ₦ million	2018 Gas ₦ million	2018 Total ₦ million	2018 Oil US$ '000	2018 Gas US$ '000	2018 Total US$ '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 from contract with customers	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 from contract with customers	180,751	47,640	**228,391**	590,503	155,637	**746,140**

The Group's transactions in 2019 with its major customer, Mercuria, constitute more than 65% (₦139 billion, $451 million in 2018; ₦169 billion, $554 million) of the total revenue from the oil segment and the Group as a whole. Also, the Group's transactions with NGMC (₦62 billion, $203 million in 2018; ₦48 billion, $156 million) accounted for more than 10% of the total revenue from the gas segment and the Group as a whole.

7.1.2 Impairment/ (reversal of) losses by reportable segments

	2019 Oil ₦ million	2019 Gas ₦ million	2019 Total ₦ million	2018 Oil ₦ million	2018 Gas ₦ million	2018 Total ₦ million
Impairment losses recognised during the period	1,870	219	**2,089**	4,990	–	**4,990**
Receivables written off during the year as uncollectible	14,871	–	**14,871**	–	–	**–**
Reversal of previous impairment losses	(2,049)	–	**(2,049)**	(158)	(347)	**(505)**
Exchange difference	–	–	**–**	(3)	1	**(2)**
	14,692	219	**14,911**	4,829	(346)	**4,483**

	2019 Oil US$ '000	2019 Gas US$ '000	2019 Total US$ '000	2018 Oil US$ '000	2018 Gas US$ '000	2018 Total US$ '000
Impairment losses recognised during the period	6,097	712	**6,809**	16,303	–	**16,303**
Receivables written off during the year as uncollectible	48,439	–	**48,439**	–	–	**–**
Reversal of previous impairment losses	(6,667)	–	**(6,667)**	(522)	(1,138)	**(1,660)**
	47,869	712	**48,581**	15,781	(1,138)	**14,643**

At year end, Eland was acquired. The acquisition was completed at 31 December 2019. As a result, the profit for Eland is not reflected here as it does not form part of pre-acquisition reserves.

7.2 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.

Total segment assets	Oil ₦ million	Gas ₦ million	Total ₦ million	Oil US$ '000	Gas US$ '000	Total US$ '000
31 December 2019	763,322	240,911	**1,004,233**	2,563,147	707,963	**3,271,110**
31 December 2018	614,032	152,639	**766,671**	2,000,107	497,191	**2,497,298**

7.3 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.

Total segment liabilities	Oil ₦ million	Gas ₦ million	Total ₦ million	Oil US$ '000	Gas US$ '000	Total US$ '000
31 December 2019	434,334	16,091	**450,425**	1,398,462	68,709	**1,467,171**
31 December 2018	248,579	26,620	**275,199**	809,704	86,709	**896,413**

8. Revenue from contracts with customers

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Crude oil sales	151,954	180,751	495,104	590,503
Gas sales	41,668	47,640	135,761	155,637
Gas processing	20,535	–	66,912	–
	214,157	228,391	697,777	746,140

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

Gas processing is revenue received from Nigerian Petroleum Development Company (NPDC) for processing its share of the gas extracted from OMLs 4, 38 and 41 from 2015 to 2018. In prior periods, the Group had not recognised the related income or receivable for the service because the basis for determining the fees was yet to be concluded with NPDC.

9. Cost of sales

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Royalties	29,654	38,008	96,622	124,173
Depletion, depreciation and amortisation (Note 20.6)	27,952	36,570	91,075	119,471
Crude handling fees	17,616	20,954	57,396	68,455
Nigeria Export Supervision Scheme (NESS) fee	181	235	589	767
Niger Delta Development Commission levy	2,599	1,651	8,469	5,395
Rig related costs	1,872	12	6,101	39
Operational & maintenance expenses	12,824	11,211	41,787	36,626
	92,698	108,641	302,039	354,926

Rig related costs for 2019 mostly relate to workovers which form part of expenses for the relevant reporting period. During the year ended 2019, substantial repair and maintenance (workover) were carried out to ensure adequate running of the wells.

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

10. Other income

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
(Overlift)/underlift	(2,101)	4,179	(6,847)	13,652
Exchange gains	735	406	2,395	1,325
Gains on disposal of oil and gas assets (Note 20.3)	9,462	–	30,830	–
Tariffs	1,074	–	3,498	–
	9,170	4,585	29,876	14,977

Overlifts are excess crude lifted above the share of production. It may exist when the crude oil lifted by the Group during the period is above its ownership share of production. Overlifts are initially measured at the market price of oil at the date of lifting and recognised as other expenses. At each reporting period, overlifts are remeasured at the current market value. The resulting change, as a result of the remeasurement, is also recognised in profit or loss.

Underlifts are shortfalls of crude lifted below the share of production. It may exist when the crude oil lifted by the Group during the period is less than its 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.

Tariffs, a form of crude handling fee, relate to income generated from the use of the Group's pipeline.

11. General and administrative expenses

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Depreciation (Note 20.6)	872	891	2,841	2,912
Depreciation of right-of-use assets (Note 46)	908	–	2,960	–
Auditor's remuneration	170	180	553	586
Professional and consulting fees	3,195	3,866	10,408	12,627
Directors' emoluments (Executive)	770	757	2,508	2,474
Directors' emoluments (Non-Executive)	1,056	1,083	3,440	3,537
Donations	73	122	237	397
Employee benefits (Note 11.1)	11,565	10,402	37,681	33,987
Flights and other travel costs	2,792	2,258	9,097	7,376
Rentals	274	586	892	1,912
Other general expenses	–	4,255	–	13,903
	21,675	24,400	70,617	79,711

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. 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.

11.1 Salaries and employee related costs include the following:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Short-term employee benefits:				
Basic salary	5,300	5,488	17,272	17,932
Housing allowances	622	37	2,026	123
Other allowances	1,814	1,112	6,017	3,631
Post-employment benefits:				
Defined contribution expenses	622	456	2,026	1,492
Defined benefit expenses (Note 37.2)	343	340	1,117	1,111
Other employee benefits:				
Share-based payment expenses (Note 31.4)	2,864	2,969	9,223	9,698
	11,565	10,402	37,681	33,987

Other allowances relate to staff bonus, car allowances and relocation expenses.

12. Impairment of losses on financial assets

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Impairment losses:				
Impairment loss on NAPIMS receivables	23	–	77	–
Impairment loss on NPDC receivables	–	775	–	2,533
Impairment loss on other receivables (Crestar)	1,540	4,215	5,020	13,770
Impairment loss on trade receivables (NGMC)	219	–	712	–
Impairment loss on trade receivables (Pillar)	239		779	
Impairment loss on trade receivables (Mercuria)	68		221	
	2,089	4,990	6,809	16,303
Receivables written off during the year as uncollectible	14,871	–	48,439	–
	16,960	4,990	55,248	16,303
Reversal of impairment losses:				
Reversal of impairment loss on NAPIMS receivables	–	(64)	–	(215)
Reversal of impairment loss on trade receivables (NGMC)	–	(347)	–	(1,139)
Reversal of impairment loss on NPDC receivables	(2,036)	–	(6,628)	–
Reversal of impairment loss on trade receivables (Pillar Limited)	–	(27)	–	(89)
Reversal of impairment loss on short-term fixed deposits	(13)	(67)	(39)	(217)
	(2,049)	(505)	(6,667)	(1,660)
Exchange difference		(2)		
Total impairment loss allowance	**14,911**	**4,483**	**48,581**	**14,643**

During the year, the Group wrote off some of the receivables due from NPDC. These receivables relate to interest accrued on cash calls. The Group assessed these interest receivables to be uncollectible. (See details in Notes 27.5 and 27.6.)

13. Discontinued operation

On 20 January 2017, the Group incorporated ANOH Gas Processing Company Limited (ANOH), a wholly owned subsidiary, as a midstream company to develop, design, engineer, construct, operate and maintain the Assa North-Ohaji South gas processing plant.

In order to fund the development of the processing plant, on 13 August 2018, the Group entered into a shareholders' agreement with Nigerian Gas Processing and Transportation Company ("NGPTC") for both parties to provide the required funding for the expansion of the processing plant. The contributing parties would fund the project through capital injection in tranches. However, the monies extended would be in form of equity contribution and would be used to subscribe for the ordinary shares in ANOH.

The shareholders' agreement, which became effective on 18 April 2019, provides that the shareholding structure in ANOH be revised such that both parties have equal shareholding and unanimous consent in the Company. As a result of the change in the ownership structure, the Group lost full control of ANOH from the effective date of the agreement.

ANOH was deconsolidated with effect from 18 April 2019 and is reported in the current period as a discontinued operation. The details of the deconsolidation of ANOH have been disclosed in Note 1 (corporate structure and business) and Note 2 (significant changes in the current reporting period). Financial information relating to the discontinued operation for the period to the date of deconsolidation is set out below:

13.1 Financial performance and cash flow information

The financial performance and cash flow information for the year ended 31 December 2019 (effectively 1 January 2019 – 18 April 2019), and the respective comparative periods, that is, the year ended 31 December 2018, are presented below:

	April 2019 ₦ million	2018 ₦ million	April 2019 US$ '000	2018 US$ '000
Revenue	–	–	–	–
Cost of sales	–	–	–	–
General and administrative expenses	(11)	(10)	(36)	(58)
Other (expenses)/income – net	(7)	26	(22)	108
Finance income – net	190	–	620	–
Profit before taxation	172	16	562	50
Taxation	–	–	–	–
Profit from discontinued operation	172	16	562	50
Gain on deconsolidation of subsidiary (Note 13.2)	3,869	–	12,604	–
Profit from discontinued operation	4,041	16	13,166	50
				–
Net cash inflow from operating activities	49,158	5,502	160,133	17,976
Net cash outflows from investing activities	(1,806)	(5,507)	(5,893)	(17,991)
Net cash outflows from financing activities	–	–	–	–
Net increase/(decrease) in cash and cash equivalents	47,352	(5)	154,240	(15)

13.2 Gain on deconsolidation of subsidiary

	2019 ₦ million	2019 US$ '000
Purchase consideration	–	–
Add: fair value gain on 50% retained interest	3,469	11,302
Add: 50% of net liabilities derecognised (Note 13.3)	400	1,302
	3,869	12,604

The gain arising on loss of control is recorded in profit or loss. This gain includes the gain on the portion sold and the gain on remeasurement of the 50% retained interest.

13.2.1 Gain on portion sold

	2019 ₦ million	2019 US$ '000
Purchase consideration	–	–
Group's share of net liabilities derecognised	400	1,302
Gain on derecognition of net liabilities	400	1,302

13.2.2 Gain on remeasurement of retained interest

	2019 ₦ million	2019 US$ '000
Purchase consideration	–	–
Group's share of net liabilities retained	400	1,302
Fair value of retained interest	3,069	10,000
	3,469	11,302

The fair value of the retained interest in ANOH was determined to be $2 per share. This is based on the amount NGPTC paid for each ordinary share in ANOH. ANOH has not entered into any lease arrangements. Therefore, the adoption of IFRS 16 did not have an impact on the Group's discontinued operations.

13.3 Net liabilities derecognised

The carrying amounts of assets and liabilities that were deconsolidated on the date of loss of control (18 April 2019) were:

	As at 18 April 2019 ₦ million	As at 18 April 2019 US$ '000
Non-current assets:		
Oil and gas properties	12,141	39,557
Current assets:		
Trade and other receivables	221	711
Prepayments	21	71
Cash and bank balances	47,352	154,240
Total assets	59,735	194,579
Current liabilities:		
Trade and other payables	(60,535)	(197,183)
Total liabilities	(60,535)	(197,183)
Net liabilities derecognised	(800)	(2,604)
50% of retained interest	(400)	(1,302)

14. Business combination

14.1 Summary of acquisition

On 31 December 2019 Seplat Petroleum Development Company (Seplat) reached an agreement to acquire 100% of Eland Oil and Gas PLC's (Eland) issued and yet to be issued ordinary shares. Under the terms of the acquisition, each Eland shareholder is entitled to receive, for each Eland share, 166 pence in cash. The cash consideration payable under the acquisition was wholly funded through a combination of existing cash resources of Seplat and a new loan facility (see Note 34) available to Seplat. Seplat's acquisition includes Eland's main asset, the OML 40 licence in the Niger Delta, which would enable Seplat to boost its production capacity.

Eland is an independent oil and gas company that holds interests in subsidiaries and joint ventures that are into production, development and exploration in West Africa, particularly the Niger Delta region of Nigeria. In 2012, Eland through its joint venture company, Elcrest Exploration and Production Company Limited (Elcrest), purchased a 45% interest in OML 40. Elcrest is a Joint Venture between Eland Oil and Gas (45%) and Starcrest Nigeria Energy Limited (55%). In 2014 Eland acquired a 40% stake in a second licence, Ubima. Eland also has ownership interests in several companies. (Refer to Note 1 for corporate structure and business details.)

Details of the purchase consideration are as follows:

	31 December 2019 ₦ million	31 December 2019 US$ '000
Cash paid	148,170	482,637
Outstanding payments	1,549	5,046
Total purchase consideration	149,719	487,683

The fair value assets and liabilities recognised as a result of the acquisition are as follows:

	31 December 2019 ₦ million	31 December 2019 US$ '000
Assets:		
Other property, plant and equipment	727	2,367
Producing asset	94,823	308,869
Investment accounted for using equity method (Elandale)	3	11
Right of use assets – IFRS 16	630	2,053
Exploration and evaluation assets	18,072	58,865
Contract based intangible asset on acquisition*	33,748	109,929
Licence cost	2,222	7,241
Deferred tax assets	27,686	90,182
Inventories	1,326	4,319
Trade receivables	2,780	9,056
Receivable from NPDC	16,075	52,360
Other receivables	4,484	14,605
Derivative financial instrument	149	485
Cash and cash equivalents	9,651	31,438
Total assets	**212,376**	**691,780**
Liabilities:		
Interest bearing loans and borrowings	(27,704)	(90,242)
Lease liability	(461)	(1,500)
Provision for decommissioning	(5,799)	(18,890)
Contingent liability**	(2,216)	(7,217)
Trade and other payables	(42,274)	(137,705)
Current taxation	(523)	(1,702)
Total liabilities	**(78,977)**	**(257,256)**
Fair value of net assets	**133,399**	**434,524**
Add: Net liabilities of non-controlling interest (Note 25.2)	**7,252**	**23,621**
Fair value of net asset acquired – Eland	**140,651**	**458,145**

* The contract based intangible asset in relation to OML 40 was acquired as part of a business combination. It is recognised at its fair value at the date of acquisition and is subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over its estimated useful life.

** A contingent liability of ₦2.4 billion ($7.9 million) was recognised on acquisition of Eland. The outcome of the EU state aid – UK Controlled Foreign Companies (CFC) case required companies in tax efficient jurisdictions to assess the profit allocable to UK significant people functions (SPFs). In April 2019, the European Commission issued a press release announcing its conclusion that the UK Finance Company Partial Exemption Rules (The FCPE rules) were partly justified for the period of 2013 to 2018. As a result, the estimated exposure is recognised as contingent liability on acquisition.

For the non-controlling interests in Eland Oil Limited, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets. See Note 3.8 ix for the Group's accounting policies for business combination and Note 25.2 for details on the non-controlling interest.

14.2 Summary of acquisition

On 15 October 2019 Seplat acquired 100% of the issued share capital of Eland Oil and Gas PLC ("Eland") for $487.7 million cash consideration. Eland is an oil and gas exploration and production company that holds interests in various subsidiaries and joint ventures. The assets and liabilities acquired were valued as at the acquisition date – 31 December 2019. Details of the net assets acquired, and goodwill are as follows:

	12 months ended 31 December 2019 ₦ million	12 months ended 31 December 2019 US$ '000
Purchase consideration	149,719	487,683
Fair value of net asset acquired – Eland (Note 14.1)	(140,651)	(458,145)
Goodwill	9,058	29,538

The goodwill is attributable mainly to the skills and technical talent of Eland's workforce and the high profitability of the acquired business. None of the goodwill recognised is expected to be deductible for tax purposes.

The goodwill on acquisition has been allocated entirely to oil segment because it is the Cash Generating Unit (CGU) directly affected by the acquisition of Eland.

14.3 Acquired receivables

The acquired receivables on business combination are as shown below:

	Fair value ₦ million	Gross carrying amount ₦ million	Loss allowance ₦ million	Net carrying value ₦ million
Trade receivables	2,780	2,780	–	2,780
Receivables from NPDC	16,075	17,682	1,665	19,347
Other receivables	4,484	4,898	415	5,313
Total receivables	**23,339**	**25,360**	**2,080**	**27,440**

	Fair value US$ '000	Gross carrying amount US$ '000	Loss allowance US$ '000	Net carrying value US$ '000
Trade receivables	9,056	9,056	–	9,056
Receivables from NPDC	52,360	57,596	5,423	52,173
Other receivables	14,605	15,956	1,351	14,605
Total receivables	**76,021**	**82,608**	**6,774**	**75,834**

Receivables acquired on business combination were carried at fair value.

14.4 Revenue and profit contribution

The acquisition was commutated on 31 December 2019. As a result, the acquired business did not contribute revenue or profit during the year.

14.5 Purchase consideration – cash outflow

	2019 ₦ million	2019 US$ '000
Purchase consideration	149,719	487,683
Less: Balances acquired		
Cash	(9,651)	(31,438)
Fair value of outstanding payment	(1,549)	(5,046)
Exchange difference	(40)	–
Net outflow of cash – investing activities	138,479	451,199

Acquisition-related costs of ₦3 billion ($9.7 million) that were not directly attributable to the issue of shares are included in general and administrative expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

15. Fair value gain/(loss)

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Realised fair value losses on crude oil hedges	(1,733)	(1,374)	(5,160)	(4,464)
Unrealised fair value loss	(2,236)	2,693	(7,770)	8,772
Fair value gain/(loss) on contingent consideration (Note 35)	5,675	(1,405)	18,489	(4,589)
Fair value (loss) on other asset (Note 21)	–	(507)	–	(1,655)
	1,706	(593)	5,559	(1,936)

Fair value gain/(loss) on derivatives represents changes in the fair value of hedging receivables charged to profit or loss. In 2018 fair value loss on contingent consideration arose in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in OML 53.

In the reporting period, the write off of the contingent consideration due to production milestones not achieved resulted in a gain (see Note 35). Fair value 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 21 for further details.

16. Finance income/(cost)

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Finance income				
Interest income	4,134	3,032	13,471	9,905
Finance cost				
Interest on advance payments for crude oil sales	–	(530)	–	(1,730)
Interest on bank loans (Note 34)	(8,890)	(15,870)	(28,966)	(51,848)
Interest on lease liabilities (Note 46)	(164)	–	(534)	–
Unwinding of discount on provision for decommissioning (Note 36)	(1,240)	(892)	(4,039)	(2,914)
	(10,294)	(17,292)	(33,539)	(56,492)
Finance (cost) – net	(6,160)	(14,260)	(20,068)	(46,587)

Finance income represents interest on short-term 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 12.33% (2018: 13.1%). The amount capitalised during the year is ₦6 billion ($21 million), 2018: ₦5 billion ($16 million).

17. Taxation

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

Income tax expense

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Current tax:				
Current tax expense on profit for the year	6,009	6,651	19,578	21,726
Education tax	955	1,042	3,111	3,408
Total current tax	6,964	7,693	22,689	25,134
Deferred tax:				
Deferred tax expense in profit or loss (Note 18.3)	1,975	28,055	6,436	91,654
Total tax expense in statement of profit or loss	8,939	35,748	29,125	116,788
Deferred tax recognised in other comprehensive income (Note 18.1)	(171)	80	(558)	261
Total tax charge for the period	8,768	35,828	28,567	117,049
Effective tax rate	10%	44%	10%	44%

17.1 Reconciliation of effective tax rate

The estimated applicable average annual tax rates used for the year ended 31 December 2019 were 85% and 65.75% for crude oil activities and 30% for gas activities; 2018 were 85% and 65.75% for crude oil activities and 30% for gas activities.

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 and this forms the basis for the Group's current income taxation and deferred taxation for the year ended 31 December 2019. A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Profit before taxation	89,914	80,599	292,967	263,314
Tax rate of 85%, 65.75% and 30%	76,427	68,523	249,022	223,859
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(19,038)	(36,671)	(62,029)	(119,803)
Expenses not deductible for tax purposes	37,911	15,936	123,525	52,065
Recognition of previously unrecognised deductible temporary difference	(34,050)	–	(110,943)	–
Impact of unutilised tax losses	1,975	–	6,436	–
Effect of differences in tax rates	(6,994)	–	(22,789)	–
Effect of permanent differences	(801)		(2,610)	
Impact of tax incentive	(46,329)	(13,083)	(150,953)	(42,741)
Education tax	955	1,043	3,111	3,408
Tax loss utilised	(1,119)	–	(3,645)	–
Impact of exchange difference	2	–	–	–
Total tax credit in statement of profit or loss	8,939	35,748	29,125	116,788

17.2 Current tax liabilities/(assets)

The movement in the current tax liabilities is as follows:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
As at 1 January	(723)	1,264	(2,356)	4,133
Tax charge	6,964	7,693	22,689	25,134
Utilisation of prepaid tax	–	(9,680)	–	(31,623)
Tax paid	(1,084)	–	(3,533)	–
Acquired in business combination (Note 14)	522	–	1,702	–
As 31 December	**5,679**	**(723)**	**18,502**	**(2,356)**

Financial statements

18. Deferred tax

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

Deferred tax assets	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Deferred tax assets to be recovered in less than 12 months	–	–	–	–
Deferred tax assets to be recovered after more than 12 months	182,352	130,478	595,132	426,131
	182,352	130,478	595,132	426,131

Deferred tax liabilities	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Deferred tax liabilities to be recovered in less than 12 months	–	–	–	–
Deferred tax liabilities to be recovered after more than 12 months	(113,985)	(87,990)	(372,435)	(287,738)
	(113,985)	(87,990)	(372,435)	(287,738)
Net deferred tax assets	68,367	42,488	222,697	138,393

18.1 Deferred tax assets

Deferred income 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 2019 ₦ million	(Charged)/ credited to profit or loss ₦ million	Credited to other comprehensive income ₦ million	Acquisition of subsidiary ₦ million	Balance at 31 December 2019 ₦ million
Other cumulative timing differences:					
Unutilised capital allowance	116,068	8,365	–	–	**124,433**
Provision for decommissioning obligation	818	(522)	–	–	**296**
Provision for defined benefit	1,540	1,014	171	–	**2,725**
Share-based payment plan	3,294	2,376	–		**5,670**
Unrealised foreign exchange loss/(gain) on trade and other receivables	1,258	(212)	–	–	**1,046**
Overlift/(underlift)	5,246	5,620	–	–	**10,866**
Acquired in business combination	–	–	–	27,686	**27,686**
Impairment provision on trade and other receivables	2,071	1,328	–	–	**3,399**
Unrecognised deferred tax asset	–	6,050	–	–	**6,050**
	130,295	24,019	171	27,686	**182,171**
Effect of exchange differences	183	(2)	–		**181**
	130,478	24,017	171	27,686	**182,352**

	Balance at 1 January 2018 ₦ million	Impact on initial application of IFRS 9 ₦ million	Restated as at 1 January 2018 ₦ million	(Charged)/ credited to profit or loss ₦ million	Charged to other comprehensive income ₦ million	Balance at 31 December 2018 ₦ million
Other cumulative timing differences:						
Unutilised capital allowance	127,499	–	127,499	(11,431)	–	**116,068**
Provision for decommissioning obligation	102	–	102	716	–	**818**
Provision for defined benefit	1,250	–	1,250	370	(80)	**1,540**
Share-based payment plan	4,629	–	4,629	(1,335)	–	**3,294**
Unrealised foreign exchange loss/(gain)	4,209	–	4,209	(2,951)	–	**1,258**
Overlift/(underlift)	6,489	–	6,489	(1,243)	–	**5,246**
Impairment provision on trade and other receivables	1,811	2,013	3,824	(1,753)	–	**2,071**
	145,989	2,013	148,002	(17,627)	(80)	**130,295**
Exchange difference	–	6	6	177	–	**183**
	145,989	2,019	148,008	(17,450)	(80)	**130,478**

	Balance at 1 January 2019 US$ '000	(Charged)/ credited to profit or loss US$ '000	Credited to other comprehensive income US$ '000	Acquisition of subsidiary US$ '000	Balance at 31 December 2019 US$ '000
Other cumulative timing differences:					
Unutilised capital allowance	379,592	27,256	–	–	**406,848**
Provision for decommissioning obligation	2,674	(1,700)	–	–	**974**
Provision for defined benefit	5,036	3,303	558	–	**8,897**
Share-based payment plan	10,778	7,741	–	–	**18,519**
Unrealised foreign exchange loss/(gain)	4,123	(690)	–	–	**3,433**
Overlift/(underlift)	17,158	18,311	–	–	**35,469**
Acquired in business combination	–	–	–	90,182	**90,182**
Impairment provision on trade and other receivables	6,770	4,326	–	–	**11,096**
Unrecognised deferred tax asset	–	19,714	–	–	**19,714**
	426,131	78,261	558	90,182	**595,132**

	Balance at 1 January 2018 US$ '000	Impact on initial application of IFRS 9 US$ '000	Restated as at 1 January 2018 US$ '000	(Charged)/ credited to profit or loss US$ '000	Charged to other comprehensive income US$ '000	Balance at 31 December 2018 US$ '000
Tax losses	40,523	–	40,523	(40,523)	–	–
Other cumulative timing differences:						
Unutilised capital allowance	416,935	–	416,935	(37,343)	–	**379,592**
Provision for decommissioning obligation	334	–	334	2,339	–	**2,673**
Provision for defined benefit	4,087	–	4,087	1,209	(261)	**5,035**
Share-based payment plan	15,138	–	15,138	(4,360)	–	**10,778**
Unrealised foreign exchange (gain)/loss	13,765	–	13,765	(9,641)	–	**4,124**
Overlift/(underlift)	21,219	–	21,219	(4,060)	–	**17,159**
Impairment provision on trade and other receivables	5,923	6,577	12,500	(5,730)	–	**6,770**
	517,924	6,577	524,501	(98,109)	(261)	**426,131**

18.2 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 2019 ₦ million	Charged /(credited) to profit or loss ₦ million	Balance at 31 December 2019 ₦ million
Tax losses	12	1,119	**1,131**
Other cumulative timing differences:			
Fixed assets	85,706	24,876	**110,582**
Derivative financial instruments	2,282	–	**2,282**
	88,000	25,995	**113,995**
Effect of exchange differences	(10)	–	**(10)**
	87,990	25,995	**113,985**

	Balance at 1 January 2018 ₦ million	Impact on initial application of IFRS 9 ₦ million	Charged/ (credited) to profit or loss ₦ million	Balance at 31 December 2018 ₦ million
Tax losses	(12,392)	–	12,404	**12**
Other cumulative timing differences:				
Fixed assets	89,964	–	(4,258)	**85,706**
Derivative financial instruments	–	–	2,282	**2,282**
	77,572	–	10,428	**88,000**
Effect of exchange difference	–	–	(10)	**(10)**
	77,572	–	10,418	**87,990**

18. Deferred tax continued

	Balance at 1 January 2019 US$ '000	(Charged)/ credited to profit or loss US$ '000	Credited to other comprehensive income US$ '000	Balance at 31 December 2019 US$ '000
Tax losses	–	3,645	–	**3,645**
Other cumulative timing differences:				
Fixed assets	280,282	81,052	–	**361,334**
Derivative financial instruments	7,456	–	–	**7,456**
	287,738	84,697	–	**372,435**

	Balance at 1 January 2018 US$ '000	Impact on initial application of IFRS 9 US$ '000	(Charged)/ credited to profit or loss US$ '000	Charged to other comprehensive income US$ '000	Balance at 31 December 2018 US$ '000
Tax losses	–	–	–	–	**–**
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)**

18.3 Deferred tax recognised in profit or loss

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Credited/(charged) to profit or loss;				
Unutilised capital allowance	8,365	(11,431)	27,256	(37,343)
Provision for defined benefit	1,014	370	3,303	1,209
Share-based payment plan	2,376	(1,335)	7,741	(4,360)
Overlift/(underlift)	5,620	(1,243)	18,311	(4,060)
Derivative financial instruments	–	(2,282)	–	(7,456)
Impairment provision on trade and other receivables	1,328	(1,753)	4,326	(5,730)
Unrecognised deferred tax asset	6,050	–	19,714	–
(Charged)/credited to profit or loss;		–		
Tax losses	(1,119)	(12,404)	(3,645)	(40,523)
Provision for decommissioning obligation	(522)	716	(1,700)	2,340
Unrealised foreign exchange loss/(gain) on trade and other receivables	(212)	(2,951)	(690)	(9,642)
Fixed assets	(24,876)	4,258	(81,052)	13,911
Exchange difference	1	–	–	–
Total (charged) to profit or loss	(1,975)	(28,055)	(6,436)	(91,654)
Charged to other comprehensive income				
Deferred tax credit/(expense) on remeasurement	171	(80)	558	(261)
	171	(80)	558	(261)

18.4 Unrecognised deferred tax assets

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

	As at 30 Dec 2019		As at 31 Dec 2018	
	Gross amount ₦ million	Tax effect ₦ million	Gross amount ₦ million	Tax effect ₦ million
Other deductible temporary differences	2,469	1,623	17,894	11,206
Tax losses	6,429	4,227	10,224	6,011
	8,898	5,850	28,118	17,217

	As at 30 Dec 2019		As at 31 Dec 2018	
	Gross amount US$ '000	Tax effect US$ '000	Gross amount US$ '000	Tax effect US$ '000
Other cumulative timing differences	8,042	5,288	58,288	36,509
Tax losses	20,942	13,769	33,303	19,573
	28,984	19,057	91,591	56,082

18.5 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.

19. Computation of cash generated from operations

	Notes	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Profit before tax					
Continuing operations		89,914	80,599	292,967	263,314
Discontinued operations	13.1	4,041	16	13,166	50
Adjusted for:					
Depletion, depreciation and amortisation	20.6	28,824	37,461	93,916	122,383
Depreciation of right-of-use asset	11	908	–	2,960	–
Impairment losses on financial assets	12	14,911	4,483	48,581	14,643
Interest income	16	(4,134)	(3,032)	(13,471)	(9,905)
Interest on advance payments for crude oil sales	16	–	530	–	1,730
Interest expense on bank loans	16	8,890	15,870	28,966	51,848
Interest on lease liabilities	16	164	–	534	–
Unwinding of discount on provision for decommissioning	16	1,240	892	4,039	2,914
Fair value (gain)/loss on contingent consideration	15	(5,675)	1,405	(18,489)	4,589
Fair value loss on other assets	15	–	507	–	1,655
Fair value (gain)/loss on derivatives financial instrument	15	2,236	(2,693)	7,770	(8,772)
Unrealised foreign exchange (gain)	10	(735)	(406)	(2,395)	(1,325)
Share-based payment expenses	11.1	2,864	2,969	9,223	9,698
Defined benefit expenses	11.1	343	340	1,117	1,111
Gain on deconsolidation of subsidiary	13.1	(3,869)	–	(12,604)	–
Gain on disposal of oil and gas properties	20	(9,462)	–	(30,830)	–
Share of profit in joint venture	25.3	(325)	–	(1,060)	–
Changes in working capital: (excluding the effects of exchange differences)					
Trade and other receivables		(95,451)	47,233	(311,001)	153,850
Prepayments		(11,606)	(11,355)	(37,816)	(36,988)
Contract assets		(2,198)	(4,327)	(7,163)	(14,096)
Net working capital on loss of control of subsidiary		60,277	–	196,401	–
Trade and other payables		12,698	(15,139)	41,374	(49,313)
Contract liabilities		5,002	–	16,301	–
Restricted cash		(1,007)	(1,049)	(3,280)	(3,418)
Inventories		6,864	(680)	22,365	(2,218)
Net cash from operating activities		104,714	153,624	341,571	501,750

19.1 Non-cash investing activities

i. Reconciliation of additional investment in joint venture (Note 25.3.1.4)

ii. Proceeds from disposal of oil and gas properties (Note 20.4)

iii. Reclassification of oil and gas properties to intangible asset (Note 20.2)

iv. Payment for acquisition of subsidiary, net of cash acquired (Note 14.5)

19.2 Non-cash financing activity

i. Net debt reconciliation of interest bearing loans and borrowings (Note 34.1)

ii. Net debt reconciliation of crude oil advance (Note 38.1)

20. Property, plant and equipment

20.1 Oil and gas properties

Cost	Production and field facilities ₦ million	Assets under construction ₦ million	Exploration and evaluation assets ₦ million	Total ₦ million
At 1 January 2018	465,010	43,304	–	508,314
Additions	3,729	22,500	–	26,229
Interest capitalised	–	4,929	–	4,929
Changes in decommissioning	10,112	–	–	10,112
Reclassifications (Note 20.2)	–	(9,070)	–	(9,070)
Exchange differences	1,705	251	–	1,956
At 31 December 2018	**480,556**	**61,914**	**–**	**542,470**
Depreciation				
At 1 January 2018	114,937	–	–	114,937
Charge for the year	36,494	–	–	36,494
Exchange differences	558	–	–	558
At 31 December 2018	**151,989**	**–**	**–**	**151,989**
NBV				
At 31 December 2018	**328,567**	**61,914**	**–**	**390,481**

Cost				
At 1 January 2019	480,556	61,914	–	542,470
Additions	34,130	961	–	35,091
Transfers	19,567	(19,567)		–
Acquired in business combination	94,823	–	18,072	112,895
Loss of control	–	(12,141)	–	(12,141)
Disposal of producing assets	(28,126)	–	–	(28,126)
Changes in decommissioning	(5,142)	–	–	(5,142)
Interest capitalised	–	6,308	–	6,308
Exchange differences	9	(6)	–	3
At 31 December 2019	**595,817**	**37,469**	**18,072**	**651,358**
Depreciation				
At 1 January 2019	151,989	–	–	151,989
Charge for the year	27,511	–	–	27,511
Disposal of producing assets	(6,522)	–	–	(6,522)
Exchange difference	8	–	–	8
At 31 December 2019	**172,986**	**–**	**–**	**172,986**
NBV				
At 31 December 2019	**422,831**	**37,469**	**18,072**	**478,372**

Cost	Production and field facilities US$ '000	Assets under construction US$ '000	Exploration and evaluation assets US$ '000	Total US$ '000
At 1 January 2018	1,520,635	141,608	–	1,662,243
Additions	12,182	73,507	–	85,689
Interest capitalised	–	16,104	–	16,104
Changes in decommissioning	32,511	–	–	32,511
Reclassifications (Note 20.2)	–	(29,543)	–	(29,543)
Exchange differences	–	–	–	–
At 31 December 2018	**1,565,328**	**201,676**	**–**	**1,767,004**
Depreciation				
At 1 January 2018	375,856	–	–	375,856
Charge for the year	119,225	–	–	119,225
Exchange differences	–	–	–	–
At 31 December 2018	**495,081**	**–**	**–**	**495,081**
NBV				
At 31 December 2018	**1,070,247**	**201,676**	**–**	**1,271,923**

Cost				
At 1 January 2019	1,565,328	201,676	–	1,767,004
Additions	111,207	3,132	–	114,339
Transfers	63,755	(63,755)		–
Acquired in business combination	308,869	–	58,865	367,734
Loss of control		(39,557)	–	(39,557)
Disposal of producing assets	(91,643)	–	–	(91,643)
Changes in decommissioning	(16,745)	–	–	(16,745)
Interest capitalised	–	20,554	–	20,554
Exchange differences	–	–	–	–
At 31 December 2019	**1,940,771**	**122,050**	**58,865**	**2,121,686**
Depreciation				
At 1 January 2019	495,081	–	–	495,081
Charge for the year	89,636	–	–	89,636
Disposal of producing assets	(21,244)	–		(21,244)
Exchange difference	–	–	–	–
At 31 December 2019	**563,473**	**–**	**–**	**563,473**
NBV	**1,377,298**	**122,050**	**58,865**	**1,558,213**

20.2 Reclassification of oil and gas properties to intangible asset

During the year, the Group reclassified an existing licence renewed in 2018 for ₦9 billion ($29 million) from oil and gas properties to intangible assets. (See Note 22.) For the purpose of the statement of cash flows, the reconciliation of the oil and gas properties and intangible asset is shown below:

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Addition	35,091	26,229	114,339	85,689
Reclassified to intangible assets	–	(9,070)	–	(29,543)
	35,091	17,159	114,339	56,146

20.3 Disposal of oil and gas properties

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Purchase consideration for disposal of oil and gas assets (Note 20.4)		31,066		101,229
Net book value of production and field facilities (Note 20.1):				
Cost	28,126		91,643	
Depreciation	(6,522)		(21,244)	
		(21,604)		(70,399)
Gain on disposal of oil and gas properties		9,462		30,830

During the year, the Group disposed 55% of Oben gas plant.

20. Property, plant and equipment continued

20.4 Purchase consideration

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Cash received	15,527	–	50,614	–
Purchase consideration outstanding	15,539	–	50,615	–
	31,066	–	101,229	–

*50% of the proceeds expected from the disposal of oil and gas assets have been paid, the other half is recognised within the receivables.

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 are qualifying assets that take a substantial period to get ready for their intended use. A capitalisation rate of 12.3% (2018: 13.1%) 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 ₦8 billion, 2018: ₦4.9 billion ($26 million, 2018: $16.1 million). There was no oil and gas property pledged as security during the reporting period.

20.5 Other property, plant and equipment

Cost	Plant & machinery ₦ million	Motor vehicles ₦ million	Office furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Land ₦ million	Building ₦ million	Total ₦ million
At 1 January 2018	1,594	2,266	4,456	895	–	–	9,211
Additions	–	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
Disposals	(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
Cost							
At 1 January 2019	1,498	2,663	4,680	928	–	–	9,769
Addition	28	393	1,280	287	21	1,194	3,203
Acquired in business combination (Note 14)	–	319	332	76	–	–	727
Exchange difference	–	–	1	–	–	–	1
At 31 December 2019	**1,526**	**3,375**	**6,293**	**1,291**	**21**	**1,194**	**13,700**
Depreciation							
At 1 January 2019	1,247	2,003	4,424	795	–	–	8,469
Charge for the year	150	235	354	113	–	20	872
Exchange differences	(1)	1	–	(1)	–	–	(1)
At 31 December 2019	**1,396**	**2,239**	**4,778**	**907**	**–**	**20**	**9,340**
NBV							
At 31 December 2019	**130**	**1,136**	**1,515**	**384**	**21**	**1,174**	**4,360**

Cost	Plant & machinery US$ '000	Motor vehicles US$ '000	Office furniture & IT equipment US$ '000	Leasehold improvements US$ '000	Land US$ '000	Building US$ '000	Total US$ '000
At 1 January 2018	5,212	7,411	14,572	2,928	–	–	30,123
Additions	–	1,532	672	98	–	–	2,302
Disposals	(332)	(268)	–	–	–	–	(600)
At 31 December 2018	**4,880**	**8,675**	**15,244**	**3,026**	**–**	**–**	**31,825**
Depreciation							
At 1 January 2018	3,432	5,714	13,521	2,378	–	–	25,045
Disposals	(101)	(268)	–	–	–	–	(369)
Charge for the year	**731**	**1,081**	**890**	**210**	**–**	**–**	**2,912**
At 31 December 2018	4,062	6,527	14,411	2,588	–	–	27,588
NBV							
At 31 December 2018	818	2,148	833	438	–	–	4,237
Cost							
At 1 January 2019	4,880	8,675	15,244	3,026	–	–	31,825
Addition	92	1,279	4,172	936	68	3,891	10,438
Acquired in business combination (Note 14)	–	1,038	1,083	246	–	–	2,367
At 31 December 2019	**4,972**	**10,992**	**20,499**	**4,208**	**68**	**3,891**	**44,630**
Depreciation							
At 1 January 2019	4,062	6,527	14,411	2,588	–	–	27,588
Charge for the year	487	767	1,154	367	–	66	2,841
At 31 December 2019	**4,549**	**7,294**	**15,565**	**2,955**	**–**	**66**	**30,429**
NBV							
At 31 December 2019	**423**	**3,698**	**4,934**	**1,253**	**68**	**3,825**	**14,201**

20.6 Depletion, depreciation and amortisation

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Oil and gas properties (Note 20.1)	27,511	36,494	89,636	119,225
Amortisation of intangible asset (Note 22)	441	76	1,439	246
Charged to cost of sales	27,952	36,570	91,075	119,471
Other property, plant and equipment charged to general and administrative expense (Note 20.5)	872	891	2,841	2,912
Total depletion, depreciation and amortisation	28,824	37,461	93,916	122,383

20.7 Gain/(loss) on disposal of other property, plant and equipment

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Proceeds from disposal of assets	–	71	–	231
Less net book value of disposed assets	–	(71)	–	(231)
	–	–	–	–

21. Other assets

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Fair value at the beginning of the year	51,299	66,368	167,100	217,031
Receipts from crude oil lifted	(11,106)	(14,777)	(36,185)	(48,276)
Fair value adjustment	–	(507)	–	(1,655)
Exchange differences	(3)	215	–	–
Fair value at the end of the year	40,190	51,299	130,915	167,100

Other assets represents the Group's rights to receive the discharge sum of ₦65 billion, 2018: ₦76 billion ($210 million, 2018: $246 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. The fair value is shown above.

22. Intangible assets

			₦ million			US$ '000
Cost	Goodwill	Licence	Total	Goodwill	Licence	Total
At 1 January 2018	–	–	–	–	–	–
Additions	–	9,070	9,070	–	29,543	29,543
At 31 December 2018	**–**	**9,070**	**9,070**	**–**	**29,543**	**29,543**
Amortisation	–	76	76	–	246	246
NBV						
At 31 December 2018	**–**	**8,994**	**8,994**	**–**	**29,297**	**29,297**
Cost						
At 1 January 2019	–	9,070	9,070	–	29,543	29,543
Acquired in business combination (Note 14)	9,068	35,971	45,039	29,538	117,170	146,708
At 31 December 2019	**9,068**	**45,041**	**54,109**	**29,538**	**146,713**	**176,251**
Amortisation						
At 1 January 2019	**–**	**76**	**76**		**246**	**246**
Charge for the year	–	441	441	–	1,439	1,439
At 31 December 2019	**–**	**517**	**517**	**–**	**1,685**	**1,685**
NBV						
At 31 December 2019	**9,068**	**44,524**	**53,592**	**29,538**	**145,028**	**174,566**

Licence relates to costs paid in connection with the renewal of a right for exploration of an oil mining lease field. The additions in 2018 were licence costs reclassed from oil and gas properties.

The licence of ₦36 billion ($117 million) was acquired as part of business combination (see Note 14 for details). ₦34 billion ($110 million) relates to the fair value of the identified intangible asset on business combination (see Note 5 xii for details) and ₦2 billion ($7 million) relates to licence acquisition cost assumed on business combination. They are recognised at their fair values at the date of acquisition and subsequently amortised on a straight-line basis on the useful life.

23. Tax paid in advance

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 paid in advance pending when it will be utilised towards offsetting tax liabilities. During the year, the Group netted off the tax credit with current tax liability because there is a legal right to offset with the current tax liability and the tax relates to the same tax authority.

Tax paid in advance has been reclassified to current tax liability in the current period (comparatives were also reclassified). See Note 17.2 for details.

24. Prepayments

Non-current	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Rent	381	275	1,238	893
Advances to suppliers	18,928	7,675	61,654	25,000
	19,309	7,950	62,892	25,893
Current				
Rent	–	1,217	–	3,964
Prepayment for service charge	320	–	1,040	–
Crude oil hedge	838	1,584	2,730	5,160
Other prepayments	807	748	2,627	2,437
	1,965	3,549	6,397	11,561
	21,274	11,499	69,289	37,454

24.1 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 building in Delta which was previously rented has now been acquired by the Group. (See Note 20.)

In 2018, the Group entered into a lease agreement for an office building in Lagos. The non-cancellable period of the lease is five 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 purchasing the property (see Note 46 for details.)

24.2 Advances to suppliers
Advances to suppliers relate to a milestone payment made 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 ₦18.9 billion ($61.6 million), 2018: ₦7.7 billion ($25 million).

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

24.4 Crude oil hedge
In 2019, the Group commenced a crude oil hedge of ₦13,815 ($45/bbl) 2018: ₦15,350 ($50/bbl.) for 3 million barrels (2018: 4 million barrels at a cost of ₦0.8 billion ($2.7 million) 2018: ₦1.6 billion ($5.2 million).

25. Interest in other entities

25.1 Material subsidiaries
The Group's principal subsidiaries as at 31 December 2019 are set out 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.

The Group exercised significant judgement in consolidating Elcrest. Please see Note 4.1 for details. Also, there were no significant restrictions on any of the entities.

25.2 Non-controlling interest (NCI)
Summarised financial information in respect of Elcrest Exploration and Production Nigeria Limited which has a material non-controlling interest is set out below.

The information disclosed reflects amounts presented in the financial statements of the subsidiary amended to reflect fair value adjustments made by the Group, and modifications for differences in accounting policy during the business combination.

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2019 US$ '000
Current assets	24,634	80,242
Current liabilities	(194,910)	(634,887)
Current net liabilities	(170,276)	(554,645)
Non-current asset	162,667	529,861
Non-current liabilities	(5,576)	(18,163)
Non-current net assets	157,091	511,698
Net liabilities	(13,185)	(42,947)
Accumulated NCI at 55%	(7,252)	(23,621)

The statement of profit or loss and cash flow statements of Elcrest are not presented because the acquisition of Eland was completed on 31 December 2019. The profit of Elcrest for the period forms part of pre-acquisition reserves.

25. Interest in other entities continued

25.3 Investment accounted for using equity accounting method

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Investment in joint venture (note 25.3.1)	49,445	–	161,060	–
Investment in associate (note 25.3.2)	3	–	11	–
	49,448	–	161,071	

25.3.1 Interest in joint ventures

The revised shareholders' agreement between the Group and Nigerian Gas Processing and Transportation Company (NGPTC) requires both parties to have equal shareholding in ANOH. With the change in the ownership structure, the Group has reassessed its retained interest in ANOH and determined that it has joint control. The Group's interest in ANOH is accounted for in the consolidated financial statements using the equity method because the Group interest in ANOH (Joint venture) is assessed to be a joint venture.

Set out below is the information on the material joint venture of the Group, ANOH. The Company has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also its principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held. The Company is a private entity hence no quoted price is available.

As at the reporting period, the Group had no capital commitment neither had it incurred any contingent liabilities jointly with its joint venture partner.

		Percentage of ownership interest			Carrying amount		
Name of entity	Country of incorporation and place of business	As at 31 Dec 2019 %	As at 31 Dec 2018 %	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
ANOH Gas Processing Company Limited	Nigeria	50	100	49,445	–	161,060	–

For information on capital commitment to ANOH, see Note 44.2.

25.3.1.1 Summarised statement of financial position of ANOH

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2019 US$ '000
Current assets:		
Cash and bank balances	54,404	177,213
Other current assets	3,445	11,220
Total current assets	57,849	188,433
Non-current assets	51,472	167,661
Total assets	**109,321**	**356,094**
Current liabilities:		
Financial liabilities (excluding trade payables)	(93)	(302)
Other current liabilities	(17,277)	(56,276)
Total liabilities	(17,370)	(56,578)
Net assets	**91,951**	**299,516**
Reconciliation to carrying amounts:		
Opening net liability as at 18 April 2019	(800)	(2,604)
Profit for the period	650	2,120
Share issue	92,101	300,000
Dividends paid	–	–
Closing net assets	**91,951**	**299,516**
Group's share (%)	50%	50%
Group's share of net asset	45,976	149,758
Remeasurement of retained interest (Note 13.2.2)	3,469	11,302
Carrying amount	**49,445**	**161,060**

25.3.1.2 Summarised statement of profit or loss and other comprehensive income of ANOH

	8 months ended 31 Dec 2019 ₦ million	8 months ended 31 Dec 2019 US$ '000
General and administrative expenses	(25)	(82)
Other income/(expenses) – net		–
Finance income	675	2,202
Profit before taxation	650	2,120
Taxation	–	–
Profit for the period	650	2,120
Group's share (%)	50%	50%
Group's share of profit for the period	325	1,060
Dividends received from joint venture	–	–

25.3.1.3 Investment in joint venture

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2019 US$ '000
Fair value of 50% retained interest (Note 13.2.2)	3,069	10,000
Additional investment (Note 25.3.1.4)	46,051	150,000
Share of profit from joint venture accounted for using the equity method (Note 25.3.1.2)	325	1,060
	49,445	161,060

25.3.1.4 Reconciliation of additional investment in joint venture

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2019 US$ '000
Cash paid in the current period	31,627	103,050
Amount reclassified from other receivables	14,424	46,950
	46,051	150,000

25.3.2 Investment in associate

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Investment in Elandale	3	–	11	–

Elandale Nigeria Limited is an associate acquired on the business combination. Elandale was incorporated in Nigeria on 17 January 2019. Elandale is an unquoted investment and valued based on fixed asset investment. The Group indirectly owns 40% ownership interest and voting rights in Elandale. The associate is deemed to be immaterial, as a result, financial information is not provided.

26. Inventories

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Tubulars, casings and wellheads	25,944	31,485	84,508	102,554

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Inventory charged to profit or loss and included in cost of sales during the year is ₦1.3 billion ($4.1 million) 2018: nil. There was no write down or reversal of previously recognised write down of inventory for the year ended 31 December 2019 (2018: nil).

27. Trade and other receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Trade receivables (Note 27.3)	37,465	29,127	122,033	94,875
Nigerian Petroleum Development Company (NPDC) receivables (Note 27.5)	68,264	–	222,357	–
National Petroleum Investment Management Services (NAPIMS) receivables (Note 27.7)	354	–	1,152	–
Underlift	3,445	1,325	11,224	4,313
Advances to suppliers	9,015	1,822	29,368	5,933
Receivables from ANOH	3,945	–	12,847	
Other receivables (Note 27.9)	26,948	9,600	87,781	31,272
	149,436	41,874	486,762	136,393

27.1 Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Marketing Company (NGMC) and Central Bank of Nigeria (CBN) totalling ₦16 billion ($52 million), 2018: ₦14 billion ($46 million) with respect to the sale of gas, for the Group. Also included in trade receivables is an amount of ₦16 billion ($52 million), 2018: N13 billion $43 million due from Mercuria for sale of crude. Other component of trade receivables totalling ₦5 billion ($18 million), 2018: ₦2 billion ($5 million) relates to Pillar, PanOcean and other trade receivables.

27.2 Other receivables

Other receivables are amounts outside the usual operating activities of the Group. Included in other receivables is an escrow deposit of ₦12 billion $40 million (2018: nil) made for a potential investment. The funds were placed in an escrow on 8 January 2019 pursuant to an agreement reached with the vendor on the final terms of the transaction. Also included here is a receivable amount of ₦8 billion ($27 million) 2018: ₦10 billion ($31 million) on an investment that is no longer being pursued. Other receivables also include an escrow deposit of ₦5 billion, $13 million (2018: nil). This amount relates to excess cash not utilised on acquisition of Eland Oil and Gas. Other balances in other receivables amount to ₦2 billion ($8 million) (2018: nil).

27.3 Reconciliation of trade receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	29,127	33,236	94,875	108,685
Additions during the year	263,676	217,553	859,131	710,725
Receipts for the year	(254,690)	(221,659)	(829,855)	(724,127)
Exchange difference	3	123	–	–
Gross carrying amount	38,116	29,253	124,151	95,283
Less: impairment allowance (Note 27.4)	(651)	(126)	(2,118)	(408)
Balance as at 31 December	37,465	29,127	122,033	94,875

27.4 Reconciliation of impairment allowance trade receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	126	502	408	1,636
Increase/(decrease) in loss allowance during the period	525	(376)	1,710	(1,228)
Loss allowance as at 31 December	651	126	2,118	408

Increase in expected credit loss on trade receivables is due to an increase in the receivable balance at the end of the reporting period.

27.5 Reconciliation of NPDC receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	(10,022)	–	(32,643)	–
Additions during the year	129,927	–	423,337	–
Receipts for the year	(54,880)	–	(178,884)	–
Write off of accrued interest	(14,871)		(48,439)	
Reversal of impairment loss on accrued interest written off	2,475		8,086	
Acquired on business combination	16,075	–	52,360	–
Exchange difference	8	–	–	–
Gross carrying amount	68,712	–	223,817	–
Less: impairment allowance (Note 27.6)	(448)	–	(1,460)	–
Balance as at 31 December	68,264	–	222,357	–

In 2018, the outstanding NPDC receivable of ₦14.8 billion ($48.4 million) was netted against the gas receipts payable to NPDC as Seplat has a legally enforceable right to settle outstanding amounts on a net basis which is as shown below:

				31 December 2018
	Gross amount ₦ million	Loss allowance ₦ million	Gross amount offset in the balance sheet ₦ million	Net amount presented in the balance sheet ₦ million
Financial asset				
Trade receivables	14,871	(2,475)	12,396	–
Financial liabilities				
Payable to NPDC	(22,418)	–	(12,396)	(10,022)

				31 December 2018
	Gross amount US$ '000	Loss allowance US$ '000	Gross amount offset in the balance sheet US$ '000	Net amount presented in the balance sheet US$ '000
Financial asset				
Trade receivables	48,439	(8,086)	40,353	–
Financial liabilities				
Payable to NPDC	(72,996)	–	(40,353)	(32,643)

During the year, a receivable of ₦14.9 billion ($48.4 million), which was netted against payables to NPDC in 2018, was written off by the Group. The amount relates to interest which accrued on cash calls. This was written off because the Group assessed the amount to be uncollectible.

27.6 Reconciliation of impairment allowance NPDC receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	2,475	–	8,086	–
Increase in loss allowance during the period	12,836	2,475	41,813	8,086
Receivables written off during the year as uncollectible	(14,871)	–	(48,439)	–
Exchange difference	8	–	–	–
Loss allowance as at 31 December	448	2,475	1,460	8,086

During the year, the NPDC receivables netted against trade payables in 2018 were fully provided for and eventually written off by the Group. It relates to the interest accrued on NPDC cash call which is assessed to be uncollectible by the Group.

27.7 Reconciliation of NAPIMS receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January (Note 38)	(2,785)	3,824	(9,073)	12,506
Additions during the year	10,611	–	34,597	–
Receipts for the year	(7,452)	(6,609)	(24,295)	(21,579)
Exchange difference	3	–	–	–
Gross carrying amount	377	–	1,229	–
Less: impairment allowance (Note 27.8)	(23)	–	(77)	–
Balance as at 31 December	354	(2,785)	1,152	(9,073)

27.8 Reconciliation of impairment allowance NAPIMS receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	–	64	–	213
Increase/(decrease) in loss allowance during the period	23	(64)	77	(213)
Loss allowance as at 31 December	23	–	77	–

Increase in expected credit loss on NAPIMS receivables to due to increase in the receivable balance at the end of the reporting period.

27. Trade and other receivables continued

27.9 Reconciliation of other receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	9,600	894	31,272	2,924
Additions during the year	176,910	121,825	576,998	396,968
Receipts for the year	(153,815)	(108,907)	(501,699)	(354,850)
Exchange difference	8	3	–	–
Gross carrying amount	32,703	13,815	106,571	45,042
Less: impairment allowance (Note 27.10)	(5,755)	(4,215)	(18,790)	(13,770)
Balance as at 31 December	26,948	9,600	87,781	31,272

27.10 Reconciliation of impairment allowance on other receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	4,215	–	13,770	–
Increase in loss allowance during the period	1,540	4,215	5,020	13,770
Loss allowance as at 31 December	5,755	4,215	18,790	13,770

Increase in expected credit loss on other receivables is due to additional provision made by the Group due to increase credit risk of the counterparty (Crester) at the end of the reporting period.

28. Contract assets

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue on gas sales (Note 28.1)	6,527	4,326	21,259	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 are 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 contract assets to trade receivables.

28.1 Reconciliation of contract assets

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	4,327	4,217	14,096	13,790
Addition during the year	49,092	39,120	159,956	127,803
Receipts for the year	(46,893)	(39,027)	(152,793)	(127,497)
Exchange difference	1	17	–	–
Balance as at 31 December	6,527	4,327	21,259	14,096

There were no significant changes in the contract assets for the reporting period. There were no impairment allowances recognised on contract assets as they were immaterial. 2018: Nil.

29. 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 to the extent they are expected to be settled within 12 months after the reporting period.

The fair value of the derivative financial instrument as at 31 December 2019 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Crude oil options	308	2,693	1,002	8,772
Currency forwards	149	–	484	–
	457	2,693	1,486	8,772

30. Cash and bank balances

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Cash on hand	3	2	9	7
Short-term fixed deposits	29,741	33,272	96,878	108,732
Cash at bank	70,463	145,222	229,522	472,684
Gross cash and cash equivalent	100,207	178,496	326,409	581,423
Loss allowance	(23)	(36)	(79)	(118)
Net cash and cash equivalents per cash flow statement	100,184	178,460	326,330	581,305
Restricted cash	2,056	1,049	6,698	3,418
Cash and bank balance	102,240	179,509	333,028	584,723

The restricted cash balance above is an amount 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 of four (4) 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.

30.1 Reconciliation of impairment allowance on cash and bank balance

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	36	–	118	–
Increase/(decrease) in loss allowance during the period	(13)	36	(39)	118
Loss allowance as at 31 December	23	36	79	118

31. Share capital

31.1 Authorised and issued share capital

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '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				
575,321,598 (2018: 568,497,025) issued shares denominated in Naira of 50 kobo per share	289	286	1,845	1,834

Fully paid ordinary shares carry one vote per share and the right to dividends. There were no restrictions on the Group's share capital.

31.2 Movement in share capital and other reserves

	Shares				₦ million
	Number of shares	Issued share capital	Share premium	Share-based payment reserve	Total
Opening balance as at 1 January 2019	568,497,025	286	82,080	7,298	89,664
Share-based payments	–	–	–	2,864	2,864
Vested shares	6,824,573	3	1,965	(1,968)	–
Closing balance as at 31 December 2019	**575,321,598**	**289**	**84,045**	**8,194**	**92,528**

	Shares				US$ '000
	Number of shares	Issued share capital	Share premium	Share-based payment reserve	Total
Opening balance as at 1 January 2019	568,497,025	1,834	497,457	27,499	526,790
Share-based payments	–	–	–	9,223	9,223
Vested shares	6,824,573	11	6,285	(6,296)	–
Closing balance as at 31 December 2019	**575,321,598**	**1,845**	**503,742**	**30,426**	**536,013**

31.3 Share premium

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Share premium	84,045	82,080	503,742	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.

During the year, an additional 6,824,573 shares vested with a fair value of $6.41 million. The excess of $6.29 million above the nominal value of ordinary shares has been recognised in share premium.

31.4 Employee share-based payment scheme

As at 31 December 2019, the Group had awarded 48,400,563 shares (2018: 40,410,644 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 (2018 Deferred Bonus and 2019 LTIP Scheme) awarded during the reporting period. During the reporting period,10,802,067 shares had vested out of which 1,853,465 shares were forfeited in relation to participants whose employment was terminated during the vesting period. Also, the reserves growth underpin (non-market performance condition) which was partially achieved (at 75% vesting) resulted in a further reduction in the number of shares vested by 2,088,283. The total number of shares forfeited during the period amounts to 3,941,748. The number of shares that eventually vested during the year after the forfeiture and conditions above is 6,824,573 (Dec 2018: 5,052,464 shares were vested).

i. Description of the awards valued

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, 2014/2015/2016/2017 deferred bonus awards and 2014/2015/2016/2017/2018/2019 Long Term Incentive Plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016, 2017, 2018 and 2019 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Group. A number of these awards have fully vested.

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015, 2016, 2017 and 2018 bonus (paid in 2015, 2016, 2017, 2018 and 2019) has been deferred into shares and released on 1 June 2017, 1 June 2018, 20 April 2019 respectively subject to continued employment over the vesting period. The 2018 bonus is expected to be released on 31 December 2020. No performance criteria are attached to this award. As a result, the fair value of these awards is calculated using a Black Scholes model.

Long Term Incentive Plan (LTIP) awards

Under the LTIP, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after three years) based on the following conditions.

- 25% vesting for median relative TSR performance rising to 100% for upper quartile performance on a straight-line basis.
- Relative TSR vesting reduced by 75% if 60% and below of operational and technical bonus metrics are achieved, with 35% reduction if 70% of operational and technical bonus metrics are achieved and no reduction for 80% or above achievement.
- 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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Expense arising from equity-settled share-based payment transactions	2,864	2,969	9,223	9,698

There were no cancellations to the awards in 2019. 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	Vesting status	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	Fully	6,472,138
Non- Executive Shares	4 November 2015	9 April 2014	9 April 2015	Fully	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	Fully	212,701
2014 Long Term Incentive Plan	14 December 2015	14 December 2015	09 April 2017	Fully	2,173,259
2015 Long Term Incentive Plan	31 December 2015	14 December 2015	21 April 2018	Fully	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	Fully	247,610
2016 Long Term Incentive Plan	22 December 2016	22 December 2016	21 December 2019	Fully	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	Fully	278,191
2017 Long Term Incentive Plan	24 November 2017	24 November 2017	20 April 2020	Partially	7,938,589
2017 Deferred Bonus	29 December 2017	29 December 2017	31 December 2019	Fully	193,830
2018 Long Term Incentive Plan	2 May 2018	2 May 2018	1 May 2021	Partially	6,519,022
2018 Deferred Bonus	2 May 2019	2 May 2019	31 December 2020	Partially	341,069
2019 Long Term Incentive Plan	2 May 2019	2 May 2019	2 May 2022	Partially	7,648,850
					48,400,563

iii. Determination of share awards outstanding

Share awards used in the calculation of diluted earnings per share are based on the outstanding shares granted as at 31 December 2019.

Share award scheme (all awards)	2019 Number	2019 WAEP ₦	2018 Number	2018 WAEP ₦
Outstanding at 1 January	12,350,871	310	8,205,773	251.64
Granted during the year	10,802,067	387	9,197,562	362.26
Exercised during the year	(6,824,573)	–	(5,052,464)	–
Forfeited during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,386,617	474	12,350,871	310
Vested and exercisable at 31 December	–	–	–	–

Share award scheme (all awards)	2019 Number	2019 WAEP $	2018 Number	2018 WAEP $
Outstanding at 1 January	12,350,871	1.01	8,205,773	0.82
Granted during the year	10,802,067	1.26	9,197,562	1.18
Exercised during the year	(6,824,573)	–	(5,052,464)	–
Forfeited during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,386,617	1.54	12,350,871	1.01
Vested and exercisable at 31 December	–	–	–	–

31. Share capital continued

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	2019 Number	2019 WAEP ₦	2018 Number	2018 WAEP ₦
Outstanding at 1 January	315,603	451	230,351	412
Granted during the year	292,509	522	332,862	589
Exercised during the year	(472,021)	–	(247,610)	–
Outstanding at 31 December	136,092	572	315,603	518
Vested and exercisable at 31 December	–	–	–	–

Deferred Bonus Scheme	2019 Number	2019 WAEP $	2018 Number	2018 WAEP $
Outstanding at 1 January	315,603	1.47	230,351	1.35
Granted during the year	292,509	1.70	332,862	1.92
Exercised during the year	(472,021)	–	(247,610)	–
Outstanding at 31 December	136,092	1.86	315,603	1.69
Vested and exercisable at 31 December	–	–	–	–

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.

Long Term Incentive Plan (LTIP)	2019 Number	2019 WAEP ₦	2018 Number	2018 WAEP ₦
Outstanding at 1 January	12,035,268	361	8,457,922	292
Granted during the year	10,509,557	362	8,864,700	593
Exercised during the year	(6,352,552)	–	(5,287,354)	–
Forfeited during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,250,525	209	12,035,268	447
Vested and exercisable at 31 December	–	–	–	–

Long Term Incentive Plan (LTIP)	2019 Number	2019 WAEP $	2018 Number	2018 WAEP $
Outstanding at 1 January	12,035,268	1.18	8,457,922	0.96
Granted during the year	10,509,557	1.18	8,864,700	1.93
Exercised during the year	(6,352,552)	–	(5,287,354)	–
Forfeited during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,250,525	0.68	12,035,268	1.46
Vested and 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 2019 range from 0.3 to 2.3 years (2018: 0.3 to 1.3 years).

The weighted average fair value of awards granted during the year range from ₦362.26 to ₦521.9, 2018: ₦451.29 to ₦540.32. $1.18 to $1.70 (2018: $1.47 to $1.76).

The fair value at grant date is independently determined using the Monte Carlo and Black Scholes models which take into account the term of the award, 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 award 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.

iv. Inputs to the models

The following table lists the inputs to the models used for the share awards outstanding in the respective plans for the year ended 31 December 2019:

	2017 LTIP	2018 LTIP	2018 Deferred Bonus	2019 LTIP
Weighted average fair values at the measurement date				
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	43%	41%	33%	35%
Risk-free interest rate (%)	0.44%	0.83%	0.74%	0.76%
Expected life of share options	2.40	3.00	1.67	3.00
Share price at grant date ($)	1.4	1.93	1.7	1.7
Share price at grant date (₦)	428.4	592.51	521.9	521.9
Model used	Monte Carlo	Monte Carlo	Black Scholes	Monte Carlo

32. 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Capital contribution	5,932	5,932	40,000	40,000

33. 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 are recognised in foreign currency translation reserve.

34. Interest-bearing loans and borrowings

34.1 Net debt reconciliation

Below is the net debt reconciliation on interest-bearing loans and borrowings for 2019:

	Borrowings due within 1 year ₦ million	Borrowings due above 1 year ₦ million	Total ₦ million	Borrowings due within 1 year US$ '000	Borrowings due above 1 year US$ '000	Total US$ '000
Balance as at 1 January 2019	3,031	133,799	136,830	9,872	435,827	445,699
Interest accrued	8,890	–	8,890	28,966		28,966
Interest capitalised	6,308	–	6,308	20,554		20,554
Principal repayment	(3,029)	(27,661)	(30,690)	(9,872)	(90,128)	(100,000)
Interest repayment	(10,364)	–	(10,364)	(33,770)	–	(33,770)
Other financing charges	(2,696)	–	(2,696)	(8,783)	–	(8,783)
Proceeds from loan financing	19,151	87,194	106,345	62,399	284,101	346,500
Acquired on business combination	13,187	14,509	27,696	42,967	47,275	90,242
Exchange differences	8	22	30	–	–	–
Carrying amount as at 31 December 2019	**34,486**	**207,863**	**242,349**	**112,333**	**677,075**	**789,408**

Below is the net debt reconciliation on interest-bearing loans and borrowings for 2018:

	Borrowings due within 1 year ₦ million	Borrowings due above 1 year ₦ million	Total ₦ million	Borrowings due within 1 year US$ '000	Borrowings due above 1 year US$ '000	Total US$ '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**

Other financing charges include term loan arrangement and participation fees, bank activity fee, annual bank charges, technical bank fee, agency fee and analytical services in connection with annual service charge. These costs do not form an integral part of the effective interest rate. As a result, they are not included in the measurement of the interest-bearing loan.

34.2 Amortised cost of borrowings

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Senior loan notes	107,237	107,272	349,278	348,417
Revolving loan facilities	107,416	29,558	349,888	97,282
Acquired on business combination	27,696	–	90,242	–
	242,349	136,830	789,408	445,699

$350 million Senior notes – March 2018

Interest-bearing loans and borrowings include revolving loan facility and senior notes. In March 2018 the Group 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 were expected to mature in April 2023. The interest accrued at the reporting date is ₦10.56 billion, $34.4 million using an effective interest rate of 10.4%. Transaction costs of ₦2.1 billion, $6.86 million have been included in the amortised cost balance at the end of the reporting period. The amortised cost for the senior notes at the reporting period is ₦107.2 billion, $349.3 million (December 2018: ₦107.0 billion, $348.6 million).

34. Interest-bearing loans and borrowings continued

$200 million revolving credit facility – March 2018

The Group entered into a four-year revolving loan agreement with interest payable semi-annually and principal repayable on 31 December of each year. The revolving loan has an initial contractual interest rate of 6% +LIBOR (7.7%) and a settlement date of June 2022.

The interest rate on the facility is variable. The Group made a drawdown of ₦61 billion, $199 million in March 2018. The interest accrued at the reporting period is ₦0.2 billion (Sept 2018: ₦2.89 billion) using an effective interest rate of 9.8% (Sept 2018: 9.4%). The interest paid was determined using three-month LIBOR rate + 6% on the last business day of the reporting period.

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, $4.58 million have been included in the amortised cost balance at the end of the reporting period. In the reporting period, the Group repaid the outstanding principal amount of ₦30.7 billion, $100 million on the revolving loan facility.

$350 million revolving credit facility – December 2019

The Group's parent company on 20 December 2019 also entered into a four-year revolving loan agreement with interest payable semi-annually. There is a two-year moratorium on the principal which ends on 31 December 2021. The revolving loan has an initial contractual interest rate of 6% +LIBOR (7.9%) and a settlement date of 31 December 2023.

The interest rate on the facility is variable. The Group made a drawdown of ₦107.45 billion, $350 million as at year end. The interest accrued at the reporting period is ₦337 million, $1.1 million using an effective interest rate of 10.2%. The interest paid was determined using three-month LIBOR rate + 6% on the last business day of the reporting period.

$125 million reserved based lending (RBL) facility – December 2018

The Group through its subsidiary Westport on 5 December 2020 entered into a five-year loan agreement with interest payable semi-annually. The RBL facility has an initial contractual interest rate of 8% +LIBOR as at year end (9.91%) and a settlement date of 29 November 2023.

The interest rate of the facility is variable. The Group made a drawdown of ₦27.63 billion, $90 million as at year end. The interest accrued at the reporting period is ₦3.2 billion, $10.5 million using an effective interest rate of 15.7%. The interest paid was determined using six-month LIBOR rate + 8% on the last business day of the reporting period. The outstanding amount of this borrowing as at the date of acquisition is ₦26.7 billion, $87 million and the recognised fair value for business combination is ₦27.6 billion, $90 million.

34.3 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 2019	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$ '000	Non-current US$ '000	Total US$ '000
Fixed interest rate							
Senior notes:	9.25		107,450	107,450		350,000	350,000
Variable interest rate							
Corporate loan:							
Citibank, N.A., London Branch	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
Nedbank Limited London	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
Stanbic IBTC Bank Plc	6.0% +LIBOR	–	6,140	6,140	–	20,000	20,000
The Standard Bank of South Africa Limited//	6.0% +LIBOR	–	6,140	6,140	–	20,000	20,000
RMB International (Mauritius) Limited	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
The Mauritius Commercial Bank Ltd	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
JPMorgan Chase Bank, N.A., London Branch	6.0% +LIBOR	–	9,210	9,210	–	30,000	30,000
Standard Chartered Bank	6.0% +LIBOR	–	9,210	9,210	–	30,000	30,000
Natixis	6.0% +LIBOR	–	9,210	9,210	–	30,000	30,000
Société Générale, London Branch	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Zenith Bank Plc	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
United Bank for Africa Plc	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
First City Monument Bank Limited	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Acquisition through business combination:							
Stanbic IBTC Bank Plc & The Mauritius Commercial Bank Ltd	8.0% +LIBOR	7,675	19,955	27,630	25,000	65,000	90,000
		7,675	234,855	242,530	25,000	765,000	790,000

31 December 2018	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$ '000	Non-current US$ '000	Total US$ '000
Fixed interest rate							
Senior notes	9.25%	–	107,450	107,450	–	350,000	350,000
Variable interest rate							
Corporate loan:							
Stanbic IBTC Bank Plc	6.0% +LIBOR	–	3,681	3,681	–	12,000	12,000
The Standard Bank of South Africa	6.0% +LIBOR	–	2,454	2,454	–	8,000	8,000
Nedbank Limited, London Branch	6.0% +LIBOR	–	5,113	5,113	–	16,667	16,667
Standard Chartered Bank	6.0% +LIBOR	–	4,601	4,601	–	15,000	15,000
Natixis	6.0% +LIBOR	–	3,579	3,579	–	11,667	11,667
FirstRand Bank Limited Acting	6.0% +LIBOR	–	3,579	3,579	–	11,667	11,667
Citibank N.A. London	6.0% +LIBOR	–	3,068	3,068	–	10,000	10,000
The Mauritius Commercial Bank Plc	6.0% +LIBOR	–	3,068	3,068	–	10,000	10,000
Nomura International Plc	6.0% +LIBOR	–	1,534	1,534	–	5,000	5,000
		–	30,677	30,677	–	100,000	100,000
		–	138,127	138,127	–	450,000	450,000

35. Contingencies

35.1 Contingent consideration

	₦ million	US$ '000
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**
At 1 January 2019	5,676	18,489
Write back	(5,675)	(18,489)
Exchange differences	(1)	–
At 31 December 2019	**–**	**–**

During the year, the Group de-recognised the contingent consideration for OML 53 as shown above. It is contingent on oil price rising above $90 (₦ 27,630)/bbl. over a one-year period and expiring on 31 January 2020. The contingency criteria were not achieved during the reporting period, and as a result, the contingent consideration has been derecognised.

35.2 Contingent liability

	₦ million	US$ '000
At 1 January 2019	–	–
Acquired in business combination (Note 14)	2,215	7,217
At 31 December 2019	**2,215**	**7,217**

The above contingent liability relates to liability recognised on acquisition of Eland. The liability is an outcome of the European Union State Aid – UK Controlled Foreign Companies (CFC) case which required companies in tax efficient jurisdictions to assess the profit allocable to UK significant people functions (SPFs). In April 2019, the European Commission issued a press release announcing its conclusion that the UK Finance Company Partial Exemption Rules (The FCPE rules) were partly justified for the period of 2013 to 2018. As a result, the fair value of the estimated exposure is recognised as contingent liability on acquisition.

36. Provision for decommissioning obligation

	₦ million	US$ '000
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**
At 1 January 2019	43,514	141,737
Unwinding of discount due to passage of time	1,240	4,039
Changes in estimate	(5,142)	(16,745)
Acquired in business combination	5,799	18,890
At 31 December 2019	**45,411**	**147,921**

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. These provisions were based on estimations carried out by Netherland, Sewell and Associates 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.

	Current estimated life span of reserves	
	2019 In years	2018 In years
Seplat Petroleum Development Company:	2037	2027
OML 4	2027 – 2037	2037
OML 38	2027 – 2034	2027 – 2037
OML 41	2037	2037
Newton Energy Limited (OPL 283)	2037 – 2044	2037 – 2044
Seplat East Onshore Ltd (OML 53)	2028 – 2054	2028 – 2054
Elcrest (OML 40)	2033	–
Ubima (OML 17)	–	–

37. Employee benefit obligation

37.1 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 2019 was ₦3 billion($9.8 million), 2018: ₦1.8 billion ($5.9 million).

37.2 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 has 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 match plan assets with the defined obligations as they fall due, however, the Group has an obligation to settle shortfalls in the plan assets upon annual actuarial valuations.

The provision for the defined benefit plan 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 defined 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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Defined benefit obligation	3,595	2,324	11,707	7,568
Fair value of plan assets	(583)	(505)	(1,899)	(1,645)
	3,012	1,819	9,808	5,923

iii. Amount recognised in profit or loss

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Current service cost	602	500	1,961	1,633
Interest cost on defined benefit obligation	364	285	1,186	931
	966	785	3,147	2,564
Return on plan assets	(129)	(3)	(420)	(10)
	837	782	2,727	2,554

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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Charged to profit or loss	343	340	1,117	1,111
Charged to receivables	494	442	1,610	1,443
Balance as at 31 December	837	782	2,727	2,554

iv. Remeasurement (gains)/losses in other comprehensive income

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Remeasurement losses due to changes in financial and demographic assumptions	(508)	408	(1,655)	1,331
Remeasurement gains due to experience adjustment	111	(14)	362	(46)
Remeasurement gain on plan assets	(51)	–	(166)	–
	(448)	394	(1,459)	1,285
Deferred tax credit/(expense) on remeasurement losses	381	(335)	1,240	(1,094)
	67	59	219	193

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Recharged to receivables	(247)	216	(803)	706
(Charged)/credited to other comprehensive income	(201)	178	(656)	579
Remeasurement (losses)/gain due to changes in financial and demographic assumptions	(448)	394	(1,459)	1,285

v. Deferred tax (expense)/credit on remeasurement (gains)/losses

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Credited/(charged) to other comprehensive income	171	(80)	558	(261)
Charged to receivables	210	(255)	682	(833)
Deferred tax on remeasurement losses	381	(335)	1,240	(1,094)

37. Employee benefit obligation continued

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Defined benefit obligation as at 1 January	2,324	1,994	7,568	6,518
Current service cost	602	500	1,961	1,633
Interest cost on benefit obligation	364	285	1,186	931
Remeasurement losses due to changes in financial and demographic assumptions	508	(408)	1,655	(1331)
Remeasurement gains due to experience adjustment	(111)	14	(362)	46
Benefits paid by the employer	(86)	(63)	(280)	(206)
Exchange differences	(6)	2	(21)	(23)
Defined benefit obligation at 31 December	3,595	2,324	11,707	7,568

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	(505)	–	(1,645)	–
Employer contributions	–	(502)	–	(1,635)
Return on plan assets	(129)	(3)	(420)	(10)
Remeasurement loss on plan assets	51	–	166	–
Balance as at 31 December	(583)	(505)	(1,899)	(1,645)

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Present value of funded obligations	3,595	2,324	11,707	7,568
Fair value of plan assets	(583)	(505)	(1,899)	(1,645)
Deficit of funded plans	3,012	1,819	9,808	5,923

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:

	Quoted ₦ million	Not quoted ₦ million	2019 Total ₦ million	Quoted US$ '000	Not quoted US$ '000	2019 Total US$ '000
Money market	–	136	136	–	442	442
Equity instrument	12		12	40		40
Treasury bills	50	–	50	163	–	163
Bonds	386		386	1,258		1,258
Cash at bank	–	2	2	–	6	6
Other current asset	–	(3)	(3)	–	(10)	(10)
Total plan asset as at 31 December	448	135	583	1,461	438	1,899

	Quoted ₦ million	Not quoted ₦ million	2018 Total ₦ million	Quoted US$ '000	Not quoted US$ '000	2018 Total US$ '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 Group's plans are shown below:

	2019 %	2018 %
Discount rate	14.00	15.50
Average future pay increase	12.00	12.00
Average future rate of inflation	12.00	10.00

	Number of deaths in year out of 10,000 lives	
Sample age	2019	2018
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

	Rates	
Age band	2019	2018
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 is as shown below:

		Discount rate		Salary increases		Mortality	
Assumptions	Base	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 2019	3,595	(225)	262	280	(243)	3	(3)
31 December 2018	2,324	(225)	262	280	(243)	3	(3)

		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase US$ '000	1% decrease US$ '000	1% increase US$ '000	1% decrease US$ '000	1% increase US$ '000	1% decrease US$ '000
Sensitivity level: impact on the net defined benefit obligation							
31 December 2019	11,707	(733)	854	912	(792)	10	(10)
31 December 2018	7,568	(735)	856	915	(794)	10	(10)

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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Within the next 12 months (next annual reporting period)	198	57	646	186
Between 2 and 5 years	1,403	1,335	4,569	4,361
Between 6 and 10 years	5,421	131,806	17,658	430,604
Beyond 10 years	127,029	–	413,775	–
	134,051	133,198	436,648	435,151

The weighted average liability duration for the plan is 11.35 years (2018: 11.95 years). The longest weighted duration for Nigerian Government bonds as at 31 December 2019 was about 7.26 years (2018: 5.96 years) with a gross redemption yield of about 13.31% (2018: 15.29%).

37. Employee benefit obligation continued

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 that the Group may not have 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 Group holds a significant proportion of its plan assets in equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term.

38. Trade and other payables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Trade payable	31,977	12,073	104,161	39,328
Accruals and other payables	84,527	53,296	275,330	173,603
Nigerian Petroleum Development Company (NPDC)	–	10,022	–	32,643
National Petroleum Investment Management Services (NAPIMS)	–	2,785	–	9,073
Pension payables	(29)	107	(97)	350
NDDC levy	8	345	23	1,124
Royalties payable	9,096	8,732	29,629	28,444
Overlift	18,346	–	59,758	–
	143,925	87,360	468,804	284,565

Included in accruals and other payables are field accruals of ₦39 billion, 2018: ₦28 billion ($127 million, 2018: $74 million), accruals for services received with invoices uncleared of ₦6 billion ($21 million) 2018: ₦6 billion ($19 million) and other payables to creditors, employees and contractors of ₦40 billion ($127 million), 2018: ₦25 billion ($99 million).

38.1 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	–	23,723	–	77,499
Principal repayment	–	(23,193)	–	(75,769)
Interest repayment	–	(530)	–	(1,730)
Carrying amount as at 31 December	–	–	–	–

39. Contract liabilities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
	5,005	–	16,301	–

39.1 Reconciliation of contract liabilities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Opening balance	–	–	–	–
Addition during the year	5,005	–	16,301	–
	5,005	–	16,301	–

Contract liabilities represents take or pay volumes contracted with Azura for 2018 which are yet to be utilised. In line with contract, Azura can make a demand on the makeup gas but only after they have taken and paid for the take or pay quantity for the respective year. The contract liability is accrued for two years after which the ability to take the makeup gas expires and any outstanding balances are recognised as revenue from contracts with customers.

40. Earnings per share (EPS)

Basic

Basic EPS is calculated on the Group's profit 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 all the dilutive potential ordinary shares (arising from outstanding share awards in the share-based payment scheme) into ordinary shares.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Profit from continued operations	80,975	44,851	263,842	146,526
Profit from discontinued operations	4,041	16	13,166	50
Profit for the year	85,016	44,867	277,008	146,576
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	569,228	568,497	569,228	568,497
Outstanding share-based payments (shares)	12,387	8,206	12,387	8,206
Weighted average number of ordinary shares adjusted for the effect of dilution	581,615	576,703	581,615	576,703
Basic earnings per shares	₦	₦	$	$
From continuing operations attributable to the ordinary equity holders of the Group	142.25	78.89	0.46	0.26
From discontinuing operations attributable to the ordinary equity holders of the Group	7.10	0.03	0.02	0.00
Total basic earnings per share attributable to the ordinary equity holders of the Group	149.35	78.92	0.49	0.26
Diluted earnings per shares	₦	₦	$	$
From continuing operations attributable to the ordinary equity holders of the Group	139.22	77.77	0.45	0.25
From discontinuing operations attributable to the ordinary equity holders of the Group	6.95	0.03	0.02	0.00
Total diluted earnings per share attributable to the ordinary equity holders of the Group	146.17	77.80	0.48	0.25

The weighted average number of issued shares was calculated as a proportion of the number of months in which they were in issue during the reporting period.

41. Dividends paid and proposed

As at 31 December 2019, the final proposed dividend for the Group is ₦15.35 ($0.05), 2018: is ₦15.35 ($0.05).

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2019: ₦30.7 ($0.10) per share 575,321,598 shares in issue (2018: ₦30.7 ($0.10) per share, 568,497,025 shares in issue)	18,019	18,036	58,708	58,888
Proposed dividend on ordinary shares:				
Final proposed dividend for the year 2019: ₦15.35 ($0.05) (2018: ₦15.35 ($0.05) per share	8,831	9,033	28,766	29,422

As at 31 December 2019, ₦9 billion ($29.4 million) of interim dividend was paid at ₦15.35 ($0.05) per share as at 30 June 2019 and the remaining dividend ₦9 billion ($29.3 million) was paid at ₦15.35 ($0.05) per share as at 30 November 2019. (2018: ₦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.)

42. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). The parent Company is owned 6.43% either directly or by entities controlled by A.B.C. Orjiako (SPDCL(BVI)) and members of his family and 12.19% 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.

The goods and services provided by the related parties are disclosed below. The outstanding balances payable to/receivable from related parties are unsecured and are payable/receivable in cash.

i) Shareholders of the parent Company

Shebah Petroleum Development Company Limited SPDCL ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL (BVI). The company provided consulting services to Seplat. Services provided to the Group during the year amounted to ₦322 million, \$1.05 million (2018: ₦333 million, \$1.09 million)

ii) Entities controlled by key management personnel (Contracts >\$1million in 2019)

Nerine Support Services Limited: Is owned by common shareholders with the parent Company and provided rental services for the inventory warehouse at the field base in addition to agency and contract workers for Seplat operations. Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. Total costs for agency and contracts during 2019 are ₦5 billion, \$17 million (2018: ₦2 billion, \$8 million). These amounts are gross i.e. it includes salaries and Nerine's mark-up. All other transactions were made on normal commercial terms and conditions, and at market rates. As of December 2019, Nerine ceases to contract any services to Seplat.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat. The transactions during the year amounted to ₦783 million, \$2.55 million (2018: ₦24 million, \$79 thousand). Receivables and payables were nil in the current period (receivables in 2018: ₦8 million, \$26 thousand).

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. Transactions with this related party amounted to ₦2.89 billion, \$9.44 million (₦621 million, \$2.03 million). Receivables and payables were nil in the current period (receivables in 2018: ₦1.49 billion, \$4.87 million).

Stage Leasing (Ndosumili Ventures Limited): is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat. This amounted to ₦445 million, \$1.45 million (2018: ₦434 million, \$1.42 million). Receivables and payables were nil in the current period (2018: ₦13 million, \$43 thousand)

iii) Entities controlled by key management personnel (Contracts <\$1million in 2019)

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. This amounted to ₦286 million, \$0.93 million during the year (2018: ₦334 million, \$1.09 million). Payables were nil in the current period (2018: ₦9 million, \$28 thousand)

Charismond Nigeria Limited: The sister to the Chief Executive Officer (CEO) works as a General Manager. The company provides administrative services including stationery and other general supplies to the field locations. This amounted to ₦11 million, \$36 thousand (2018: ₦23 million, \$74 thousand). Receivables and payables were nil in the current period. (Payables in 2018 were immaterial, receivables in 2018 were nil.)

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. This amounted to ₦221 million, \$0.72 million (2018: ₦78 million, \$0.25 million). Payables were nil in the current period (2018: ₦19 million, \$61 thousand)

Oriental Catering Services Limited: The spouse of the CEO is a shareholder and director. The company provides catering services to Seplat at the staff canteen. This amounted to ₦47 million, \$0.15 million (2018: ₦199 million, \$0.65 million). Payables were nil in the current period (2018: ₦14 million, \$47 thousand). Services from Oriental Catering Service Limited ceased on February 2019.

iv) Entities controlled by the Company – Investment in newly acquired subsidiary

Eland Oil and Gas Limited: During the year, the Group acquired the total issued share capital of Eland Oil and Gas for ₦149 billion (\$487 million) at 166 pence per share. This has been accounted for as an investment in subsidiary. Upon acquisition, the Group paid 156 pence/share to the employees of Eland rather than the exercise price of 166 pence/share.

v) Jointly controlled entities

ANOH Gas Processing Company Limited: During the year, the Group disposed some of its stake in ANOH Gas and retained 50% of its previous interest. The retained interest is accounted for as a joint venture between the Group and Nigerian Gas Processing and Transportation Company (NGPTC). In order to float the joint venture, the parties contributed ₦46 billion (\$150 million) each, out of which ₦32 billion (\$103 million) was paid in cash and ₦14 billion (\$47 million) incurred prior to the disposal of its stake. As at year end, the Group also had a commitment of ₦18.4 billion (\$60 million) to the ANOH gas project. During the year, the Group incurred expenses of ₦3.9 billion (\$12.8 million) on behalf of ANOH to be reimbursed by ANOH. This was treated as a receivable.

43. Information relating to employees

43.1 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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Salaries and other short-term employee benefits	728	793	2,373	2,590
Post-employment benefits	95	86	308	281
Share-based payment expenses	166	146	540	476
	989	1,025	3,221	3,347

43.2 Chairman and Directors' emoluments

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Chairman (Non-Executive)	354	342	1,155	1,118
Chief Executive Officer	763	445	2,486	1,453
Executive Directors	800	699	2,606	2,283
Non-Executive Directors	702	494	2,287	1,614
Total	2,619	1,980	8,535	6,468

2019 Executive Director emoluments includes 2018 bonus paid in 2019.

43.3 Highest paid Director

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Highest paid Director	763	483	2,486	1,557

Emoluments are inclusive of income taxes.

43.4 Number of Directors

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

	2019 Number	2018 Number
Zero – ₦19,896,500	–	–
₦19,896,501 – ₦115,705,800	–	–
₦115,705,801 – ₦157,947,600	–	–
Above ₦157,947,600	3	3
	3	3

	2019 Number	2018 Number
Zero – $65,000	–	–
$65,001 – $378,000	–	–
$378,001 – $516,000	–	–
Above $516,000	3	3
	3	3

43.5 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), who received remuneration (excluding pension contributions) in the following ranges was:

	2019 Number	2018 Number
₦1,989,650 – ₦4,897,600	9	71
₦4,897,601– ₦9,795,200	142	177
₦9,795,201 – ₦14,692,800	132	77
Above ₦14,692,800	180	139
	463	464

	2019 Number	2018 Number
$6,500 – $16,000	9	71
$16,001 – $32,000	142	177
$32,001 – $48,000	132	77
Above $48,000	180	139
	463	464

43. Information relating to employees continued

43.6 Number of persons employed during the year

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

	2019 Number	2018 Number
Senior management	19	16
Managers	100	93
Senior staff	200	193
Junior staff	144	162
	463	464

43.7 Employee cost

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Salaries & wages	7,015	6,039	22,851	19,670
	7,015	6,039	22,851	19,670

44. Commitments and contingencies

44.1 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 2019 is ₦14 billion, 2018: ₦0.7 billion ($48 million, 2018: $2.4 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.

44.2 Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Property, plant and equipment	31,022	–	101,050	–

ANOH Joint Venture: The above commitments include capital expenditure commitments of ₦18.4 billion ($60 million) 2018 – nil, relating to the ANOH Joint Venture.

45. Events after the reporting period

On 9 March 2020, oil prices fell by around 20% and the forward curve for 2020 and 2021 fell to approximately $38/bbl and $43/bbl respectively. These recent events will continue to have an impact on oil price volatility. Seplat prudently manages its commodity risk and is well hedged with 60% of 2020 production hedged at a floor price of $45/bbl up to Q3 2020. Realised oil prices for January and February 2020 averaged over $62.8/bbl. Seplat will continue to monitor the oil prices and take adequate steps to manage our business and any financial impact of same.

46. Changes in accounting policies

This note explains the impact of adoption of IFRS 16 Leases on the Group's financial statements.

Leases

The Group's leased assets include buildings and land. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension options. The lease terms are between one and five years. On renewal of a lease, the terms are renegotiated. Leased assets may not be used as security for borrowing purposes.

Prior to the 2019 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were recognised as rentals in the statement of profit or loss and other comprehensive income on a straight-line basis and disclosed within general and administrative expenses over the period of the lease.

From 1 January 2019, on adoption of IFRS 16, leased assets are recognised as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group is also recognised. The Group elected to use the transition practical expedient which allows the standard to be applied to contracts that were previously identified as leases under IAS 17 (Leases) and IFRIC 4 (Determining whether an arrangement contains a lease) at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'). The Group had no low-value leases on adoption of the new standard. Lease liabilities for leases formerly classified as operating leases were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate of 7.56% as at that date.

Lease liabilities

At the commencement date of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The weighted average incremental borrowing rate for the Group is 7.56%. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The lease term refers to the contractual period of a lease.

The Group has elected to exclude non-lease components in calculating lease liabilities and instead treat the related costs as an expense in profit or loss.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of a lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets include the amount of lease liabilities recognised, initial direct costs incurred, decommissioning costs (if any), and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

46. Changes in accounting policies continued

Short-term leases and leases of low value

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. low-value assets). Low-value assets are assets with lease amount of less than $5,000 when new. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

a. Impact of adoption

The new Leases standard, IFRS 16, replaces the provisions of IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. As discussed in Note 3.2, the Group has elected to apply the new standard using the simplified method. Accordingly, the information presented for the year ended 31 December 2018 has not been restated but presented, as previously reported, under IAS 17.

On adoption of IFRS 16, the lease liabilities as at 1 January 2019 for leases formerly classified as operating leases were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at that date. The Group's weighted average incremental borrowing rate as at 1 January 2019 and 31 December 2019 was 7.56%.

On adoption of the new accounting standard, the Group elected to apply the following practical expedients:

- The Group relied on previous assessment of existing lease contracts
- Leases with a remaining lease term of one year or less with no extension commitments as at 1 January 2019 were treated as short-term leases
- The Group excluded initial direct costs in determining the cost of right-of-use assets
- The same discount rate was applied for a portfolio of leases with reasonably similar characteristics.

b. Impact on financial statements

Impact on statement of financial position

The following table summarises the impact of transition to IFRS 16 on the statement of financial position as at 1 January 2019 for each affected 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 of adoption of IFRS 16 on retained earnings as at 1 January 2019.

	Amounts without impact of IFRS 16 ₦ million	Impact of IFRS 16 ₦ million	At as 1 January 2019 ₦ million
Assets			
Non-current assets			
Right-of-use assets	–	4,217	4,217
Prepayments	7,950	(274)	7,676
Total non-current assets	503,234	3,942	507,176
Current assets			
Prepayments	3,549	(1,802)	1,747
Total current assets	263,437	(1,802)	261,635
Total assets	766,671	2,140	768,811
Equity and liabilities			
Non-current liabilities			
Lease liabilities	–	1,902	1,902
Total non-current liabilities	184,808	1,902	186,710
Current liabilities			
Lease liabilities	–	238	238
Total current liabilities	90,391	238	90,629
Total liabilities	275,199	2,140	277,339

	Amounts without impact of IFRS 16 US$ '000	Impact of IFRS 16 US$ '000	At as 1 January 2019 US$ '000
Assets			
Non-current assets			
Right-of-use assets	–	13,737	13,737
Prepayments	25,893	(893)	25,000
Total non-current assets	1,639,199	12,844	1,652,043
Current assets			
Prepayments	11,561	(5,872)	5,689
Total current assets	858,099	(5,872)	852,227
Total assets	2,497,298	6,972	2,504,270
Equity and liabilities			
Non-current liabilities			
Lease liabilities	–	6,196	6,196
Total non-current liabilities	601,976	6,196	608,172
Current liabilities			
Lease liabilities	–	776	776
Total current liabilities	294,437	776	295,213
Total liabilities	896,413	6,972	903,385

46. Changes in accounting policies continued

a) Right-of-use assets

All the Group's right-of-use assets are non-current assets. A reconciliation of the Group's right-of-use assets as at 1 January 2019 and 31 December 2019 is shown below:

	₦ million	US$ '000
Opening balance as at 1 January 2019	–	–
Effect of initial application of IFRS 16	4,217	13,737
Adjusted opening balance as at 1 January 2019	4,217	13,737
Additions during the year	87	285
Acquired in business combination (Note 14)	630	2,053
Less: depreciation for the period	(908)	(2,960)
Closing balance as at 31 December 2019	**4,026**	**13,115**

The right-of-use assets recognised as at 1 January 2019 and 31 December 2019 comprised the following assets:

	As at 31 Dec 2019 US$ '000	As at 1 Jan 2019 US$ '000
Office buildings	13,115	13,737
Right-of-use assets	13,115	13,737

	As at 31 Dec 2019 ₦ million	As at 1 Jan 2019 ₦ million
Office buildings	4,026	4,217
Right-of-use assets	4,026	4,217

b) Lease liabilities

A reconciliation of the Group's remaining operating lease payments as at 31 December 2018 and the lease liabilities as at 1 January 2019 and 31 December 2019 is shown below:

	₦ million	US$ '000
Total undiscounted operating lease commitment as at 31 December 2018	2,860	9,316
Lease liability as at 1 January 2019	2,140	6,972
Additions/(payments) during the year	64	204
Acquired in business combination (Note 14)	461	1,500
Add: interest on lease liabilities (Note 16)	164	534
Closing balance as at 31 December 2019	**2,829**	**9,210**

The lease liability as at 1 January 2019 is the total operating lease commitment as at 31 December 2018 discounted using the incremental borrowing rate as at that date.

Short-term leases relate to leases of residential buildings, car parks and office buildings with contractual lease term of less than or equal to 12 months at the date of initial application of IFRS 16. At the end of the reporting period, rental expense of ₦427 million ($1.4 million) was recognised within general and administrative expenses for these leases. The Group's future cash outflows from short-term lease commitments at the end of the reporting period are ₦14.8 billion ($48 million).

The Group's lease payments for drilling rigs are classified as variable lease payments. The variability arises because the lease payments are linked to the use of the underlying assets. These variable lease payments are therefore excluded from the measurement of the lease liabilities. At the end of the reporting period, there was no rental expense recognised within cost of sales for these leases. The expected future cash outflows arising from variable lease payments is estimated at ₦14.8 billion ($48 million).

The Group's lease liability as at 1 January 2019 and 31 December 2019 is split into current and non-current portions as follows:

	As at 31 Dec 2019 ₦ million	As at 1 Jan 2019 ₦ million
Non-current	2,617	1,902
Current	212	238
Lease liability	2,829	2,140

	As at 31 Dec 2019 US$ '000	As at 1 Jan 2019 US$ '000
Non-current	8,518	6,196
Current	692	776
Lease liability	9,210	6,972

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

c) Impact on the statement of profit or loss (decrease)

	31 December 2019 ₦ million	31 December 2019 US$ '000
Depreciation expense – Right-of-use assets: Office buildings	(908)	(2,960)
Operating profit	(908)	(2,960)
Finance cost	(164)	(534)
Profit/(loss) for the period	(1,072)	(3,494)

d) Impact on the statement of cash flows (increase)

	31 December 2019 ₦ million	31 December 2019 US$ '000
Depreciation of right-of-use assets	908	2,960
Net cash flows from operating activities	908	2,960
Interest on lease liabilities	–	–
Net cash flows from financing activities	–	–

No interest was paid on leases during the period. The lease payment for the first two years of the lease contract was prepaid, which has been reclassified to right-of-use asset in 2019. These are non-cash impacts on transition to IFRS 16.

e) Sensitivity to purchase options

In 2018, the Group entered into a lease agreement for its new head office building. The lease contract contains an option to purchase and right of first refusal upon an option of sales during the initial non-cancellable lease term of five (5) years. Management has determined that it is not reasonably certain that the Group will exercise the purchase option. Thus, the purchase price was not included in calculating the lease liability or right-of-use asset. The following tables summarise the impact that exercising the purchase option would have had on the profit before tax and net assets of the Group:

		Effect on profit before tax
Impact of purchase option	31 December 2019 ₦ million	31 December 2018 US$ '000
Depreciation	556	1,810
Interest payment	(725)	(2,363)
	(169)	(553)

		Effect on net assets
Impact of purchase option	31 December 2019 ₦ million	31 December 2018 US$ '000
Right-of-use assets	9,594	31,251
Lease liability	(10,322)	(33,621)
	(728)	(2,370)

Financial statements

46. Changes in accounting policies continued

f) Impact on segment assets and liabilities

The Group's assets are allocated to segments based on the operations and the geographical location of the assets. All non-current assets of the Group are domiciled in Nigeria. The changes in segment assets and liabilities for each segment as at 31 December 2019 are shown below:

	Amount under IAS 17 ₦ million	Impact of IFRS 16 ₦ million	Amount under IFRS 16 ₦ million
Segment assets:			
Oil	759,296	4,026	763,322
Gas	240,911	–	240,911
	1,000,207	4,026	1,004,233
Segment liabilities:			
Oil	431,505	2,829	434,334
Gas	16,091	–	16,091
	447,596	2,829	450,425

	Amount under IAS 17 US$ '000	Impact of IFRS 16 US$ '000	Amount under IFRS 16 US$ '000
Segment assets:			
Oil	2,550,032	13,115	2,563,147
Gas	707,963	–	707,963
	3,257,995	13,115	3,271,110
Segment liabilities:			
Oil	1,389,252	9,210	1,398,462
Gas	68,709	–	68,709
	1,457,961	9,210	1,467,171

g) Impact on earnings per share

As a result of adoption of IFRS 16, the earnings per share of the Group for the year ended 31 December 2019 decreased as shown in the table below:

	Amount under IAS 17 ₦ million	Impact of IFRS 16 ₦ million	Amount under IFRS 16 ₦ million
Profit from continued operations	82,047	(1,072)	80,975
Profit from discontinued operations	4,041	–	4,041
Profit for the year	86,088	(1,072)	85,016
Earnings per share for profit for the year attributable to the equity shareholders:			
Basic earnings per share (₦)	147.47	(1.88)	149.35
Diluted earnings per share (₦)	144.33	(1.84)	146.17

	Amount under IAS 17 US$ '000	Impact of IFRS 16 US$ '000	Amount under IFRS 16 US$ '000
Profit from continued operations	266,881	(3,494)	263,842
Profit from discontinued operations	13,166	–	13,166
Profit for the year	280,047	(3,494)	277,008
Earnings per share for profit for the year attributable to the equity shareholders:			
Basic earnings per share ($)	0.48	(0.01)	0.49
Diluted earnings per share ($)	0.47	(0.01)	0.48

h) Impact on deferred taxes

As a result of adoption of IFRS 16, there was no impact on deferred taxes as interest expense on lease liabilities and depreciation of right-of-use assets give rise to permanent differences for tax purposes.

Consolidated statement of value added

For the year ended 31 December 2019

	2019 ₦ million	%	2018 ₦ million	%	2019 US$ '000	%	2018 US$ '000	%
Revenue from contracts with customers	214,157		228,391		697,777		746,140	
Other income (net)	9,170		4,585		29,876		14,977	
Finance income	4,134		3,032		13,471		9,905	
Cost of goods and other services:								
Local	(49,694)		(54,152)		(161,913)		(176,878)	
Foreign	(33,129)		(36,102)		(107,942)		(117,918)	
Valued added	144,638	100%	145,754	100%	471,269	100%	476,226	100%

Applied as follows:

	2019 ₦ million	%	2018 ₦ million	%	2019 US$ '000	%	2018 US$ '000	%
To employees: – as salaries and labour related expenses	11,565	8%	10,402	7%	37,681	8%	33,987	7%
To external providers of capital: – as interest	10,294	7%	17,292	12%	33,539	7%	56,492	12%
To government: – as Group taxes	6,964	5%	7,693	5%	22,689	5%	25,134	5%
Retained for the Group's future: – For asset replacement, depreciation, depletion & amortisation	28,824	20%	37,461	26%	93,916	20%	122,383	26%
Deferred tax (charges)/credit	1,975	1%	28,055	19%	6,436	1%	91,654	19%
Profit for the year	85,016	59%	44,851	31%	277,008	59%	146,576	31%
Valued added	144,638	100%	145,754	100%	471,269	100%	476,226	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.

Consolidated five-year financial summary
As at 31 December 2019

	2019 ₦ million	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million
Revenue from contracts with customers	214,157	228,391	138,281	63,384	112,972
Profit/(loss) from continuing operations before taxation	89,914	80,599	13,454	(47,419)	17,243
Profit/(loss) from continuing operations before taxation	4,041	16	–	–	–
Profit/(loss) before tax	93,955	80,615	13,454	(47,419)	17,243
Income tax (expense)/credit	(8,939)	(35,748)	67,657	2,035	(4,252)
Profit/(loss) for the year	85,016	44,867	81,111	(45,384)	12,991

	2019 ₦ million	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million
Capital employed:					
Issued share capital	289	286	283	283	282
Share premium	84,045	82,080	82,080	82,080	82,080
Share-based payment reserve	8,194	7,298	4,332	2,597	1,729
Capital contribution	5,932	5,932	5,932	5,932	5,932
Retained earnings	259,690	192,723	166,149	85,052	134,919
Foreign currency translation reserve	202,910	203,153	200,870	200,429	56,182
Non-controlling interest	(7,252)	–	–	–	(148)
Total equity	553,808	491,472	459,646	376,373	280,976
Represented by:					
Non-current assets	717,664	502,512	539,672	462,402	295,735
Current assets	286,569	264,159	259,881	202,274	249,462
Non-current liabilities	(258,903)	(184,808)	(131,925)	(141,473)	(131,786)
Current liabilities	(191,522)	(90,391)	(207,982)	(146,830)	(132,435)
Net assets	553,808	491,472	459,646	376,373	280,976

	2019 US$ '000	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000
Revenue from contracts with customers	697,777	746,140	452,179	254,217	570,477
Profit/(loss) from continuing operations before taxation	292,967	263,314	43,997	(172,766)	87,079
Profit/(loss) from discontinuing operations before taxation	13,166	50	–	–	–
Profit/(loss) before tax	306,133	263,364	43,997	(172,766)	87,079
Income tax (expense)/credit	(29,125)	(116,788)	221,233	6,672	(21,472)
Profit/(loss) for the year	277,008	146,576	265,230	(166,094)	65,607

	2019 US$ '000	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000
Capital employed:					
Issued share capital	1,845	1,834	1,826	1,826	1,821
Share premium	503,742	497,457	497,457	497,457	497,457
Share-based payment reserve	30,426	27,499	17,809	12,135	8,734
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,249,156	1,030,954	944,108	678,922	865,483
Foreign currency translation reserve	2,391	3,141	1,897	3675	325
Non-controlling interest	(23,621)	–	–	–	(745)
Total equity	1,803,939	1,600,885	1,503,097	1,234,015	1,413,075
Represented by:					
Non-current assets	2,337,670	1,639,843	1,764,789	1,516,073	1,487,307
Current assets	933,440	860,455	849,841	663,200	1,254,583
Non-current liabilities	(843,322)	(601,976)	(431,407)	(463,847)	(662,774)
Current liabilities	(623,849)	(294,437)	(680,126)	(481,411)	(666,041)
Net assets	1,803,939	1,600,885	1,503,097	1,234,015	1,413,075

47. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 December 2018	226.6	1473.0	480.6
Revisions	(1.6)	68.2	10.2
Discoveries and extensions	–	–	–
Acquired through business combination	35.5	–	35.5
Production	(8.7)	(47.7)	(16.9)
At 31 December 2019	**251.8**	**1,493.5**	**509.3**

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.

48. Capitalised costs related to oil producing activities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Capitalised costs:				
Unproved properties	–	–	–	–
Proved properties	651,358	542,470	2,121,686	1,767,004
Total capitalised costs	651,358	542,470	2,121,686	1,767,004
Accumulated depreciation	(172,986)	(151,989)	(563,473)	(495,081)
Net capitalised costs	**478,372**	**390,481**	**1,558,213**	**1,271,923**

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.

49. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2019 are:

		Original	Term in years expired	Unexpired
Seplat	OML 4, 38 & 41	10	9	1
Newton	OML 56	10	9	1
Seplat East Swamp	OML 53	30	21	9
Seplat Swamp	OML 55	30	21	9
Elcrest	OML 40	18.8	–	18.8

The acquisition of Eland resulted in the recognition of OML 40. The licence life on the date of acquisition was 18.8 years. However, based on the Competent Person Report for December 2019, the economic life of the asset is deemed to be 12 years at the reporting date.

50. Results of operations for oil producing activities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue from contracts with customers	151,954	180,751	495,104	590,503
Other income – net	9,170	4,585	29,876	14,977
Production and administrative expenses	(99,992)	(109,923)	(324,320)	(359,119)
Depreciation & amortisation	(25,570)	(31,244)	(84,792)	(102,061)
Profit/(loss) before taxation	35,562	44,169	115,868	144,300
Taxation	(8,939)	(35,748)	(29,125)	(116,788)
Profit/(loss) after taxation	**26,623**	**8,421**	**86,743**	**27,512**

51. Reclassification

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

52. 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 2019 ₦/$	31 December 2018 ₦/$
Fixed assets – opening balances	Historical rate	Historical	Historical
Fixed assets – additions	Average rate	306.91	306.10
Fixed assets – closing balances	Closing rate	307.00	307.00
Current assets	Closing rate	307.00	307.00
Current liabilities	Closing rate	307.00	307.00
Equity	Historical rate	Historical	Historical
Income and expenses:	Overall average rate	306.91	306.10

Separate financial statements

240–314

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Notes	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Revenue from contracts with customers	8	200,733	217,174	654,037	709,493
Cost of sales	9	(85,987)	(103,086)	(280,162)	(336,777)
Gross profit		114,746	114,088	373,875	372,716
Other income	10	4,096	1,757	13,346	5,739
General and administrative expenses	11	(17,044)	(19,752)	(55,531)	(64,520)
Impairment losses on financial assets	12	(12,784)	(69)	(41,652)	(227)
Fair value (loss)/gain	13	(3,969)	1,319	(12,930)	4,308
Operating profit		85,045	97,343	277,108	318,016
Finance income	14	4,702	2,874	15,321	9,388
Finance cost	14	(10,129)	(14,788)	(33,001)	(48,311)
Finance cost/(cost)		(5,427)	(11,914)	(17,680)	(38,923)
Loss on disposal of investment in subsidiary	23	(5)	–	(17)	–
Profit before taxation		79,613	85,429	259,411	279,093
Income tax expense	15	(13,484)	(35,748)	(43,934)	(116,788)
Profit for the year		66,129	49,681	215,477	162,305
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference	31	(17)	2,026	–	–
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	34	(201)	178	(656)	579
Deferred tax credit/(expense) on remeasurement (gains)/losses	15	171	(80)	558	(261)
		(30)	98	(98)	318
Other comprehensive income/(loss) for the year (net of tax)		(47)	2,124	(98)	318
Total comprehensive income for the year (net of tax)		66,082	51,805	215,379	162,623
Basic earnings per share ₦/ ($)	37	116.17	87.39	0.38	0.29
Diluted earnings per share ₦/ ($)	37	113.70	86.15	0.37	0.28

Notes 1 to 49 on pages 244 to 314 are an integral part of the financial statements.

Separate statement of financial position

As at 31 December 2019

	Notes	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Assets					
Non-current assets					
Oil & gas properties	18	249,888	266,091	813,967	866,743
Other property, plant and equipment	18	3,582	1,285	11,666	4,183
Right-of-use assets	43	3,397	–	11,064	–
Intangible assets	19	8,553	8,994	27,858	29,297
Prepayments	21	19,228	7,871	62,633	25,635
Deferred tax	16	37,609	44,284	122,508	144,246
Investment in subsidiaries	22	150,054	345	488,779	1,129
Investment in joint ventures	23	46,055	–	150,016	–
Total non-current assets		**518,366**	328,870	**1,688,491**	**1,071,233**
Current assets					
Inventories	24	24,315	30,400	79,205	99,022
Trade and other receivables	25	423,475	318,997	1,379,404	1,039,074
Prepayments	21	1,479	3,456	4,814	11,258
Current tax assets	15	–	723	–	2,356
Contract assets	26	6,527	4,327	21,259	14,096
Derivative financial instruments	27	308	2,693	1,002	8,772
Cash and bank balances	28	83,319	153,535	271,398	500,116
Total current assets		**539,423**	**514,131**	**1,757,082**	**1,674,694**
Total assets		**1,057,789**	**843,001**	**3,445,573**	**2,745,927**
Equity and liabilities					
Equity					
Issued share capital	29	289	286	1,845	1,834
Share premium	29	84,045	82,080	503,742	497,457
Share-based payment reserve	29	8,194	7,298	30,426	27,499
Capital contribution	30	5,932	5,932	40,000	40,000
Retained earnings		282,228	234,148	1,304,197	1,147,526
Foreign currency translation reserve	31	196,535	196,552	–	–
Total shareholders' equity		**577,223**	**526,296**	**1,880,210**	**1,714,316**
Non-current liabilities					
Interest bearing loans and borrowings	32	193,349	133,799	629,800	435,827
Lease liabilities	43	2,367	–	7,709	–
Provision for decommissioning obligation	33	34,988	37,658	113,968	122,666
Defined benefit plan	34	3,011	1,819	9,808	5,923
Total non-current liabilities		**233,715**	**173,276**	**761,285**	**564,416**
Current liabilities					
Interest bearing loans and borrowings	32	21,295	3,031	69,366	9,872
Trade and other payables	35	215,669	140,398	702,510	457,323
Contract liabilities	36	5,005	–	16,301	–
Current tax liabilities	15	4,882	–	15,901	–
Total current liabilities		**246,851**	**143,429**	**804,078**	**467,195**
Total liabilities		**480,566**	**316,705**	**1,565,363**	**1,031,611**
Total shareholders' equity and liabilities		**1,057,789**	**843,001**	**3,445,573**	**2,745,927**

Notes 1 to 49 on pages 244 to 314 are an integral part of the financial statements.

The financial statements of Seplat Development Company Plc for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 23 March 2020 and were signed on its behalf by:

A.B.C. Orjiako
FRC/2013/IODN/00000003161
Chairman
23 March 2020

Austin Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
23 March 2020

Roger Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
23 March 2020

Separate statement of changes in equity

For the year ended 31 December 2019

₦ million

	Issued share capital	Share premium	Share-based payment reserve	Capital contribution	Retained earnings	Foreign currency translation reserve	Total equity
At 1 January 2018	**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:							
Dividend paid	–	–	–	–	(18,036)	–	(18,036)
Share-based payments	–	–	2,969	–	–	–	2,969
Vested shares	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**
At 1 January 2019	286	82,080	7,298	5,932	234,148	196,552	526,296
Profit for the year	–	–	–	–	66,129	–	66,129
Other comprehensive (loss)/income	–	–	–	–	(30)	(17)	(47)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**66,099**	**(17)**	**66,082**
Transactions with owners in their capacity as owners:							
Dividends paid	–	–	–	–	(18,019)	–	(18,019)
Share-based payments (Note 29)	–	–	2,864	–	–	–	2,864
Vested shares (Note 29)	3	1,965	(1,968)	–	–	–	–
Total	3	1,965	896	–	(18,019)	–	(15,155)
At 31 December 2019	**289**	**84,045**	**8,194**	**5,932**	**282,228**	**196,535**	**577,223**

US$ '000

	Issued share capital	Share premium	Share-based payment reserve	Capital contribution	Retained earnings	Total equity
At 1 January 2018	**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	–	–	9,698	–	–	9,698
Vested shares	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**
At 1 January 2019	1,834	497,457	27,499	40,000	1,147,526	1,714,316
Profit for the year	–	–	–	–	215,477	215,477
Other comprehensive loss	–	–	–	–	(98)	(98)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**215,379**	**215,379**
Transactions with owners in their capacity as owners:						
Dividends paid	–	–	–	–	(58,708)	(58,708)
Share-based payments (Note 29)	–	–	9,223	–	–	9,223
Issue of shares (Note 29)	11	6,285	(6,296)	–	–	–
Total	11	6,285	2,927	–	(58,708)	(49,485)
At 31 December 2019	**1,845**	**503,742**	**30,426**	**40,000**	**1,304,197**	**1,880,210**

Notes 1 to 49 on pages 244 to 314 are an integral part of the financial statements.

Separate statement of cash flows

For the year ended 31 December 2019

	Notes	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Cash flows from operating activities					
Cash generated from operations	17	78,734	151,582	256,433	495,074
Tax paid	15	(1,036)	–	(3,380)	–
Defined benefit paid	34	(86)	(63)	(280)	(206)
Net cash inflows from operating activities		77,612	151,519	252,773	494,868
Cash flows from investing activities					
Payment for acquisition of subsidiary	22	(148,127)	–	(482,637)	–
Payment for acquisition of oil and gas properties	18	(29,367)	(11,058)	(95,685)	(36,214)
Payment for acquisition of intangible assets	19	–	(9,070)	–	(29,543)
Proceeds from disposal of oil and gas properties	18	15,532	–	50,614	–
Payment for acquisition of other property, plant and equipment	18	(3,154)	(698)	(10,274)	(2,281)
Payment for investment in joint venture	23	(31,627)	–	(103,050)	–
Proceed from disposal of other properties, plant and equipment	18	–	71	–	239
Payments for plan assets	34	–	(502)	–	(1,635)
Interest received	14	4,702	2,874	15,321	9,388
Net cash (outflows) from investing activities		(192,041)	(18,383)	(625,711)	(60,046)
Cash flows from financing activities					
Repayments of loans	32	(30,691)	(207,532)	(100,000)	(678,000)
Proceeds from loans	32	106,346	163,775	346,500	535,045
Dividends paid	38	(18,019)	(18,036)	(58,708)	(58,888)
Principal repayments on crude oil advance	35	–	(23,193)	–	(75,769)
Interest repayments on crude oil advance	35	–	(530)	–	(1,730)
Payments for other financing charges	32	(2,696)	(1,802)	(8,783)	(5,885)
Interest paid on bank financing	32	(10,364)	(10,890)	(33,770)	(35,471)
Net cash inflow/(outflows) from financing activities		44,576	(98,208)	145,239	(320,698)
Net (decrease)/increase in cash and cash equivalents		(69,853)	34,928	(227,699)	114,124
Cash and cash equivalents at beginning of the year		152,486	117,220	496,698	383,321
Effects of exchange rate changes on cash and cash equivalents		(1,370)	338	(4,299)	(747)
Cash and cash equivalents at end of the year	28	81,263	152,486	264,700	496,698

Notes 1 to 49 on pages 244 to 314 are an integral part of the financial statements.

1. Corporate structure 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 2013, 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: 16a Temple Road (Olu Holloway), Ikoyi, Lagos, Nigeria.

The Company acquired, pursuant to an agreement for assignment dated 31 January 2010 between the Company, Shell Petroleum Development Company, 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 ₦104 billion ($340 million) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of ₦10 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 ₦24,560 ($80) per barrel. ₦110 billion ($358.6 million) was allocated to the producing assets including ₦5.7 billion ($18.6 million) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of ₦10 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 2019:

- During the period, the Company changed its registered office address and relocated its offices to 16a Temple Road (Olu Holloway), Ikoyi, Lagos.
- The Company's interest-bearing borrowings included a four-year revolving loan facility of ₦61 billion ($200m). In October 2018, the Company made principal repayments on the four-year revolving facility for a lump sum of ₦30.7 billion ($100m). In the reporting period, the Company repaid the outstanding principal amount of ₦30.7 billion ($100m) on the revolving loan facility.
- There was a change in the ownership structure of the Company's wholly owned subsidiary, ANOH Gas Processing Company Limited on 18 April 2019 to a joint venture after Nigerian Gas Processing and Transportation Company Limited's (NGPTC) equity investment. As a result, the Company has deconsolidated ANOH in its financial statements and its retained interest has been recognised as an investment in joint venture.
- The Company adopted the new leasing standard IFRS 16 Leases (see Note 43).
- The acquisition of Eland Oil and Gas Limited on 31 December 2019 which resulted in an increase in property, plant and equipment, other intangible assets and investment in subsidiaries (Note 22).
- During the year, the Company obtained a four-year revolving loan facility of ₦107 billion ($350 million). An upfront fee of $3.5 million was deducted from the proceeds of the loan; following the deduction an amount of $346.5 million was credited to the Company on 20 December 2019. The amortised cost of the loan as at year end has been disclosed in Note 32. The loan was primarily obtained to facilitate the acquisition of Eland and settle its shareholders.
- During the year, the Company acquired land and buildings worth ₦1.2 billion ($4 million).

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 2019 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 statements have been prepared under the going concern assumption and historical cost convention, except for contingent liability and consideration, and financial instruments measured at fair value on initial recognition and defined benefit plans – plan assets measured at fair value. 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 Company will not remain a going concern for at least 12 months from the date of this statement.

iv) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time in the annual reporting period commencing 1 January 2019.

a. IFRS 16 Leases

IFRS 16 Leases was issued in January 2016 and became effective for reporting periods beginning on or after 1 January 2019. It replaces the provisions of IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The Company has adopted IFRS 16 from 1 January 2019 using the simplified transitional approach, and thus has not restated comparative figures for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. There was no impact on the Company's retained earnings at the date of initial application (i.e. 1 January 2019).

The adoption of IFRS 16 resulted in the recognition of right-of-use assets and corresponding lease liabilities for leases that were formerly classified as operating leases under the provisions of IAS 17, with the exception of the Company's short-term leases, as the distinction between operating and finance leases has been removed.

The impact of the adoption of this standard and the related new accounting policy are disclosed in Note 43.

b. Amendments to IAS 19 Employee benefit

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 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 had no impact on the financial statements of the Company as at the reporting date.

c. 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 had no impact on financial statements of the Company as at the reporting date.

d. Amendments to IAS 12 Income taxes

These amendments were issued in December 2017. These amendments clarify that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

e. Amendments to IFRS 9 Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company as at the reporting date.

f. Amendments to IAS 28 Investments in associates and joint ventures

These amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures.

g. IFRIC 23 Uncertainty over income tax treatment

This interpretation was issued in June 2017. The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. It discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty.
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored.
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment.
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Where there is an uncertainty, an entity shall recognise and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined using this interpretation. This interpretation had no impact on the financial statements of the Company as at the reporting date.

3. Summary of significant accounting policies continued

3.3. New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 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. 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 amendment before its effective date and does not expect it to have a material impact on its current or future reporting periods.

b. Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors

These amendments were issued on 31 October 2018. The amendments clarify the definition of 'material' and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of what is material is consistent across all IFRS Standards.

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

c. Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

These amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business (as defined in IFRS 3 Business Combinations).

Where the non-monetary asset constitutes a business, the investor will recognise the full gain or loss on the sale or contribution of the asset. If the asset does not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. These amendments apply prospectively.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

3.4. 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 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.

3.5. Oil and gas accounting

i) Pre-licensing costs

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

ii) Exploration licence cost

Exploration licence costs are capitalised within intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

Licence costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made to establish development plans and timing. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence is written off through profit or loss.

The exploration licence costs are initially recognised as cost and subsequently amortised on a straight line based on the economic life.

iii) 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.

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.

iv) 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 (IFRS 15)

IFRS 15 uses 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. 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.

The surplus or deficit of the product sold during the period over the Company's share of production 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 is recognised separately in other income.

3. Summary of significant accounting policies continued

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 provide 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.

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.

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 are 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 the 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. Conversely, if there are remaining performance obligations which are not separately identifiable, revenue will be recognised on a cumulative catch-up basis when crude oil or gas is transferred.

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.

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 7.

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. 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%-30%
Office furniture and IT equipment	10%-33.33%
Building	4%
Land	–
Intangible assets	5%
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. Summary of significant accounting policies continued

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 costs

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

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.

Non-financial assets 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.

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. 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 7.

3.14. Financial instruments

IFRS 9 provides guidance on 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.

i) 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.

Classification and subsequent measurement are dependent on the Company's business model for managing the asset and the cash flow 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 2019 satisfy the conditions for classification at amortised cost under IFRS 9 except for derivatives which are reclassified at fair value through profit or loss.

The Company's financial assets include trade receivables, NPDC receivables, intercompany receivables, other receivables, cash and bank balances and derivatives. 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.

ii) 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 Company 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, other receivables, intercompany 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 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 Stages 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, 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.

3. Summary of significant accounting policies continued

iii) 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.

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.

iv) Write off policy
The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- where the Company's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Company may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was ₦14 billion, $48 million (2018: nil) The Company seeks to recover amounts it is legally owed in full but which have been partially written off due to no reasonable expectation of full recovery.

v) 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.

vi) 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.

vii) 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.

viii) 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 6, Financial risk management.

The Company accounts for financial assets with embedded derivatives (hybrid instruments) in their entirety on the basis of their 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 are 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.

ix) 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 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.

3.15. Share capital

On issue of ordinary shares any consideration received net of any directly attributable transaction costs is included in 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.

3.16. Earnings per share and dividends

Basic EPS

Basic earnings per share is calculated on the Company's profit or loss after taxation 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 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.

Dividend

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

3.17. 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 statement of financial position 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 other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

3. Summary of significant accounting policies continued

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.

3.18. 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.

3.19. 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.

3.20. Income taxation

i) Current income tax

The income tax expense or credit for the period is the tax payable on the current period’s taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, 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, respectively.

iii) New tax regime

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 request was granted, and the new tax holiday is expected to end in May 2020.

iv) Uncertainty over income tax treatments

The Company examines where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. It considers each uncertain tax treatment separately, depending on which approach better predicts the resolution of the uncertainty. The factors it considers include:

- how it prepares and supports the tax treatment; and
- the approach that it expects the tax authority to take during an examination.

If the Company concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it determines the accounting for income taxes consistently with that tax treatment. If it concludes that it is not probable that the treatment will be accepted, it reflects the effect of the uncertainty in its income tax accounting in the period in which that determination is made (for example, by recognising an additional tax liability or applying a higher tax rate).

The Company measures the impact of the uncertainty using methods that best predict the resolution of the uncertainty. The Company uses the most likely method where there are two possible outcomes, and the expected value method when there are a range of possible outcomes.

The Company assumes that the tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. As a result, it does not consider detection risk in the recognition and measurement of uncertain tax treatments. The Company applies consistent judgements and estimates on current and deferred taxes. Changes in tax laws or the presence of new tax information by the tax authority are treated as a change in estimate in line with IAS 8 Accounting policies, changes in accounting estimates and errors.

Judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. The absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

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.

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 and 41 are grouped together as a cash generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced when the Company has an unconditional right to receive payment.

ii) Deferred tax asset

Deferred income 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 16.

iii) Lease liabilities

In 2018, the Company entered into a lease agreement for its new head office building. The lease contract contains an option to purchase and right of first refusal upon an option of sales during the initial non-cancellable lease term of five (5) years.

In determining the lease liability/right-of-use assets, management considered all facts and circumstances that create an economic incentive to exercise the purchase option. Potential future cash outflow of $45 million (Seplat's 45% share of $100 million), which represents the purchase price, has not been included in the lease liability because the Company is not reasonably certain that the purchase option will be exercised. This assessment will be reviewed if a significant event or a significant change in circumstances occurs which affects the initial assessment and that is within the control of management.

iv) Lease term

Management assessed that the purchase option in its head office lease's contract would not be exercised. If management had assessed that it will be reasonably certain that the purchase option would be exercised, the lease term used for depreciating the right-of-use-asset would have been fifty (50) years rather than the non-cancellable lease term of five (5) years. For the lease contracts, the Company assessed that it could not reasonably determine if the leases would be renewed at the end of the lease term. As a result, the lease term used in determining the lease liability was the contractual lease term. The sensitivity of the Company's profit and net assets to this purchase option is disclosed in Note 43.

v) 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 ₦20.1 billion (2018: ₦21.7 billion). See Note 31 for the applicable translation rate.

vi) 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 judgements 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 Operating Arrangement (JOA) partners
The treatment of underlift and overlift transactions is judgemental 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 cost 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 cost is accounted for as a direct deduction from revenue i.e. revenue is recognised net of barging costs.

Exploration and evaluation assets
The accounting for exploration and evaluation ('E&E') assets require management to make certain judgements and assumptions, including whether exploratory wells have discovered economically recoverable quantities of reserves. Designations are sometimes revised as new information becomes available. If an exploratory well encounters hydrocarbon, but further appraisal activity is required in order to conclude whether the hydrocarbons are economically recoverable, the well costs remain capitalised as long as sufficient progress is being made in assessing the economic and operating viability of the well. Criteria used in making this determination include evaluation of the reservoir characteristics and hydrocarbon properties, expected additional development activities, commercial evaluation and regulatory matters. The concept of 'sufficient progress' is an area of judgement, and it is possible to have exploratory costs remain capitalised for several years while additional drilling is performed or the Company seeks government, regulatory or partner approval of development plans.

vii) 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 7.

5. 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) 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.

ii) 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.

iii) 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.

iv) 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 29.

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.

5. Estimates and assumptions continued

v) 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.

vi) 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.

During the year, the Company carried out an impairment assessment on OMLs 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 cash flows over the estimated life of proved plus probable reserves, production rates, oil and gas prices, future cost and other relevant assumptions based on the 2019 year end CPR report. The pre-tax future cash flows 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 2019 and 2018 reporting periods.

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

vii) 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.

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 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 in Note 6.1.3.

6. Financial risk management

6.1 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.

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 receivables and derivative financial instruments	Ageing analysis Credit ratings	Diversification of bank deposits
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

6.1.1 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.

Crude hedge

On 28 June and 19 December 2019, the Company entered economic crude oil hedge contracts with Standard Chartered Bank and J.P. Morgan Bank respectively. Strike price of ₦13,815 ($45/bbl.) for 3 million barrels at an average premium price of ₦338 ($1.1/bbl.) was agreed at the contract dates.

These contracts, which will commence in 1 January 2020 and 1 July 2020 for the respective banks, are expected to reduce the volatility attributable to price fluctuations of oil. The Company has pre-paid a premium of ₦838 million, 2018: ₦1.6 billion ($2.73 million; 2018: $5.2 million) and has recognised an unrealised fair value gain of ₦337 million, 2018: ₦2.7 billion ($1.1 million; 2018: $8.8 million) for these hedges. The termination date is 31 March and 30 September 2020 respectively. Hedging the price volatility of forecast oil sales is in accordance with the risk management strategy of the Company.

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

	Less than 6 months	6 to 9 months	9 to 12 months	Total	Fair value ₦ million	Fair value US$ '000
As at 31 December 2019						
Crude oil hedges Volume barrels (bbl.)	1,500,000	1,500,000	–	3,000,000	308	1,002

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

The following table summarises the impact of the commodity options on the Company's profit before tax due to a 10% change in market inputs, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	31	–	100	–
-10%	31	–	(100)	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	111	–	363	–
-10%	(136)	–	(443)	–

6. Financial risk management 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 on the Company's profit before tax of a 10% change in crude oil prices, with all other variables held constant:

Increase/decrease in crude oil prices	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	13,853	–	45,136	–
-10%	(13,853)	–	(45,136)	–

Increase/decrease in crude oil prices	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	16,953	–	55,386	–
-10%	(16,953)	–	(55,386)	–

The following table summarises the impact on the Company's profit before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in commodity price	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	4,167	–	13,576	–
-10%	(4,167)	–	(13,576)	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	4,764	–	15,564	–
-10%	(4,764)	–	(15,564)	–

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 issued at variable rates which expose the Company to cash flow interest rate risk which is partially offset by cash and short-term fixed deposits held at variable rates. Fixed rate borrowings only give rise to interest rate risk if measured at fair value. The Company's borrowings are not measured at fair value and are denominated in US dollars.

The Company is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant increases and reductions in market interest rates would result in a decrease in the interest earned by the Company.

The contractual re-pricing date of the interest-bearing loans and borrowings is between 3 – 6 months. The exposure of the Company's variable interest-bearing loans and borrowings at the end of the reporting period is shown below.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Corporate loans (Note 32.2)	107,407	29,558	349,888	96,282

The following table demonstrates the sensitivity of the Company's profit before tax to changes in LIBOR rate, with all other variables held constant.

Increase/decrease in interest rate	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+1%	(41)	–	(296)	–
-1%	42	–	296	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+1%	(135)	–	(963)	–
-1%	136	–	963	–

6.1.2 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, trade and other payables.

The following table demonstrates the carrying value of monetary assets and liabilities (denominated in Naira) exposed to foreign exchange risks at the reporting date:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Financial assets				
Cash and bank balances	25,839	56,026	84,165	182,496
Contract assets	6,527	4,327	21,259	14,096
Trade and other receivables	16,835	13,567	54,836	44,191
	49,201	73,920	139,000	240,783
Financial liabilities				
Trade and other payables	(43,666)	(24,647)	(142,233)	(80,284)
Net exposure to foreign exchange risk	5,535	49,273	(3,233)	160,499

The following table demonstrates the carrying value of monetary assets and liabilities exposed to foreign exchange risks for pound exposures at the reporting date:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Financial assets				
Cash and bank balances	45	36	147	116

Sensitivity to foreign exchange risk is based on the Company's net exposure to foreign exchange risk due to Naira and pound 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 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+5%	47	–	(2,346)	–
-5%	(52)	–	2,593	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+5%	154	–	(7,643)	–
-5%	(170)	–	8,447	–

If the pound 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 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+5%	2	–	2	–
-5%	(2)	–	(2)	–

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 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+5%	7	–	6	–
-5%	(7)	–	(6)	–

6. Financial risk management continued

6.1.3 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 and NGMC receivables), and other parties (i.e. NPDC receivables and other receivables).

a. Risk management

The Company is exposed to credit risk from its sale of crude oil to Mercuria. The off-take agreement with Mercuria runs for five years until 31 July 2020 with a 30-day payment term. The Company is exposed to further credit risk from outstanding cash calls from Nigerian Petroleum Development Company (NPDC).

In addition, the Company is exposed to credit risk in relation to its sale of gas to Nigerian Gas Marketing Company (NGMC) Limited, a subsidiary of NNPC, and Azura. 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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Trade and other receivables (Gross)	409,055	322,020	1,332,497	1,048,785
Contract assets (Note 26)	6,527	4,327	21,259	14,096
Cash and bank balances (Gross)	83,332	153,563	271,441	500,207
Gross amount	498,934	479,910	1,625,197	1,563,088
Impairment of receivables	(2,460)	(4,513)	(8,012)	(14,760)
Impairment of cash and bank balance	(15)	(28)	(51)	(90)
Net amount	496,459	475,369	1,617,134	1,548,238

b. Impairment of financial assets

The Company has five types of financial assets that are subject to IFRS 9's expected credit loss model. Contract assets are also subject to the expected credit loss model, even though they are not financial assets, as they have substantially the same credit risk characteristics as trade receivables. The impairment of receivables is disclosed in the table below.

- Nigerian Petroleum Development Company (NPDC) receivables
- Trade receivables
- Contract assets
- Cash and bank balances
- Intercompany receivables

Reconciliation of impairment on financial assets

	Notes	₦ million	US$ '000
As at 1 January 2019		4,541	14,848
Increase in provision for Nigerian Petroleum Development Company (NPDC) receivables	(25.7)	12,836	41,811
Decrease in provision for bank balance (fixed deposit)	(28)	(13)	(39)
Decrease in provision for intercompany receivables	(25.9)	(322)	(1,053)
Increase in provision for trade receivables	(25.5)	287	933
Exchange difference		(4)	–
Impairment charge to the profit or loss		12,784	41,652
Receivables written off during the year as uncollectible	(25.7)	(14,871)	(48,439)
As at 31 December 2019		**2,454**	**8,061**

The parameters used to determine impairment for NPDC receivables, intercompany receivables and short-term 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	Short-term fixed deposits
Probability of Default (PD)	The PD for base case, downturn and upturn is 2.03%, 2.10% and 2.10% respectively.	The 12-month PD and lifetime PD for Stage 1 and Stage 2 is 0.05%. The PD for Stage 3 is 100%.	The 12-month PD and lifetime PD for Stage 1 and Stage 2 is 0.09%. The PD for Stage 3 is 100%.
Loss Given Default (LGD)	The 12-month LGD and lifetime LGD were determined using Moody's recovery rate for senior unsecured corporate bonds for emerging economies.	The 12-month LGD and lifetime LGD were determined using management's estimate of expected cash recoveries.	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 short-term fixed deposits to credit risk.
Macroeconomic indicators	The historical inflation, unemployment 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	80%, 10% and 10% 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.

i. 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 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.

During the year, the Company wrote off ₦14.9 billion ($48.4 million) which was netted off from NPDC payables in 2018. (See details in Note 25.)

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	52,637	–	–	**52,637**
Loss allowance	(448)	–	–	**(448)**
Net Exposure at Default (EAD)	52,189	–	–	**52,189**

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

6. Financial risk management continued

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	31 December 2019 Total US$ '000
Gross Exposure at Default (EAD)	171,457	–	–	**171,457**
Loss allowance	(1,460)	–	–	**(1,460)**
Net Exposure at Default (EAD)	169,997	–	–	**169,997**

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

ii. Trade receivables

Nigerian Gas Marketing Company

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.

The impairment of trade receivables (NGMC) was estimated by applying the provision matrix. The 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 2019 and 31 December 2018 are as follows:

	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	31 December 2019 Total ₦ million
Gross carrying amount	2,515	–	1,790	–	–	12,176	16,481
Expected loss rate	0.16%	0.16%	0.17%	0.17%	0.17%	3.0%	
Lifetime ECL (Note 25)	(4)	–	(3)	–	–	(333)	(340)
Total	2,511	–	1,787	–	–	11,843	16,141

	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	31 December 2019 Total ₦ million
Gross carrying amount	4,639	–	2,392	4,035	–	3,080	14,146
Expected loss rate	0.5%	0.5%	0.5%	0.5%	0.5%	2.2%	
Lifetime ECL	(25)	–	(13)	(21)	–	(63)	(122)
Total	4,614	–	2,379	4,014	–	3,017	14,024

	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	31 December 2019 Total US$ '000
Gross carrying amount	8,192	–	5,831	–	–	39,661	53,684
Expected loss rate	0.16%	0.16%	0.17%	0.17%	0.17%	3.0%	
Lifetime ECL (Note 25)	(12)	–	(8)	–	–	(1,090)	(1,110)
Total	8,180	–	5,823	–	–	38,571	52,574

	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	31 December 2019 Total US$ '000
Gross carrying amount	15,111	–	7,792	13,142	–	10,033	46,078
Expected loss rate	0.53%	–	0.53%	0.53%	–	2.16%	
Lifetime ECL	(80)	–	(41)	(70)	–	(205)	(396)
Total	15,031	–	7,751	13,072	–	9,828	45,682

Mercuria

The impairment of trade receivables (Mercuria) was estimated by applying the provision matrix. The 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 2019 are as follows:

							31 December 2019
	Current ₦ million	1-30 days ₦ million	31-60 days ₦ million	61-90 days ₦ million	91- 120 days ₦ million	Above 120 days ₦ million	Total ₦ million
Gross carrying amount	15,863	–	–	–	–	–	15,863
Expected loss rate	0.4%	–	–	–	–	–	0.4%
Lifetime ECL (Note 27.4)	(68)	–	–	–	–	–	(68)
Total	15,795	–	–	–	–	–	15,795

							31 December 2019
	Current US$ '000	1-30 days US$ '000	31-60 days US$ '000	61-90 days US$ '000	91- 120 days US$ '000	Above 120 days US$ '000	Total US$ '000
Gross carrying amount	51,669	–	–	–	–	–	51,669
Expected loss rate	0.4%	–	–	–	–	–	–
Lifetime ECL (Note 27.4)	(219)	–	–	–	–	–	(219)
Total	51,450	–	–	–	–	–	51,450

iii. Cash and cash equivalent

Short-term 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.

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	7,304	–	–	**7,304**
Loss allowance	(15)	–	–	**(15)**
Net Exposure at Default (EAD)	7,289	–	–	**7,289**

				31 December 2018
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	29,658	–	–	**29,658**
Loss allowance	(28)	–	–	**(28)**
Net Exposure at Default (EAD)	29,630	–	–	**29,630**

				31 December 2019
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	23,794	–	–	**23,794**
Loss allowance	(51)	–	–	**(51)**
Net Exposure at Default (EAD)	23,743	–	–	**23,743**

				31 December 2018
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	103,229	–	–	**103,229**
Loss allowance	(90)	–	–	**(90)**
Net Exposure at Default (EAD)	103,139	–	–	**103,139**

6. Financial risk management continued

iv. Other cash and bank balances

The Company assessed the other cash and bank balances to determine their expected credit losses. Based on this assessment, they identified the expected credit loss to be insignificant as at 31 December 2019 (2018: nil). The assets are assessed to be in Stage 1.

Credit quality of cash and bank balances

The credit quality of the Company's cash and bank balances is assessed based on external credit ratings (Fitch national long-term ratings) as shown below:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Non-rated	9	2	17	6
B-	473	–	1,542	–
B	25,399	–	82,735	–
BBB+	–	36	–	115
BBB	–	584	–	1,902
A+	57,213	94,242	186,373	306,979
AA	–	31,658	–	103,123
AA-	–	25,755	–	83,893
AAA	240	1,286	782	4,188
	83,334	153,563	271,449	500,206
Allowance for impairment recognised during the year (Note 28)	(15)	(28)	(51)	(90)
Net cash and cash bank balances	83,319	153,535	271,398	500,116

v. Intercompany receivables

				31 December 2019
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	313,508	–	–	**313,508**
Loss allowance	(1,605)	–	–	**(1,605)**
Net Exposure at Default (EAD)	311,903	–	–	**311,903**

				31 December 2018
	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Total ₦ million
Gross Exposure at Default (EAD)	258,801	–	–	**258,801**
Loss allowance	(1,927)	–	–	**(1,927)**
Net Exposure at Default (EAD)	256,874	–	–	**256,874**

				31 December 2019
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	1,021,194	–	–	**1,021,194**
Loss allowance	(5,223)	–	–	**(5,223)**
Net Exposure at Default (EAD)	1,015,971	–	–	**1,015,971**

				31 December 2018
	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Total US$ '000
Gross Exposure at Default (EAD)	842,999	–	–	**842,999**
Loss allowance	(6,276)	–	–	**(6,276)**
Net Exposure at Default (EAD)	836,723	–	–	**836,723**

c. Maximum exposure to credit risk – financial instruments subject to impairment

The Company estimated the expected credit loss on NPDC receivables, intercompany receivables and fixed deposits by applying the general model. The gross carrying amount of financial assets represents the Company's maximum exposure to credit risks on these assets.

All financial assets impaired using the General model (NPDC, intercompany and fixed deposits) are graded under the standard monitoring credit grade (rated B under Standard and Poor's unmodified ratings) and are classified under Stage 1.

d. Roll forward movement in loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Discount unwind within ECL due to passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslation for assets dominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-off of receivables and allowances related to assets.

The following tables explain the changes in the loss allowance between the beginning and end of the annual period due to these factors:

Nigerian Petroleum Development Company (NPDC) receivables

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	–	–	2,475	–	**2,475**
Movements with profit or loss impact					
New financial assets originated or purchased	448	–	–	–	**448**
Write offs	–	–	12,388	–	**12,388**
Total net profit or loss charge during the period	448	–	12,388	–	**12,836**
Other movements with no profit or loss impact;					
Exchange difference	–	–	8	–	**8**
Write offs	–	–	(14,871)	–	**(14,871)**
Loss allowance as at 31 December 2019	448	–	–	–	**448**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	–	–	8,086	–	**8,086**
Movements with profit or loss impact					
New financial assets originated or purchased	1,460	–	–	–	**1,460**
Write offs	–	–	40,353	–	**40,353**
Total net profit or loss charge during the period	1,460	–	40,353	–	**41,813**
Other movements with no profit or loss impact;					
Write offs	–	–	(48,439)	–	**(48,439)**
Loss allowance as at 31 December 2019	1,460	–	–	–	**1,460**

Fixed deposit

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	28	–	–	–	**28**
Movements with profit or loss impact					
New financial assets originated or purchased	15	–	–	–	**15**
Derecognised financial assets	(28)	–	–	–	**(28)**
Total net profit or loss charge during the period	(13)	–	–	–	**(13)**
Loss allowance as at 31 December 2019	15	–	–	–	**15**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	90	–	–	–	**90**
Movements with profit or loss impact					
New financial assets originated or purchased	51	–	–	–	**51**
Derecognised financial assets	(90)	–	–	–	**(90)**
Total net profit or loss charge during the period	(39)	–	–	–	**(39)**
Loss allowance as at 31 December 2019	51	–	–	–	**51**

6. Financial risk management continued

Intercompany receivables

	Stage 1 12-month ECL ₦ million	Stage 2 Lifetime ECL ₦ million	Stage 3 Lifetime ECL ₦ million	Purchased credit-impaired ₦ million	Total ₦ million
Loss allowance as at 1 January 2019	1,927	–	–	–	**1,927**
Movements with profit or loss impact					
New financial assets originated or purchased	751	–	–	–	**751**
Derecognised financial assets	(1,082)	–	–	–	**(1,082)**
Unwind of discount	9	–	–	–	**9**
Total net profit or loss charge during the period	(322)	–	–	–	**(322)**
Loss allowance as at 31 December 2019	1,605	–	–	–	**1,605**

	Stage 1 12-month ECL US$ '000	Stage 2 Lifetime ECL US$ '000	Stage 3 Lifetime ECL US$ '000	Purchased credit-impaired US$ '000	Total US$ '000
Loss allowance as at 1 January 2019	6,276	–	–	–	**6,276**
Movements with profit or loss impact					
New financial assets originated or purchased	2,443	–	–	–	**2,443**
Derecognised financial assets	(3,525)	–	–	–	**(3,525)**
Unwind of discount	29	–	–	–	**29**
Total net profit or loss charge during the period	(1,053)	–	–	–	**(1,053)**
Loss allowance as at 31 December 2019	5,223	–	–	–	**5,223**

e. 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.

i. Expected cash flows recoverable

The table below demonstrates the sensitivity of the Company's profit before tax to a 20% change in the expected cash flows from financial assets, with all other variables held constant:

Increase/decrease in estimated cash flows	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+20%	94	–	305	–
-20%	(94)	–	(305)	–

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

ii. Significant unobservable inputs

The table below demonstrates the sensitivity of the Company's profit before tax to movements in the probability of default (PD) and loss given default (LGD) for financial assets, with all other variables held constant:

Increase/decrease in loss given default	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	(46)	–	(145)	–
-10%	46	–	145	–

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

The table below demonstrates the sensitivity of the Company's profit before tax to movements in probabilities of default, with all other variables held constant:

Increase/decrease in probability of default	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	(49)	–	(159)	–
-10%	49	–	159	–

Increase/decrease in probability of default	Effect on profit before tax 2018 ₦ million	Effect on other components of equity before tax 2018 ₦ million	Effect on profit before tax 2018 US$ '000	Effect on other components of equity before tax 2018 US$ '000
+10%	(279)	–	(908)	–
-10%	279	–	908	–

The table below demonstrates the sensitivity of the Company's profit before tax to movements in the forward-looking macroeconomic indicators, with all other variables held constant:

Increase/decrease in forward-looking macroeconomic indicators	Effect on profit before tax 2019 ₦ million	Effect on other components of equity before tax 2019 ₦ million	Effect on profit before tax 2019 US$ '000	Effect on other components of equity before tax 2019 US$ '000
+10%	(46)	–	(145)	–
-10%	46	–	145	–

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

6.1.4 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 interest bearing current accounts, time deposits and money market deposits.

6. Financial risk management continued

6.1.4 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 interest bearing current accounts, time deposits and money market deposits.

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.

31 December 2019	Effective interest rate %	Less than 1 year ₦ million	1 – 2 year ₦ million	2 – 3 years ₦ million	3 – 5 years ₦ million	Total ₦ million
Non-derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	10,105	10,077	10,077	112,475	142,734
Variable interest rate borrowings						
Citibank, N.A., London Branch	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
Nedbank Limited London	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
Stanbic IBTC Bank Plc	6.0% +LIBOR	510	2,539	2,375	2,211	7,635
The Standard Bank of South Africa Limited	6.0% +LIBOR	510	2,539	2,375	2,211	7,635
RMB International (Mauritius) Limited	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
The Mauritius Commercial Bank Ltd	6.0% +LIBOR	1,020	5,078	4,750	4,421	15,269
JPMorgan Chase Bank, N.A., London Branch	6.0% +LIBOR	764	3,808	3,562	3,316	11,450
Standard Chartered Bank	6.0% +LIBOR	764	3,808	3,562	3,316	11,450
Natixis	6.0% +LIBOR	764	3,808	3,562	3,316	11,450
Société Générale, London Branch	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
Zenith Bank Plc	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
United Bank for Africa Plc	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
First City Monument Bank Limited	6.0% +LIBOR	383	1,904	1,781	1,658	5,726
Total variable interest borrowings		8,924	44,430	41,560	38,686	133,600
Other non-derivatives						
Trade and other payables**		105,632	–	–	–	105,632
Lease liabilities		247	155	1,059	2,036	3,496
		105,879	155	1,059	2,036	109,128
Total		**124,908**	**54,662**	**52,696**	**153,197**	**385,462**

31 December 2018	Effective interest rate %	Less than 1 year ₦ million	1 – 2 year ₦ million	2 – 3 years ₦ million	3 – 5 years ₦ million	Total ₦ million
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 Limited	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
Other non-derivatives						
Trade and other payables**		109,902	–	–	–	109,902
		122,634	**12,682**	**12,650**	**153,797**	**301,763**

* 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.

31 December 2019	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
Non-derivatives						
Fixed interest rate borrowings						
Senior notes	9.25%	32,915	32,825	32,825	366,367	464,932
Variable interest rate borrowings						
Citibank, N.A., London Branch	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,734
Nedbank Limited London	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,734
Stanbic IBTC Bank Plc	6.0% +LIBOR	1,661	8,270	7,736	7,201	24,868
The Standard Bank of South Africa Limited	6.0% +LIBOR	1,661	8,270	7,736	7,201	24,868
RMB International (Mauritius) Limited	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,733
The Mauritius Commercial Bank Ltd	6.0% +LIBOR	3,321	16,540	15,471	14,402	49,733
JPMorgan Chase Bank, N.A., London Branch	6.0% +LIBOR	2,491	12,405	11,604	10,802	37,302
Standard Chartered Bank	6.0% +LIBOR	2,491	12,405	11,604	10,802	37,302
Natixis	6.0% +LIBOR	2,491	12,405	11,604	10,802	37,302
Société Générale, London Branch	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
Zenith Bank Plc	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
United Bank for Africa Plc	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
First City Monument Bank Limited	6.0% +LIBOR	1,246	6,203	5,802	5,401	18,652
Total variable interest borrowings		29,063	144,727	135,376	126,020	435,184
Other non-derivatives						
Trade and other payables**		344,078	–	–	–	344,078
Lease liability		803	505	3,449	6,632	11,389
		344,881	505	3,449	6,632	355,467
Total		**406,859**	**178,057**	**171,650**	**499,019**	**1,255,583**

31 December 2018	Effective interest rate %	Less than 1 year US$ '000	1 – 2 year US$ '000	2 – 3 years US$ '000	3 – 5 years US$ '000	Total US$ '000
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 Limited	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
Other non-derivatives						
Trade and other payables**		357,988	–	–	–	357,988
		399,583	**41,442**	**41,326**	**502,435**	**984,786**

* 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.

Financial statements

6. Financial risk management continued

6.1.5 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	
	2019 ₦ million	2018 ₦ million	2019 ₦ million	2018 ₦ million
Financial assets at amortised cost				
Trade and other receivables*	345,007	317,507	345,007	317,507
Contract assets	6,527	4,327	6,527	4,327
Cash and bank balances	83,319	153,535	83,319	153,535
	434,853	475,369	434,853	475,369
Financial assets at fair value				
Derivative financial instruments	308	2,693	308	2,693
	308	2,693	308	2,693
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	214,644	136,830	202,101	143,158
Trade and other payables	189,701	109,902	189,701	109,902
	404,345	246,732	391,802	253,060

	Carrying amount		Fair value	
	2019 US$ '000	2018 US$ '000	2019 US$ '000	2018 US$ '000
Financial assets at amortised cost				
Trade and other receivables	1,123,802	1,034,226	1,123,802	1,034,226
Contract assets	21,259	14,096	21,259	14,096
Cash and bank balances	271,398	500,116	271,398	500,116
	1,416,459	1,548,438	1,416,459	1,548,438
Financial assets at fair value				
Derivative financial instruments	1,002	8,772	1,002	8,772
	1,002	8,772	1,002	8,772
Financial liabilities at amortised cost				
Interest bearing loans and borrowings	699,166	445,699	658,309	466,314
Trade and other payables	617,919	357,988	617,919	357,988
	1,317,085	803,687	1,276,228	824,302

* Trade and other receivables exclude NGMC 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 (exclude non-financial liabilities such as provisions, 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.

6.1.6 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.

- 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.

Financial assets

31 Dec 2019	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial assets:						
Derivative financial instruments	308	–	–	1,002	–	–
31 Dec 2018						
Financial assets:						
Derivative financial instruments	2,693	–	–	8,772	–	–

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.

Financial liabilities

31 Dec 2019	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000
Financial liabilities:						
Interest-bearing loans and borrowings	–	202,101	–	–	658,309	–
	–	202,101	–	–	658,309	–
31 Dec 2018						
Financial liabilities:						
Interest-bearing loans and borrowings	–	143,158	–	–	466,314	–
	–	143,158	–	–	466,314	–

The fair value of the Company'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.

6.2 Capital management

6.2.1 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 based on the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Interest-bearing loans and borrowings	214,644	136,830	699,166	445,699
Less: cash and bank balances	(83,319)	(153,535)	(271,398)	(500,116)
Net debt	131,325	(16,705)	427,768	(54,417)
Total equity	577,223	526,296	1,880,210	1,714,316
Total capital	708,548	509,591	2,307,978	1,659,899
Net debt (net debt/total capital) ratio	19%	(3%)	19%	(3%)

During the year, the Company's strategy which was unchanged from 2018, 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.

Interest bearing loans and borrowings includes current and non-current lease liabilities.

The net debt to equity ratio increased by 0.27% following the adoption of IFRS 16 Leases. Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019.

As the Company continuously reviews its funding and maturity profile, it continues to monitor the market in ensuring that it is well positioned for any refinancing and or buy back opportunities for the current debt facilities – including potentially the US$350 million 9.25% 144A/Reg S bond maturing in 2023.

6.2.2 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 six-month period must be achieved.
- The Cash Adjusted Debt Service Cover Ratio should be equal to or greater than 1.20 to 1 for each Calculation Period through to the applicable Termination Date.

The Company has complied with these covenants throughout the reporting periods presented.

7. 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 2019, revenue from the gas segment of the business constituted 31% (2018: 21%) 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 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, except for 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).The Company accounting policies are also applied in the segment reports.

7.1 Segment profit disclosure

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Oil	11,782	13,251	38,396	43,291
Gas	54,347	36,430	177,081	119,014
Total profit for the year	66,129	49,681	215,477	162,305

				Oil
	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue from contracts with customers				
Crude oil sales (Note 8)	138,530	169,534	451,364	553,856
Operating profit before depreciation, amortisation and impairment	64,586	87,523	221,755	300,092
Depreciation and amortisation	(21,328)	(26,195)	(80,806)	(99,724)
Impairment	(12,565)	(415)	(40,940)	(1,366)
Operating profit	30,693	60,913	100,010	199,002
Finance income (Note 14)	4,702	2,874	15,321	9,388
Finance cost (Note 14)	(10,129)	(14,788)	(33,001)	(48,311)
Profit before taxation	25,266	48,999	82,330	160,079
Taxation (Note 15)	(13,484)	(35,748)	(43,934)	(116,788)
Profit for the year	11,782	13,251	38,396	43,291

				Gas
	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue from contracts with customers				
Gas sales (Note 8)	41,668	47,640	135,761	155,637
Gas tolling (Note 8)	20,535	–	66,912	–
	62,203	47,640	202,673	155,637
Operating profit before depreciation, amortisation and impairment	59,614	40,762	189,895	138,161
Depreciation and amortisation	(5,043)	(4,678)	(12,085)	(20,285)
(Impairment loss)/reversal of impairment loss	(219)	346	(712)	1,138
Operating profit	54,352	36,430	177,099	119,014
Finance income	–	–	–	–
Finance cost	–	–	–	–
Loss on disposal of ANOH	(5)	–	(17)	–
Profit before taxation	54,347	36,430	177,082	119,014
Taxation	–	–	–	–
Profit for the year	54,347	36,430	177,082	119,014

During the reporting period, impairment losses recognised in the gas segment relate to NGMC. Impairment losses recognised in the oil segment relate to receivables from trade receivables: Mercuria, NPDC and other receivables. See Note 12 for further details.

7.1.1 Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of commodities at a point in time or over time and from different geographical regions.

	2019 Oil ₦ million	2019 Gas ₦ million	2019 Total ₦ million	2019 Oil US$ '000	2019 Gas US$ '000	2019 Total US$ '000
Geographical markets						
Nigeria	–	62,203	**62,203**	–	202,673	**202,673**
Switzerland	138,530	–	**138,530**	451,364	–	**451,364**
Revenue from contract with customers	138,530	62,203	**200,733**	451,364	202,673	**654,037**
Timing of revenue recognition						
At a point in time	138,530	–	**138,530**	451,364	–	**451,364**
Over time	–	62,203	**62,203**	–	202,673	**202,673**
Revenue from contract with customers	138,530	62,203	**200,733**	451,364	202,673	**654,037**

	2018 Oil ₦ million	2018 Gas ₦ million	2018 Total ₦ million	2018 Oil US$ '000	2018 Gas US$ '000	2018 Total US$ '000
Geographical markets						
Nigeria	–	47,640	**47,640**	–	155,637	**155,637**
Switzerland	169,534	–	**169,534**	553,856	–	**553,856**
Revenue from contract with customers	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 from contract with customers	169,534	47,640	**217,174**	553,856	155,637	**709,493**

The Company's transactions with its major customer, Mercuria, constitute more than 69% (₦139 billion, $451 million in 2018; ₦169 billion, $554 million) of the total revenue of the Company. Also, the Company's transactions with NGMC (₦62 billion, $203 million in 2018; ₦48 billion, $156 million) accounted for more than 31% of the total revenue of the Company.

7.1.2 Impairment/ (reversal of) losses by reportable segments

	2019 Oil ₦ million	2019 Gas ₦ million	2019 Total ₦ million	2018 Oil ₦ million	2018 Gas ₦ million	2018 Total ₦ million
Impairment losses recognised during the period	64	219	**283**	775	–	775
Receivables written off during the year as uncollectible	14,871	–	**14,871**	–	–	**–**
Reversal of previously recognised impairment losses	(2,373)	–	**(2,373)**	(356)	(347)	**(703)**
Exchange differences	3	–	**3**	(4)	1	**(3)**
Total	12,565	219	**12,784**	415	(346)	**69**

	2019 Oil US$ '000	2019 Gas US$ '000	2019 Total US$ '000	2018 Oil US$ '000	2018 Gas US$ '000	2018 Total US$ '000
Impairment losses recognised during the period	221	712	**933**	2,533	–	2,533
Receivables written off during the year as uncollectible	48,439	–	**48,439**	–	–	**–**
Reversal of previously recognised impairment losses	(7,720)	–	**(7,720)**	(1,167)	(1,137)	**(2,304)**
Total	40,940	712	**41,652**	1,366	(1,137)	**227**

7.2 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.

Total segment assets	Oil ₦ million	Gas ₦ million	Total ₦ million	Oil US$ '000	Gas US$ '000	Total US$ '000
31 December 2019	816,878	240,911	**1,057,789**	2,737,610	707,963	**3,445,573**
31 December 2018	690,362	152,639	**843,001**	2,248,736	497,191	**2,745,927**

7.3 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.

Total segment liabilities	Oil ₦ million	Gas ₦ million	Total ₦ million	Oil US$ '000	Gas US$ '000	Total US$ '000
31 December 2019	464,475	16,091	**480,566**	1,496,654	68,709	**1,565,363**
31 December 2018	290,085	26,620	**316,705**	944,902	86,709	**1,031,611**

8. Revenue from contracts with customers

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Crude oil sales	138,530	169,534	451,364	553,856
Gas sales	41,668	47,640	135,761	155,637
Gas processing	20,535	–	66,912	–
	200,733	217,174	654,037	709,493

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

Gas processing is revenue received from Nigerian Petroleum Development Company (NPDC) for processing its share of the gas extracted from OMLs 4, 38 and 41 from 2015 to 2018. In prior periods, the Company had not recognised the related income or receivable for the service because the basis for determining the fees was yet to be concluded with NPDC.

9. Cost of sales

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Royalties	28,072	36,691	91,465	119,867
Depletion, depreciation and amortisation (Note 18.6)	26,964	35,851	87,856	117,126
Crude handling fees	15,382	19,331	50,121	63,154
Nigeria Export Supervision Scheme (NESS) fee	170	217	553	708
Niger Delta Development Commission levy	2,126	1,364	6,925	4,456
Rig related costs	1,871	12	6,094	39
Operational & maintenance expenses	11,402	9,620	37,148	31,427
	85,987	103,086	280,162	336,777

Rig related costs for 2019 mostly relate to workovers which form part of expenses for the relevant reporting period. During the year ended 2019, substantial repair and maintenance (workover) were carried out to ensure adequate running of the wells.

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

10. Other income

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
(Overlifts)/underlifts	(7,028)	1,462	(22,898)	4,776
Exchange gain	588	295	1,916	963
Gain on disposal of oil and gas assets (Note 18.2)	9,462	–	30,830	–
Tariffs	1,074	–	3,498	–
	4,096	1,757	13,346	5,739

Overlifts are excess crude lifted above the share of production. It may exist when the crude oil lifted by the Company during the period is above its ownership share of production. Overlifts are initially measured at the market price of oil at the date of lifting and recognised as other expenses. At each reporting period, overlifts is remeasured at the current market value. The resulting change, as a result of the remeasurement, is also recognised in profit or loss.

Underlifts are shortfalls of crude lifted below the share of production. It may exist when the crude oil lifted by the Company during the period is less than its 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. Tariffs, a form of crude handling fee, relate to income generated from the use of the Company's pipeline.

11. General and administrative expenses

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Depreciation (Note 18.6)	857	883	2,791	2,884
Depreciation of right-of-use assets	907	–	2,955	–
Auditor's remuneration	120	141	389	458
Professional and consulting fees	3,157	2,661	10,285	8,693
Directors' emoluments (Executive)	735	617	2,393	2,014
Directors' emoluments (Non-Executive)	1,048	1,053	3,416	3,439
Donations	68	118	221	386
Employee benefits (Note 11.1)	7,347	8,618	23,941	28,154
Flights and other travel costs	2,607	2,101	8,495	6,863
Rentals	198	532	645	1,738
Other general expenses	–	3,028	–	9,891
	17,044	19,752	55,531	64,520

Directors' emoluments have been split between Executive and Non-Executive Directors. There were no non-audit services rendered by the Company's auditors during the year.

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.

11.1 Salaries and employee related costs include the following:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Short-term employee benefits:				
Basic salary	2,712	4,001	8,839	13,071
Housing allowances	500	14	1,630	45
Other allowances	462	855	1,614	2,794
Post-employment benefits:				
Defined contribution expenses	500	439	1,630	1,435
Defined benefit expenses (Note 34.2)	309	340	1,005	1,111
Other employee benefit:				
Share-based payment expenses (Note 29.4)	2,864	2,969	9,223	9,698
	7,347	8,618	23,941	28,154

Other allowances relate to staff bonus, car allowances and relocation expenses.

12. Impairment/(reversal) of losses on financial assets

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Impairment loss on NPDC receivables	–	775	–	2,533
Impairment loss on trade receivables (Mercuria)	68	–	221	–
Impairment loss on trade receivables (NGMC)	219	–	712	–
	287	775	933	2,533
Receivables written off during the year as uncollectible	14,871	–	48,439	–
	15,158	775	49,372	2,533
Reversal of impairment on NPDC receivables	(2,036)	–	(6,628)	–
Reversal of impairment loss on intercompany receivables	(322)	(303)	(1,053)	(1,014)
Reversal of impairment loss on trade receivables (NGMC)	–	(347)	–	(1,139)
Reversal of impairment loss on cash and bank balances (fixed deposits)	(13)	(47)	(39)	(153)
	(2,371)	(697)	(7,720)	(2,306)
Exchange difference	(3)	(9)	–	–
Total impairment loss allowance	**12,784**	**69**	**41,652**	**227**

During the year, the Company wrote off some of the receivables due from NPDC. These receivables relate to interest accrued on cash calls. The Company assessed these interest receivables to be uncollectible. (See details in Notes 25.6 and 25.7.)

13. Fair value gain/(loss)

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Realised fair value losses on crude oil hedges	(1,584)	(1,374)	(5,160)	(4,464)
Unrealised fair value gain	(2,385)	2,693	(7,770)	8,772
	(3,969)	1,319	(12,930)	4,308

Fair value gain/(loss) on derivatives represents changes in the fair value of hedging receivables charged to profit or loss.

14. Finance income/(cost)

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Finance income				
Interest income	4,702	2,874	15,321	9,388
Finance cost				
Interest on advance payments for crude oil sales	–	530	–	1,730
Interest on bank loans	8,890	13,415	28,966	43,828
Interest on lease liabilities (Note 43)	164	–	534	–
Unwinding of discount on provision for decommissioning (Note 33)	1,075	843	3,501	2,753
	10,129	14,788	33,001	48,311
Finance income/(cost) – net	(5,427)	(11,914)	(17,680)	(38,923)

Finance income represents interest on short-term fixed deposits.

15. Taxation

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

15.1 Income tax expense

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Current tax:				
Petroleum profit tax	5,741	6,651	18,704	21,726
Education tax	900	1,042	2,933	3,408
Total current tax	6,641	7,693	21,637	25,134
Deferred tax:				
Deferred tax expense in profit or loss	6,843	28,055	22,296	91,654
Total tax expense in statement of profit or loss	13,484	35,748	43,934	116,788
Deferred tax recognised in other comprehensive income	(171)	80	(558)	261
Total tax charge for the period	13,313	35,828	43,376	117,049
Effective tax rate	17%	42%	17%	42%

15.2 Reconciliation of effective tax rate

The estimated applicable average annual tax rates used for the year ended 31 December 2019 were 85% and 65.75% for crude oil activities and 30% for gas activities; 2018 were 85% and 65.75% for crude oil activities and 30% for gas activities.

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 request was granted, and the new tax holiday is expected to end in May 2020.

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 2019. A reconciliation between income tax expense and accounting profit before income tax multiplied by the applicable statutory tax rate is as follows:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Profit before taxation	79,613	85,429	259,411	279,093
Tax rate of 85%, 65.75% and 30%	67,671	72,615	220,499	237,229
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(18,684)	(24,827)	(60,877)	(81,108)
Expenses not deductible for tax purposes	36,374	–	118,517	–
Recognition of previously unrecognised deductible temporary difference	(32,529)	–	(105,989)	–
Impact of unrecognised deferred tax on temporary differences	6,847	–	22,297	–
Effect of permanent differences	(765)	–	(2,494)	–
Impact of tax incentive	(46,330)	(13,083)	(150,953)	(42,741)
Education tax	900	1,042	2,933	3,408
Total tax credit in statement of profit or loss	13,484	35,747	43,934	116,788

15.3 Current tax liabilities/(assets)

The movement in the current tax liabilities is as follows:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
As at 1 January	(723)	1,264	(2,356)	4,133
Tax charge	6,641	7,693	21,637	25,134
Utilisation of prepaid tax	–	(9,680)	–	(31,623)
Tax paid	(1,036)	–	(3,380)	–
Exchange difference	–	–	–	–
As 31 December	**4,882**	**(723)**	**15,901**	**(2,356)**

16. Deferred tax

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

Deferred tax assets	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Deferred tax assets to be recovered in less than 12 months	–	–	–	–
Deferred tax assets to be recovered after more than 12 months	147,513	132,275	481,634	431,984
	147,513	132,275	481,634	431,984

Deferred tax liabilities	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Deferred tax liabilities to be recovered in less than 12 months	(109,904)	(87,991)	(359,126)	(287,738)
Deferred tax liabilities to be recovered after more than 12 months	(109,904)	(87,991)	(359,126)	(287,738)
Net deferred tax assets	37,609	44,284	122,508	144,246

16.1 Deferred tax assets

Deferred income 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 2019 ₦ million	(Charged)/ credited to profit or loss ₦ million	Credited to other comprehensive income ₦ million	Balance at 31 December 2019 ₦ million
Tax losses	–	–	–	–
Other cumulative timing differences:			–	**–**
Unutilised capital allowance	116,068	6,579	–	**122,647**
Provision for decommissioning obligation	818	(821)	–	**(3)**
Provision for defined benefit plan	1,540	1,014	171	**2,725**
Share-based payment reserve	3,294	2,376	–	**5,670**
Unrealised foreign exchange (gain)/loss on trade and other receivables	1,258	(212)	–	**1,046**
Overlift/(underlift)	5,246	5,973	–	**11,219**
Impairment provision on trade and other receivables	3,863	158	–	**4,021**
	132,087	15,067	171	**147,325**
Effect of exchange differences	188	–		**188**
	132,275	15,067	171	**147,513**

	Balance at 1 January 2018 ₦ million	Impact on initial application of IFRS 9 ₦ million	Restated as at 1 January 2018 ₦ million	(Charged)/ credited to profit or loss ₦ million	Charged to other comprehensive income ₦ million	Balance at 31 December 2018 ₦ million
Tax losses	12,392	–	12,392	(12,404)	–	**(12)**
Other cumulative timing differences:						
Unutilised capital allowance	127,499	–	127,499	(11,431)	–	**116,068**
Provision for decommissioning obligation	102	–	102	716	–	**818**
Defined benefit plan	1,250	–	1,250	370	(80)	**1,540**
Share-based payment	4,629	–	4,629	(1,335)	–	**3,294**
Unrealised foreign exchange (gain)/loss on trade and other receivables	4,209	–	4,209	(2,951)	–	**1,258**
Overlift/(underlift)	6,489	–	6,489	(1,243)	–	**5,246**
Impairment provision on trade and other receivables	1,811	3,805	5,616	(1,753)	–	**3,863**
	158,381	3,805	162,086	(30,031)	(80)	**132,075**
Exchange difference	–	11	11	177	–	**188**
	158,381	3,816	162,197	(29,854)	(80)	**132,263**

	Balance at 1 January 2019 US$ '000	(Charged)/ credited to profit or loss US$ '000	Credited to other comprehensive income US$ '000	Balance at 31 December 2019 US$ '000
Tax losses	–	–	–	**–**
Other cumulative timing differences:				
Unutilised capital allowance	379,592	21,435	–	**401,027**
Provision for decommissioning obligation	2,674	(2,674)	–	**–**
Defined benefit plan	5,035	3,303	558	**8,896**
Share-based payment	10,778	7,741		**18,519**
Unrealised foreign exchange (gain)/loss on trade and other receivables	4,123	(690)	–	**3,433**
Overlift/(underlift)	17,159	19,463	–	**36,622**
Impairment provision on trade and other receivables	12,623	514	–	**13,137**
Total charged to profit or loss	431,984	49,092	558	**481,634**

	Balance at 1 January 2018 US$ '000	Impact on initial application of IFRS 9 US$ '000	Restated as at 1 January 2018 US$ '000	(Charged)/ credited to profit or loss US$ '000	Charged to other comprehensive income US$ '000	Balance at 31 December 2018 US$ '000
Tax losses	40,523	–	40,523	(40,523)	–	**–**
Other cumulative timing differences:						
Unutilised capital allowance	416,935	–	416,935	(37,343)	–	**379,592**
Provision for decommissioning obligation	334	–	334	2,340	–	**2,674**
Defined benefit plan	4,087	–	4,087	1,209	(261)	**5,035**
Share-based payment	15,138	–	15,138	(4,360)	–	**10,778**
Unrealised foreign exchange (gain)/loss on trade and other receivables	13,765	–	13,765	(9,642)	–	**4,123**
Overlift/(underlift)	21,219	–	21,219	(4,060)	–	**17,159**
Impairment provision on trade and other receivables	5,923	12,430	18,353	(5,730)	–	**12,623**
	517,924	12,430	530,354	(98,109)	(261)	**431,984**

16.2 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 2019 ₦ million	Charged /(credited) to profit or loss ₦ million	Charged to other comprehensive income ₦ million	Balance at 31 December 2019 ₦ million
Tax losses	–	–	–	**–**
Other cumulative timing differences:				
Fixed assets	85,706	27,840	–	**113,546**
Derivative financial instruments	2,282	(2,282)	–	**–**
	87,988	25,558	–	**113,546**
Effect of exchange difference	(9)	3	–	**(6)**
	87,979	25,561	–	**113,540**

	Balance at 1 January 2018 ₦ million	Impact on initial application of IFRS 9 ₦ million	Charged/ (credited) to profit or loss ₦ million	Charged to other comprehensive income ₦ million	Balance at 31 December 2018 ₦ million
Other cumulative timing differences:					
Tax losses	12		–		**12**
Fixed assets	85,706	–	21,910	–	**107,616**
Derivative financial instruments	2,282	–	–	–	**2,282**
	88,000	–	21,910	–	**109,910**
Effect of exchange difference	(9)	–	3	–	**(6)**
	87,991	–	21,913	–	**109,904**

16. Deferred tax continued

	Balance at 1 January 2019 ₦ million	(Charged)/ credited to profit or loss ₦ million	Credited to other comprehensive income ₦ million	Balance at 31 December 2019 ₦ million
Tax loss	–	–		––
Other cumulative timing differences:				
Fixed assets	280,282	90,711	–	**370,993**
Derivative financial instruments	7,456	(7,456)	–	**–**
	287,738	83,255	–	**370,993**

	Balance at 1 January 2018 US$ '000	Impact on initial application of IFRS 9 US$ '000	(Charged)/ credited to profit or loss US$ '000	Charged to other comprehensive income US$ '000	Balance at 31 December 2018 US$ '000
Other cumulative timing differences:					
Fixed assets	280,282	–	71,388	–	**351,670**
Derivative financial instruments	7,456	–	–	–	**7,456**
	287,738	–	71,388	–	**359,126**

16.3 Deferred tax recognised in profit or loss

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Credited to profit or loss;				
Unutilised capital allowance	6,579	(11,431)	21,435	(37,343)
Provision for defined benefit	1,014	370	3,303	1,209
Share-based payment plan	2,376	(1,335)	7,741	(4,360)
Overlift/(underlift)	5,973	(1,243)	19,463	(4,060)
Derivative financial instruments	–	(2,282)	–	(7,456)
Tax losses	–	(12,404)	–	(40,523)
Charged to profit or loss;				
Provision for decommissioning obligation	(821)	716	(2,674)	2,340
Unrealised foreign exchange loss/(gain) on trade and other receivables	(212)	(2,951)	(690)	(9,642)
Fixed assets	(21,910)	4,258	(71,388)	13,911
Impairment provision on trade and other receivables	158	(1,753)	514	(5,730)
Exchange difference	–	–	–	–
	(6,843)	(28,055)	(22,296)	(91,654)
Charged to other comprehensive income				
Deferred tax credit/(expense) on remeasurement	171	(80)	558	(261)
	171	(80)	558	(261)

17. Computation of cash generated from operations

	Notes	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Profit before tax		79,613	85,429	259,411	279,093
Adjusted for:					
Depletion, depreciation and amortisation	18	27,821	36,734	90,647	120,010
Depreciation of right-of-use assets	43	907	–	2,955	–
Impairment of losses on financial assets	12	12,784	69	41,652	227
Interest income	14	(4,702)	(2,874)	(15,321)	(9,388)
Interest on advance payments for crude oil sales	14	–	530	–	1,730
Interest expense on bank loans	14	8,890	13,415	28,966	43,828
Interest on lease liabilities	14	164	–	534	–
Unwinding of discount on provision for decommissioning	14	1,075	843	3,501	2,753
Fair value loss/(gain) on derivative financial instruments	13	2,385	(2,693)	7,770	(8,772)
Unrealised foreign exchange (gain)	10	(588)	(295)	(1,916)	(963)
Share-based payment expenses	29.4	2,864	2,969	9,223	9,698
Defined benefit expenses	11.1	309	340	1,005	1,111
Gain on disposal of oil and gas properties	18	(9,462)	–	(30,830)	–
Changes in working capital: (excluding the effects of exchange differences)					
Trade and other receivables		(113,396)	6,689	(369,472)	21,787
Prepayments		(11,478)	(10,521)	(37,396)	(34,271)
Contract assets		(2,199)	(4,327)	(7,163)	(14,096)
Trade and other payables		73,668	27,030	240,029	88,048
Contract liabilities		5,003	–	16,301	–
Restricted cash		(1,007)	(1,049)	(3,280)	(3,418)
Inventories		6,083	(707)	19,817	(2,303)
Net cash from operating activities		78,734	151,582	256,433	495,074

17.1 Non-cash investing activities

i. Reconciliation of additional investment in joint venture (Note 23.2)

ii. Proceeds from disposal of oil and gas properties (Note 18.2)

iii. Reclassification of oil and gas properties to intangible asset (Note 18.4)

iv. Payment for acquisition of subsidiary, net of cash acquired (Note 22.3)

17.2 Non-cash financing activity

i. Net debt reconciliation of interest bearing loans and borrowings (Note 32.1)

ii. Net debt reconciliation of crude oil advance (Note 35.1)

18. Property, plant and equipment

18.1. Oil and gas properties

Cost	Production and field facilities	Assets under construction	Total ₦ million	Production and field facilities	Assets under construction	Total US$ '000
At 1 January 2018	360,814	28,952	389,766	1,179,903	94,677	1,274,580
Additions	3,505	16,623	20,128	11,451	54,306	65,757
Reclassification to intangible assets (Note 18.4)	–	(9,070)	(9,070)	–	(29,543)	(29,543)
Changes in decommissioning (Note 33)	6,099	–	6,099	19,466	–	19,466
Interest capitalised	–	4,929	4,929	–	16,104	16,104
Exchange differences	1,304	178	1,482	–	–	–
At 31 December 2018	**371,722**	**41,612**	**413,334**	**1,210,820**	**135,544**	**1,346,364**
Depreciation						
At 1 January 2018	110,925	–	110,925	362,741	–	362,741
Charge for the year	35,775	–	35,775	116,880	–	116,880
Exchange differences	543	–	543	–	–	–
At 31 December 2018	**147,243**	**–**	**147,243**	**479,621**	**–**	**479,621**
NBV						
At 31 December 2018	**224,479**	**41,612**	**266,091**	**731,199**	**135,544**	**866,743**
Cost						
At 1 January 2019	371,722	41,612	413,334	1,210,820	135,544	1,346,364
Additions	28,406	961	29,367	92,553	3,132	95,685
Transfers	19,567	(19,567)	–	63,755	(63,755)	–
Disposal of producing assets	(28,126)	–	(28,126)	(91,643)	–	(91,643)
Changes in decommissioning	(3,745)		(3,745)	(12,199)	–	(12,199)
Interest capitalised	–	6,308	6,308	–	20,554	20,554
Exchange differences	5	(3)	2	–	–	–
At 31 December 2019	**387,829**	**29,311**	**417,140**	**1,263,286**	**95,475**	**1,358,761**
Depreciation						
At 1 January 2019	147,243	–	147,243	479,621	–	479,621
Charge for the year	26,523	–	26,523	86,417	–	86,417
Disposal of producing assets	(6,522)		(6,522)	(21,244)	–	(21,244)
Exchange differences	8	–	8		–	
At 31 December 2019	**167,252**	**–**	**167,252**	**544,794**	**–**	**544,794**
NBV						
At 31 December 2019	**220,577**	**29,311**	**249,888**	**718,492**	**95,475**	**813,967**

18.2. Disposal of oil and gas properties

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Purchase consideration for disposal of oil and gas assets (Note 18.3)		31,066		101,229
Net book value of production and field facilities (Note 18.1):				
Cost	28,126		91,643	
Depreciation	(6,522)		(21,244)	
		(21,604)		(70,399)
Gain on disposal of oil and gas properties		9,462		30,830

During the year, the Group disposed 55% of Oben gas plant.

18.3. Purchase consideration

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Cash received	15,532	–	50,614	–
Purchase consideration outstanding	15,534	–	50,615	–
	31,066	–	101,229	–

*Approximately 50% of the proceeds expected from the disposal of oil and gas assets have been paid, the other 50% is recognised within the receivables. 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 are qualifying assets which take a substantial period of time to get ready for their intended use. 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 12.3% (2018: 13.1%).

Borrowing costs capitalised during the year amounted to ₦8 billion, 2018: ₦6 billion ($26 million, 2018: $16 million). There was no oil and gas property pledged as security during the reporting period.

18.4. Reconciliation of investment in oil and gas properties

During the year, the Company reclassed an existing licence renewed in 2018 for ₦9 billion ($29.5 million) and the related amortisation from oil and gas properties to intangible assets (see Note 19). For the purpose of the statement of cash flows, the reconciliation of the oil and gas properties and intangible asset is shown below:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Additions	29,367	20,128	95,685	65,757
Reclassified to intangible assets	–	(9,070)	–	(29,543)
	29,367	11,058	95,685	36,214

18. Property, plant and equipment continued

18.5. Other property, plant and equipment

Cost	Plant & machinery ₦ million	Motor vehicles ₦ million	Office furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Land ₦ million	Building ₦ million	Total ₦ million
At 1 January 2018	1,588	2,213	4,254	880	–	–	8,935
Additions	–	469	199	30	–	–	698
Disposals	(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 201	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	6	16	3	–	–	30
At 31 December 2018	**1,243**	**1,950**	**4,220**	**785**	**–**	**–**	**8,198**
NBV					–	–	
At 31 December 2018	247	660	250	128	–	–	1,285
Cost							
At 1 January 2019	1,490	2,610	4,470	913			9,483
Addition	29	369	1,254	287	21	1,194	3,154
Disposal	–	–	–	–	–	–	–
Exchange differences	(1)	–	1	–	–	–	–
At 31 December 2019	**1,518**	**2,979**	**5,725**	**1,200**	**21**	**1,194**	**12,637**
Depreciation							
At 1 January 2019	1,243	1,950	4,220	785	–	–	8,198
Disposals					–	–	–
Charge for the year	149	236	342	110	–	20	857
Exchange differences	(1)	1	–	–		–	–
Balance as at 31 December 2019	**1,391**	**2,187**	**4,562**	**895**	**–**	**20**	**9,055**
NBV							
Balance as at 31 December 2019	**127**	**792**	**1,163**	**305**	**21**	**1,174**	**3,582**

Cost	Plant & machinery US$ '000	Motor vehicles US$ '000	Office furniture & IT equipment US$ '000	Leasehold improvements US$ '000	Land US$ '000	Building US$ '000	Total US$ '000
At 1 January 2018	5,192	7,238	13,909	2,876	–	–	29,215
Additions	–	1,533	651	97	–	–	2,281
Disposals	(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
Charge for the year	727	1,082	875	200	–	–	2,884
Disposal	**(101)**	**(268)**	**–**	**–**	**–**	**–**	**(369)**
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
Cost					–	–	
At 1 January 2019	4,852	8,503	14,560	2,973	–	–	30,888
Addition	93	1,201	4,087	935	68	3,890	10,274
Disposal		–	–	–	–	–	–
At 31 December 2019	**4,945**	**9,704**	**18,647**	**3,908**	**68**	**3,890**	**41,162**
Depreciation							
At 1 January 2019	4,048	6,356	13,745	2,556	–	–	26,705
Charge for the year	484	768	1,113	360	–	66	2,791
Disposal	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2019	4,532	7,124	14,858	2,916	–	66	29,496
NBV							
At 31 December 2019	**413**	**2,580**	**3,789**	**992**	**68**	**3,824**	**11,666**

18.6. Depletion, depreciation and amortisation

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Oil and gas properties	26,523	35,775	86,417	116,880
Amortisation of intangible asset	441	76	1,439	246
Charged to cost of sales	26,964	35,851	87,856	117,126
Charged to general and administrative expense	857	883	2,791	2,884
Total depletion, depreciation and amortisation	27,821	36,734	90,647	120,010

18.7. Gain/(loss) on disposal of other property, plant and equipment

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Proceeds from disposal of assets	–	71	–	239
Less net book value of disposed assets	–	(71)	–	(239)
	–	–	–	–

19. Intangible assets

Cost	Total	Total
At 1 January 2018		
Additions	9,070	29,543
At 31 December 2018	**9,070**	**29,543**
Amortisation charge		
At 1 January 2018		
Charge for the year	76	246
At 31 December 2018	**76**	**246**
NBV		
At 31 December 2018	8,994	29,297
Cost		
At 1 January 2019	9,070	29,543
Additions	–	–
At 31 December 2019	**9,070**	**29,543**
Amortisation charge		
At 1 January 2019	**76**	**246**
Charge for the year	441	1,439
At 31 December 2019	**517**	**1,685**
NBV		
At 31 December 2019	**8,553**	**27,858**

Licence relates to costs paid in connection with the renewal of a right for exploration of an oil mining lease field. The additions in 2018 were licence costs reclassified from oil and gas properties.

20. Tax paid in advance

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 paid in advance pending when it will be utilised towards offsetting tax liabilities. During the year, the Company netted off the tax credit with current tax liability because there is a legal right to offset with the current tax liability and the tax relates to the same tax authority.

Tax paid in advance has been reclassified to current tax liability/(asset) in the current period (comparatives were also reclassified). See Note 15.3 for details.

21. Prepayments

Non-current	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Rent	301	196	979	635
Advances to suppliers	18,927	7,675	61,654	25,000
	19,228	7,871	62,633	25,635
Current				
Rent	283	1,182	921	3,850
Crude oil hedge	839	1,584	2,730	5,160
Other prepayments	357	690	1,163	2,248
	1,479	3,456	4,814	11,258
	20,707	11,327	67,447	36,893

21.1. 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 building in Delta state which was previously rented has been acquired by the Company (see Note 18).

In 2018, the Company entered into a lease agreement for an office building in Lagos. The non-cancellable period of the lease is five 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 purchasing the property (see Note 43 for details).

21.2. Advances to suppliers

Advances to suppliers relate to a milestone payment made 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 ₦18.9 billion ($61.6 million), 2018: ₦7.7 billion ($25 million).

21.3. Other prepayments

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

21.4. Crude oil hedge

In 2019, the Company commenced a crude oil hedge of ₦13,815 ($45/bbl.) 2018: ₦15,350 ($50/bbl.) for 3 million barrels (2018: 4 million barrels at a cost of ₦0.8 billion ($2.7 million) 2018: ₦1.6 billion ($5.2 million).

22. Investment in subsidiaries

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '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	–	33
Eland Oil and Gas Limited	149,719	–	487,683	–
	150,054	345	488,779	1,129

22.1 Interest in other entities

		Percentage of ownership interest		Carrying amount			
Name of entity	Country of incorporation and place of business	As at 31 Dec 2019 %	As at 31 Dec 2018 %	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
Newton Energy Limited	Nigeria	100	100	290	290	950	950
Seplat Petroleum Development Company UK Limited	United Kingdom	100	100	15	15	50	50
Seplat East Onshore Limited	Nigeria	100	100	10	10	32	32
Seplat East Swamp Company Limited	Nigeria	100	100	10	10	32	32
Seplat Gas Company Limited	Nigeria	100	100	10	10	32	32
Eland Oil and Gas Limited	United Kingdom	100	–	149,719	–	487,683	–

22.2 Reconciliation of investment in subsidiary

	₦ million	US$ '000
At 1 January 2019	345	1,129
Acquisition of subsidiary (Eland Oil and Gas Limited)	149,719	487,683
Deconsolidation of subsidiary (ANOH Gas Limited)	(10)	(33)
At 31 December 2019	**150,054**	**488,779**

	2019 ₦ million	2019 US$ '000
Purchase consideration	149,719	487,683
Less: Liabilities assumed		
Fair value of outstanding payment	(1,549)	(5,046)
Exchange difference	(43)	–
Net outflow of cash – investing activities	148,127	482,637

23. Investment in joint ventures

	31 December 2019 ₦ million	31 December 2018 ₦ million	31 December 2019 US$ '000	31 December 2018 US$ '000
Cost	46,055	–	150,016	–

23.1 Reconciliation of investment in joint venture

	₦ million	US$ '000
At 1 January 2019	–	–
Reclassified from investment in subsidiary (ANOH Gas Limited)	10	33
Loss on disposal of investment in subsidiary (ANOH)	(5)	(17)
Additional investment in joint venture (ANOH) (23.2)	46,051	150,000
Exchange difference	(1)	–
At 31 December 2019	**46,055**	**150,016**

23.2 Reconciliation of additional investment in joint venture

	As at 31 Dec 2019 ₦ million	As at 31 Dec 2019 US$ '000
Cash paid in the current period	31,627	103,050
Amount reclassified from other receivables	14,424	46,950
	46,051	150,000

For the purpose of cash flow, payment for the investment in joint venture is ₦31 billion ($103 million).

		Percentage of ownership interest		Carrying amount			
Name of entity	Country of incorporation and place of business	As at 31 Dec 2019 %	As at 31 Dec 2018 %	As at 31 Dec 2019 ₦ million	As at 31 Dec 2018 ₦ million	As at 31 Dec 2019 US$ '000	As at 31 Dec 2018 US$ '000
ANOH Gas Processing Company Limited	Nigeria	50	100	46,055	10	150,016	33

24. Inventories

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Tubulars, casings and wellheads	24,315	30,400	79,205	99,022

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Inventory charged to profit or loss and included in cost of sales during the year was ₦0.9 billion, $3 million (2018: nil). There was no write down or reversal of previously recognised write down of inventory for the year ended 31 December 2019.

25. Trade and other receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Trade receivables	32,555	27,203	106,043	88,608
Nigerian Petroleum Development Company (NPDC) receivables	52,189	–	169,997	–
Intercompany receivables	311,903	256,874	1,015,971	836,723
Advances on investments	12,512	20	40,757	65
Advances to related parties	–	33,086	–	107,773
Advances to suppliers	4,347	1,689	14,160	5,499
Receivables from Joint Venture (ANOH)	3,848	–	12,536	–
Other receivables	6,121	125	19,940	406
	423,475	318,997	1,379,404	1,039,074

25.1 Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Marketing Company (NGMC) totalling ₦17 billion ($54 million), 2018: ₦14 billion ($46 million) with respect to the sale of gas, for the Company. The NGMC balance includes amount assumed and expected to be settled by Central Bank of Nigeria (CBN). Also included in trade receivables is an amount of ₦15 billion ($50 million),

25.2 NPDC receivables

The outstanding cash call due to Seplat from its JOA partner, NPDC is ₦52 billion, $170 million (2018: $ nil). The outstanding NPDC receivable 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.

25.3 Other receivables

Other receivables are transactions outside the usual operating activities of the Company. This amounted to ₦6 billion ($18.9 million) 2018: nil. Also included is advance payment of ₦0.1 billion ($1 million) 2018: nil. The balance relates to other receivables.

25.4 Reconciliation of trade receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	27,203	30,890	88,608	101,011
Additions during the year	8,787	192,567	28,620	629,098
Receipts for the year	(3,025)	(196,242)	(9,856)	(641,105)
Exchange differences	(2)	110	–	–
Gross carrying amount	32,963	27,325	107,372	89,004
Less: impairment allowance	(408)	(122)	(1,329)	(396)
Balance as at 31 December	32,555	27,203	106,043	88,608

25.5 Reconciliation of impairment allowance trade receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	122	468	396	1,535
Increase/(decrease) in loss allowance during the period	287	(347)	933	(1,139)
Exchange difference	(1)	1	–	–
Loss allowance as at 31 December	408	122	1,329	396

Increase in expected credit loss on trade receivables to due to increase in the receivable balance at the end of the period.

25.6 Reconciliation of NPDC receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	–	–	–	–
Additions during the year	339,930	–	1,107,587	–
Receipts for the year	(287,308)	–	(936,130)	–
Exchange difference	15	–	–	–
Gross carrying amount	52,637	–	171,457	–
Less: impairment allowance	(448)	–	(1,460)	–
Balance as at 31 December	52,189	–	169,997	–

During the year, a receivable of ₦14.8 billion ($48.4 million) which was netted against the payable to NPDC in 2018, was written off by the Company. The amount relates to interest which is accrued on cash calls. This was written off because the Company assessed that the amount is uncollectible:

				31 December 2018
	Gross amount ₦ million	Loss allowance ₦ million	Gross amount offset in the balance sheet ₦ million	Net amount presented in the balance sheet ₦ million
Financial asset				
Trade receivables	14,871	(2,475)	12,396	–
Financial liabilities				
Payable to NPDC	(22,418)	–	(12,396)	(10,022)

				31 December 2018
	Gross amount US$ '000	Loss allowance US$ '000	Gross amount offset in the balance sheet US$ '000	Net amount presented in the balance sheet US$ '000
Financial asset				
Trade receivables	48,439	(8,086)	40,353	–
Financial liabilities				
Payable to NPDC	(72,996)	–	(40,353)	(32,643)

During the year, the NPDC receivable netted against trade payables in 2018 of ₦14.8 billion ($48.4 million) was fully provided for and eventually written off by the Company as shown in the reconciliation of impairment on NPDC receivables. It relates to the interest accrued on NPDC cash call which is assessed to be uncollectible by the Company.

25.7 Reconciliation of impairment allowance NPDC receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	2,475	–	8,086	–
Increase in loss allowance during the period	12,836	2,475	41,813	8,086
Receivables written off during the year as uncollectible	(14,871)	–	(48,439)	–
Exchange difference	8	–	–	–
Loss allowance as at 31 December	448	2,475	1,460	8,086

During the year, the NPDC receivables netted against trade payables in 2018 was fully provided for and eventually written off by the Company. It relates to the interest accrued on NPDC cash call which is assessed to be uncollectible by the Company.

25.8 Reconciliation of intercompany receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	256,874	231,348	836,723	756,532
Additions during the year	350,120	178,231	1,140,782	579,246
Receipts for the year	(293,501)	(150,781)	(956,311)	(492,779)
Exchange difference	15	3	–	–
Gross carrying amount	313,508	258,801	1,021,194	842,999
Less: impairment allowance	(1,605)	(1,927)	(5,223)	(6,276)
Balance as at 31 December	311,903	256,874	1,015,971	836,723

25.9 Reconciliation of impairment allowance intercompany receivables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	1,927	2,230	6,276	7,292
Increase/(decrease) in loss allowance during the period	(322)	(303)	(1,053)	(1,016)
Loss allowance as at 31 December	1,605	1,927	5,223	6,276

26. Contract assets

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue on gas sales (Note 26.1)	6,527	4,327	21,259	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 are 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 contract assets to trade receivables.

26.1 Reconciliation of contract assets

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Impact on initial application of IFRS 15	4,327	4,217	14,096	13,790
Additions during the year	52,275	39,120	170,327	127,803
Receipts for the year	(50,077)	(39,027)	(163,164)	(127,497)
Exchange difference	2	17	–	–
Gross carrying amount	6,527	4,327	21,259	14,096

There were no significant changes in the contract assets for the reporting period. There were no impairment allowances recognised on contract assets as they were immaterial. 2018: Nil.

27. 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 to the extent they are expected to be settled within 12 months after the reporting period.

The fair value of the derivative financial instruments as at 31 December 2019 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Crude oil hedges	308	2,693	1,002	8,772

28. Cash and bank balances

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Cash on hand	2	2	8	6
Short-term fixed deposits	7,304	29,658	23,794	103,229
Cash at bank	73,972	122,854	240,949	393,553
Gross cash and cash equivalent	81,278	152,514	264,751	496,788
Loss allowance	(15)	(28)	(51)	(90)
Net cash and cash equivalents per statement of cash flow	81,263	152,486	264,700	496,698
Restricted cash	2,056	1,049	6,698	3,418
Cash and bank balance	83,319	153,535	271,398	500,116

The restricted cash balance above is an amount 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 four (4) 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.

28.1 Reconciliation of impairment allowance on cash and bank balance

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Loss allowance as at 1 January	28	–	90	–
(Decrease)/increase in loss allowance during the period	(13)	28	(39)	90
Loss allowance as at 31 December	15	28	51	90

29. Share capital

29.1. Authorised and issued share capital

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '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				
575,321,598 (2018: 568,497,025) issued shares denominated in Naira of 50 kobo per share	289	286	1,845	1,834

Fully paid ordinary shares carry one vote per share and the right to dividends. There were no restrictions on the Company's share capital.

Movement in share capital and other reserves

	Shares				₦ million
	Number of shares	Issued share capital	Share premium	Share-based payment reserve	Total
Opening balance as at 1 January 2019	568,497,025	286	82,080	7,298	89,664
Share-based payments (Note 29.4)	–	–	–	2,864	2,864
Vested shares	6,824,573	3	1,965	(1,968)	–
Closing balance as at 31 December 2019	**575,321,598**	**289**	**84,045**	**8,194**	**92,528**

	Shares				US$ '000
	Number of shares	Issued share capital	Share premium	Share-based payment reserve	Total
Opening balance as at 1 January 2019	568,497,025	1,834	497,457	27,499	526,790
Share-based payments (Note 29.4)	–	–	–	9,223	9,233
Vested shares (Note 29.4)	6,824,573	11	6,285	(6,296)	–
Closing balance as at 31 December 2019	**575,321,598**	**1,845**	**503,742**	**30,426**	**536,013**

29.3. Share premium

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Share premium	84,045	82,080	503,742	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.

During the year, an additional 6,824,573 shares vested with a fair value of $6.41 million. The excess of $6.29 million above the nominal value of ordinary shares has been recognised in share premium.

29.4. Employee share-based payment scheme

As at 31 December 2019, the Company had awarded 48,400,563 shares (2018: 40,410,644 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 (2018 Deferred Bonus and 2019 LTIP Scheme) awarded during the reporting period. During the reporting period,10,802,067 shares had vested out of which 1,853,465 shares were forfeited in relation to participants whose employment was terminated during the vesting period. The reserves growth underpin (non-market performance condition) which was partially achieved (at 75% vesting) resulted in a further reduction in the number of shares vested by 2,088,283; this brings the total number of shares forfeited during the period to 3,941,748. The number of shares that vested during the year after the forfeiture and conditions above is 6,824,573 (Dec 2018: 5,052,464 shares were vested).

i. Description of the awards valued

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, 2014/2015/2016/2017 deferred bonus awards and 2014/2015/2016/2017/2018/2019 Long Term Incentive Plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016, 2017, 2018 and 2019 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company. A number of these awards have fully vested.

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015, 2016, 2017 and 2018 bonus (paid in 2015, 2016, 2017, 2018 and 2019) has been deferred into shares and released on 1 June 2017, 1 June 2018, 20 April 2019 and 31 December 2020 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 calculated using a Black Scholes model.

29. Share capital continued

Long Term Incentive Plan (LTIP) awards

Under the LTIP, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after three years) based on the following conditions.

- 25% vesting for median relative TSR performance rising to 100% for upper quartile performance on a straight-line basis.
- Relative TSR vesting reduced by 75% if 60% and below of operational and technical bonus metrics are achieved, with 35% reduction if 70% of operational and technical bonus metrics are achieved and no reduction for 80% or above achievement.
- 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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Expense arising from equity–settled share–based payment transactions	2,864	2,969	9,223	9,698

There were no cancellations to the awards in 2019 or 2018. 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	Vesting status	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	Fully	6,472,138
Non– Executive Shares	4 November 2015	9 April 2014	9 April 2015	Fully	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	Fully	212,701
2014 Long Term Incentive Plan	14 December 2015	14 December 2015	09 April 2017	Fully	2,173,259
2015 Long Term Incentive Plan	31 December 2015	14 December 2015	21 April 2018	Fully	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	Fully	247,610
2016 Long Term Incentive Plan	22 December 2016	22 December 2016	21 December 2019	Fully	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	Fully	278,191
2017 Long Term Incentive Plan	24 November 2017	24 November 2017	20 April 2020	Partially	7,938,589
2017 Deferred Bonus	29 December 2017	29 December 2017	31 December 2019	Fully	193,830
2018 Long Term Incentive Plan	2 May 2018	2 May 2018	1 May 2021	Partially	6,519,022
2018 Deferred Bonus	2 May 2019	2 May 2019	31 December 2020	Partially	341,069
2019 Long Term Incentive Plan	2 May 2019	2 May 2019	2 May 2022	Partially	7,648,850
					48,400,563

i. Determination of share awards outstanding

Share awards used in the calculation of diluted earnings per share are based on the outstanding shares as at 31 December 2019.

Share award scheme (all awards)	2019 Number	2019 WAEP ₦	2018 Number	2018 WAEP ₦
Outstanding at 1 January	12,350,871	310	8,205,773	251.64
Granted during the year	10,802,067	387	9,197,562	362.26
Forfeited during the year	(6,824,573)	–	(5,052,464)	–
Exercised during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,386,617	346	12,350,871	310
Exercisable at 31 December	–	–	–	–

Share award scheme (all awards)	2019 Number	2019 WAEP $	2018 Number	2018 WAEP $
Outstanding at 1 January	12,350,871	1.01	8,205,773	0.82
Granted during the year	10,802,067	1.26	9,197,562	1.18
Forfeited during the year	(6,824,573)	–	(5,052,464)	–
Exercised during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,386,617	1.13	12,350,871	1.01
Exercisable at 31 December	–	–	–	–

ii. 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	2019 Number	2019 WAEP ₦	2018 Number	2018 WAEP ₦
Outstanding at 1 January	315,603	518	230,351	412
Granted during the year	292,509	522	332,862	589
Exercised during the year	(472,021)	–	(247,610)	–
Outstanding at 31 December	136,091	520	315,603	518
Exercisable at 31 December	–	–	–	–

Deferred Bonus Scheme	2019 Number	2019 WAEP $	2018 Number	2018 WAEP $
Outstanding at 1 January	315,603	1.47	230,351	1.35
Granted during the year	292,509	1.70	332,862	1.92
Exercised during the year	(472,021)	–	(247,610)	–
Outstanding at 31 December	136,091	1.69	315,603	1.69
Exercisable at 31 December	–	–	–	–

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.

Long Term Incentive Plan (LTIP)	2019 Number	2019 WAEP ₦	2018 Number	2018 WAEP ₦
Outstanding at 1 January	12,035,268	361	8,457,922	292
Granted during the year	10,509,557	362	8,864,700	593
Exercised during the year	(6,352,552)	–	(5,287,354)	–
Forfeited during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,250,525	407	12,035,268	447
Vested and exercisable at 31 December	–	–	–	–

Long Term Incentive Plan (LTIP)	2019 Number	2019 WAEP $	2018 Number	2018 WAEP $
Outstanding at 1 January	12,035,268	1.18	8,457,922	0.96
Granted during the year	10,509,557	1.18	8,864,700	1.93
Exercised during the year	(6,352,552)	–	(5,287,354)	–
Forfeited during the year	(3,941,748)	–	–	–
Outstanding at 31 December	12,250,525	1.33	12,035,268	1.46
Vested and 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 2019 range from 0.3 to 2.3 years (2018: 0.3 to 1.3 years).

The weighted average fair value of awards granted during the year range from ₦362.26 to ₦521.9, 2018: ₦451.29 to ₦540.32. $1.18 to $1.70 (2018: $1.47 to $1.76).

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.

iii. Inputs to the models

The following table lists the inputs to the models used for the share awards outstanding in the respective plans for the year ended 31 December 2019:

	2017 LTIP	2018 LTIP	2018 Deferred Bonus	2019 LTIP
Weighted average fair values at the measurement date				
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%
Expected volatility (%)	43%	41%	33%	35%
Risk-free interest rate (%)	0.44%	0.83%	0.74%	0.76%
Expected life of share options	2.40	3.00	1.67	3.00
Weighted average share price ($)	1.4	1.93	1.7	1.7
Weighted average share price (₦)	428.4	589.90	521.9	521.9
Model used	Monte Carlo	Monte Carlo	Black Scholes	Monte Carlo

30. 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Capital contribution	5,932	5,932	40,000	40,000

31. Foreign currency translation reserve

Cumulative exchange differences arising from translation of the Company's results and financial position into the presentation currency and from translation of foreign subsidiary are taken to foreign currency translation reserve through other comprehensive income.

32. Interest-bearing loans and borrowings

32.1. 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 US$ '000	Borrowings due above 1 year US$ '000	Total US$ '000
Balance as at 1 January 2019	3,031	133,799	136,830	9,872	435,827	445,699
Principal repayment	(3,029)	(27,662)	(30,691)	(9,872)	(90,128)	(100,000)
Interest repayment	(10,364)	–	(10,364)	(33,770)	–	(33,770)
Interest accrued	15,198	–	15,198	49,520	–	49,520
Other financing charges	(2,696)	–	(2,696)	(8,783)	–	(8,783)
Proceeds from loan financing	19,151	87,195	106,346	62,399	284,101	346,500
Exchange difference	4	17	21	–	–	–
Carrying amount as at 31 December 2019	**21,295**	**193,349**	**214,644**	**69,366**	**629,800**	**699,166**

	Borrowings due within 1 year ₦ million	Borrowings due above 1 year ₦ million	Total ₦ million	Borrowings due within 1 year US$ '000	Borrowings due above 1 year US$ '000	Total US$ '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**

32.2. Amortised cost of borrowings

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Senior loan notes	107,237	107,272	349,278	349,417
Revolving loan facilities	107,407	29,558	349,888	96,282
	214,644	136,830	699,166	445,699

$350 million senior notes – March 2018

Interest-bearing loans and borrowings include a revolving loan facility and senior notes. In March 2018 the Company 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 ₦10.56 billion, $34.4 million using an effective interest rate of 10.4%. Transaction costs of ₦2.1 billion, $6.86 million have been included in the amortised cost balance at the end of the reporting period. The amortised cost for the senior notes at the reporting period is ₦107.76 billion, $351.5 million (December 2018: ₦106.95 billion, $349.4 million).

$200 million revolving credit facility – March 2018

The Company entered into a four-year revolving loan agreement with interest payable semi-annually and principal repayable on 31 December of each year. The 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, $199 million in March 2018. The interest accrued at the reporting period is ₦0.2 billion (Sept 2018: ₦2.89 billion) using an effective interest rate of 9.8% (Sept 2018: 9.4%). The interest paid was determined using three-month LIBOR rate + 6% on the last business day of the reporting period.

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 on modifications are recognised immediately as part of interest accrued on the facility. Transaction costs of ₦1.4 billion, $4.58 million have been included in the amortised cost balance at the end of the reporting period. In the reporting period, the Company repaid the outstanding principal amount of ₦30.7 billion, $100 million on the revolving loan facility.

$350 million revolving credit facility – December 2019

The Company on 20 December 2019 also entered into a four-year revolving loan agreement with interest payable semi-annually. There is a two-year moratorium on the principal which ends on 31 December 2021. The revolving loan has an initial contractual interest rate of 6% +LIBOR (7.9%) and a settlement date of 31 December 2023.

The interest rate of the facility is variable. The Company made a drawdown of ₦107.45 billion, $350 million as at year end. The interest accrued at the reporting period is ₦3.58 billion, $1.1 million using an effective interest rate of 10.2%. The interest paid was determined using three-month LIBOR rate + 6% on the last business day of the reporting period.

32.3 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 2019	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$ '000	Non-current US$ '000	Total US$ '000
Fixed interest rate							
Senior notes:	9.25		107,450	107,450		350,000	350,000
Variable interest rate							
Corporate loan:							
Citibank, N.A., London Branch	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
Nedbank Limited London	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
Stanbic IBTC Bank Plc	6.0% +LIBOR	–	6,140	6,140	–	20,000	20,000
The Standard Bank of South Africa Limited	6.0% +LIBOR	–	6,140	6,140	–	20,000	20,000
RMB International (Mauritius) Limited	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
The Mauritius Commercial Bank Ltd	6.0% +LIBOR	–	12,280	12,280	–	40,000	40,000
JPMorgan Chase Bank, N.A., London Branch	6.0% +LIBOR	–	9,210	9,210	–	30,000	30,000
Standard Chartered Bank	6.0% +LIBOR	–	9,210	9,210	–	30,000	30,000
Natixis	6.0% +LIBOR	–	9,210	9,210	–	30,000	30,000
Société Générale, London Branch	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Zenith Bank Plc	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
United Bank for Africa Plc	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
First City Monument Bank Limited	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Total Variable cost			107,450	107,450	–	350,000	350,000
			214,900	**214,900**	**–**	**700,000**	**700,000**

31 December 2018	Interest	Current ₦ million	Non-current ₦ million	Total ₦ million	Current US$ '000	Non-current US$ '000	Total US$ '000
Senior notes	9.25%	–	107,450	107,450	–	350,000	350,000
Corporate loan:							
Stanbic IBTC Bank Plc	6.0% +LIBOR	–	3,070	3,070	–	10,000	10,000
The Standard Bank of South Africa	6.0% +LIBOR	–	1,535	1,535	–	5,000	5,000
Nedbank Limited, London Branch	6.0% +LIBOR	–	4,605	4,605	–	15,000	15,000
Standard Chartered Bank	6.0% +LIBOR	–	3,582	3,582	–	11,667	11,667
Natixis	6.0% +LIBOR	–	3,070	3,070	–	10,000	10,000
FirstRand Bank Limited Acting	6.0% +LIBOR	–	2,456	2,456	–	8,000	8,000
Citibank N.A. London	6.0% +LIBOR	–	3,684	3,684	–	12,000	12,000
The Mauritius Commercial Bank Plc	6.0% +LIBOR	–	3,582	3,582	–	11,667	11,667
Nomura International Plc	6.0% +LIBOR	–	5,117	5,117	–	16,667	16,667
Total variable cost		–	30,701	30,701	–	100,001	100,001
		–	**138,151**	**138,151**	**–**	**450,001**	**450,001**

33. Provision for decommissioning obligation

	₦ million	US$ '000
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**
At 1 January 2019	37,658	122,666
Unwinding of discount due to passage of time	1,075	3,501
Change in estimate	(3,745)	(12,199)
At 31 December 2019	**34,988**	**113,968**

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 as highlighted in the table below 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. 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 consider 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.

	Current estimated life span of reserves	
	2019 In years	2018 In years
Seplat Petroleum Development Company:	2037	2027
OML 4	2027 – 2037	2034
OML 38	2027 – 2034	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

34. Employee benefit obligation

34.1 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.

34.2 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 has 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 the Chief Executive Officer. The Company does not have an investment strategy of matching match 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 the defined benefit plan 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 amount payable as at 31 December 2019 was ₦3 billion, 2018: ₦1.8 billion ($9.8 billion, 2018: $5.9 billion).

The following tables summarise the components of net defined 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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Defined benefit obligation	3,594	2,324	11,707	7,568
Fair value of plan assets	(583)	(505)	(1,899)	(1,645)
	3,011	1,819	9,808	5,923

iii. Amount recognised in profit or loss

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Current service cost	602	500	1,961	1,633
Interest cost on defined benefit obligation	364	285	1,186	931
	966	785	3,147	2,564
Return on plan assets	(129)	(3)	(420)	(10)
	837	782	2,727	2,554

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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Charged to profit or loss	309	340	1,005	1,111
Charged to receivables	528	442	1,722	1,443
Balance as at 31 December	837	782	2,727	2,554

iv. Remeasurement (gains)/losses in other comprehensive income

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Remeasurement losses due to changes in financial and demographic assumptions	(508)	408	(1,655)	1,331
Remeasurement gains due to experience adjustment	111	(14)	362	(46)
Remeasurement gain on plan assets	(51)	–	(166)	–
	(448)	394	(1,459)	1,285
Deferred tax credit/(expense) on remeasurement losses	381	(335)	1,240	(1,093)
	67	59	219	193

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Recharged to receivables	(247)	216	(803)	706
(Charged)/credited to other comprehensive income	(201)	178	(656)	579
Remeasurement (losses)/gain due to changes in financial and demographic assumptions	(448)	394	(1,459)	1,285

v. Deferred tax (expense)/credit on remeasurement (gains)/losses

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Credited/(charged) to other comprehensive income	171	(80)	558	(261)
Charged to receivables	210	(255)	682	(833)
Deferred tax on remeasurement losses	381	(335)	1,240	(1,094)

34. Employee benefit obligation continued

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Defined benefit obligation as at 1 January	2,324	1,994	7,568	6,518
Current service cost	602	500	1,961	1,633
Interest cost on benefit obligation	364	285	1,186	931
Remeasurement losses due to changes in financial and demographic assumptions	508	(408)	1,655	(1,331)
Remeasurement gains due to experience adjustment	(111)	14	(362)	46
Benefits paid by the employer	(86)	(63)	(280)	(206)
Exchange differences	(7)	2	(21)	(23)
Defined benefit obligation at 31 December	3,594	2,324	11,707	7,568

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	(505)	–	(1,645)	–
Employer contributions	–	(502)	–	(1,635)
Return on plan assets	(129)	(3)	(420)	(10)
Remeasurement loss on plan assets	51	–	166	–
Balance as at 31 December	(583)	(505)	(1,899)	(1,645)

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Present value of funded obligations	3,594	2,324	11,707	7,568
Fair value of plan assets	(583)	(505)	(1,899)	(1,645)
Deficit of funded plans	3,011	1,819	9,808	5,923

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 ₦ million	Not quoted ₦ million	2019 Total ₦ million	Quoted US$ '000	Not quoted US$ '000	2019 Total US$ '000
Money market	–	136	136	–	442	442
Equity Instrument	12		12	40		40
Treasury bills	50	–	50	163	–	163
Bonds	386		386	1,258		1,258
Cash at bank	–	2	2	–	6	6
Other current asset	–	(3)	(3)	–	(10)	(10)
Total plan asset as at 31 December	448	135	583	1,461	438	1,899

	Quoted ₦ million	Not quoted ₦ million	2018 Total ₦ million	Quoted US$ '000	Not quoted US$ '000	2018 Total US$ '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:

	2019 %	2018 %
Discount rate	14.00	15.50
Average future pay increase	12.00	12.00
Average future rate of inflation	12.00	10.00

a) Mortality in service

	Number of deaths in year out of 10,000 lives	
Sample age	2019	2018
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

	Rates	
Age band	2019	2018
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%

A quantitative sensitivity analysis for significant assumption is as shown below:

		Discount rate		Salary increases		Mortality	
Assumptions	Base	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 2019	3,595	(225)	262	280	(243)	3	(3)
31 December 2018	2,324	(225)	262	280	(243)	3	(3)

		Discount rate		Salary increases		Mortality	
Assumptions	Base	1% increase US$ '000	1% decrease US$ '000	1% increase US$ '000	1% decrease US$ '000	1% increase US$ '000	1% decrease US$ '000
Sensitivity level: impact on the net defined benefit obligation							
31 December 2019	11,707	(733)	854	912	(792)	10	(10)
31 December 2018	7,568	(735)	856	915	(794)	10	(10)

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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Within the next 12 months (next annual reporting period)	198	57	646	186
Between 2 and 5 years	1,403	1,335	4,569	4,361
Between 6 and 10 years	5,421	131,806	17,658	430,604
Beyond 10 years	127,029	–	413,775	–
	134,051	133,198	436,648	435,151

The weighted average liability duration for the plan is 11.35 years. The longest weighted duration for Nigerian Government bonds as at 31 December 2018 was about 7.26 years with a gross redemption yield of about 13.31%.

Financial statements

34. Employee benefit obligation continued

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:

i) 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) Asset volatility

The Company holds significant proportion of its plan assets in equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term.

iv) Life expectancy

Most 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.

35. Trade and other payables

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Trade payable	16,282	11,058	53,034	36,021
Accruals and other payables	61,242	44,884	199,490	146,202
Nigerian Petroleum Development Company (NPDC)	–	10,022	–	32,643
Pension payable	(14)	106	(48)	345
NDDC levy	6	7	21	22
Royalties	5,813	7,402	18,936	24,111
Overlift	13,227	–	43,085	–
Intercompany payable	119,113	66,919	387,992	217,979
	215,669	140,398	702,510	457,323

Included in accruals and other payables are field accruals of ₦36 billion, 2018: ₦21 billion ($119 million, 2018: $67 million), accruals for services received with invoices uncleared of ₦6 billion, 2018:nil ($21 million, 2018: nil), payables to Eland's (newly acquired subsidiary) employees of ₦1.5 billion ($5 million) and other payables to creditors, employees and contractors of ₦17.5 billion, 2018: ₦23 billion ($54 million, 2018: $79 million).

35.1. 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Balance as at 1 January	–	23,723	–	77,499
Principal repayment	–	(23,193)	–	(75,769)
Interest repayment	–	(530)	–	(1,730)
Carrying amount as at 31 December	–	–	–	–

36. Contract liabilities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Contract liabilities	5,005	–	16,301	–

36.1 Reconciliation of contract liabilities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Opening balance	–	–	–	–
Addition during the year	5,005	–	16,301	–
	5,005	–	16,301	–

Contract liabilities represents take or pay volumes contracted with Azura for 2018 which are yet to be utilised. In line with contract, Azura can make a demand on the makeup gas but only after they have taken and paid for the take or pay quantity for the current year. The contract liability is accrued for two years after which the ability to take the makeup gas expires and any outstanding balances are recognised as revenue.

37. Earnings per share (EPS)

Basic

Basic EPS is calculated on the Company's profit after taxation attributable to the Company and based on 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 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.

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Profit for the year	66,129	49,681	215,477	162,305
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	569,228	568,497	569,228	568,497
Outstanding share-based payment (shares)	12,387	8,206	12,387	8,206
Weighted average number of ordinary shares adjusted for the effect of dilution	581,615	576,703	581,615	576,703
	₦	₦	$	$
Basic earnings per share	116.17	87.39	0.38	0.29
Diluted earnings per share	113.70	86.15	0.37	0.28

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

38. Dividends paid and proposed

As at 31 December 2019, the final proposed dividend for the Company is ₦15.35 ($0.05), 2018: is ₦15.35 ($0.05).

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2019: ₦30.7 ($0.10) per share, 588,444,561 shares in issue (2017: ₦ Nil, $ Nil per share, 563,444,561 shares in issue)	18,019	18,036	58,708	58,888
Proposed dividend on ordinary shares:				
Final proposed dividend for the year: ₦15.35 ($0.05) per share	8,831	9,033	28,766	29,422

As at 31 December 2019, ₦9 billion ($29.4 million) of interim dividend was paid at ₦15.35 ($0.05) per share as at 30 June 2019 and the remaining dividend ₦9 billion ($29.3 million) was paid at ₦15.35 ($0.05) per share as at 30 November 2019. (2018: ₦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.)

39. Related party relationships and transactions

The Company is owned 6.43% either directly or by entities controlled by A.B.C. Orjiako (SPDCL(BVI)) and members of his family and 12.19% 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.

39.1 Related party relationships

The goods and services provided by the related parties are disclosed below. The outstanding balances payable to/receivable from related parties are unsecured and are payable/receivable in cash.

i) Shareholders of the parent Company

Shebah Petroleum Development Company Limited SPDCL ('BVI'): The Chairman of Seplat is a director and shareholder of SPDCL (BVI). The company provided consulting services to Seplat. Services provided to the Group during the year amounted to ₦322 million, $1.05 million (2018: ₦333 million, $1.09 million).

ii) Entities controlled by key management personnel (Contracts >$1million in 2019)

Nerine Support Services Limited: Is owned by common shareholders with the parent company. In 2019, Seplat purchased the warehouse building and land which was being leased in 2018 from Nerine. The cost of acquisition of the land was ₦21 million, $68,000 and warehouse building of N1.19billion, $3.89million. The total cost of land and building amounted to ₦1.4 billion, $4.57 million. The company provides agency and contract workers to Seplat. Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. Total costs for agency and contracts during 2019 are ₦5 billion, $17 million (2018: ₦2 billion, $8million). These amounts are gross i.e. it includes salaries and Nerine's mark-up. All other transactions were made on normal commercial terms and conditions, and at market rates.

Montego Upstream Services Limited: The Chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat. The transactions during the year amounted to ₦783 million, $2.55 million (2018: ₦24 million, $79 thousand). Receivables were nil in the current period (2018: ₦8 million, $26 thousand).

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. Transactions with this related party amounted to ₦2.89 billion, $9.44 million (₦621 million, $2.03 million). Receivables were nil in the current period (2018: ₦1.49 billion, $4.87 million)

Stage Leasing (Ndosumili Ventures Limited): Is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.This amounted to ₦445 million, $1.45 million (2018: ₦434 million, $1.42 million). Payables were nil in the current period (2018: ₦13 million, $43thousand)

iii) Entities controlled by key management personnel (Contracts <$1million in 2019)

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. This amounted to ₦286 million, $0.93 million during the year (2018: ₦334 million, $1.09 million). Payables were nil in the current period (2018: N₦9 million, $28 thousand)

Charismond Nigeria Limited: The sister to the Chief Executive Officer (CEO) works as a General Manager. The company provides administrative services including stationary and other general supplies to the field locations. This amounted to ₦11 million, $36 thousand (2018: ₦23 million, $74 thousand).

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. This amounted to ₦221 million, $0.72 million (2018: ₦78 million, $0.25 million). Payables were nil in the current period (2018: ₦19 million, $61 thousand)

Oriental Catering Services Limited: The spouse of the CEO is a shareholder and director. The company provides catering services to Seplat at the staff canteen. This amounted to ₦47million, $0.15 million (2018: ₦199 million, $0.65 million). Payables were nil in the current period (2018: ₦14 million, $47 thousand)

ResourcePro Inter Solutions Limited: The in-law of Seplat's CEO is its UK representative. The company supplies furniture to Seplat. Receivables were nil in the current period (2018: N2million, $6thousand).

iv) Entities controlled by the Company – Investment in newly acquired subsidiary

Eland Oil and Gas Limited: During the year, the Company acquired the total issued share capital of Eland Oil and Gas for ₦149 billion ($487 million) at 166 pence per share. This has been accounted for as an investment in subsidiary. Upon acquisition, the Company paid 156 pence/share to the employees of Eland rather than the exercise price 166 pence/share. The balance of ₦1.5 billion ($5 million) has been recognised as payable to Eland Oil and Gas.

v) Jointly controlled entities

ANOH Gas Processing Company Limited: During the year, the Company disposed some of its stake in ANOH Gas and retained 50% of its previous interest. The retained interest is accounted for as a joint venture between the Company and Nigerian Gas Processing and Transportation Company (NGPTC). In order to float the joint venture, the parties contributed ₦46 billion ($150 million) each, out of which ₦32 billion ($103 million) was paid in cash and ₦14 billion ($47 million) incurred prior to the disposal of its stake. As at year end, the Company also had a commitment of ₦18.4 billion ($60 million) to the ANOH gas project. During the year, the Company incurred expenses of ₦3.9 billion ($12.8 million) on behalf of ANOH to be reimbursed by the ANOH. This was treated as a receivable.

40. Information relating to employees

40.1 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:

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Salaries and other short-term employee benefits	728	793	2,373	2,590
Post-employment benefits	95	86	308	281
Share-based payment expenses	166	146	540	476
	989	1,025	3,221	3,347

40.2 Chairman and Directors' emoluments

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Chairman (Non-Executive)	354	342	1,155	1,118
Chief Executive Officer	763	445	2,486	1,453
Executive Directors	800	699	2,606	2,283
Non-Executive Directors	702	494	2,287	1,614
Total	2,619	1,980	8,535	6,468

2019 Executive Director emoluments includes 2018 bonus paid in 2019.

40.3 Highest paid Director

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Highest paid Director	440	484	1,434	1,577

Emoluments are inclusive of income taxes.

40.4 Number of Directors

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

	2019 Number	2018 Number
Zero – ₦19,896,500	–	–
₦19,896,501 – ₦115,705,800	–	–
₦115,705,801 – ₦157,947,600	–	–
Above ₦157,947,600	3	3
	3	3

	2019 Number	2018 Number
Zero – $65,000	–	–
$65,001 – $378,000	–	–
$378,001 – $516,000	–	–
Above $516,000	3	3
	3	3

40.5 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), who received remuneration (excluding pension contributions) in the following ranges was:

	2019 Number	2018 Number
₦1,989,650 – ₦4,897,600	9	71
₦4,897,601– ₦9,795,200	142	177
₦9,795,201 – ₦14,692,800	132	77
Above ₦14,692,800	180	139
	463	464

	2019 Number	2018 Number
$6,500 – $16,000	9	71
$16,001 – $32,000	142	177
$32,001 – $48,000	132	77
Above $48,000	180	139
	463	464

40. Information relating to employees continued

40.6 Number of persons employed during the year

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

	2019 Number	2018 Number
Senior management	19	16
Managers	100	93
Senior staff	200	193
Junior staff	144	162
	463	464

40.7 Employee cost

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

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Salaries & wages	7,015	6,039	22,851	19,670
	7,015	6,039	22,851	19,670

41. Commitments and contingencies

41.1 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 2019 is ₦11 billion, 2018: ₦0.7 billion ($35.5 million, 2018: $2.4 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.

41.2 Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	31 Dec 2019 ₦ million	31 Dec 2018 ₦ million	31 Dec 2019 US$ '000	31 Dec 2018 US$ '000
Property, plant and equipment	31,022	–	101,050	–

ANOH Joint Venture: The above commitments include capital expenditure commitments of ₦18.4 billion ($60 million) 2018 – nil, relating to the ANOH Joint Venture.

42. Events after the reporting period

On 9 March 2020, oil prices fell by around 20% and the forward curve for 2020 and 2021 fell to approximately $38/bbl and $43/bbl respectively. These recent events will continue to have an impact on oil price volatility. Seplat prudently manages its commodity risk and is well hedged with 60% of 2020 production hedged at a floor price of $45/bbl up to Q3 2020. Realised oil prices for January and February 2020 averaged over $62.8/bbl. Seplat will continue to monitor the oil prices and take adequate steps to manage our business and any financial impact of same.

43. Changes in accounting policies

This note explains the impact of adoption of IFRS 16 Leases on the Company's financial statements.

Leases

The Company's leased assets include buildings and land. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension options. The lease terms are between one and five years. On renewal of a lease, the terms are renegotiated. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were recognised as rentals in the statement of profit or loss and other comprehensive income on a straight-line basis and disclosed within general and administrative expenses over the period of the lease.

From 1 January 2019, on adoption of IFRS 16, leased assets are recognised as right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Company is also recognised. The Company elected to use the transition practical expedient which allows the standard to be applied to contracts that were previously identified as leases under IAS 17 (Leases) and IFRIC 4 (Determining whether an arrangement contains a lease) at the date of initial application.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'). The Company had no low-value leases on adoption of the new standard. Lease liabilities for leases formerly classified as operating leases were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 7.56% as at that date.

Lease liabilities
At the commencement date of a lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is the weighted average interest rate applicable to the Company's general borrowings denominated in dollars during the period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. The lease term refers to the contractual period of a lease.

The Company has elected to exclude non-lease components in calculating lease liabilities and instead treat the related costs as an expense in profit or loss.

Right-of-use assets
The Company recognises right-of-use assets at the commencement date of a lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets include the amount of lease liabilities recognised, initial direct costs incurred, decommissioning costs (if any), and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Short-term leases and leases of low value
The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. low-value assets). Low-value assets are assets with lease amount of less than $5,000 when new. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

a. Impact of adoption
The new Leases standard, IFRS 16, replaces the provisions of IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. As discussed in Note 3, the Company has elected to apply the new standard using the simplified method. Accordingly, the information presented for the year ended 31 December 2018 has not been restated but is presented, as previously reported, under IAS 17.

On adoption of IFRS 16, the lease liabilities as at 1 January 2019 for leases formerly classified as operating leases were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at that date. The Company's weighted average incremental borrowing rate as at 1 January 2019 and 30 December 2019 was 7.56%.

On adoption of the new accounting standard, the Company elected to apply the following practical expedients:

- The Company relied on previous assessment of existing lease contracts
- Leases with a remaining lease term of one year with no extension commitments as at 1 January 2019 were treated as short-term leases
- The Company excluded initial direct costs in determining the cost of right-of-use assets
- The same discount rate was applied for a portfolio of leases with reasonably similar characteristics

43. Changes in accounting policies continued

b. Impact on financial statements

The following table summarises the impact of transition to IFRS 16 on the statement of financial position as at 1 January 2019 for each affected 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 of adoption of IFRS 16 on retained earnings as at 1 January 2019.

	Amounts without impact of IFRS 16 ₦ million	Impact of IFRS 16 ₦ million	At as 1 January 2019 ₦ million
Assets			
Non-current assets			
Right–of–use assets	–	4,216	4,216
Prepayments	7,871	(274)	7,597
Total non-current assets	328,870	3,942	332,812
Current assets			
Prepayments	3,456	(1,783)	1,673
Total current assets	514,131	(1,783)	512,348
Total assets	843,001	2,159	845,160
Equity and liabilities			
Lease liabilities	–	1,902	1,902
Total non–current liabilities	173,276	1,902	175,178
Current liabilities			
Lease liabilities	–	238	238
Total current liabilities	143,429	238	143,667
Total liabilities	316,705	2,140	318,845

	Amounts without impact of IFRS 16 US$ '000	Impact of IFRS 16 US$ '000	At as 1 January 2019 US$ '000
Assets			
Non-current assets			
Right-of-use assets	–	13,734	13,734
Prepayments	25,635	(893)	24,742
Total non–current assets	1,071,233	12,841	1,084,074
Current assets			
Prepayments	11,258	(5,809)	5,449
Total current assets	1,674,694	(5,809)	1,668,885
Total assets	2,745,927	7,032	2,752,959
Equity and liabilities			
Lease liabilities	–	6,196	6,196
Total non–current liabilities	564,416	6,196	570,612
Current liabilities			
Lease liabilities		776	776
Total current liabilities	467,195	776	467,971
Total liabilities	1,031,611	6,972	1,038,583

i. Right-of-use assets

All the Company's right-of-use assets are non-current assets. A reconciliation of the Company's right-of-use assets as at 1 January 2019 and 31 December 2019 is shown below:

	₦ million	US$ '000
Opening balance as at 1 January 2019	–	–
Effect of initial application of IFRS 16	4,216	13,734
Adjusted opening balance as at 1 January 2019	4,216	13,734
Additions during the year	88	285
Less: depreciation for the period	(907)	(2,955)
Closing balance as at 31 December 2019	**3,397**	**11,064**

The right-of-use assets recognised as at 1 January 2019 and 31 December 2019 comprised the following assets:

	As at 31 Dec 2019 US$ '000	As at 1 Jan 2019 US$ '000
Office buildings	11,064	13,734
Right-of-use assets	11,064	13,734

	As at 31 Dec 2019 ₦ million	As at 1 Jan 2019 ₦ million
Office buildings	3,397	4,216
Right-of-use assets	3,397	4,216

ii. Lease liabilities

A reconciliation of the Company's remaining operating lease payments as at 31 December 2018 and the lease liabilities as at 1 January 2019 and 31 December 2019 is shown below:

	₦ million	US$ '000
Total undiscounted operating lease commitment as at 31 December 2018	2,860	9,316
Lease liability as at 1 January 2019	2,140	6,972
Additions during the year	63	203
Add: interest on lease liabilities (Note 14)	164	534
Closing balance as at 31 December 2019	**2,367**	**7,709**

The lease liability as at 1 January 2019 is the total operating lease commitment as at 31 December 2018 discounted using the incremental borrowing rate as at that date.

Short-term leases relate to leases of residential buildings, car parks and office buildings with contractual lease term of less than or equal to 12 months at the date of initial application of IFRS 16. At the end of the reporting period, rental expense of ₦351 million ($1.1 million) was recognised within general and administrative expenses for these leases. The Company's future cash outflows from short-term lease commitments at the end of the reporting period is ₦14.8 billion ($48 million).

The Company's lease payments for drilling rigs are classified as variable lease payments. The variability arises because the lease payments are linked to the use of the underlying assets. These variable lease payments are therefore excluded from the measurement of the lease liabilities. At the end of the reporting period, there was no rental expense recognised within cost of sales for these leases. The expected future cash outflows arising from variable lease payments is estimated at ₦14.8 billion ($48 million).

The Company's lease liability as at 1 January 2019 and 31 December 2019 is split into current and non-current portions as follows:

	As at 31 Dec 2019 ₦ million	As at 1 Jan 2019 ₦ million
Non-current	2,367	1,902
Current	–	238
Lease liability	2,367	2,140

	As at 31 Dec 2019 US$ '000	As at 1 Jan 2019 US$ '000
Non-current	7,709	6,196
Current	–	776
Lease liability	7,709	6,972

43. Changes in accounting policies continued

c. Impact on the statement of profit or loss (decrease)

	31 December 2019 ₦ million	31 December 2019 US$ '000
Depreciation expense – Right-of-use assets: Office buildings	(907)	(2,955)
Operating profit	(907)	(2,955)
Finance cost	(164)	(534)
Profit/(loss) for the period	(1,071)	(3,489)

d. Impact on the statement of cash flows (increase)

	31 December 2019 ₦ million	31 December 2019 US$ '000
Depreciation of right-of-use assets	907	2,955
Net cash flows from operating activities	907	2,955
Interest on lease liabilities	–	–
Net cash flows from financing activities	–	–

No interest was paid on leases during the period. The lease payment for the first two years of the lease contract was prepaid, which has been reclassified to right-of-use asset in 2019.

These are non-cash impacts on transition to IFRS 16.

e. Sensitivity to purchase options

In 2018, the Company entered into a lease agreement for its new head office building. The lease contract contains an option to purchase and right of first refusal upon an option of sales during the initial non-cancellable lease term of five (5) years. Management has determined that it is not reasonably certain that the Company will exercise the purchase option. Thus, the purchase price was not included in calculating the lease liability or right-of-use asset. The following tables summarise the impact that exercising the purchase option would have had on the profit before tax and net assets of the Company:

		Effect on profit before tax
Impact of purchase option	31 December 2019 ₦ million	31 December 2019 US$ '000
Depreciation	556	1,810
Interest payment	(725)	(2,363)
	(169)	(553)

		Effect on net assets
Impact of purchase option	31 December 2019 ₦ million	31 December 2019 US$ '000
Right-of-use assets	9,594	31,251
Lease liability	(10,322)	(33,621)
	(728)	(2,370)

f) Impact on segment assets and liabilities

The Company's assets are allocated to segments based on the operations and the geographical location of the assets. All non-current assets of the Company are domiciled in Nigeria. The changes in segment assets and liabilities for each segment as at 31 December 2019 are shown below:

	Amount under IAS 17 ₦ million	Impact of IFRS 16 ₦ million	Amount under IFRS 16 ₦ million
Segment assets:			
Oil	813,180	3,397	816,577
Gas	240,911	–	240,911
	1,054,091	3,397	1,057,488
Segment liabilities:			
Oil	461,807	2,367	464,174
Gas	16,091	–	16,091
	477,898	2,367	480,265

	Amount under IAS 17 US$ '000	Impact of IFRS 16 US$ '000	Amount under IFRS 16 US$ '000
Segment assets:			
Oil	2,725,567	11,064	2,736,631
Gas	707,963	–	707,963
	3,433,530	11,064	3,444,594
Segment liabilities:			
Oil	1,487,966	7,709	1,495,675
Gas	68,709	–	68,709
	1,556,675	7,709	1,564,384

g) Impact on earnings per share

As a result of adoption of IFRS 16, the earnings per share of the Company for the year ended 31 December 2019 decreased as shown in the table below:

	31 December 2019		
	Amount under IAS 17 ₦ million	Impact of IFRS 16 ₦ million	Amount under IFRS 16 ₦ million
Profit for the period	64,649	(1,071)	63,578
Earnings per share for profit attributable to the equity shareholders:			
Basic earnings per share (₦)	113.57	(1.88)	111.69
Diluted earnings per share (₦)	111.15	(1.84)	109.31

	31 December 2019		
	Amount under IAS 17 US$ '000	Impact of IFRS 16 US$ '000	Amount under IFRS 16 US$ '000
Profit for the period	210,464	(3,489)	207,164
Earnings per share for profit attributable to the equity shareholders:			
Basic earnings per share ($)	0.37	(0.01)	0.36
Diluted earnings per share ($)	0.37	(0.01)	0.36

h) Impact on deferred taxes

As a result of adoption of IFRS 16, there was no impact on deferred taxes as interest expense on lease liabilities and depreciation of right-of-use assets give rise to permanent differences for tax purposes.

Separate statement of value added

For the year ended 31 December 2019

	2019 ₦ million	%	2018 ₦ million	%	2019 US$ '000	%	2018 US$ '000	%
Revenue from contracts with customers	200,733		217,174		654,037		709,493	
Other income – net	4,096		1,757		13,346		5,739	
Finance income	4,702		2,874		15,321		9,388	
Cost of goods and other services:								
Local	(50,773)		(45,742)		(165,422)		(149,431)	
Foreign	(33,848)		(30,494)		(110,282)		(99,621)	
Valued added	124,910	100%	145,569	100%	407,000	100%	475,568	100%

Applied as follows:

	2019 ₦ million	%	2018 ₦ million	%	2019 US$ '000	%	2018 US$ '000	%
To employees:								
– as salaries and labour related expenses	7,347	6%	8,618	6%	23,941	6%	28,154	6%
To external providers of capital:								
– as interest	10,129	8%	14,788	10%	33,001	8%	48,311	10%
To government:								
– as Group taxes	6,641	5%	7,693	5%	21,637	5%	25,134	5%
Retained for the Group's future:								
– For asset replacement, depreciation, depletion & amortisation	27,821	22%	36,734	25%	90,647	22%	120,010	25%
Deferred tax (charges)/credit	6,843	5%	28,055	19%	22,297	5%	91,654	19%
Profit for the year	66,129	53%	49,681	34%	215,477	53%	162,305	34%
Valued added	124,910	100%	145,569	100%	407,000	100%	475,568	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.

Separate five-year financial summary

As at 31 December 2019

	2019 ₦ million	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million
Revenue from contracts with customers	200,733	217,174	127,655	51,995	98,593
Profit/(loss) before taxation	79,613	85,429	28,759	(29,261)	15,159
Income tax (expense)/credit	(13,484)	(35,748)	67,657	4,421	(3,245)
Profit/(loss) for the year	66,129	49,681	96,416	(24,840)	11,914

	2019 ₦ million	2018 ₦ million	2017 ₦ million	2016 ₦ million	2015 ₦ million
Capital employed:					
Issued share capital	289	286	283	283	282
Share premium	84,045	82,080	82,080	82,080	82,080
Share-based payment reserve	8,194	7,298	4,332	2,597	1,729
Capital contribution	5,932	5,932	5,932	5,932	5,932
Retained earnings	282,228	234,148	194,526	193,499	45,618
Foreign translation reserve	196,535	196,552	203,072	106,670	136,456
Total equity	577,223	526,296	490,225	391,061	272,097
Represented by:					
Non-current assets	518,366	328,870	359,097	277,618	167,517
Current assets	539,423	514,131	474,837	404,274	348,199
Non-current liabilities	(233,715)	(173,276)	(125,880)	(137,722)	(115,850)
Current liabilities	(246,851)	(143,429)	(217,829)	(153,109)	(127,769)
Net assets	577,223	526,296	490,225	391,061	272,097

	2019 US$ '000	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000
Revenue from contracts with customers	654,037	709,493	417,428	202,446	497,867
Profit/(loss) before taxation	259,411	279,093	94,056	(138,911)	76,549
Income tax (expense)/credit	(43,934)	(116,788)	221,233	14,499	(16,384)
Profit/(loss) for the year	215,477	162,305	315,289	(124,412)	60,165

	2019 US$ '000	2018 US$ '000	2017 US$ '000	2016 US$ '000	2015 US$ '000
Capital employed:					
Issued share capital	1,845	1,834	1,826	1,826	1,821
Share premium	503,742	497,457	497,457	497,457	497,457
Share-based payment reserve	30,426	27,499	17,809	12,135	8,734.00
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,304,197	1,147,526	1,045,985	730,740	877,123
Total equity	1,880,210	1,714,316	1,603,077	1,282,158	1,425,135
Represented by:					
Non-current assets	1,688,491	1,071,233	1,174,286	910,221	899,186
Current assets	1,757,082	1,674,694	1,552,758	1,325,488	1,751,151
Non-current liabilities	(761,285)	(564,416)	(411,642)	(451,549)	(642,575)
Current liabilities	(804,078)	(467,195)	(712,325)	(502,002)	(582,627)
Net assets	1,880,210	1,714,316	1,603,077	1,282,158	1,425,135

44. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural gas Bscf	Oil equivalent MMboe
At 31 December 2018	226.6	1,473	(480.6)
Revisions	(1.6)	68.2	10.2
Discoveries and extensions	–	–	–
Acquisitions	–	–	–
Production	(8.7)	(47.7)	(16.9)
At 31 December 2019	**216.3**	**1,493.5**	**487.3**

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.

45. Capitalised costs related to oil producing activities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Capitalised costs:				
Unproved properties	–	–	–	–
Proved properties	417,140	413,334	1,358,761	1,346,364
Total capitalised costs	417,140	413,334	1,358,761	1,346,364
Accumulated depreciation	(167,252)	(147,243)	(544,794)	(479,621)
Net capitalised costs	**249,888**	**266,091**	**813,967**	**866,743**

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.

46. Concessions

The original, expired and unexpired terms of concessions granted to the Company as at 31 December 2019 are:

		Original	Term in years expired	Unexpired
Seplat	OML 4, 38 & 41	10	9	1

47. Results of operations for oil producing activities

	2019 ₦ million	2018 ₦ million	2019 US$ '000	2018 US$ '000
Revenue from contracts with customers	138,530	169,534	451,364	553,856
Other income – net	4,096	1,757	13,346	5,739
Production and administrative expenses	(96,032)	(95,682)	(301,574)	(298,426)
Depreciation & amortisation	(21,328)	(26,610)	(80,806)	(101,090)
Profit before taxation	25,266	48,999	82,330	160,079
Taxation	(13,484)	(35,748)	(43,934)	(116,788)
Profit after taxation	**11,782**	**13,251**	**38,396**	**43,291**

48. Reclassification

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

49. 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 2019 ₦/$	31 December 2018 ₦/$
Fixed assets – opening balances	Historical rate	Historical	Historical
Fixed assets – additions	Average rate	306.91	306.10
Fixed assets – closing balances	Closing rate	307	307.00
Current assets	Closing rate	307	307.00
Current liabilities	Closing rate	307	307.00
Equity	Historical rate	Historical	Historical
Income and expenses:	Overall average rate	306.91	306.10

316–
320

Additional information

Report on Payments to Governments for the Year 2019

Introduction

The following information is included to comply with the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom and it is prepared in accordance with Directive 2013/34/EU (the EU Accounting Directive (2013).

Basis for preparation – report on payments to governments for the year 2019

Reporting entities

This Report includes payments to governments made by Seplat Petroleum Development Company and its subsidiaries (Seplat). All payments to governments arise from operations within Nigeria.

Activities

Payments made by Seplat to governments arising from activities involving the exploration, prospection, discovery, development and extraction of minerals, gas processing, oil and natural gas deposits or other materials (extractive activities) are disclosed in this Report. It excludes payments related to refining, natural gas liquefaction or gas-to-liquids activities. When payments cover both extractive and processing activities and cannot be split, the payments have been disclosed in full.

Government

Government includes any national, regional or local authority of a country to which Seplat has made payment related to these regulations, and includes any department, agency or entity that is controlled by such authority.

Project

Payments are reported at project level except for payments that are not attributable to a specific project, these are reported at entity level. A project is defined as operational activities which are governed by a single contract, license, lease, concession or similar legal agreement, and form the basis for payment to government. However, if multiple of agreements are substantially interconnected, this shall be considered as a project. Indicators of integration include, but are not limited to, geographic proximity, the use of shared infrastructure and common operational management.

Payments

The information is reported under the following payment types.

Production entitlements

These represent the government's share of production in the reporting period arising from projects operated by Seplat. It comprises of crude oil and gas attributable to the Nigerian government by virtue of its participation as an equity holder in projects within its sovereign jurisdiction (Nigeria).

Production entitlements to the government are lifted independently by the relevant government agency.

Royalties

These are payments for the rights to extract oil and gas resources, typically at a set percentage of revenue less any deductions that may be taken.

License fees, rental fees, entry fees and other considerations for licenses and/or concessions

These are fees and other sums paid as consideration for acquiring a license for gaining access to an area where extractive activities are performed. Administrative government fees that are not specifically related to the extractive sector, or to obtain access to extractive resources, are excluded. Also excluded are payments made in return for services provided by a government.

Corporate taxes

Corporate taxes are charges based on taxable profit which are payable to the government. Examples of corporate taxes in Nigeria include Petroleum Profit Tax (PPT), corporate income tax (CIT) and education tax.

Corporate income tax (CIT) is a tax imposed on profit of a company from all sources. Gas operations are liable to CIT.

Petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry in lieu of corporate income tax. Oil operations such as oil mining, prospecting and exploration leases are liable to PPT.

Education tax is tax applicable to both oil and gas operations based on assessable profit. Assessable profit is the profit derived after deducting all the allowable expenses.

Other types of payments that are required to be disclosed in accordance with the Regulations are the following:

- Dividends
- Signature, discovery and production bonuses
- Infrastructure improvements

However, for the year ended 31 December 2019, there were no such reportable payments made by Seplat to government that were above the materiality threshold as determined below.

Materiality

For each payment type, total payments below £85,094 (€100,000, $112,312) whether made as a single payment or as a series of related payments, to a government agency are excluded from this Report.

Reporting currency

Payments in this report have been disclosed in US Dollars. Where actual payments have been recorded in a currency other than US Dollars, they have been translated using the annual average exchange rate.

Government and Expense Report (In USD)

	Production Entitlement	Royalties	Fees	Taxes	Total
Governments					
Nigerian National Petroleum Corporation	562,183,858	–	–		562,183,858
Department of Petroleum Resources	–	106,800,691	5,964,000	–	112,764,691
Nigeria Export Supervision Scheme	–	–	526,439	–	526,439
Niger Delta Development Commission	–	–	4,449,744	–	4,449,744
Nigerian Content Development and Monitoring Board	–	–	908,311	–	908,311
Federal Inland Revenue Service	–	–	–	3,500,833	3,500,833
Total	**562,183,858**	**106,800,691**	**11,848,494**	**3,500,833**	**684,333,876**

Project and Expense Report (In USD)

	Production Entitlement	Royalties	Fees	Taxes	Total
Projects					
OML 4, 38 and 41	523,944,425	100,180,190	10,412,955	3,379,833	637,917,403
OML 53	38,239,433	5,678,712	1,411,579	–	45,329,724
OML 56	–	941,789	23,960	121,000	1,086,749
Total	**562,183,858**	**106,800,691**	**11,848,494**	**3,500,833**	**684,333,876**

Notice of 7th Annual General Meeting of Seplat Petroleum Development Company Plc.

NOTICE is hereby given that the 7th Annual General Meeting of Seplat Petroleum Development Company Plc (the "Company") will hold at 16a Temple Road (Olu Holloway), Ikoyi, Lagos, Nigeria at 11:00am on Thursday, 28 May 2020 to transact the following business:

Ordinary business:

To consider and, if thought fit, to transact the following Ordinary Business, which will be proposed as Ordinary Resolutions:

1. To receive the Annual Accounts, Directors' Report, Auditors' Report for the year ended 31 December 2019 and the Audit Committee Report.
2. To declare a final dividend recommended by the Board of Directors of the Company in respect of the financial year ended 31 December 2019.
3. To appoint PriceWaterhouseCoopers ("PWC") as Auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which the Company's Annual Accounts are laid.
4. To authorize the Board of Directors of the Company to determine the Auditors' remuneration.
5. To elect/re-elect the following Non-Executive Directors:
   a. To approve the appointment of the following Non-Executive Directors:
      i. Madame Nathalie Delapalme as a Non-Executive Director[1] of the Company; and
      ii. Mr. Olivier Cleret De Langavant as a Non-Executive Director[2] of the Company.
   b. To re-elect the following Directors who are eligible for retirement by rotation:
      i. Mr. Basil Omiyi (Independent Non-Executive Director) (please see note 7); and
      ii. Dr. Charles Okeahalam (Independent Non-Executive Director).
6. To elect members of the Audit Committee.

Copies of the Annual Report and Accounts for Seplat Petroleum Development Company Plc for the financial year ended 31 December 2019 will be mailed to the shareholders and will be available on the Company's website: www.seplatpetroleum.com. Printed versions can also be obtained by contacting DataMax Registrars in Nigeria at 2C Gbagada Expressway, by Beko Ransom Kuti Park, Gbagada, Lagos/+234 7064000751; +234 7064000752; or Computershare in the UK on +44 (0) 370 703 6101.

By order of the Board.

Mrs. Edith Onwuchekwa
FRC/2013/NBA/00000003660
Company Secretary
Dated 23 March 2020

1 The profile of the Non-Executive Director, Madame Nathalie Delapalme is set out on page 92

2 The profile of the Non-Executive Director, Mr. Olivier Cleret De Langavant is set out on page 135

3 This is set out on pages 118 to 134 of the Annual Report and Accounts for the year ended 31 December 2019. In accordance with UK remuneration reporting rules, this is an advisory vote.

Notes:

1. PROXY:

IMPORTANT NOTICE: In view of the current COVID-19 pandemic and in accordance with the new Nigeria Corporate Affairs Commission's Guidelines on Holding of Annual General Meetings (AGM) of Public Companies taking advantage of Section 230 of the Companies and Allied Matters Act (CAMA) using Proxies, all members are hereby advised that attendance for the meeting shall be by proxy ONLY. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his/her/its place. A proxy need not be a member of the Company. Consequently, members are required to appoint a proxy of their choice from the list of the following proposed proxies to represent them at the meeting: (a) Dr. A. B. C. Orjiako; (b) Mr. O. A. Avuru; and (c) Mrs. E. Onwuchekwa; (d) Sir Sunny Nwosu; (e) Dr. Faruk Umar; (f) Mr. Boniface Okezie; and (g) Mr. Matthew Akinlade.

For the appointment to be valid for the purposes of this meeting, the Company has made arrangements at its cost for the stamping of the duly completed proxy form which must be deposited at the office of the Registrar, DataMax Registrars Limited, 2C Gbagada Express Way, by Beko Ransom Kuti Park, Gbagada, Lagos or at the head office of the Company, marked for the attention of the "Company Secretary" or by email to proxy@seplatpetroleum.com, not less than 48 hours before the time fixed for the meeting. For convenience purposes, a blank proxy form is attached to the 2019 Annual Report & Accounts, both of which are available at the Company's website: www.seplatpetroleum.com and at the Company's head office: 16a Temple Road (Olu Holloway), Ikoyi, Lagos.

2. CLOSURE OF REGISTER:

The Register of Members and Transfer Books of the Company (Nigeria & UK) will be closed on 13 May 2020 in accordance with the provisions of section 89 of CAMA, to enable the Registrars to prepare for the Annual General Meeting.

3. PAYMENT OF DIVIDENDS:

If the Dividend recommended by the Directors is approved by members at the Annual General Meeting, dividend will be paid on or around 4 June 2020, to shareholders whose names appear in the Company's Register of Members at the close of business on 12 May 2020.

4. E-DIVIDEND MANDATE:

Shareholders are kindly requested to advise DataMax Registrars Limited of their updated records and relevant bank accounts, by completing the e-mandate form. The e-mandate form can be downloaded from DataMax Registrars Limited's website at http://www.datamaxregistrars.com. The duly completed form(s) should be returned to DataMax Registrars Limited, No, 2c Gbagada Expressway, by Beko Ransom Kuti Park, Gbagada Phase 1, Lagos.

5. UNCLAIMED DIVIDEND:

Shareholders are hereby informed that a number of dividend warrants have been returned to the Registrars as "unclaimed". The list of all unclaimed dividend will be circulated with the Annual Report and Financial Statements. Any member affected by this notice is advised to write to or call the office of the Company's Registrar, DataMax Registrars Limited, No, 2c Gbagada Expressway, by Beko Ransom Kuti Park, Gbagada Phase 1, Lagos The list of unclaimed dividend can be accessed at the Registrars' office or via the Company's website: www.seplatpetroleum.com.

6. NOMINATION FOR AUDIT COMMITTEE:

In accordance with section 359(4) & (5) of the Companies and Allied Matters Act 2004, the Audit Committee shall consist of an equal number of directors and representatives of the shareholders of the Company (subject to a maximum number of six (6) members). Any shareholder may nominate a shareholder as a member of the Audit Committee. Such nomination should be in writing and should reach the Company Secretary at least twenty-one (21) days before the Annual General Meeting.

7. RE-ELECTION OF DIRECTORS AGED 70 YEARS OR MORE:

In accordance with Section 256 of the Companies and Allied Matters Act Cap C20, Laws of the Federation of Nigeria, 2004 (CAMA) a special notice is hereby given that Mr. Basil Omiyi, who attained the age of 70 years on 17 January 2016 will be proposed as an Independent Non-Executive Director for re-election at the Meeting.

8. E-REPORT:

In order to improve efficiency and delivery of the Annual Report, a detachable Form has been inserted in the Annual Report for the convenience of Shareholders who wish to receive the Annual Report of Seplat Petroleum Development Company Plc in an electronic format to complete and return the form to the registrars for further processing. In addition, Annual Reports are available online for viewing and download from the Company's website at www.seplatpetroleum.com.

9. RIGHT OF SECURITIES' HOLDERS TO ASK QUESTIONS:

In line with Rule 19.12(c) of the Listing Rules of the Nigerian Stock Exchange, Securities' Holders have a right to ask questions not only at the Meeting, but also in writing prior to the Meeting. Questions submitted prior to the Meeting should be addressed to the Company Secretary and must reach the head office of the Company no later than 7 days before the date of the Meeting (being 21 May 2020).

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
Nathalie Delapalme	Non-Executive Director	French
Olivier Cleret De Langavant	Non-Executive Director	French
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

Company Secretary
Edith Onwuchekwa

Registered office and business address of Directors
16a Temple Road (Olu Holloway),
Ikoyi
Lagos
Nigeria

Registered number
RC No. 824838

FRC number
FRC/2013/NBA/00000003660

Auditor
Ernst & Young
(10th & 13th Floor), UBA House
57 Marina Lagos

Registrar
DataMax Registrars Limited
2c Gbagada Expressway
Gbagada Phase 1
Lagos
Nigeria

Solicitors
Olaniwun Ajayi LP
Adepetun Caxton-Martins Agbor & Segun (“ACAS-Law”)
White & Case LLP
Whitehall Solicitors
Chief J.A. Ororho & Co.
Ogaga Ovrawah & Co.
Consolex LP
Banwo-Ighodalo
V.E. Akpoguma & Co.
Thompson Okpoko & Partners
G.C. Arubayi & Co.
Streamsowers & Kohn
Tonbofa Law Practice
Chris E. Anokam & Co
Adebiyi Tax & Legal
Tsedaqah Attorneys
J.E. Okodaso & Company

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
FirstRand Bank Limited Acting
Natixis
Nedbank Limited
Nomura International Plc
The Standard Bank of South Africa
The Mauritius Commercial Bank

Glossary of terms

AEPS
Amukpe Escravos Pipeline System

AG
Associated Gas

AGPC
ANOH Gas Processing Company

ALR
Amended Listing Rules

ANOH
Assa North Ohaji South

BTU
British Thermal Unit

CAMA
Companies and Allied Matters Act

CBI
Convention on Business Integrity

CBN
Central Bank of Nigeria

CGRS
Corporate Governance Rating System

DD&A
Depreciation, Depletion & Amortization

DSO
Domestic Supply Obligation

E&A
Exploration and Appraisal

EBIT
Earnings Before Interest Tax

EPF
Early Production Facility

EPS
Earnings Per Share

ERGP
Economic Recovery & Growth Plan

ERM
Enterprise Risk Management

ESIA
Environmental Social Impact Assessment

FID
Final Investment Decision

FTSE
Financial Times Stock Exchange Index

GDP
Gross Domestic Product

GGFR
Global Gas Flaring Reduction

GHDI
Global Human Development Initiative

GMOU
Global Memorandum of Understanding

GMP
Gas Master Plan

GSA
Gas Supply Agreement

GTL
Gas To Liquids

GW
Giga Watt

IEFX
Investors, Exporters Foreign Exchange window

IOC
International Oil Company

IOGP
International Association of Oil & Gas Producers

IPP
Independent Power Plants

ISO
International Standards Organisation

KPI
Key Performance Indicator

KWH
KiloWatt Hour

LNG
Liquefied Natural Gas

LPS
Loss Per Share

LTF
Liquid Treatment Facility

LTIF
Lost Time Incident Frequency

LTIP
Long Term Incentive Plan

MCP
Multiple Currency Practices

MOPU
Mobile Offshore Production Unit

NAPIMS
National Petroleum Investment Management Service

NBS
National Bureau of Statistics

NED
Non Executive Director

NGC
Nigerian Gas Company

NGMC
Nigerian Gas Marketing Company

NGMP
Nigeria Gas Master Plan

NGO
Non Governmental Organisation

NGPTC
Nigerian Gas Processing and Transportation Company

NIIMP
Nigerian Integrated Infrastructure Master Plan

NNPC
Nigerian National Petroleum Company

NOGICD
Nigeria Oil and Gas Industry Content Development

NPC
National Population Commission

NPDC
Nigerian Petroleum Development Company

O&G
Oil & Gas

OB3
Obiafu-Obrikom-Oben gas pipeline

OPEC
Organisation of Petroleum Exporting Countries

PIB
Petroleum Industry Bill

PIFB
Petroleum Industry Fiscal Bill

PIGB
Petroleum Industry Governance Bill

PPP
Public Private Partnership

PSC
Production Sharing Contracts

RCF
Revolving Credit Facility

SDG
Sustainable Development Goals

SEC
Securities Exchange Commission

SID
Senior Independent Director

SPDC
Shell Petroleum Development Company

TRIR
Total Recordable Incident Rate

TSR
Total Shareholder Return

WEF
World Economic Forum

WRPC
Warri Refinery Petrochemical Company

Forward-looking statements

This document may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company's control and all of which are based on the Company's current beliefs and expectations about future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements reflect the Company's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Company's business, results of operations, financial position, liquidity, prospects, growth, strategies and the oil and gas business. Forward-looking statements speak only as of the date they are made and cannot be relied upon as a guide to future performance.

Illustrations on pages 26, 27, 28 and 29 accredited to Jamie Jones.
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