

Positioning for growth

Seplat Petroleum Development Company Plc
Full year 2017 financial results

28 February 2018



Announcement

Lagos and London, 28 February 2018: Seplat Petroleum Development Company Plc (“Seplat” or the “Company”), a leading Nigerian indigenous oil and gas company, listed on both the Nigerian Stock Exchange and London Stock Exchange, today announces its full year 2017 financial results and provides an operational update.

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

“I am pleased to report that Seplat made a return to full-year profitability in 2017, registered strong cash flow performance and significantly strengthened the balance sheet. In a year of contrast we were plagued throughout most of the first half by force majeure at the Forcados terminal. However, following the lifting of force majeure on 6 June we rapidly restored full production operations and our subsequent operational and financial performance is a clear indicator of our strong fundamentals and what we can achieve when we have unhindered access to market. We will retain the flexibility and financial discipline that has seen us emerge from a difficult chapter in our history a fitter and stronger business. With line of sight on the availability of multiple export routes, we aim to significantly de-risk distribution of oil production to market. Notably, our gas business made another record contribution in 2017 and continues to demonstrate the robustness of its revenues providing a key source of growth and diversification, as well as delivering a much-needed reliable supply of gas to the Nigerian power sector. Seplat is now better positioned to return to sustainable growth.”

Full year 2017 results highlights

2017 working interest production within guidance

- Full year working interest production of 36,923 boepd (comprising 17,853 bopd liquids and 114 MMscfd gas) within guidance range of 35,000 - 38,000 boepd
- Working interest production post lifting of force majeure on 6 June 2017 to year end was 47,522 boepd (comprising 26,527 bopd liquids and 126 MMscfd gas)
- Amukpe to Escravos alternate export pipeline anticipated to be fully commissioned and operational in Q3 2018; access to three separate export routes at our western assets and two at our eastern assets providing adequate redundant capacity will significantly de-risk distribution of oil production to market

Return to full year profitability and strong cash flow generation

- Full year revenue US\$452 million; operating profit US\$112 million and profit before current year tax and deferred tax adjustments US\$44 million
- Net Deferred tax credits of US\$221 million increases the overall profit after tax to US\$265 million. The Group recognises deferred tax assets on unused tax losses and capital allowances where it is probable that future taxable profits will be available for utilisation
- Q3 and Q4 profit after tax of US\$24 million and US\$46 million (before deferred tax credits) respectively reversed mid-year loss of US\$26 million
- Cash flow from operations US\$447 million against capital expenditures of US\$33 million

Strengthened balance sheet

- Cash at bank US\$437 million and net debt US\$141 million at end 2017 compared to US\$160 million and US\$516 million at end 2016
- Successfully concluded over-subscribed one-year extension of revolving credit facility
- Despite the challenging operating conditions aggregate indebtedness reduced to US\$578million at end 2017. A reduction of US\$422 million from US\$1 billion peak in Q1 2015

Record contribution from the gas business

- 2017 gas revenue US\$124 million and accounts for 27% of total revenue
- Moving towards FID at large scale ANOH project in alignment with partners

Financial overview

	US\$ million			₦ billion	
	2017	2016	% change	2017	2016
Revenue	452	254	+78%	138	63
Gross profit	212	72	+194%	65	16
Operating Profit/(loss)	112	(158)	(171)%	34	(45)
Profit/(loss) before deferred tax	44	(173)	(125)%	13	(47)
Net Profit/(loss) after all taxes	265	(166)	(260)%	81	(45)
Basic earnings/(loss) per share	0.47	(0.29)	(262)%	144	(79.73)
Cash flow from ops	447	172	160%	137	66
Working interest production (boepd)	36,923	25,877	43%		
Realised oil price (US\$/₦ per bbl)	50.4	40.4	25%	15,406	9,726
Realised gas price (US\$/₦ per Mscf)	2.97	3.03	(2)%	908	792

Conference call

At 9:00 am GMT (London), 10:00 am WAT (Lagos) on 28 February 2018, Austin Avuru (CEO), Jay Smulders (Technical Director) and Roger Brown (CFO) will host a conference call to discuss the Company's results. Access details are:

Telephone Number: +44 (0) 1452 569393 / +44 (0) 8000 731 340

Conference ID (to be quoted): 2186768

The webcast can be accessed via the Company's website www.seplatpetroleum.com or at the following address:

<https://webconnect.webex.com/webconnect/onstage/g.php?MTID=e90d90b27ba493d7d634abe34f4b06d89>

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Notes to editors

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

Full year 2017 results overview

Working interest reserves

Working interest 2P reserves as assessed independently by Ryder Scott at 31 December 2017 stood at 477.3 MMboe, comprising 226.3 MMbbls of oil and condensate and 1,455.7 Bscf of natural gas. This represents an increase in overall 2P reserves of 3% year-on-year. The main driver of the upward revision year on year is increased oil reserves attributed to the Sapele Shallow field at OML 4 and an increase in gas reserves at OML 53 more than offsetting volumes produced in the year.

	W.I reserves at 31/12/2016 ⁽²⁾			W.I reserves at 31/12/2017		
	Liquids	Gas	Oil equivalent	Liquids	Gas	Oil equivalent
	MMbbls	Bscf	MMboe	MMbbls	Bscf	MMboe
OMLs 4, 38 & 41	137.3	766	269	174.7	657.1	288.0
OPL 283	8.5	72	21	5.1	62.2	15.8
OML 53	41.1	671	157	41.5	736.4	168.5
OML 55 ⁽¹⁾	8.5	35	15	5.0	-	5.0
Total	195.4	1,544	462	226.3	1,455.7	477.3

⁽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⁾ Working interest reserves stated at 31/12/16 as assessed independently by DeGolyer and McNaughton

At 31 December working interest 2C resources stood at 61 MMboe, comprising 48 MMbbls of oil and condensate and 75 Bscf of natural gas. Consequently the Company's working interest 2P+2C reserves and resources stood at 538 MMboe at 31 December 2017, comprising 274 MMbbls oil and condensate and 1,530 Bscf of natural gas.

Full year average daily production

	Seplat %	Gross production			Working Interest production		
		Liquids ⁽¹⁾	Gas	Oil equivalent	Liquids	Gas	Oil equivalent
		bopd	MMscfd	boepd	bopd	MMscfd	boepd
OMLs 4, 38 & 41	45.0%	35,060	254.27	77,438	15,777	114.4	34,847
OPL 283	40.0%	2,502	-	2,502	1,001	-	1,001
OML 53	40.0%	2,687	-	2,687	1,075	-	1,075
Total		40,249	254.27	82,627	17,853	114.4	36,923

⁽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.

2017 full year average working interest production stood at 36,923 boepd and represents an overall increase of 43% year-on-year. Within this liquids production was up 77% year-on-year whilst gas production was up 20% year-on-year. The 2017 figures reflect the resumption of full production operations following the lifting of force majeure at the Forcados terminal on 6 June. Overall reconciliation losses arising from use of third party infrastructure were around 3.5% for the year. Post force majeure being lifted net working interest production from June to year end averaged 47,522 boepd (comprising 26,527 bopd liquids and 126 MMscfd gas).

Alternative oil export routes

The Company's policy of creating multiple export routes for all of its assets has resulted in it actively pursuing alternative crude oil evacuation options for production at OMLs 4, 38 and 41 and potential strategies to further grow and diversify production in order to reduce any over-reliance on one particular third party operated export system. In line with this objective, in 2017 the Company successfully completed repairs and upgrades on two jetties at the Warri refinery that will enable sustained exports of 30,000 bopd (gross) if required in the future. Prior to the repair and upgrade work on the two jetties gross exports via the Warri refinery were around the 15,000 bopd level. Exports via the Warri refinery jetty to date have typically incurred barging costs of around US\$11/bbl but partially offsetting this, exports via this route are not subject to the reconciliation losses or terminal crude handling and transport charges when exporting via the TFS. At 31 December 2017 a gross volume of 1.9 million barrels had been evacuated via this route in the year.

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

Full year 2017 results overview *continued*

Longer term, the Amukpe to Escravos 160,000 bopd capacity pipeline is set to provide a third export option for liquids production at OMLs 4, 38 and 41. Seplat signed a Funding Agreement in December 2017 with the pipeline owners, NAPIMS (a 100% subsidiary of NNPC), Pan Ocean Corporation Limited (Pan Ocean) and the pipeline contractor FENOG to ensure timely completion of the pipeline. Post year end, FENOG has engaged with the operator of the Escravos terminal, Chevron, to initiate completion works. Negotiations between the pipeline operator, Pan Ocean, and Chevron in relation Crude Handling Agreements are also advancing. The Heads of Terms for the Crude Transport Agreement between NPDC/Seplat JV and NAPIMS/Pan Ocean JV is also nearly completed and Seplat anticipates the pipeline to be fully commissioned and operational in Q3 2018.

With line of sight on the availability of three independent export routes it is Seplat's ultimate intention to utilise all three to ensure there is adequate redundancy in evacuation routes, reducing downtime which has adversely affected the business over a number of years, significantly de-risking the distribution of production to market.

Gas business

Alongside its oil business, the Company has also prioritised the commercialisation and development of the substantial gas reserves and resources identified at its blocks and is today a leading supplier of gas to the domestic market in Nigeria. The lifting of force majeure on 6 June 2017 and resumption of full exports via the TFS removed the condensate handling constraints and translated into an immediate uplift in gross gas production. As a result gross production in the second half averaged 283 MMscfd, up 26% from a previously constrained level of 225 MMscfd in the first half of the year. Furthermore, having successfully completed and commissioned the Phase II expansion of the Oben gas processing plant early in 2017, taking overall operated gas processing capacity to the 525 MMscfd level, the Company is actively engaged with counterparties to increase contracted gas sales with the intention of taking gross production towards the 400 MMscfd level. The Company commenced supplies of commissioning gas to the Azura power plant in advance of commencement of full operations due in H1 2018, when it will take 116 MMscfd on a take or pay basis.

Of the 525 MMscfd total processing capacity, 465 MMscfd is located at Oben with the remaining 60 MMscfd located at Sapele. The 375 MMscfd expansion at Oben (Phases I and II) was completed by Seplat as a 100% investment project. The gas processing capacity expansion is also designed to allow the Company to accept third party gas and receive a processing tariff. Another 2 x 10 MMscfd compressors were installed and commissioned in Q4 2017 to capture additional associated gas ("AG") at the Oben flow station (following on from the successful installation of 3 x 10 MMscfd compressors in 2015). The project is geared towards elimination of routine flares and monetisation of AG. Seplat's focus on gas monetisation also includes the Sapele non-associated gas ("NAG") for which commercial discussions are ongoing and development option selected.

The ANOH gas development at OML 53 (and adjacent OML 21 with which the upstream project is unitised) is expected to underpin the next phase of growth for the gas business and Seplat's involvement positions it at the heart of one of the largest green field gas and condensate developments onshore the Niger Delta to date. Seplat is well positioned to leverage the experience gained at the Oben gas hub to incorporate operational and cost efficiencies. The Company has made good progress in formalising an incorporated joint venture relationship with government signing a Heads of Terms and inaugurating a joint steering committee to encompass the midstream element of the project, in light of which Seplat's FID will be aligned with NNPC approvals. The project is expected to achieve FID in H1 2018.

Rig based activity and other capital projects

Rig based activity at OMLs 4, 38 and 41 in 2017 was limited with just one rig deployed for a workover well in the Orogho field. The workover and re-completion of the Orogho-7 production well commenced in July and was completed as planned in August. Upgrades to the liquid treatment infrastructure at OMLs 4, 38 and 41 were also made that will enable Seplat to inject export grade dry crude via alternative routes and at the same time eliminate crude handling charges that have historically been incurred on water in the wet crude injected into the TFS. While the Company continues to exercise discretion over spend and, having pulled back on expenditure during the extended period of force majeure, it is now selectively considering production drilling opportunities in the existing portfolio with a view to reinstating a work programme designed to capture the highest cash return production opportunities whilst diligently preserving a liquidity buffer.

At the non-operated OPL 283 Seplat participated in one appraisal well during the year. Seplat successfully delivered the Anagba-1 appraisal well on behalf Operator Pillar Oil Ltd in November 2017. The well confirmed the extension of the productive reservoirs of the Ashaka field, located on adjacent OML 60 (operated by the Nigerian Agip Oil Company Limited), into OPL 283. The successful well will support Pillar in ongoing unitisation discussions with the Nigerian AGIP Oil Company Limited, thereby enabling the OPL 283 partners to share in the Ashaka wells' oil production.

Full year 2017 results overview continued

Finance

The higher oil production following the lifting of force majeure at the Forcados terminal from June 6 onwards, together with higher oil price realisations, positively impacted oil revenue which stood at US\$328 million, up 121% year-on-year. Alongside this, gas revenue reached a new record of US\$124 million, up 18% year-on-year. Consequently, total revenue for 2017 was up 78% from 2016 at US\$452 million. Profit before tax for the year stood at US\$44 million and reflects the return to profitability in the third and fourth quarters where net quarterly profit before tax of US\$24 million and US\$46 million respectively offset the US\$26 million loss before tax recorded at mid-year. A net tax credit of US\$221 million, owing primarily to deferred tax credits of US\$224 million, increased the overall profit after tax for the year to US\$265 million. The Group recognises deferred tax assets on unused tax losses and capital allowances where it is probable that future taxable profits will be available for utilisation.

Cash flow from operations was US\$447 million and capital investments US\$33 million. Cash at bank and net debt at year end (excluding amounts remaining on deposit for investment and in escrow of US\$45 million and US\$20.5 million) stood at US\$437 million and US\$141 million respectively. At end of 2017 the net NPDC receivables balance stood at US\$113 million, down from US\$229 million at end 2016.

Considering the unforeseen extended force majeure conditions at the Forcados terminal from 21 February 2016 until 6 June 2017, and the inevitable impact on revenues, the Company continued to adopt a prudent approach. Having re-profiled the seven-year Term Loan in Q3 2016 the Company announced in July that it had successfully concluded an oversubscribed one year extension of the RCF. The RCF, originally due to expire at the end of 2017, now expires on 31 December 2018 and was successfully amended to amortise the remaining outstanding principal balance of US\$150 million at the time in equal instalments over five quarters commencing Q4 2017. Overall, Seplat's aggregate indebtedness under its Term Loan and RCF had reduced by US\$422 million at end 2017 from its peak in Q1 2015 of US\$1 billion, which is a significant deleveraging of the balance sheet particularly in exceptionally difficult trading conditions.

Dividend

During a period in which Seplat's key focus has been on preservation of liquidity and selective capital allocation to ensure the Company maintains a necessary level of financial flexibility the Board believes that the Company and its shareholders are better served at this point in time by selectively deploying available capital (on a discretionary basis) into the portfolio of production opportunities and preserving a liquidity buffer.

Board changes

The Company announced in March that Stuart Connal retired from his role as COO and executive director effective 31 March 2017. The board, management and all staff would like to thank Mr Connal for his significant contribution to Seplat in the last few years. On the 23 February 2018, the Company announced the appointment of Effiong Okon to its board as Operations Executive Director.

Operations review

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

OMLs 4, 38 and 41

Operator:	Seplat
Working interest:	45.0%
Partner:	NPDC
Main fields	Oben, Amukpe, Okporhuru, Ovor, Orogho, Sapele, Sapele Shallow
2017 working interest liquids production:	15,777 bopd
2017 working interest gas production:	114 MMscfd
Remaining working interest 2P oil reserves:	174.7 MMbbls
Remaining working interest 2P gas reserves:	657.1 Bscf
2018 activities:	Production and development

Background

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

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

OML 41 covers an area of 291km² and is located 50km from Warri, Delta State. There are currently three producing fields on the block, namely Sapele, Sapele Shallow and Ovhoh (which straddles OML 41 and OML 38), and two discoveries with contingent resources, the Ubaleme and Okoporo discoveries. Facilities on the block include a flow station with 60,000 bpd capacity, a 60 MMscfd capacity non associated gas processing plant and a 26 MMscfd NGC owned gas compressor station. Produced oil is exported via the Sapele - Amukpe delivery line to the Amukpe facilities and onwards to either the Forcados terminal or Warri refinery. The condensate stream is combined with the oil for export and produced gas is exported via the NGC owned Oben-Sapele pipeline system which feeds into the Sapele power plant. The licence was renewed in 1989 for a further 30 years and is next due for renewal on 30 June 2019. Since the year end, the Company has commenced the license renewal process for OMLs 4, 38 and 41 with the Department of Petroleum Resources. The application is for a renewal period of 20 years.

2017 activity

On OML 4, the Company completed and commissioned Phase II of the Oben gas processing plant expansion programme which included the installation and integration of three new 75 MMscfd processing modules (225 MMscfd aggregate capacity), taking total gross processing capacity of the Oben plant to a minimum of 465 MMscfd following commissioning in Q1 2017. The second key project was completed in Q4 2017, aimed at eliminating and monetising associated gas that was previously flared, was the installation of an additional 2 x 10 MMscfd compressors at the Oben flow station.

On OML 38, further to the earlier commissioning of the liquid treatment facility ("LTF") at the Amukpe field, the Company undertook a crude quality upgrade project aimed at achieving an export grade specification of 0.5 BS&W MAX, based on the crude handling agreement signed with SPDC. By doing this, Seplat has scope to eliminate in the future the cost component of crude handling charges that have historically been incurred for exporting wet crude to the Forcados terminal and also free up additional haulage on the export pipeline for dry crude. With the completion of the project, Seplat will also be able to deliver increased export quality crude shipments via the alternative routes.

Operations review continued

On OML 41 the ongoing focus is the development of the Sapele Shallow field. Following the pause in drilling activities in 2016 and 2017 owing to force majeure conditions at the Forcados terminal Seplat is defining a full development and drilling strategy for Sapele Shallow, which overlies the productive reservoirs in the main Sapele field and is estimated to hold a significant accumulation of oil (around 500 MMbbls STOIP). Prior to this Sapele-Shallow had remained largely undeveloped due to the heavier nature of the oil (21° API) relative to that in neighbouring blocks. The Company believes that the full development of Sapele-Shallow represents a material upside opportunity.

OPL 283

Operator:	Pillar Oil/OPGC
Working interest:	40.0%
Partner:	Pillar Oil
Main fields	Umuseti and Igbuku
2017 working interest liquids production:	1,001 bopd
2017 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	5.1 MMbbls
Remaining working interest 2P gas reserves:	62.2 Bscf
2018 activities:	Production

Background

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

2017 activity

Seplat delivered the the Anagba-1 appraisal well on behalf of Operator Pillar Oil Ltd in November 2017. The well was drilled to a final Well TD of 10,777 ftMD depth and successfully encountered oil within a structure that straddles the block boundary with adjacent OML 60 (where the reservoirs are in production). The well confirmed the extension of the productive reservoirs of the Ashaka field, located on adjacent OML 60 (operated by the Nigerian Agip Oil Company Limited), into OPL 283. The successful well will support Pillar in ongoing unitisation discussions with the Nigerian AGIP Oil Company Limited, thereby enabling the OPL 283 partners to share in the Ashaka wells' oil production.

OML 53

Operator:	Seplat
Working interest:	40.0%
Partner:	NNPC
Main fields	Jisike (producing) and Ohaji South (discovery)
2017 working interest liquids production:	1,075 bopd
2017 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	41.5 MMbbls
Remaining working interest 2P gas reserves:	736.4 Bscf
2018 activities:	Production and development

Background

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

Operations review continued

at Ohaji South that could be pursued as a separate standalone project in the near term. Prior to initiating development of the ANOH project, Seplat expects to focus efforts on increasing oil production at the Jisike field and development of the shallow oil reservoirs in Ohaji South. Pursuant to the Joint Operating Model, Seplat is designated operator of OML 53.

2017 activity

OML 53, as part of the Assa North - Ohaji South ("ANOH") development is at the core of Seplat's plans to significantly increase gas production and operated processing capacity in the near to medium term. In 2017 the Company made progress towards establishing an incorporated joint venture relationship with government to encompass the midstream element of the project, with an anticipated FID in H1 2018. The upstream development, including the drilling of production wells, will be delivered by the upstream unit operator SPDC.

OML 55

Operator:	Asset Management Team
Working interest:	Revenue interest
Partner:	NNPC, Belemaoil
Main fields	Robertkiri, Idama and Inda (producing)
2017 working interest liquids production:	n/a
2017 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	5.0
Remaining working interest 2P gas reserves:	n/a
2018 activities:	Recovery of discharge sum

Background

OML 55 covers an area of approximately 840km² and is located in the swamp to shallow water offshore areas in the south eastern Niger Delta. The block contains five producing fields (Robertkiri, Inda, [Belema] North, Idama and [Jokka]). The majority of production on the block is from the Robertkiri, Idama and Inda fields. The Robertkiri field is located in swamp at a water depth of five metres and has a production platform and utility platform installed. Production capacity at the Robertkiri facilities is 20,000 bpd and 10 MMscfd. Production facilities at the Idama field comprise a jack-up mobile offshore production unit ('MOPU') and riser platform that have a capacity of 30,000 bpd of total fluids and 34 MMscfd. The Jokka field is produced through a manifold tied-back to the Idama facilities. Production facilities at the Inda field comprise a MOPU with a capacity of 30,000 bpd of total liquids and 34 MMscfd. Overall, the infrastructure on OML 55 comprises four flow stations, a network of flow-lines, and two eight-inch pipelines that connect to third party operated infrastructure. The Belema field is unitised with OML 25 and is produced via a flow station on that block. All produced liquids from OML 55 are delivered via third-party infrastructure to the Bonny terminal for processing and shipping. In addition to the oil potential on the block there is also an opportunity to develop the significant gas resources that have also been identified.

2017 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 total payments of US\$36 million in the year from the monetisation of 637 kbbls. The 40.00% operated interest in OML 55 continues to be jointly controlled by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and unanimous consent of all parties is required for decision making.

Financial review

The Group continued to benefit from discretion over capital expenditures and in 2017 moderated investments to take account of the interruptions to oil exports at the Forcados terminal in the first half of the year and ensure an adequate liquidity buffer was preserved. The investments made during the year were primarily directed towards the gas business. Following the lifting of force majeure at the Forcados terminal on 6 June full production operations were rapidly restored which enabled the Group to record a sharp improvement in business performance over the second half of the year that translated into a return to profitability and significant balance sheet improvement. In 2018 we will retain discretion over spend, appropriately phase and scale our investment programme taking into account the prevailing operating environment, availability of export terminals, oil price, debt service obligations and the influence of these factors on free cash generation within the underlying business. We will continue to maintain our strict discipline of only allocating capital to the opportunities that offer the greatest returns to deliver shareholder value.

Revenue

While revenues continued to be impacted during the first half of the year due to the shut-in of the Forcados terminal after the terminal operator, Shell Nigeria, declared force majeure between 21 February 2016 and 6 June 2017 following disruption to the Forcados terminal subsea crude export pipeline, the higher oil production following the lifting of force majeure, together with higher oil price realisations, positively impacted oil revenue which stood at US\$328 million (after stock movements) for the full year, up 121% year-on-year. Alongside this gas revenue reached a new record of US\$124 million, up 18% year-on-year and accounting for 27% of total revenue. Consequently, total revenue for 2017 was up 78% from 2016 at US\$452 million.

Working interest liquids production in 2017 stood at 17,853 bopd, up from 10,091 bopd in 2016, whilst the total volume of crude lifted in the year was 6.851 MMbbls compared to 3.422 MMbbls in 2016. Global oil prices remained volatile in 2017, with Brent starting the year around the US\$55/bbl level and trading down to a low of around US\$45/bbl mid-year. In contrast, over the second half of the year Brent traded steadily up to exit 2017 around US\$67/bbl. The Group's realised average oil price of US\$50.38/bbl in 2017 was up 25% year-on-year (2016: US\$40.4/bbl) and reflects the second half improvement in production and price.

The Group had in place dated Brent put options covering a volume of 3.69 MMbbls to year end at a blended strike price of US\$48.38/bbl. The net cost of these instruments in the year was US\$19.4 million. The Company has also put in place dated Brent puts covering a further volume of 3.60 MMbbls at a strike price of US\$40/bbl during H1 2018 and 3.00 MMbbls at a strike price of US\$50/bbl during H2 2018. The board and management continue to closely monitor prevailing oil market dynamics, and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and volatility.

To assist in minimising the impact of disruption to key export infrastructure, the Group made necessary repairs and upgrades on two jetties at the Warri refinery that will enable exports to be increased to a gross level of 30,000 bopd if required in the future. In addition to the Warri and Forcados export routes Seplat is also working with the operator Pan Ocean and NAPIMS (a 100% subsidiary of NNPC) on completion of the 160,000 bopd capacity Amukpe to Escravos pipeline system that will offer a third export route via the Escravos terminal. Seplat plans to tie-in to the new pipeline at the Amukpe location on OML 4. All three export routes are expected to be available in Q3 2018 and the intention is to utilise the multiple export routes to ensure there is adequate redundancy in evacuation routes thereby reducing downtime which has adversely affected the business over a number of years.

The higher gas revenue year-on-year was driven by a 20% increase in production to 114.4 MMscfd while the average realised gas price remained relatively stable at US\$2.97/Mscf (2016: US\$3.03/Mscf). The increase in volume is as a result of the benefit being derived from the Phases I and II expansion of the Oben gas processing facility and production being fully de-constrained following the lifting of force majeure.

Gross profit

Gross profit for the year was US\$212 million, an increase of 194% on the prior year (2016: US\$72 million). This principally reflects the resumption of full production operations after force majeure was lifted and higher oil price realisations. Direct operating costs which include crude handling fees, barging costs, rig-related costs and Operations & Maintenance costs amounted to US\$80 million in 2017 as against US\$83 million in 2016. Production costs were fairly flat when compared to prior year even with a significant increase of 77% in production volumes and 20% increase in gas volumes in 2017 when compared to 2016. This resulted from an improved performance in the overall running & maintenance of the production facility in the current year. In addition, the availability of the Forcados terminal from 6 June reduced the reliance on the more expensive and volume constrained barging operation, which was the only export route available during the force majeure period. Non-production costs primarily consisting of royalties and DD&A were US\$160 million compared to US\$99 million in the prior year. The DD&A charge for oil and gas assets increased during 2017 to US\$82 million (2016: US\$54 million) reflecting higher depletion of reserves because of the increased production during the year.

Financial review continued

Operating profit

Operating profit for the year was US\$112 million compared with a prior year operating loss of US\$158 million. Contributing towards the return to operating profitability was a 28% reduction year-on-year in general and administrative expenses which stood at US\$82 million (2016: US\$114 million). The operating loss reported in 2016 was also driven by a charge of US\$101 million relating to unrealised foreign exchange losses principally on amounts owed by our joint venture partner NPDC.

Tax

The pioneer tax incentive granted by Nigerian Investment Promotion Commission for three-year period elapsed at the end of 2015. The Company has prepared its 2017 financial statements including the effect of post pioneer tax status which correspondingly forms the basis of the net tax credits of US\$221 million, owing primarily to deferred tax credits of US\$224 million, compared to taxation credit of US\$6.7 million for the same period in 2016.

The taxation credit is mainly as a result of unutilised capital allowances from accumulated capital expenditure during the pioneer status period. The Group recognises deferred tax assets on unused tax losses and unutilised capital allowances carried forward where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised, as well as the likelihood of future taxable profits. The Group reassesses its unrecognised deferred tax asset each year taking into account changes in oil and gas prices, the Group's proven and probable reserve profile and forecast capital and operating expenditures. The deferred tax credit is expected to gradually reverse in subsequent years as the Company makes profit and utilises the capital allowances.

In line with Sections of the Companies Income Tax Act which provides the incentives available to companies that deliver gas utilisation projects, Seplat is entitled to a tax holiday of three years extendable to five years on the new Oben Gas Plant. The Federal Inland Revenue Service was notified in 2017 that there will be a claim on these incentives for the three year period in the first instance.

Net profit

Profit for the period before tax adjustments was US\$44 million, compared to a full year loss before tax of US\$173 million in 2016. This return to profitability was driven by performance in the third and fourth quarters where net quarterly profit before tax of US\$24 million and US\$46 million respectively offset the US\$26 million loss before tax recorded at mid-year. Net tax credits of US\$221 million, owing primarily to the deferred tax credits of US\$224 million, increased the overall profit after tax for the year to US\$265 million. The resultant EPS for 2017 was US\$0.47 compared to an LPS in 2016 of US\$0.29.

Dividends

During a period in which Seplat's key focus has been on preservation of liquidity and selective capital allocation to ensure the Company maintains a necessary level of financial flexibility the Board believes that the Company and its shareholders are better served at this point in time by selectively deploying available capital (on a discretionary basis) into the portfolio of production opportunities and preserving a liquidity buffer.

Cash flows and liquidity

Cash flows from operating activities

Net cash flows from operating activities in 2017 stood at US\$447 million (2016: US\$172 million). The outstanding net NPDC receivable at year end, after offsetting NPDC's share of gas revenues and adjusting for reversal of prior impairment, stood at US\$113 million (2016: US\$229 million). In 2017, NPDC's net expenditure was US\$93 million and Seplat received a total of US\$219 million towards the settlement of outstanding cash calls. As a result of this and the settlement of current cash calls the US\$10 million impairment provision recognised in 2016 was reversed. Seplat has continued discussions with NPDC to ensure further reduction of outstanding receivables in 2018. Included in the opening receivables balance of US\$229 million is US\$48 million representing interest on outstanding receivables calculated in line with the provisions of the joint operating agreement.

Cash flows from investing activities

Capital expenditures in 2017 stood at US\$33 million and include costs for drilling the Anagba well on OPL 283- US\$4 million; Oil facility projects totalling US\$2 million including crude oil quality upgrades on our liquid treatment facilities; gas costs including the completion and commissioning of the Oben Phase II processing capacity expansion project - US\$4 million, the acquisition of Oben booster compressors - US\$6 million; ANOH upstream costs - US\$4 million; other ANOH costs of US\$10 million associated with plans towards FID and US\$2 million for others including fixed assets for plants and other office equipment.

Financial review continued

Having reached agreement in 2016 with partner BelemaOil on a revised commercial arrangement at OML 55, which provides for a discharge sum of US\$330 million to be paid to Seplat over a six-year period through allocation of crude oil volumes, the Group received total proceeds of US\$36 million in 2017 under this arrangement from the monetisation of 637 kbbls.

Consequently, after adjusting for interest receipts of US\$4 million, net cash inflow from investing activities for the full year was US\$7 million compared to a net cash outflow in 2016 of US\$52 million.

Cash flows from financing activities

Net debt at year-end was US\$141million, compared to US\$516 million at December 2016. Net cash outflows from financing activities were US\$173 million (2016: cash outflow US\$283 million). Despite the significant interruptions to oil production prior to lifting of force majeure on 6 June the Group met all of its financing obligations during the year.

The Group continued to adopt a prudent approach to managing the balance sheet in 2017. Having re-profiled the seven-year Term Loan in Q3 2016 the Group announced in July that it had successfully concluded an oversubscribed one year extension of the RCF. The RCF, originally due to expire at the end of 2017, now expires on 31 December 2018 and was successfully amended to amortise the remaining outstanding principal balance of US\$150 million at the time in equal instalments over five quarters commencing Q4 2017. Overall, Seplat's aggregate indebtedness under its Term Loan and RCF had reduced by US\$422 million at end 2017 from its peak in Q1 2015 of US\$1 billion, which is a significant deleveraging of the balance sheet particularly in exceptionally difficult trading conditions.

Net debt at 31 December 2017

	US\$ Million	Coupon	Maturity
7 year secured term facility	458	L+8.75%	December 2021
3 year secured RCF	120	L+6.00%	December 2018
Gross debt at parent*	578		
Cash and cash equivalents	437		
Net debt	141		

* Outstanding balance under the Term Loan and RCF not adjusting for amortised transaction costs of US\$8 million

Outlook

Our financial strategy continues to be driven by ensuring we preserve the financial capability and also flexibility that is required to realise the value of our portfolio. Having emerged from an extremely challenging period that saw unprecedented levels of interruption to Seplat's crude oil production, we took proactive steps to stabilise the business and following the resumption of full production operations were able to rapidly return to profitability and strong cash flow generation. Looking ahead our near-term priority is to sustain the earnings and cash flow momentum we have carried into 2018, further strengthen our balance sheet and seek ways to optimise our capital structure prior to selectively reinstating a work programme designed to target the highest cash return production and development opportunities within our current portfolio. In order to mitigate against any longer term over-reliance on a single export infrastructure system, we are working with the owners of the Amukpe to Escravos pipeline to achieve full commissioning and completion of that alternate route in Q3 2018. With line of sight on three independent crude oil export routes becoming available and offering adequate redundant capacity, there is scope to reduce the levels of downtime which have adversely affected the business over a number of years, and significantly de-risk the distribution of oil production to market. Alongside this we will continue to closely monitor the oil price, implementing our hedging strategy on a rolling basis to provide a level of cash flow assurance, the performance of our productive asset base and the implications these factors have on financial performance over the near, medium and long term allowing us to scale and phase our future investments appropriately while continuing to honour our debt service obligations. We will also continue to prioritise expansion of our domestic natural gas business which provides a constant revenue stream that is de-linked from the oil price, and underpinned by the strong fundamentals of high demand and increasing pricing. Achievement of these goals will ensure we have a sound financial platform from which we can build and grow further, both through organic means and also capitalising on inorganic opportunities to further diversify our business as and when they may arise.

Financial Statements

For the year ended 31 December 2017

(Expressed in Naira and US Dollars)

General information

Board of directors:

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

*Madame Nathalie Delapalme acts as alternate Director to Michel Hochard

Company secretary	Mirian Kachikwu
Registered office and business address of directors	25a Lugard Avenue Ikoyi Lagos Nigeria
Registered number	RC No. 824838
FRC number	FRC/2015/NBA/00000010739
Auditor	Ernst & Young (10 th & 13th Floors), UBA House 57 Marina Lagos, Nigeria.
Registrar	DataMax Registrars Limited 7 Anthony Village Road Anthony P.M.B 10014 Shomolu Lagos, Nigeria.
Solicitors	Olaniwun Ajayi LP Adepetun Caxton-Martins Agbor & Segun ("ACAS-Law") White & Case LLP Herbert Smith Freehills LLP Freshfields Bruckhaus Deringer LLP Norton Rose Fulbright LLP Chief J.A. Ororho & Co. Ogaga Ovwah & Co. Consolex LP Banwo-Ighodalo Latham & Watkins LLP J.E. Okodaso & Company O. Obrik. Uloho and Co. V.E. Akpoguma & Co. Thompson Okpoko & Partners G.C. Arubayi & Co. Chukwuma Chambers Abraham Uhunmwagho & Co Wallis & Tarres Solicitors Streamsowers & Kohn
Bankers	First Bank of Nigeria Limited Stanbic IBTC Bank Plc United Bank for Africa Plc Zenith Bank Plc Citibank Nigeria Limited Standard Chartered Bank HSBC Bank

Report of the directors

For the year ended 31 December 2017

The Directors are pleased to present to the shareholders of the Group their report with the audited financial statements for the year ended 31 December 2017.

Principal activity

The Group is principally engaged in oil and gas exploration and production. The Company's registered office address is 25a Lugard Avenue, Ikoyi, Lagos, Nigeria.

Corporate structure and business

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

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

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US\$340 million (₦ 104 billion) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US\$33 million (₦ 10 billion) payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US\$80 (₦ 24,464) per barrel. US\$358.6 million (₦ 110 billion) was allocated to the producing assets including US\$18.6 million (₦ 5.7 billion) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US\$33 million (₦ 10 billion) 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 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.

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd for US\$259.4 million (₦ 79 billion).

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

The Company together with its six wholly owned subsidiaries namely, Newton Energy, which was incorporated on 1 June 2013, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014, Seplat Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014 and ANOH Gas Processing Company Limited which was incorporated on 18 January 2017 are collectively referred to as the Group.

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

Report of the directors continued

For the year ended 31 December 2017

Operating results:

	Nigerian ₦ million		US\$ '000	
	2017	2016	2017	2016
Revenue	138,281	63,384	452,179	254,217
Operating profit/(loss)	34,376	(44,949)	112,414	(157,883)
Profit/(loss) before taxation	13,454	(47,419)	43,997	(172,766)
Profit/(loss) after taxation	81,111	(45,384)	265,230	(166,094)

Proposed dividend

No dividend was proposed during the year (2016: nil). During a period in which Seplat is focusing on preservation of liquidity and selective capital allocation and in order to ensure the Group maintains a necessary level of financial flexibility, the Board believes that the Group and its shareholders are better served at this point in time by selectively deploying available capital (on a discretionary basis) into the portfolio of production opportunities and preserving a liquidity buffer.

Unclaimed dividend

The total amount outstanding as at 31st December, 2017 is US\$236,052.89 and ₦86,957,768.04. 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 14 to the financial statements. In the opinion of the directors, the market value of the group's property, plant and equipment is not less than the value shown in the financial statement.

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 Group shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last election. Apart from the Executive Directors and Founding Directors (who are referred to as the Non-Executive Directors), all other Directors are appointed for a fixed term. Upon expiration of the terms, they become eligible for re-appointment. The Directors who are eligible for re-appointment this year are Mr. Michael Alexander and Lord Mark Malloch-Brown.

Board changes

The Group announced in March that Stuart Connal retired from his role as COO and executive director effective 31 March 2017. The board, management and all staff would like to thank Mr Connal for his significant contribution to Seplat in the last few years. Stuart's vast expertise remains available to the Group through his continued involvement on a consultancy basis in support of the large scale ANOH gas and condensate project.

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

The appointment and removal or reappointment of Directors is governed by the Company's Articles of Association and Companies and Allied Matters Act (CAMA) LFN 2004.

Report of the directors continued

For the year ended 31 December 2017

Corporate governance

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

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

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

1. Finance Committee

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

Committee Chairman

Member
Member
Member

2. Nomination and Establishment Committee

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

Committee Chairman

Member
Member
Member

3. Remuneration Committee

Michael Alexander
Basil Omiyi
Charles Okeahalam
Damian Dinshiya Dodo

Committee Chairman

Member
Member
Member

4. Risk management and HSSE Committee

Basil Omiyi
Macauley Agbada Ofurhie
Ifueko M. Omoigui Okauru

Committee Chairman

Member
Member

5. Corporate Social Responsibility Committee

Lord Mark Malloch-Brown
Macauley Agbada Ofurhie
Ifueko M. Omoigui Okauru

Committee Chairman

Member
Member

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

1. Statutory Audit Committee

Chief Anthony Idigbe, S.A.N.
Dr. Faruk Umar
Sir Sunday Nnamdi Nwosu
Ifueko M. Omoigui Okauru
Macauley Agbada Ofurhie
Michel Hochard

Committee Chairman

Member
Member
Member
Member
Member

All six Committees have terms of reference which were reviewed in line with international best practice. These terms of reference guide the members in the execution of their duties. The 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.

Report of the directors continued

For the year ended 31 December 2017

Record of attendance of board and committee meetings

The Board met six times during the year and at least once every quarter in line with Section 12.1 of the SEC Code. Board meetings were well attended with attendance of all Directors exceeding two-thirds as required by Section 12.2 of the SEC Code. The record of attendance of Directors at Board meetings and that of its Committees in the year under review is published herewith:

Board of Directors

S/N	Name		No. of Meetings in the year	No. of times in Attendance
1.	A.B.C. Orjiako	Chairman	6	6
2.	Austin Avuru	Chief Executive Officer	6	6
3.	Roger Brown	Chief Financial Officer	6	6
4.	Michel Hochard*	Non-Executive Director	6	5
5.	Macaulay Agbada Ofurhie	Non-Executive Director	6	5
6.	Michael Alexander	Senior Independent Non-Executive Director	6	6
7.	Charles Okeahalam	Independent Non-Executive Director	6	5
8.	Basil Omiyi	Independent Non-Executive Director	6	6
9.	Ifueko M. Omoigui Okauru	Independent Non-Executive Director	6	6
10.	Lord Mark Malloch-Brown	Independent Non-Executive Director	6	5
11.	Damian Dodo	Independent Non-Executive Director	6	6

*One meeting attended by alternate Director Madame Nathalie Delapalme

Meeting dates: 25 January, 23 March, 20 April, 1st June, 20 July, and 19 October

Finance Committee

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

Meeting dates: 24 January, 22 March, 19 April, 19 July, and 18 October

Nomination and Establishment Committee

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

Meeting dates: 22 March, 19 July, and 18 October

Remuneration Committee

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

Meeting dates: 24 January, 22 March, 19 July, and 18 October

Report of the directors continued

For the year ended 31 December 2017

Risk Management and HSSE Committee

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

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

Corporate Social Responsibility Committee

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

Meeting dates: 19 April, 19 July and 18 October.

Statutory Audit Committee

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

Meeting dates: 22 March, 19 April, 19 July and 18 October.

Report of the directors continued

For the year ended 31 December 2017

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-16	31-Dec-17		28-Feb-18	
	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 ⁽³⁾
A.B.C. Orjiako	77,962,680	47,251,325	8.39%	47,251,325 ⁽¹⁾	8.03%
Austin Avuru	74,064,823	74,546,740	13.23%	74,546,740 ⁽²⁾	12.67%
Roger Brown	535,715	807,942	0.14%	807,942	0.14%
Stuart Connal	627,289	-	0.00%	-	-
Michel Hochard	95,238	95,238	0.02%	95,238	0.02%
Macaulay Agbada Ofurhie	4,901,611	4,901,611	0.87%	4,901,611	0.83%
Michael Alexander	95,238	105,238	0.02%	105,238	0.02%
Charles Okeahalam	597,238	597,238	0.11%	597,238	0.10%
Basil Omiyi	495,238	495,238	0.09%	495,238	0.08%
Ifueko Omoigui Okauru	95,238	95,238	0.02%	95,238	0.02%
Lord Mark Malloch-Brown	31,746	31,746	0.01%	31,746	0.01%
Damian Dodo	0	0	0.00%	0	0.00%
Total	159,532,054	128,927,554	22.88%	128,927,554	21.91%

Notes:

- (1) 16,151,325 ordinary shares are held directly by A.B.C. Orjiako and Shebah Petroleum Development Company Limited; 18,500,000 ordinary shares are held by Vitol Energy Limited for the benefit of Shebah Petroleum Development Company Limited, which is an entity controlled by A.B.C. Orjiako and members of his family; and 12,600,000 ordinary shares are held directly by A.B.C. Orjiako's siblings.
- (2) 27,217,010 ordinary shares are held by Professional Support Limited and 1,920,000 ordinary shares are held by Abtrust Integrated Services Limited, each of which is an entity controlled by Austin Avuru. 44,160,000 ordinary shares, are held by Platform Petroleum Limited, which is an entity in which Austin Avuru has a 23% equity interest and 1,249,730 ordinary shares are held by Austin Avuru.
- (3) At 1 February, 2018, the issued share capital increased by 25,000,000 shares in furtherance of the Company's Long Term Incentive Plan. Seplat's share capital now consists of 588,444,561 ordinary shares of ₦0.50k each, all with voting rights.

Director's interest in contracts

The Chairman and the Chief Executive Officer have disclosable indirect interest in contracts with which the Group was involved as at 31 December 2017 for the purpose of section 277 of the Companies and Allied Matters Act, CAP C20, LFN, 2004. These have been disclosed in Note 31.

Substantial interest in shares

According to the register of members at 31 December 2017, the following shareholders held more than 5.0% of the issued share capital of the Group:

Shareholder	Number	%
CIS PLC - MAIN*	413,825,196	73.45
Platform Petroleum Limited	44,160,000	7.84

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

Report of the directors continued

For the year ended 31 December 2017

Free float

The Group's free float at 31 December 2017 was 51.49%

Acquisition of own shares

The Group did not acquire any of its shares during the year.

Shareholding analysis

The shareholding pattern as at 31 December 2017 is as stated below:

Share Range	Number of Shareholders	% of Shareholders	Number of Holdings	% Shareholding
1-10000	1,548	84.64	1,317,791	0.23
10001-50000	148	8.09	3,841,344	0.68
50001-100000	40	2.19	2,838,987	0.50
100001-500000	60	3.28	13,606,409	2.41
500001-1000000	12	0.66	8,602,910	1.53
1000001-5000000	15	0.82	33,912,939	6.02
5000001-10000000	3	0.16	19,763,750	3.51
10000001-50000000	2	0.11	65,735,235	11.67
100000001-500000000	1	0.05	413,825,196	73.45
Total	1,829	100	563,444,561	100

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

At 1 February, 2018, the issued share capital increased by 25,000,000 shares in furtherance of the Company's Long Term Incentive Plan. Seplat's share capital now consists of 588,444,561 ordinary shares of ₦0.50k each, all with voting rights.

Report of the directors continued

For the year ended 31 December 2017

Donations

The following donations were made by the Group during the year (2016: ₦37,333,000, US\$163,482).

Name of beneficiary	₦'000	US\$
Africa Center Association	67,568	220,949
African Business & Social Responsibility Forum	826	2,701
Chartered Institute of Procurement and Supply	522	1,707
Children International School	225	736
Daniel Ogechi Akujobi Memorial Foundation	451	1,475
Energy Correspondents of Nigeria	450	1,473
International Institute of Petroleum Energy Law and Policy	1,354	4,426
Medical Women's Association	922	3,016
Nigerian Association of Petroleum Explorationists	3,780	12,360
Nigerian Bar Association (Lagos branch)	158	516
Nigerian Gas Association	450	1,472
Nigerian Orthopaedic Association	450	1,472
Nigerian Union of Journalists	90	294
Nigeria & Entrepreneurship, Summit & Honors (NESH)	445	1,456
Oil and Gas Council	1,050	3,435
Oil Council - Clarion Events Limited	1,658	5,423
Okparavero Memorial Hospital	6,706	21,929
Olufunke Olaiya	225	736
Owerri Sports Club	901	2,946
Petroleum Technology Association	2,703	8,838
Raitas Communications	936	3,060
SOJA Magazine	68	221
Solomon Uwaifo	450	1,471
Sustainability in the Extractive Industries (SITEI) Conference	450	1,471
The Nigerian Stock Exchange	675	2,208
University of Benin Medical Students' Association	90	294
University of Nigeria Teaching Hospital Neurologic Association	901	2,946
Others	10,857	35,504
Total	105,361	344,535

Report of the directors continued

For the year ended 31 December 2017

Employment and employees

- 1) Employees' involvement and training: The Group continues to observe industrial relations practices such as Joint Consultative Committees and briefing employees on the developments in the Group 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 Group will provide appropriate Health, Safety, Security and Environment (HSSE) training to all staff, and Personal Protective Equipment ('PPE') to the appropriate staff.
- 2) Health, safety and welfare of employees: The Group continues to enforce strict health and safety rules and practices at the work environment which are reviewed and tested regularly. The Group provides free medical care for its employees and their families through designated hospitals and clinics. Fire prevention and fire-fighting equipment are installed in strategic locations within the Group's premises. The Group operates a 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.
- 3) Employment of disabled or physically challenged persons: The Group has a policy of fair consideration of job applications by disabled persons having regard to their abilities and aptitude. The Group's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees. As at the end of the reporting period, the Group has no disabled persons in employment.

Auditor

The Auditor, Ernst & Young, has indicated its willingness to continue in office in accordance with Section 357(2) of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria, 2004. A resolution will be proposed for the authorisation to the Board of Directors to fix auditor's remuneration.

By Order of the Board



Dr. Mirian Kene Kachikwu
FRC/2015/NBA/00000010739

Company Secretary,
Seplat Petroleum Development Company Plc
25a Lugard Avenue
Ikoyi
Lagos
Nigeria

Date: 28 February 2018

Statement of directors' responsibilities

For the year ended 31 December 2017

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

1. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group and comply with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004;
2. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
3. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates, and are consistently applied.

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

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

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

Signed on behalf of the Directors by:



A.B.C Orjiako
Chairman
FRC/2014/IODN/00000003161

28 February 2018



Austin Avuru
Chief Executive Officer
FRC/2014/IODN/00000003100

28 February 2018

Audit Committee's Report

For the year ended 31 December 2017

To the members of Seplat Petroleum Development Company Plc

In accordance with the provisions of Section 359 (6) of the Companies and Allied Matters Act, CAP C20, LFN 2004, members of the Audit Committee of Seplat Petroleum Development Company Plc hereby report on the financial statements of the Group for the year ended 31 December 2017 as follows:

- The scope and plan of the audit for the year ended 31 December 2017 were adequate;
- We have reviewed the financial statements and are satisfied with the explanations and comments obtained;
- We have reviewed the external auditors' management letter for the year and are satisfied with the management's responses and that management has taken appropriate steps to address the issues raised by the Auditors;
- We are of the opinion that the accounting and reporting policies of the Company are in accordance with legal requirements and ethical practices.

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

Dated this 28 day of February 2018



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



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57, Marina
Lagos, Nigeria

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www.ey.com

Independent auditor's report to the members of Seplat Petroleum Development Company Plc for the year ended 31 December 2017

Opinion

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

Group	Company
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017	Company statement of profit or loss and other comprehensive income for the year ended 31 December 2017
Consolidated statement of financial position as at 31 December 2017	Company statement of financial position as at 31 December 2017
Consolidated statement of changes in equity for the year ended 31 December 2017	Company statement of changes in equity for the year ended 31 December 2017
Consolidated statement of cash flows for the year ended 31 December 2017	Company statement of cash flows for the year ended 31 December 2017
Related notes to the consolidated financial statements	Related notes to the company financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of the Group and Company financial performance and cash flows for the year then ended;
- the financial statements of the Group and Company have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and
- the financial statements of the Group and Company have been prepared in accordance with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 and in compliance with the Financial Reporting Council of Nigeria Act, No. 6, 2011.

Basis for Opinion

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

Key Audit Matters

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

Independent auditor's report to the members of Seplat Petroleum Development Company Plc For the year ended 31 December 2017 - Continued

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



Independent auditor's report to the members of Seplat Petroleum Development Company Plc for the year ended 31 December 2017 continued

Key Audit Matter	How the matter was addressed in the audit
Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation (DD&A), decommissioning provisions and the going concern assessment As at 31 December 2017, Group reported 477.3 MMboe (Company: 288.3 MMboe) of proved plus probable reserves. The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&A, decommissioning provisions and impairments. There is technical uncertainty in assessing reserve quantities, as this reserve is an indicator of the future potential of the Group and Company performance. Due to the significant impact on the financial statements of these provisions, we have considered this as a key audit matter.	We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures: - ensured that significant movements in reserves are compliant with guidelines and policies; - ensured that additions to oil assets during the year were properly recognised and accounted for; - confirmed that the reserve information at year end is supported by underlying documentation and data; - performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and - reviewed disclosures in the Annual Report to ensure consistency with the reserves data that we have reviewed.
Assessment of the recoverable amount of exploration and production assets As at 31 December 2017, Seplat recognised ₦393.377 billion/US\$1.3billion/(₦393.377 billion) of oil and gas properties. A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties. In view of the generally long-lived nature of Seplat's assets, the most critical assumption in forecasting future cash flows is management's view on the long term oil and gas price outlook beyond the next three to four years. Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures. Given the complexity of impairment testing methodologies and the judgmental nature of management assumptions in the estimation of cash flows forecasts, we have considered this as a key audit matter.	Accounting standards require management to assess at each reporting date whether indicators of impairment exist. Seplat carried out an impairment test. Our audit procedures on the impairment test included: - assessed whether or not reserve movements represented an impairment trigger; - considered oil and gas forward curves and long term commodity price assumptions and whether these are indicators of impairment; - discussed with management the operational status of key assets; - separately from management, we assessed whether or not indicators of impairment exist, - challenged management's assumptions and methodologies used in estimating future cash flows from assets.



Independent auditor's report to the members of Seplat Petroleum Development Company Plc for the year ended 31 December 2017 continued

Key Audit Matter	How the matter was addressed in the audit
Assessment of recoverability of the Nigerian Petroleum Development Company (NPDC) receivables As at 31 December 2017, the value of the Group NPDC receivable balance was ₦34 billion/ US\$113 million (Company: ₦34 billion/US\$113 million). Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's recent experiences and current discussions with NPDC and financial capacity of NPDC. Given the significant nature of this account, we focused on the recoverability of this amount and has thus considered it as a key audit matter.	We carried out the following procedures: • validated the receipts during the year and post year-end; • obtained confirmation from NNPC of amounts owed to Seplat; • recalculated the US dollar equivalent of amounts owed in Nigerian naira; • obtain and challenged management assessment of the recoverability of the receivables; • discussed and challenged management's expectations in relation to the in-flow of funds.
Assessment of recoverability of deferred tax assets In determining if deferred tax asset should be recognised, Management assessed the recoverability of the balance. Assumptions and judgements were used to determine the probability that deferred tax assets recognised in the financial statements will be recovered from taxable income in future years. The Group total computed deferred tax assets amounted to ₦85 billion/US\$279 million (Company: ₦68 billion/US\$224 million). However, the Group has recognised only ₦68 billion/US\$224 million (Company: ₦68 billion/US\$224 million) of the total deferred tax assets, being the amount management assessed as realisable from future taxable profits. The Group has not recognised deferred tax assets of ₦17 billion/US\$55 million (Company: Nil), being the taxable timing differences arising from losses and capital allowances carried forward which recoverability, in management's assessment could not be quantified with reasonable certainty as at 31 December 2017. Given the materiality of the deferred tax asset value and the judgmental nature of management assumptions in the estimation of profit forecasts based on which the asset is recognised, we have considered this as a key audit matter.	• We evaluated the five-year financial forecasts (years ended 31 December 2018 to 31 December 2022), the reliability of the financial forecast preparation process and the reasonableness of the five-year forecasts at the level of individual entities as well as at Group level. • challenged management assumptions used by comparing the projected inputs (Revenue, Royalty and OPEX) to actuals in the year ended 31 December 2017 and challenged the inputs in the light of increasing prices in 2018. • compared the inputs and assumptions for appropriateness and consistency with the oil assets impairment assessment. • assessed the current loss positions and challenged the profit projections of the applicable subsidiaries and concluded that the future taxable profits of the applicable subsidiaries could not be quantified with reasonable certainty and hence not to be recognised but only disclosed in notes to the financial statements. • assessed the adequacy of the disclosures in notes 11 and 12 of the financial statements.



Independent auditor's report to the members of Seplat Petroleum Development Company Plc for the year ended 31 December 2017 continued

Independent auditor's report to the members of Seplat Petroleum Development Company Plc For the year ended 31 December 2017 - Continued

Other Information

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

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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



Independent auditor's report to the members of Seplat Petroleum Development Company Plc for the year ended 31 December 2017 continued

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

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

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

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

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



Independent auditor's report to the members of Seplat Petroleum Development Company Plc for the year ended 31 December 2017 continued

Report on other legal and regulatory requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii) the 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 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
Partner
For: Ernst & Young
Lagos, Nigeria



28 February 2018

Group Accounts

For the year ended 31 December 2017

(Expressed in Naira and US Dollars)

Consolidated financial statements

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	Notes	₦ million	₦ million	US\$ '000	US\$ '000
Revenue	5	138,281	63,384	452,179	254,217
Cost of sales	6	(73,414)	(47,076)	(240,059)	(182,424)
Gross profit		64,867	16,308	212,120	71,793
General and administrative expenses	7	(25,037)	(30,001)	(81,870)	(113,832)
Gains/(losses) on foreign exchange (net)	8	209	(28,684)	682	(101,455)
Gain on deconsolidation of subsidiary	15a	-	210	-	680
Fair value loss	9	(5,663)	(2,782)	(18,518)	(15,069)
Operating profit/ (loss)		34,376	(44,949)	112,414	(157,883)
Finance income	10	1,326	15,800	4,335	59,017
Finance costs	10	(22,248)	(18,270)	(72,752)	(73,900)
Profit/(loss) before taxation		13,454	(47,419)	43,997	(172,766)
Taxation	11	67,657	2,035	221,233	6,672
Profit/(loss) for the year		81,111	(45,384)	265,230	(166,094)
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		441	144,248	(1,778)	3,350
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	27b	(90)	172	(294)	563
Deferred tax assets on remeasurement losses	12a	76	-	250	-
		(14)	172	(44)	563
Other comprehensive income for the year(net of tax)		427	144,420	(1,822)	3,913
Total comprehensive income/(loss) for the year(net of tax)		81,538	99,036	263,408	(162,181)
Profit/(loss) attributable to equity holders of parent		81,111	(44,921)	265,230	(164,590)
Loss attributable to non-controlling interest		-	(463)	-	(1,504)
		81,111	(45,384)	265,230	(166,094)
Total comprehensive income/(loss) attributable to equity holders of parent		81,538	99,572	263,408	(160,677)
Total comprehensive loss attributable to non-controlling interest		-	(536)	-	(1,504)
		81,538	99,036	263,408	(162,181)
Earnings/(Loss) per share for profit/(loss) attributable to the ordinary equity holders of the Group:					
Basic earnings/(loss) per share (₦)/(US\$)	29	143.96	(79.73)	0.47	(0.29)
Diluted earnings/(loss) per share (₦)/(US\$)	29	141.89	(79.51)	0.46	(0.29)

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

Consolidated financial statements

Statement of financial position

As at 31 December 2017

	Notes	31 Dec 2017 ₦ million	31 Dec 2016 ₦ million	31 Dec 2017 US\$ '000	31 Dec 2016 US\$ '000
ASSETS					
Non-current assets					
Oil & gas properties	14a	393,377	373,442	1,286,387	1,224,400
Other property, plant and equipment	14b	1,553	2,430	5,078	7,967
Other asset	15	66,368	76,277	217,031	250,090
Prepayments	16	9,957	10,253	32,562	33,616
Deferred tax assets	12	68,417	-	223,731	-
Total non-current assets		539,672	462,402	1,764,789	1,516,073
Current assets					
Inventories	18	30,683	32,395	100,336	106,213
Trade and other receivables	19	94,904	119,160	310,345	390,694
Prepayments	16	595	2,035	1,948	6,672
Cash and cash equivalents	20	133,699	48,684	437,212	159,621
Total current assets		259,881	202,274	849,841	663,200
Total assets		799,553	664,676	2,614,630	2,179,273
EQUITY AND LIABILITIES					
Equity					
Issued share capital	21	283	283	1,826	1,826
Share premium	21c	82,080	82,080	497,457	497,457
Share based payment reserve	21b	4,332	2,597	17,809	12,135
Capital contribution	22	5,932	5,932	40,000	40,000
Retained earnings		166,149	85,052	944,108	678,922
Foreign currency translation reserve		200,870	200,429	1,897	3,675
Total shareholders' equity		459,646	376,373	1,503,097	1,234,015
Non-current liabilities					
Interest bearing loans and borrowings	24	93,170	136,060	304,677	446,098
Contingent consideration	25	4,251	3,672	13,900	12,040
Provision for decommissioning obligation	26	32,510	182	106,312	597
Defined benefit plan	27	1,994	1,559	6,518	5,112
Total non-current liabilities		131,925	141,473	431,407	463,847
Current liabilities					
Interest bearing loans and borrowings	24	81,159	66,489	265,400	217,998
Trade and other payables	28	125,559	79,766	410,593	261,528
Current taxation	11	1,264	575	4,133	1,885
Total current liabilities		207,982	146,830	680,126	481,411
Total liabilities		339,907	288,303	1,111,533	945,258
Total shareholders' equity and liabilities		799,553	664,676	2,614,630	2,179,273

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

Consolidated financial statements

Statement of financial position Continued

As at 31 December 2017

The Group's financial statements of Seplat Development Company Plc and its subsidiaries for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 28 February 2018 and were signed on its behalf by



A. B. C. Orjiako
FRC/2013/IODN/00000003161
Chairman
28 February 2018



A. O. Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
28 February 2018



R.T. Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
28 February 2018

Consolidated financial statements

Statement of changes in equity

For the year ended 31 December 2017

	Notes	Issued Share Capital ₦ million	Share Premium ₦ million	Capital Contribution ₦ million	Share Based Payment Reserve ₦ million	Retained Earnings ₦ million	Foreign Currency Translation Reserve ₦ million	Total ₦ million	Non- Controlling Interest ₦ million	Total Equity ₦ million
At 1 January 2016		282	82,080	5,932	1,729	134,919	56,182	281,124	(148)	280,976
Loss for the year		-	-	-	-	(44,921)	-	(44,921)	(463)	(45,384)
Other comprehensive income/(loss)		-	-	-	-	172	144,247	144,419	(73)	144,346
Total comprehensive (loss)/income for the year		-	-	-	-	(44,749)	144,247	99,498	(536)	98,962
Transactions with owners in their capacity as owners:										
Dividends	30	-	-	-	-	(5,118)	-	(5,118)	-	(5,118)
Share based payments	21b	-	-	-	869	-	-	869	-	869
Loss of control		-	-	-	-	-	-	-	684	684
Issue of shares		1	-	-	(1)	-	-	-	-	-
Total		1	-	-	868	(5,118)	-	(4,249)	684	(3,565)
At 31 December 2016		283	82,080	5,932	2,597	85,052	200,429	376,373	-	376,373
At 1 January 2017		283	82,080	5,932	2,597	85,052	200,429	376,373	-	376,373
Profit for the year		-	-	-	-	81,111	-	81,111	-	81,111
Other comprehensive (loss)/income		-	-	-	-	(14)	441	427	-	427
Total comprehensive income/(loss) for the year		-	-	-	-	81,097	442	81,538	-	81,538
Transactions with owners in their capacity as owners:										
Share based payments	21b	-	-	-	1,735	-	-	1,735	-	1,735
Total		-	-	-	1,735	-	-	1,735	-	1,735
At 31 December 2017		283	82,080	5,932	4,332	166,149	200,871	459,646	-	459,646

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2017

	Notes	Issued Share Capital US\$ '000	Share Premium US\$ '000	Capital Contribution US\$ '000	Share Based Payment Reserve US\$ '000	Retained Earnings US\$ '000	Foreign Currency Translation Reserve US\$ '000	Total US\$ '000	Non- Controlling Interest US\$ '000	Total Equity US\$ '000
At 1 January 2016		1,821	497,457	40,000	8,734	865,483	325	1,413,820	(745)	1,413,075
Loss for the year		-	-	-	-	(164,590)	-	(164,590)	(1,504)	(166,094)
Other comprehensive income		-	-	-	-	563	3,350	3,913	-	3,913
Total comprehensive (loss)/income for the year		-	-	-	-	(164,027)	3,350	(160,677)	(1,504)	(162,181)
Transactions with owners in their capacity as owners:										
Dividends	30	-	-	-	-	(22,534)	-	(22,534)	-	(22,534)
Share based payments	21b	-	-	-	3,406	-	-	3,406	-	3,406
Loss of control		-	-	-	-	-	-	-	2,249	2,249
Issue of shares		5	-	-	(5)	-	-	-	-	-
Total		5	-	-	3,401	(22,534)	-	(19,128)	2,249	(16,879)
At 31 December 2016		1,826	497,457	40,000	12,135	678,922	3,675	1,234,015	-	1,234,015
At 1 January 2017		1,826	497,457	40,000	12,135	678,922	3,675	1,234,015	-	1,234,015
Profit for the year		-	-	-	-	265,230	-	265,230	-	265,230
Other comprehensive loss		-	-	-	-	(44)	(1,778)	(1,822)	-	(1,822)
Total comprehensive income/(loss) for the year		-	-	-	-	265,186	(1,778)	263,408	-	263,408
Transactions with owners in their capacity as owners:										
Share based payments	21b	-	-	-	5,674	-	-	5,674	-	5,674
Total		-	-	-	5,674	-	-	5,674	-	5,674
At 31 December 2017		1,826	497,457	40,000	17,809	944,108	1,897	1,503,097	-	1,503,097

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2017

	Notes	31 Dec 2017 ₦ million	31 Dec 2016 ₦ million	31 Dec 2017 US\$ '000	31 Dec 2016 US\$ '000
Cash flows from operating activities					
Cash generated from operations	13	136,870	62,661	447,574	161,098
Receipts from derivatives		-	3,275	-	10,739
Defined benefits paid		(163)	(74)	(532)	(242)
Net cash inflows from operating activities		136,707	65,862	447,042	171,595
Cash flows from investing activities					
Investment in oil and gas properties		(9,777)	(15,805)	(31,970)	(51,834)
Investment in other property, plant and equipment		(459)	(992)	(1,500)	(2,349)
Proceeds from disposal of other property plant and equipment		50	151	162	385
Proceeds from sale of other asset	15	10,947	-	35,794	
Interest received		1,326	15,800	4,335	1,664
Net cash inflows/(outflows) from investing activities		2,087	(846)	6,821	(52,134)
Cash flows from financing activities					
Repayments of bank financing		(29,970)	(44,835)	(98,000)	(187,000)
Dividends paid	30	-	(5,118)	-	(22,534)
Interest paid on bank financing		(21,213)	(18,165)	(69,366)	(73,420)
Interest paid on advance payments for crude oil sales		(1,770)	-	(5,789)	-
Net cash (outflows) from financing activities		(52,953)	(68,118)	(173,155)	(282,954)
Net increase/(decrease) in cash and cash equivalents		85,841	(3,102)	280,708	(163,493)
Cash and cash equivalents at beginning of year		48,684	64,828	159,621	326,029
Effects of exchange rate changes on cash and cash equivalents		(826)	(13,042)	(3,117)	(2,915)
Cash and cash equivalents at end of year	20	133,699	48,684	437,212	159,621

Notes 1 to 34 on pages 39 to 103 are an integral part of the financial statements.

Notes to the consolidated financial statements

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company'), the parent of the Group, was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

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

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

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US\$340 million (₦ 104 billion) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US\$33 million (₦ 10 billion) payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US\$80 (₦ 24,464) per barrel. US\$358.6 million (₦ 110 billion) was allocated to the producing assets including US\$18.6 million (₦ 5.7 billion) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US\$33 million (₦ 10 billion) 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% Participating interest in producing assets: the Umuseti/Igbuku marginal field area located within OPL 283 (the 'Umuseti/Igbuku Fields').

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.

In 2015, the Group purchased a 40% participating interest in OML 53, onshore north eastern Niger Delta, from Chevron Nigeria Ltd for US\$259.4 million (₦ 79 billion).

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

The Company together with its six wholly owned subsidiaries namely, Newton Energy, which was incorporated on 1 June 2013, Seplat Petroleum Development Company UK Limited ('Seplat UK'), which was incorporated on 21 August 2014, Seplat East Onshore Limited ('Seplat East'), which was incorporated on 12 December 2014, Seplat East Swamp Company Limited ('Seplat Swamp'), which was incorporated on 12 December 2014, Seplat Gas Company Limited ('Seplat GAS'), which was incorporated on 12 December 2014 and ANOH Gas Processing Company Limited which was incorporated on 18 January 2017 are collectively referred to as the Group.

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

Notes to the consolidated financial statements

Continued

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

During the reporting period ended 31 December 2017, the Group renegotiated its lending arrangements resulting in a twelve month extension of its revolving credit facility till 31 December 2018. Force majeure was also lifted in the period and as a result the Group significantly increased its production volumes. The Group continued its efforts towards securing alternative evacuation routes to ensure sustained growth in production volumes.

Resumption of exports via the Forcados terminal, has strengthened the Group's financial performance and position during the period ended 31 December 2017.

2.2 Basis of preparation

i) Compliance with IFRS

The consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

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

ii) Historical cost convention

The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, and financial instruments on initial recognition measured at fair value. The financial statements are presented in US Dollars and Nigerian Naira and all values are rounded to the nearest thousand (N' million and US\$'000), except when otherwise indicated.

iii) Going concern

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

iv) New and amended standards adopted by the Group

There were a number of new standards and amendments to standards that are effective for annual periods beginning after 1 January 2017; the Group has adopted these new or amended standards in consolidated financial statements. The nature and impact of the new standards and amendments to the standards are described below.

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

a) Disclosure initiative - Amendments to IAS 7

The Group is now required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets are included in this disclosure if the cash flows were, or are, included in cash flows from financing activities. This is the case, for example, for assets that hedge liabilities arising from financing liabilities.

The Group may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items are disclosed separately from the changes in liabilities arising from financing activities.

Notes to the consolidated financial statements

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The Group discloses this information in tabular format as a reconciliation from opening and closing balances. There were no other standards adopted that has a material impact on the financial statements.

The Group discloses this information in Note 24.

v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 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.

Title of standard	IFRS 9 Financial Instruments
Nature of change	IFRS 9 Financial instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.
Impact	The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018: Classification and measurement: From the results, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets which are all currently classified as loans and receivables and are measured at amortised cost. IFRS 9 retains but simplifies the mixed measurement model and establishes three (3) primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The financial assets currently classified as loans and receivables in the financial statement will satisfy the conditions for classification at amortised cost under IFRS 9. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. Impairment of financial assets: The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) which considers more forward looking information in establishing a provision for impairment. It applies to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. Based on assessments undertaken on the Group's portfolio of impaired NPDC receivables, it estimates that on adoption of the new principles on 1 January 2018, loss allowance for NPDC receivables would increase by approximately US\$1.6 million (₦489 million) at that date and retained earnings would decrease by the same amount. The loss allowance is an estimated value which is subject to change in the 2018 financial statements. Hedge Accounting: The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not expect a significant impact on the accounting for its hedging relationships as a result of the adoption of IFRS 9, as they have not formally elected to apply hedge accounting. Disclosures: The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.
Date of adoption	The Group will apply the new rules retrospectively from 1 January 2018. Comparatives for 2017 will not be restated.

Notes to the consolidated financial statements

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Title of standard	IFRS 15 Revenue from contracts with customers
Nature of change	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard introduces a five step model approach which is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.
Impact	Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected: Accounting for under lifts and over lifts: IFRS 15 is applicable only if the counterparty to the contract is a customer. The standard defines a customer as a party that has contracts with an entity to obtain goods or services that are an output of the entity's ordinary activities. IFRS 15 makes a distinction between customers and partners or collaborators who share in the risks and benefits that result from the activity or process. Since the Joint Venture (JV) partners do not meet the definition of a customer, over lifts and under lifts should not be recognised as revenue from contracts with customers. In addition, even if the partner meets the definition of a customer, the transaction would still be outside the scope of the standard since the transaction is a non-monetary exchange (exchange of crude oil for crude oil). The Group estimates that on adoption of the new principles as at 1 January 2018, revenue would increase by ₦11 billion (US\$38 million) and cost of sales would increase by the same amount, as a result of the difference in accounting for overlifts and underlifts. Accounting for consideration payable to the customer: The standard requires that an entity accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, net of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity accounts for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it accounts for all of the consideration payable to the customer as a reduction of the transaction price. The Group incurs bargaining costs in the course of the satisfaction of its performance obligations i.e. delivery of crude oil and gas. These costs do not transfer any distinct good or service and as such represent consideration payable to customer and will be accounted for as a direct deduction from revenue when the Group recognises revenue for the delivery of crude oil and gas. The Group estimates that on adoption of the new principles as at 1 January 2018, revenue would reduce by an additional ₦2.7 billion (US\$9 million) as a result of bargaining costs reclassified from general and administrative expenses. Presentation of contract assets and contract liabilities on the balance sheet: IFRS 15 requires the separate presentation of contract assets and contract liabilities on the balance sheet. On adoption of the new principles as at 1 January 2018, it would result in a reclassification of advances for future oil sales amounting to ₦41 billion (US\$136 million) which are currently included in deferred revenue to contract liabilities. The estimated impact in revenue on adoption of the new principles of IFRS 15 is subject to change in the 2018 financial statements.
Date of adoption	The Group will adopt the new standard on 1 January 2018 using the modified retrospective approach.
Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	Operating leases: The standard will affect primarily the accounting for the Group's operating leases which include leases of buildings, boats, storage facilities, rigs, land and motor vehicles. As at the reporting date, the Group has non-cancellable operating lease commitments of ₦1.3 billion (US\$4.2 million). A Right of use asset and lease liability will be recognised for these commitments.

Notes to the consolidated financial statements

Continued

Impact	As at the reporting period, the full extent of the impact is yet to be quantified for the affected leases. Short term leases & Low value leases: The Group's one-year contracts with no planned extension commitments mostly applicable to leased staff flats will be covered by the exception for short-term leases, while none of the Group's leases will be covered by the exception for low value leases. Service contracts: Some commitments such as contracts for the provision of drilling, cleaning and community services were identified as service contracts as they did not contain an identifiable asset which the Group had a right to control. It therefore did not qualify as leases under IFRS 16.
Date of adoption	The standard for leases is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group.

2.3 Basis of consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is obtained by the Group and are deconsolidated from the date control ceases.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

ii) Change in the ownership interest of subsidiary

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Notes to the consolidated financial statements

Continued

iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

iv) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. As at the reporting date, the Group has only joint operations.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

The Group recognises in its own accounting records as follows:

- a) Its share of the mineral properties is shown within property, plant and equipment.
- b) Any liabilities that it has incurred including those incurred to finance its share of the asset.
- c) Its share of any liabilities incurred jointly with other venturers, including the decommissioning liability of production and field facilities.
- d) Any income from its sale or use of its share of the output.
- e) Any expenses that it has incurred in respect of its interest in the venture, together with its share of any expenses incurred by the joint operation.

In addition to joint costs, the Group also incurs exclusive costs, which are fully borne by the Group.

2.4 Functional and presentation currency

Items included in the financial statements of 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 the US Dollars.

The Group has chosen to show both presentation currencies side by side and this 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 exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in profit or loss or other comprehensive income depending on where fair value gain or loss is reported.

Notes to the consolidated financial statements

Continued

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 each 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.

2.5 Oil and gas accounting

i) Pre-license costs

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

ii) Exploration license cost

Exploration license costs are capitalised within oil and gas properties. License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

License costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license is written off through profit or loss.

iii) Acquisition of producing assets

Upon acquisition of producing assets which do not constitute a business combination, the Group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The purchase price paid for the Group of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) Exploration and evaluation expenditures

Geological and geophysical exploration costs are charged to profit or loss as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised.

Notes to the consolidated financial statements

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; and
- recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) Development expenditures

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

2.6 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Group's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

Overlift and underlift

The excess of the product sold during the period over the Group's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the profit or loss as revenue or cost of sales.

2.7 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Notes to the consolidated financial statements

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Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

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

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs consist of interest and other costs 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.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level 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.

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The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash generating unit to it belongs. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment - exploration and evaluation assets

Exploration and evaluation assets are tested for impairment once commercial reserves are found before they are transferred to oil and gas assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

Impairment - proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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.

2.10 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

2.11 Inventories

Inventories represent the value of tubulars, casing and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.12 Other asset

The Group's interest in the oil and gas reserves of OML 55 has been classified as other asset. On initial recognition, it is measured at the fair value of future recoverable oil and gas reserves.

Subsequently, the other asset is carried at fair value through profit or loss.

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2.13 Segment reporting

Segment reporting has not been prepared as the Group operates one segment, being the exploration, development and production of oil and gas related products located in Nigeria. Operations in the different OMLs are integrated due to geographic proximity, the use of shared infrastructure and common operational management.

2.14 Financial instruments

2.14.1 Financial assets

i) Financial assets initial recognition and measurement

The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs. The Group's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives and loan and other receivables.

ii) Subsequent measurement

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

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Group's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

iii) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial assets is transferred, the transfer qualifies for derecognition if the Group transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

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2.14.2 Financial liabilities

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

v) Financial liabilities initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

vi) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

vii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.14.3 Derivative financial instruments

The Group uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss and presented within operating profit.

Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 4 financial risk management.

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2.14.4 Fair value of financial instruments

The Group measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at each reporting date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Group's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Group's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2.15 Share capital

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

2.16 Earnings and dividends per share

Basic EPS

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

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent (after adjusting for outstanding share options arising from the share based payment scheme) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

2.17 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.

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Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. The Group operates a defined contribution plan and it is accounted for based on IAS 19 Employee benefits.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

Defined benefit scheme

The Group operates a defined benefit gratuity plan, which requires contributions to be made to a separately administered fund. The Group also provides certain additional post-employment benefits to employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
 - The date that the Group recognises related restructuring costs.
- Net interest is calculated by applying the discount rate to the net defined benefit obligation.

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

2.18 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;
- 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.

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Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature fields, the revised oil and gas assets net of decommissioning provisions exceed the recoverable value, that portion of the increase is charged directly to expense.

2.19 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.

2.20 Income taxation

i) Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

iii) New Tax Regime

Effective 1 January 2013, the Company was granted the inter tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2017), corporate income tax on natural gas profits (currently taxed at 30%) and education tax of 2%. Newton Energy was also granted pioneer tax status on the same basis. The Company has completed its first three years of the pioneer tax period and is no longer exempted from paying petroleum profits tax on crude oil profits, corporate income tax on natural gas profits and education tax of 2%.

Tax incentives do not apply to Seplat East Onshore Limited (OML 53) and Seplat East Swamp Company Limited (OML 55), hence all taxes have been included in full for these entities in the financial statements.

2.21 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.22 Share based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

i) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in 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.

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No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss. The dilutive effect of outstanding awards is reflected as additional share dilution in the computation of diluted earnings per share.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated historical financial information:

i) OMLs 4, 38 and 41

OMLs 4, 38, 41 are grouped together as a cash generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

ii) Advances on investment

The Group considers that the advances on investment of ₦20 billion (US\$65.7 million) in relation to the acquisition of additional assets is fully recoverable in accordance with the terms of the deposit.

iii) New tax regime

As at the end of the year, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays for the Company. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group's current and deferred taxation in the financial statements. Deferred tax assets have been recognised during the year. Deferred tax liabilities were not recognised in current and prior reporting periods as the Group was not liable to make future income taxes payment in respect of taxable temporary differences.

iv) Unrecognised 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.

The Group did not recognise deferred income tax assets of ₦17 billion, 2016: ₦58 billion (US\$55 million, 2016: US\$192 million) in respect of temporary differences amounting to ₦29 billion, 2016: ₦89 billion (US\$96 million, 2016: US\$292 million) for its subsidiaries as management does not believe that future taxable profits would be available against which the deferred tax assets would be utilised. Out of this, deferred tax asset of ₦8.8 billion, 2016: ₦14 billion (US\$29 million, 2016: US\$47 million) relates tax losses of ₦14 billion, 2016: ₦21 billion (US\$47million, 2016: US\$71 million). There are no expiration dates for the tax losses.

v) Foreign currency translation reserve

The Group has used the CBN rule to translate its Dollar currency to its Naira presentation currency. Management has determined that this rate is available for immediate delivery. If the rate used was 10% higher or lower, revenue in Naira would have increased/decreased by ₦ 13.8 billion (2016: ₦ 6.3 billion).

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3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

i) Other asset

Seplat has recorded its rights to receive the discharge sum of ₦89.9 billion, 2016: ₦100 billion (US\$294 million, 2016: US\$330 million) from the crude oil reserves of OML 55 as other asset. The fair value is determined using the income approach in line with IFRS 13 (Discounted cashflow). The fair value of the other asset is disclosed in Note 15.

ii) NPDC receivables

In 2016, an impairment assessment was carried out on NPDC receivables using the future estimated cash flow expected to be recoverable from NPDC over the next eighteen months. The estimated future cash payments and receipts recoverable over the expected life of the receivable was discounted using Seplat's average borrowing cost of 8%. The resulting adjustment was recognised under general and administrative expenses in the statement of comprehensive income.

As at December 2017, management's reassessment of these receivables showed that the full value is deemed to be fully recoverable. As a result, the previously recognised impairment loss was reversed. The total amount owed by NPDC as at 31 December 2017 is ₦34 billion, 2016: ₦72 billion (US\$113 million, 2016: US\$239 million).

iii) Contingent consideration

During the year the Group continued to recognise the contingent consideration of ₦5.6 billion (US\$18.5 million) for OML 53 at the fair value of ₦4.2 billion, 2016: ₦3.6 billion (US\$13.9 million, 2016: US\$12 million). It is contingent on oil price rising above US\$90 (₦ 27,522)/bbl over the next three years. See Note 4.2.1 for further details.

iv) 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. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

v) Oil and gas reserves

Proved oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure for estimating decommissioning liabilities and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

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vi) 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 21b.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

vii) Provision for decommissioning obligations

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.

During the year, the Group undertook a detailed review of the assumptions used in calculating the provision for decommissioning liabilities and has revised its estimates at the end of the reporting period. This resulted in a change in inflation rate, risk-free discount rate and reserves estimates which increased the oil and gas properties and provision for decommissioning liabilities. See Note 26 for further details.

viii) Property, plant and equipment

The Group assesses its property, plant and equipment, including exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date.

If there are low oil prices or natural gas prices during an extended period the Group may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil and natural gas.

During the year, the Group carried out an impairment assessment on OML 4, 38 and 48, OML 56 and OML 53. The Group used the value in use in determining the recoverable amount of the cash-generating unit. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$45 (₦ 13,725) in 2018, US\$50 (₦ 15,250) in 2019 and US\$55 (₦ 16,775) from 2020 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital. The impairment test did not result in an impairment charge for both 2017 and 2016 reporting periods.

In 2016 however, the impairment assessment was as a result of the force majeure on OML 4, 38 and 48. The Group calculated the value in use of the assets using a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$55 (₦ 16,775) in 2017, US\$60 (₦ 18,300) in 2018 and US\$70 (₦ 21,350) per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital. . The assessment did not result in an impairment charge.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes otherwise. See Note 14 for further details.

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ix) Useful life of other property, plant and equipment

The Group recognises depreciation on other property, plant and equipment on a straight line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Group may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

x) Contingencies

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 33 for further details.

xi) 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. See Note 11 for further details.

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4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks such as market risk (including foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in US dollars.	Cash flow forecasting Sensitivity analysis	Match and settle foreign denominated cash inflows with foreign denominated cash outflows.
Market risk - interest rate	Long term borrowings at variable rate	Sensitivity analysis	Review refinancing opportunities
Market risk - commodity prices	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and cash equivalents, trade receivables and derivative financial instruments.	Aging analysis Credit ratings	Diversification of bank deposits.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

4.1.1 Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) Commodity price risk

The Group is exposed to the risk of fluctuations on crude oil prices. The Group economically hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the Off-take Agreement.

The following table summarises the impact on the Group's profit/ (loss) before tax of a 10 % change in crude oil prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit/ (loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+10%	10,037	-	4,537	-
-10%	(10,037)	-	(4,537)	-

Increase/decrease in Commodity Price	Effect on profit/ (loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+10%	32,821	-	14,876	-
-10%	(32,821)	-	(14,876)	-

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The following table summarises the impact on the Group's profit/(loss) before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+10%	3,791	-	3,217	-
-10%	(3,791)	-	(3,217)	-

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+10%	12,397	-	10,546	-
-10%	(12,397)	-	(10,546)	-

ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. At the end of the reporting date, the Group had no borrowings at fixed rates. The Group's borrowings are denominated in US dollars and the Nigerian Naira.

The Group is exposed to cash flow interest rate risk on short-term deposits to the extent that the significant reductions in market interest rates would result in a decrease in the interest earned by the Group.

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

Increase/decrease in interest rate	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+1%	(1,743)	-	(2,025)	-
-1%	1,743	-	2,025	-

Increase/decrease in interest rate	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+1%	(5,701)	-	(6,641)	-
-1%	5,701	-	6,641	-

Notes to the consolidated financial statements

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iii) Foreign exchange risk

The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Group is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US dollar.

The Group holds the majority of its cash and cash equivalents in US dollar. However, the Group does maintain deposits in Naira in order to fund ongoing general and administrative activities and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables and trade and other payables.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Financial assets				
Cash and cash equivalents	27,370	9,972	89,504	32,695
Trade and other receivables	22,699	20,604	74,229	67,555
	50,069	30,576	163,733	100,250
Financial liabilities				
Trade and other payables	(25,425)	(2,869)	(83,144)	(9,406)
Net exposure to foreign exchange risk	24,644	27,707	80,589	90,844

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

Increase/decrease in foreign exchange risk	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+5%	(1,174)	-	(1,319)	-
-5%	1,297	-	1,458	-

Increase/decrease in foreign exchange risk	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+5%	(3,838)	-	(4,326)	-
-5%	4,242	-	4,781	-

4.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers and Joint venture partners, i.e. NPDC receivables and NGC receivables.

Notes to the consolidated financial statements

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i) Risk management

The Group is exposed to credit risk from its sale of crude oil to Shell Western Supply and Trading Limited and Mecuria. The Group's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and runs for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mecuria also runs for five years until 31 July 2020 with a 30 day payment term.

In addition, the Group is exposed to credit risk in relation to its sale of gas to Nigerian Gas Company (NGC) Limited, a subsidiary of NNPC, its sole gas customer during the year.

The Group monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which are now deemed to be fully recoverable during the reporting period.

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

The accounts receivable balance includes the following related party receivables:

		Percentage of total receivables	
		2017	2016
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Trade and other receivables (Gross)	91,613	119,431	299,584	391,579
Cash and cash equivalents	133,699	48,684	437,212	159,621
Gross amount	225,312	168,115	736,796	551,200
Impairment of NPDC receivables	-	(3,129)	-	(10,260)
Net amount	225,312	164,986	736,796	540,940

Trade and other payables (excludes non financial liabilities such as provisions, accruals, taxes, pension and other non contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as the financial statements approximate their fair values.

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31 Dec 2017	Trade receivables	NPDC/ NAPIMS receivables	Other receivables	Cash & bank balances	Total
	₦ million	₦ million	₦ million	₦ million	₦ million
Neither past due nor impaired	9,468	-	8	133,699	143,175
Past due but not impaired	23,768	38,276	20,093	-	82,137
Gross amount	33,236	38,276	20,101	133,699	225,312
Impairment loss	-	-	-	-	-
Net amount	33,236	38,276	20,101	133,699	225,312
31 Dec 2016					
Neither past due nor impaired	334	-	1,579	48,684	50,597
Past due but not impaired	22,061	2,512	20,040	-	44,613
Impaired	-	72,905	-	-	72,905
Gross amount	22,395	75,417	21,619	48,684	168,115
Impairment loss	-	(3,129)	-	-	(3,129)
Net amount	22,395	72,288	21,619	48,684	164,986

31 Dec 2017	Trade receivables	NPDC/ NAPIMS receivables	Other receivables	Cash & bank balances	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Neither past due nor impaired	30,960	-	25	437,212	468,197
Past due but not impaired	77,725	125,169	65,705	-	268,599
Gross amount	108,685	125,169	65,730	437,212	736,796
Impairment loss	-	-	-	-	-
Net amount	108,685	125,169	65,730	437,212	736,796
31 Dec 2016					
Neither past due nor impaired	1,096	-	5,180	159,621	165,897
Past due but not impaired	72,331	8,233	65,705	-	146,269
Impaired	-	239,034	-	-	239,034
Gross amount	73,427	247,267	70,885	159,621	551,200
Impairment loss	-	(10,260)	-	-	(10,260)
Net amount	73,427	237,007	70,885	159,621	540,940

Notes to the consolidated financial statements

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ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	2017 ₦ million	2016 ₦ million	2017 US\$'000	2016 US\$'000
Counterparties with external credit rating (Fitch's)				
Cash and cash equivalents				
Non rated	62,937	26,434	205,811	86,669
B -	24,978	587	81,681	1,924
B	16,589	7,786	54,247	25,527
B +	4,308	2,863	14,090	9,388
A +	24,331	11,014	79,564	36,113
A A-	556	-	1,819	-
	133,699	48,684	437,212	159,621
		The Group		
	2017 ₦ million	2016 ₦ million	2017 US\$'000	2016 US\$'000
Counterparties without external credit rating				
Trade and other receivables *				
Group 1	-	-	-	-
Group 2	9,476	1,914	30,985	6,276
Group 3	-	-	-	-
	9,476	1,914	30,985	6,276

* Includes trade receivables, intercompany receivables, NPDC receivables and other receivables.

Group 1 - new customers (less than 1 year)

Group 2 - existing customers (more than 1 year) with some defaults in the past. All defaults are recoverable.

Group 3 - Government entities

Notes to the consolidated financial statements

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iii) Ageing analysis for financial assets that are past due but not impaired

The ageing analysis of the trade receivables and amounts due from NPDC/NAPIMS is as follows:

	Total	Past due but not impaired				
	₦ million	<30 days ₦ million	30-60 days ₦ million	60-90 days ₦ million	90-120 days ₦ million	>120 days ₦ million
Trade receivables						
31 December 2017	23,768	5,489	3,328	5,168	6,103	3,680
31 December 2016	22,061	13,925	-	1,513	-	6,623

NPDC/NAPIMS receivables

31 December 2017	38,276	1,307	11,369	-	-	25,600
31 December 2016	2,510	-	179	1,075	183	1,073

	Total	Past due but not impaired				
	US\$ '000	<30 days US\$ '000	30-60 days US\$ '000	60-90 days US\$ '000	90-120 days US\$ '000	>120 days US\$ '000
Trade receivables						
31 December 2017	77,725	17,951	10,884	16,899	19,957	12,034
31 December 2016	72,331	45,656	-	4,961	-	21,714

NPDC/NAPIMS receivables

31 December 2017	125,169	4,273	37,179	-	-	83,717
31 December 2016	8,233	-	588	3,526	600	3,519

iv) Impaired receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate allowance for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue)

Receivables for which an impairment allowance was recognised are written off against the allowance when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within general and administrative expenses. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses. See Note 2.14.1(iii) for information about how impairment losses are calculated.

Individually impaired trade receivables relate to NPDC receivables that were outstanding in 2016 (₦2.27 billion, US\$10.26 million) which are now deemed to be fully recoverable. The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

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Movements in the provision for impairment of trade receivables that are assessed for impairment are as follows:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
At 1 January	3,129	-	10,260	-
Allowance for impairment recognised during the year	-	2,273	-	10,260
Reversal of previously recognised impairment losses	(3,138)	-	(10,260)	-
Exchange rate differences	9	856	-	-
At 31 December	-	3,129	-	10,260

4.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Group uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	After 5 years ₦ million	Total ₦ million
31 December 2017							
Non - derivatives							
Variable interest rate borrowings (bank loans):							
Allan Gray	8.5% + LIBOR	1,696	1,564	1,124	538	-	4,922
Zenith Bank Plc	8.5% + LIBOR	23,243	21,439	15,404	7,371	-	67,457
First Bank of Nigeria Limited	8.5% + LIBOR	12,830	11,835	8,503	4,069	-	37,237
United Bank for Africa Plc	8.5% + LIBOR	14,527	13,400	9,628	4,607	-	42,162
Stanbic IBTC Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	-	6,318
The Standard Bank of South Africa Limited	8.5% + LIBOR	2,177	2,008	1,443	690	-	6,318
Standard Chartered Bank	6.0% + LIBOR	5,747	-	-	-	-	5,747
Natixis	6.0% + LIBOR	5,747	-	-	-	-	5,747
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	4,470	-	-	-	-	4,470
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	3,831	-	-	-	-	3,831
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	-	-	-	-	-	-
Nomura Bank Plc*	6.0% + LIBOR	3,831	-	-	-	-	3,831
NedBank Ltd, London Branch	6.0% + LIBOR	3,831	-	-	-	-	3,831
Stanbic IBTC Bank Plc	6.0% + LIBOR	2,874	-	-	-	-	2,874
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,152	-	-	-	-	4,152
Other non - derivatives							
Trade and other payables**	-	38,876	-	-	-	-	38,876
Contingent consideration	-	-	-	5,657	-	-	5,657
		130,009	52,254	43,202	17,965	-	243,430

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

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

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	Effective interest rate %	Less than 1 year US\$ '000	1 - 2 year US\$ '000	2 - 3 years US\$ '000	3 - 5 years US\$ '000	After 5 years US\$ '000	Total US\$ '000
31 December 2017							
Non - derivatives							
Variable interest rate borrowings (bank loans):							
Allan Gray	8.5% + LIBOR	5,546	5,116	3,676	1,759	-	16,097
Zenith Bank Plc	8.5% + LIBOR	76,006	70,109	50,373	24,104	-	220,592
First Bank of Nigeria Limited	8.5% + LIBOR	41,957	38,702	27,807	13,306	-	121,772
United Bank for Africa Plc	8.5% + LIBOR	47,504	43,818	31,483	15,065	-	137,870
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	-	20,662
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,119	6,567	4,718	2,258	-	20,662
Standard Chartered Bank	6.0% + LIBOR	18,794	-	-	-	-	18,794
Natixis	6.0% + LIBOR	18,794	-	-	-	-	18,794
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	14,617	-	-	-	-	14,617
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	12,529	-	-	-	-	12,529
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	12,529	-	-	-	-	12,529
Nomura Bank Plc*	6.0% + LIBOR	12,529	-	-	-	-	12,529
NedBank Ltd, London Branch	6.0% + LIBOR	12,529	-	-	-	-	12,529
Stanbic IBTC Bank Plc	6.0% + LIBOR	9,399	-	-	-	-	9,399
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,576	-	-	-	-	13,576
Other non - derivatives							
Trade and other payables**	-	127,128	-	-	-	-	127,128
Contingent consideration	-	-	-	18,500	-	-	18,500
		437,675	170,879	141,275	58,750	-	808,579

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

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

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	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	After 5 years ₦ million	Total ₦ million
31 December 2016							
Non - derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	11,409	23,182	21,383	22,715	-	78,689
First Bank of Nigeria Limited	8.5% + LIBOR	7,131	14,489	13,364	14,197	-	49,181
United Bank for Africa Plc	8.5% + LIBOR	7,131	14,489	13,364	14,197	-	49,181
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,069	2,171	2,003	2,128	-	7,371
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,069	2,171	2,003	2,128	-	7,371
Standard Chartered Bank	6.0% + LIBOR	8,452	-	-	-	-	8,452
Natixis	6.0% + LIBOR	8,452	-	-	-	-	8,452
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	8,452	-	-	-	-	8,452
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	5,635	-	-	-	-	5,635
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	5,635	-	-	-	-	5,635
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	5,635	-	-	-	-	5,635
NedBank Ltd, London Branch	6.0% + LIBOR	5,635	-	-	-	-	5,635
Stanbic IBTC Bank Plc	6.0% + LIBOR	4,225	-	-	-	-	4,225
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,225	-	-	-	-	4,225
Other non-derivatives							
Trade and other payables**	-	49,341	-	-	-	-	49,341
Contingent consideration	-	-	-	-	5,643	-	5,643
		133,496	56,502	52,117	61,008	-	303,123

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

Notes to the consolidated financial statements

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	Effective interest rate %	Less than 1 year US\$ '000	1 - 2 year US\$ '000	2 - 3 years US\$ '000	3 - 5 years US\$ '000	After 5 years US\$ '000	Total US\$ '000
31 December 2016							
Non - derivatives							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	-	257,998
First Bank of Nigeria Limited	8.5% + LIBOR	23,379	47,504	43,818	46,548	-	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	-	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	-	24,166
The Standard Bank of South Africa Limited	8.5% + LIBOR	3,504	7,119	6,567	6,976	-	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	-	-	-	-	27,711
Natixis	6.0% + LIBOR	27,711	-	-	-	-	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	-	-	-	-	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	-	-	-	-	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	-	-	-	-	18,474
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	18,474	-	-	-	-	18,474
NedBank Ltd, London Branch	6.0% + LIBOR	18,474	-	-	-	-	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	-	-	-	-	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	-	-	-	-	13,856
Other non-derivatives							
Trade and other payables**	-	161,773	-	-	-	-	161,773
Contingent consideration	-	-	-	-	18,500	-	18,500
		437,686	185,252	170,879	200,025	-	993,842

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

4.2 Fair value

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

	Carrying amount		Fair value	
	2017	2016	2017	2016
	₦ million	₦ million	₦ million	₦ million
Financial assets				
Trade and other receivables	91,613	116,302	91,613	116,302
Cash and cash equivalents	133,699	48,684	133,699	48,684
	225,312	164,986	225,312	164,986
Financial liabilities				
Borrowings - Bank loans	174,329	202,549	174,329	202,549
Contingent consideration	4,251	3,672	4,251	3,672
Trade and other payables	38,876	49,341	38,876	49,341
	217,456	255,562	217,456	255,562

Notes to the consolidated financial statements

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	Carrying amount		Fair value	
	2017 US\$ '000	2016 US\$ '000	2017 US\$ '000	2016 US\$ '000
Financial assets				
Trade and other receivables	299,584	381,319	299,584	381,319
Cash and cash equivalents	437,212	159,621	437,212	159,621
	736,796	540,940	736,796	540,940
Financial liabilities				
Borrowings - Bank loans	570,077	664,096	570,077	664,096
Contingent consideration	13,900	12,040	13,900	12,040
Trade and other payables	127,128	161,773	127,128	161,773
	711,105	837,909	711,105	837,909

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

Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short term nature. Contingent consideration are being measured and recognised at fair value.

4.2.1 Fair Value Hierarchy

The Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. These are all recurring fair value measurements.

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000
31 Dec 2017						
Financial liabilities:						
Borrowings - Bank loans	-	174,329	-	-	570,077	-
Contingent consideration	-	-	4,251	-	-	13,900
	-	174,329	4,251	-	570,077	13,900
31 Dec 2016						
Financial liabilities:						
Borrowings - Bank loans	-	202,549	-	-	664,096	-
Contingent consideration	-	-	3,672	-	-	12,040
	-	202,549	3,672	-	664,096	12,040

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- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between fair value levels during the year.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the year
- The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flow were determined based on probable future oil prices. The estimated future cash flow was discounted to present value using a discount rate of 15.45% which are based on the applicable FGN Bond rates.

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 - expected cash inflows are determined based on the terms of the contract (see Note 25) 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 the CFO and Audit Committee.

4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

Contingent consideration	₦ million	US\$ '000
At 1 January 2016	4,355	21,900
Fair value movement	596	2,614
Deconsolidation of subsidiary	(3,805)	(12,474)
Exchange differences	2,526	-
At 31 December 2016	3,672	12,040
At 1 January 2017	3,672	12,040
Fair value movement	568	1,860
Exchange difference	11	-
At 31 December 2017	4,251	13,900

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4.2.3 Contingent consideration sensitivity

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

Increase/decrease in discount rate - The Group	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+10%	676	-	1,338	-
-10%	(883)	-	(2,602)	-

Increase/decrease in discount rate - The Group	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+10%	2,209	-	5,868	-
-10%	(2,888)	-	(8,535)	-

There were no quantitative unobservable inputs used in determining the fair value of the contingent consideration.

4.3 Capital management

4.3.1 Risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Borrowings:	174,329	202,549	570,077	664,096
Less: cash and cash equivalents	(133,699)	(48,684)	(437,212)	(159,621)
Net debt	40,630	153,865	132,865	504,475
Total equity	459,646	376,373	1,503,097	1,234,015
Total capital	500,276	530,238	1,635,962	1,738,490
Net debt (net debt/total capital) ratio	8%	29%	8%	29%

During 2017, the Group's strategy which was unchanged from 2016, was to maintain a gearing ratio of 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

4.3.2 Loan covenant

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants every 6 months:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- 6-month Debt Service Reserve Account (DSCRA) not to be lower than 1.25x on a forward looking basis,
- Satisfactory 12-months Group liquidity test.

The Group has complied with these covenants throughout the reporting period (2016: The Group complied with the applicable covenants) with the exception of the financial indebtedness/EBITDA covenant which was waived by a majority lender consent.

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5. Revenue

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Crude oil sale	112,045	34,575	366,386	132,975
(Overlift)/ Underlift	(11,676)	1,346	(38,180)	15,782
	100,369	35,921	328,206	148,757
Gas sales	37,912	27,463	123,973	105,460
	138,281	63,384	452,179	254,217

The major off-takers for crude oil is Mercuria (₦96 billion, 2016: ₦26.1 billion) (US\$316 million, 2016: US\$104 million). The major off-taker of gas is the Nigerian Gas Company (₦22 billion, 2016: ₦27 billion), (2017: US\$72 million, 2016: US\$105 million).

6. Cost of Sales

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Royalties	22,413	12,308	73,289	44,796
Depletion, depreciation and amortisation (Note 14a)	25,102	13,683	82,082	54,326
Crude handling fees	9,831	1,202	32,148	7,804
Nigeria Export Supervision Scheme (NESS) fee	124	35	404	142
Barging costs	2,787	5,484	9,113	17,885
Niger Delta Development Commission Levy	1,200	-	3,924	-
Rig related costs	985	2,584	3,220	9,067
Operational & maintenance expenses	10,972	11,780	35,879	48,404
	73,414	47,076	240,059	182,424

7. General and administrative expenses

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Depreciation (Note 14b)	1,283	1,418	4,195	5,544
Auditor's remuneration`	229	150	746	505
Professional and consulting fees	6,451	7,559	21,094	28,424
Directors' emoluments (executive)	1,073	680	3,509	2,758
Directors' emoluments (non-executive)	976	1,075	3,193	4,309
Donations	105	42	344	184
Employee benefits (Note 7a)	7,925	5,340	25,917	20,869
Business development expenses	-	3,362	-	11,023
Flights and other travel costs	2,253	1,647	7,366	6,176
Rentals	514	1,380	1,680	4,855
Loss on disposal of plant & equipment	10	307	32	1,509
Other general expenses	4,218	4,768	13,794	17,416
Impairment losses (Note 19)	-	2,273	-	10,260
	25,037	30,001	81,870	113,832

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Directors' emoluments have been split between executive & non-executive directors' share based payment expenses are included in employee benefits expense.

There were no non-audit services rendered by the Group's auditors during the year.

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. It also includes reversal of impairment loss of ₦ 3.14 billion, 2016: ₦2.27 billion (US\$ 10 million, 2016: US\$ 10 million). Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company (NPDC) in Note 19. This provision is no longer required and the reversal of ₦2.27 billion (US\$10 million) is included in general and administrative expenses.

7a. Salaries and employee related costs include the following:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Short term employee benefits:				
Basic salary	3,684	2,097	12,047	8,194
Housing allowances	484	816	1,582	3,190
Other allowances	1,065	890	3,484	3,468
Post employment benefits:				
Defined contribution expenses	455	428	1,489	1,673
Defined benefit expenses (Note 27)	502	240	1,641	938
Share based payment benefits (Note 21b)	1,735	869	5,674	3,406
Total salaries and employee related costs	7,925	5,340	25,917	20,869

8. Gains/(losses) on foreign exchange(net)

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Exchange gains/(losses)	209	(28,684)	682	(101,455)
Total	209	(28,684)	682	(101,455)

This is principally as a result of translation of naira denominated monetary assets and liabilities. In the current reporting period, the Naira which is the Group's major foreign currency was relatively stable all year round (2016: Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria).

9. Fair value loss

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Realised fair value losses on crude oil hedges	(5,931)	-	(19,393)	-
Unrealised fair value losses on crude oil hedges	-	(2,186)	-	(12,455)
Fair value (loss)/gain on contingent consideration (Note 25)	(568)	(596)	(1,860)	(2,614)
Fair value gain on other assets	836	-	2,735	-
Total	(5,663)	(2,782)	(18,518)	(15,069)

Realised fair value losses on crude oil hedges represent the payments for crude oil price options. These options expired on 31 December 2017. Fair value loss on contingent consideration arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OML 53. The contingency criteria are the achievement of certain production milestones. Fair value gain on other assets arises from the fair value remeasurement of the Group's rights to receive the discharge sum on OML 55. See Note 15 for further details.

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10. Finance (cost)/income

Finance income	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Interest income	1,326	15,800	4,335	59,017
Finance cost				
Finance cost				
Interest on advance payments for crude oil sales	1,770	-	5,789	-
Interest on bank loans	22,431	18,165	73,347	73,420
Unwinding of discount on provision for decommissioning (Note 26)	29	105	96	480
Interest capitalised (Note 14a)	(1,982)	-	(6,480)	-
	22,248	18,270	72,752	73,900
Finance (cost)/income (net)	(20,922)	(2,470)	(68,417)	(14,883)

Finance income represents interest on fixed deposits for the Group.

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 9.41% (2016 - Nil).

11. Taxation

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

11a. Income tax expense

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Current tax:				
Current tax on profit for the year	-	-	-	-
Education tax	687	574	2,248	1,885
Prior period over provision	-	(38)	-	(126)
Total current tax	687	536	2,248	1,759
Deferred tax:				
Deferred tax credit in profit or loss	(68,344)	(2,571)	(223,481)	(8,431)
Total tax credit in statement of profit or loss	(67,657)	(2,035)	(221,233)	(6,672)
Deferred tax recognised in other comprehensive income	(76)	-	(250)	-
Total tax credit for the period	(67,733)	(2,035)	(221,483)	(6,672)
Effective tax rate	(503%)	4%	(503%)	4%

11b. Reconciliation of effective tax rate

The applicable tax rate for 2017 for the Group was 85%, 65.75% and 30% (2016: 65.75%).

During 2013, applications were made by Seplat and its wholly owned subsidiary, Newton Energy, for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41. Newton Energy was also granted similar incentives in respect of the tax treatment of OPL 283/OML 56.

Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for the Company, and 1 June 2013 to 31 May 2015 in the first instance and then for an additional two years for Newton Energy if both companies meet certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document.

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Seplat East onshore and Seplat Swamp are exempt from the tax incentives as they had no activities at the time the incentives were granted to Seplat and Newton.

As at the end of the reporting period, the NIPC is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group's current and deferred taxation in the financial statements. The current tax for the period has been utilised against tax losses brought forward.

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Profit/(loss) before taxation	13,454	(47,419)	43,997	(172,766)
Tax rate of 85%, 65.75% and 30% (2016 - 65.75%)	11,435	(31,178)	37,397	(113,594)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(25,578)	-	(83,644)	-
Expenses not deductible for tax purposes	31,246	10,324	102,179	33,856
Recognition of previously unrecognised deductible temporary difference	(64,335)	-	(210,380)	-
Impact of unutilised tax losses	3,362	18,283	10,996	71,307
Effect of differences in tax rates	5,708	-	18,666	-
Impact of tax incentive	(29,228)	-	(95,577)	-
Education tax	687	574	2,248	1,885
Prior period over provision	-	(38)	-	(126)
Tax loss utilised	(954)	-	(3,118)	-
Total tax credit in statement of profit or loss	(67,657)	(2,035)	(221,233)	(6,672)

The movement in the current tax liability is as follows:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
As at 1 January	575	47	1,885	239
Tax charge	687	574	2,248	1,885
Deconsolidation of subsidiary	-	(34)	-	(113)
Prior period over provision	-	(38)	-	(126)
Exchange difference	2	26	-	-
As 31 December	1,264	575	4,133	1,885

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12. Deferred income tax

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months			-	-
Deferred tax asset to be recovered after more than 12 months	68,417		223,731	-
	68,417		223,731	-
Deferred tax liabilities				
Deferred tax liabilities to be recovered in less than 12 months	-	-	-	-
Deferred tax liability to be recovered after more than 12 months	-	-	-	-
	-	-	-	-
Net deferred tax asset/(liability)	68,417	-	223,731	-

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.

Following a significant improvement in the financial position of the Company in 2017, the Group conducted an assessment of its assessable profit based on a five (5) year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. As a result, the Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, deferred tax assets of ₦68 billion, 2016: nil (US\$224 million, 2016: nil) was recognised for those losses.

The Group did not recognise deferred income tax assets of ₦17 billion, 2016: ₦58 billion (US\$55 million, 2016: US\$192 million) in respect of temporary differences amounting to ₦29 billion, 2016: ₦89 billion (US\$96 million, 2016: US\$292 million) for its subsidiaries as management does not believe that future taxable profits would be available against which the deferred tax assets would be utilised. Out of this, deferred tax asset of ₦8.8 billion, 2016: ₦14 billion (US\$29 million, 2016: US\$47 million) relates tax losses of ₦14 billion, 2016: ₦21 billion (US\$47million, 2016: US\$71 million). There are no expiration dates for the tax losses.

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.

12a. Deferred tax asset/(liability)

	Property, plant and equipment ₦ million	Decommission ing provision ₦ million	Defined benefit expenses ₦ million	Underlift/ overlift ₦ million	Unrealised foreign exchange (gain)/ loss ₦ million	Tax losses ₦ million	Other provisions ₦ million	Contingent liability ₦ million	Total ₦ million
At 1 January 2016	(2,078)	506	906	(3,538)	(18)	-	-	-	(4,222)
Deconsolidation of subsidiary	(506)	(38)	-	8,980	-	(2,231)	-	(2,300)	3,905
Deferred tax credit	3,692	(738)	(1,389)	(3,552)	27	2,231	-	2,300	2,571
Exchange difference	(1,108)	270	483	(1,890)	(9)	-	-	-	(2,254)
At 31 December 2016	-	-	-	-	-	-	-	-	-
At 1 January 2017	-	-	-	-	-	-	-	-	-
Deferred tax credit:									
Credited to profit or loss	37,535	102	1,250	6,489	4,209	12,392	6,440	-	68,344
Credited to other comprehensive income	-	-	76	-	-	-	-	-	76
Exchange differences	(1)	(1)	1	-	(1)	-	(1)	-	(3)
At 31 December 2017	37,535	102	1,250	6,489	4,209	12,392	6,440	-	68,417

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	Property, plant and equipment US\$ '000	Decommission- ing provision US\$ '000	Defined benefit expenses US\$ '000	Underlift/ overlift US\$ '000	Unrealised foreign exchange (gain)/ loss US\$ '000	Tax losses US\$ '000	Other provisions US\$ '000	Contingent liability US\$ '000	Total US\$ '000
At 1 January 2016	(10,448)	2,544	4,554	(17,794)	(89)	-	-	-	(21,233)
Deconsolidation of subsidiary	(1,659)	(125)	-	29,443	-	(7,315)	-	(7,542)	12,802
Deferred tax credit	12,107	(2,419)	(4,554)	(11,649)	89	7,315	-	7,542	8,431
At 31 December 2016	-	-	-	-	-	-	-	-	-
At 1 January 2017	-	-	-	-	-	-	-	-	-
Deferred tax credit:									
Credited to profit or loss	122,742	334	3,837	21,219	13,765	40,523	21,061	-	223,481
Credited to other comprehensive income	-	-	250	-	-	-	-	-	250
At 31 December 2017	122,742	334	4,087	21,219	13,765	40,523	21,061	-	223,731

13. Computation of cash generated from operations

	Notes	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Profit/(loss) before tax		13,454	(47,419)	43,997	(172,766)
Adjusted for:					
Depletion, depreciation and amortisation	14	26,385	15,101	86,277	59,870
Impairment loss		(3,138)	2,273	(10,260)	10,260
Finance income	10	(1,326)	(15,800)	(4,335)	(59,017)
Interest on advance payments for crude oil sales	10	1,770	-	5,789	-
Interest on bank loans and other bank charges	10	22,431	18,165	73,347	73,420
Interest capitalised	10	(1,982)	-	(6,480)	-
Unwinding of discount on provision for decommissioning liabilities	10	29	105	96	480
Fair value loss on contingent consideration	9	568	596	1,860	2,614
Unrealised fair value loss on crude oil hedges	9	-	2,186	-	12,455
Fair value gain on other assets	9	(836)	-	(2,735)	-
Unrealised foreign exchange (gain)/loss	8	(209)	28,684	(682)	101,455
Share based payment expenses	21	1,735	869	5,674	3,406
Defined benefit expenses		502	287	1,641	(1,467)
Gain on deconsolidation	15a	-	(210)	-	(680)
Loss on disposal of other property, plant and equipment	7	10	307	32	1,509
Changes in working capital (excluding the effects of exchange differences and deconsolidation):					
Trade and other receivables		29,154	67,136	95,335	244,102
Prepayments		322	4,690	1,054	16,035
Trade and other payables		46,204	(9,470)	151,087	(106,831)
Inventories		1,797	(4,839)	5,877	(23,747)
Net cash from operating activities		136,870	62,661	447,574	161,098

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14. Property, plant and equipment

14a. Oil and gas properties

	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
Cost	₦ million	₦ million	₦ million	US\$ '000	US\$ '000	US\$ '000
At 1 January 2016	271,565	63,394	334,959	1,365,752	318,820	1,684,572
Additions	-	25,275	25,275	-	82,893	82,893
Changes in decommissioning	(1,134)	-	(1,134)	(3,720)	-	(3,720)
Transfer from asset under construction	50,596	(50,596)	-	248,324	(248,324)	-
Deconsolidation of subsidiary	(74,439)	-	(74,439)	(244,062)	-	(244,062)
Disposal	-	(307)	(307)	-	(1,509)	(1,509)
Exchange differences	170,132	8,557	178,689	-	-	-
At 31 December 2016	416,720	46,323	463,043	1,366,294	151,880	1,518,174
Depreciation						
At 1 January 2016	49,237	-	49,237	247,622	-	247,622
Charged for the year	13,683	-	13,683	54,326	-	54,326
Deconsolidation of subsidiary	(2,493)	-	(2,493)	(8,174)	-	(8,174)
Exchange differences	29,174	-	29,174	-	-	-
At 31 December 2016	89,601	-	89,601	293,774	-	293,774
NBV						
At 31 December 2016	327,119	46,323	373,442	1,072,520	151,880	1,224,400
Cost						
At 1 January 2017	416,720	46,323	463,043	1,366,294	151,880	1,518,174
Additions	3,910	5,867	9,777	12,784	19,186	31,970
Changes in decommissioning	32,300	-	32,300	105,619	-	105,619
Transfer from asset under construction	10,990	(10,990)	-	35,938	(35,938)	-
Interest capitalised	-	1,982	1,982	-	6,480	6,480
Exchange differences	1,090	122	1,212	-	-	-
At 31 December 2017	465,010	43,304	508,314	1,520,635	141,608	1,662,243
Depreciation						
At 1 January 2017	89,601	-	89,601	293,774	-	293,774
Charged for the year	25,102	-	25,102	82,082	-	82,082
Exchange difference	234	-	234	-	-	-
At 31 December 2017	114,937	-	114,937	375,856	-	375,856
NBV						
At 31 December 2017	350,073	43,304	393,377	1,144,779	141,608	1,286,387

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The Group's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (Note 24).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. Some of which are qualifying assets which takes a substantial period of time to get ready for its intended use. A capitalisation rate has been determined and used to capitalise borrowing cost from the Group's general borrowings. Borrowing costs capitalised during the year amounted to ₦1.98 billion, 2016: Nil (US\$6.48 million, 2016: Nil).

14b. Other property, plant and equipment

	Plant & machinery ₦ million	Motor vehicles ₦ million	Office furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
Cost					
At 1 January 2016	797	1,346	2,707	626	5,476
Additions	163	118	711	-	992
Disposals	-	(28)	-	(137)	(165)
Transfer	3	35	(43)	5	-
Exchange differences	502	761	974	376	2,613
At 31 December 2016	1,465	2,232	4,349	870	8,916
Depreciation					
At 1 January 2016	340	698	1,851	280	3,169
Disposals	-	(14)	-	-	(14)
Charged for the year	215	337	721	145	1,418
Exchange differences	223	430	1,081	179	1,913
At 31 December 2016	778	1,451	3,653	604	6,486
NBV					
At 31 December 2016	687	781	696	266	2,430
Cost					
At 1 January 2017	1,465	2,232	4,349	870	8,916
Addition	125	170	141	23	459
Disposals	-	(141)	-	-	(141)
Exchange differences	4	5	(34)	2	(23)
At 31 December 2017	1,594	2,266	4,456	895	9,211
Depreciation					
At 1 January 2017	778	1,451	3,653	604	6,486
Disposal	-	(82)	-	-	(82)
Charge for the year	269	374	518	122	1,283
Exchange differences	2	4	(36)	1	(29)
At 31 December 2017	1,049	1,747	4,135	727	7,658
NBV					
At 31 December 2017	545	519	321	168	1,553

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	Plant & machinery US\$ '000	Motor vehicles US\$ '000	Office furniture & IT equipment US\$ '000	Leasehold improvements US\$ '000	Total US\$ '000
Cost					
At 1 January 2016	4,007	6,773	13,615	3,150	27,545
Additions	785	508	1,056	-	2,349
Disposals	-	(136)	-	(317)	(453)
Transfer	12	173	(205)	20	-
Exchange differences	-	-	(206)	-	(206)
At 31 December 2016	4,804	7,318	14,260	2,853	29,235
Depreciation					
At 1 January 2016	1,710	3,510	9,309	1,413	15,942
Disposals	-	(68)	-	-	(68)
Charged for the year	842	1,316	2,819	567	5,544
Exchange differences	-	-	(150)	-	(150)
At 31 December 2016	2,552	4,758	11,978	1,980	21,268
NBV					
At 31 December 2016	2,252	2,560	2,282	873	7,967
Cost					
At 1 January 2017	4,804	7,318	14,260	2,853	29,235
Addition	408	555	462	75	1,500
Disposals	-	(462)	-	-	(462)
Transfer	-	-	-	-	-
Exchange differences	-	-	(150)	-	(150)
At 31 December 2017	5,212	7,411	14,572	2,928	30,123
Depreciation					
At 1 January 2017	2,552	4,758	11,978	1,980	21,268
Disposal	-	(268)	-	-	(268)
Charge for the year	880	1,224	1,693	398	4,195
Exchange differences	-	-	(150)	-	(150)
At 31 December 2017	3,432	5,714	13,521	2,378	25,045
NBV					
At 31 December 2017	1,780	1,697	1,051	550	5,078

15. Other assets

	2017 ₦ million	2016 ₦ million	2017 \$'000	2016 \$'000
Initial fair value of investment in OML 55 at acquisition date	76,277	76,277	250,090	250,090
Receipts from crude oil lifted	(10,947)	-	(35,794)	-
Fair value adjustment as at 31 December 2017	836	-	2,735	-
Exchange differences	202	-	-	-
Fair value as at 31 December 2017	66,368	76,277	217,031	250,090

Other asset represents the Group's rights to receive the discharge sum of ₦89.9 billion, 2016: ₦100 billion (US\$294 million, 2016: US\$330 million) from the crude oil reserves of OML 55. The asset is measured at fair value through profit or loss (FVTPL) and receipts from crude oil lifted reduce the value of the asset. At each reporting date, the fair value of the discharge sum is determined using the income approach in line with IFRS 13: Fair Value Measurement (discounted cash flow). This asset is categorised within Level 3 of the fair value hierarchy. As at 31 December 2017, the fair value of the discharge sum is ₦66 billion, 2016: ₦76 billion (US\$217 million, 2016: US\$250 million).

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15a. Gain on deconsolidation of subsidiary

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Summary of assets and liabilities derecognised	-	(76,067)	-	(249,410)
Summary of assets and liabilities recognised	-	76,277	-	250,090
Gain on deconsolidation of BelemaOil	-	210	-	680

16. Prepayments

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Non-current				
Tax paid in advance	9,670	9,645	31,623	31,623
Rent	287	608	939	1,993
	9,957	10,253	32,562	33,616
Current				
Rent	211	803	691	2,632
Others	384	1,232	1,257	4,040
	595	2,035	1,948	6,672
Total prepayments	10,552	12,288	34,510	40,288

Included in non-current prepayments are the following:

16a. Tax paid in advance

In 2013 and 2014 Petroleum Profit Tax payments (2013: ₦8.6 billion and 2014: ₦0.88 billion) (2013: US\$28.7 million and 2014: US\$2.9 million) were made by the Group prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Group will be expected to offset it against its tax liability. The current tax liability for the year has been utilised against tax losses brought forward.

16b. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies two in Lagos and one in Delta state. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2018 and 2019 respectively. The rent on the building in Delta state has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2017 is ₦0.2 billion, 2016: ₦0.6 billion (US\$0.9 million, 2016: US\$1.9 million).

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17. Interest in other entities

i) Material subsidiaries

The Group's principal subsidiaries as at 31 Dec 31 December 2017 are set in Note 1. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

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

18. Inventories

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Tubular, casing and wellheads	30,683	32,395	100,336	106,213

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is ₦1.3 billion, 2016: ₦30.6 million (US\$4.3 million, 2016: US\$0.1 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2017.

19. Trade and other receivables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Trade receivables	33,236	22,395	108,685	73,427
Nigerian Petroleum Development Company (NPDC) receivables	34,453	69,776	112,664	228,774
National Petroleum Investment Management Services	3,824	2,511	12,506	8,233
Advances on investments	20,093	20,040	65,705	65,705
Underlift	-	1,372	-	4,498
Advances to suppliers	2,404	2,720	7,861	8,921
Other receivables	894	346	2,924	1,136
	94,904	119,160	310,345	390,694

19a. Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Company (NGC) and Central Bank of Nigeria (CBN) totaling ₦22 billion, 2016: ₦20 billion (US\$72 million, 2016: US\$67 million) with respect to the sale of gas for the Group.

19b. NPDC receivables

NPDC receivables represent the outstanding cash calls due to Seplat from its JV partner, Nigerian Petroleum Development Company. In this reporting period, impairment loss on NPDC receivables were reversed (2016: ₦2.27 billion, US\$10.3 million impairment loss recognised). As at 31 December 2017, the undiscounted value of this receivable is ₦34 billion, 2016: ₦72 billion (US\$113 million, 2016: US\$239 million).

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19c. Advances on investment

This comprises an advance of ₦13.7 billion (US\$45 million) on a potential investment in OML 25 and ₦6 billion (US\$20.5 million) currently held in an escrow account. Proceedings commenced against Newton Energy Limited, a wholly owned subsidiary of Seplat Plc by Crestar Natural resources relating to the ₦6 billion (US\$20.5 million) currently held in an escrow account. The escrow monies relate to the potential acquisition of OML 25 by Crestar which Newton Energy has an option to invest into. These monies were put in escrow in July 2015 pursuant to an agreement reached with Crestar and the vendor on final terms of the transaction.

20. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, short-term deposits with a maturity of three months or less and restricted cash balances.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Cash on hand	3	2	11	7
Restricted cash	19,166	19,887	62,674	65,203
Cash at bank	114,530	28,795	374,527	94,411
Cash and cash equivalents	133,699	48,684	437,212	159,621

At 31 December 2017, cash at bank includes the debt service reserve of ₦19 billion, 2016: ₦19.9 billion (US\$62 million, 2016: US\$65 million) deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest.

21. Share capital

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 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				
563,444,561 (2016: 563,444,561) issued shares denominated in Naira of 50 kobo per share	283	283	1,826	1,826

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21a. Employee share based payment scheme

In 2017, the Company gave share awards of 33,697,792 shares (2016: 25,448,071 shares) to certain employees and senior executives in line with its share based incentive scheme. During the year ended 31 December 2017, no shares were vested. In 2016, 2,868,460 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 561 million to 563 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company subdivided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve. In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

21b. Share based payment reserve

The Group has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016 and 2017 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Group.

Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015 and 2016 bonus (paid in 2015, 2016 and 2017 respectively) has been deferred into shares and is released on 1 June 2017, 1 June 2018 and 20 April 2019 respectively subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

Long Term Incentive Plan (LTIP) awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after 3 years) based on the following conditions.

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Group outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The LTIP awards have been approved by the NSE.

Notes to the consolidated financial statements

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Expense arising from equity-settled share-based payment transactions	1,735	869	5,674	3,406

There were no cancellations to the awards in 2017 or 2016. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of Service Period	End of service period	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non- Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long term incentive Plan	14 December 2015	14 December 2015	09 April 2017	2,173,259
2015 Long term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	247,610
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long term incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
				33,697,792

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2017.

Share award scheme (all awards)	2017 Number	2017 WAEP ₦	2016 Number	2016 WAEP ₦
Outstanding at 1 January	1,540,024	205.87	4,249,000	298.26
Granted during the year	6,665,749	262.45	159,484	356.35
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	15.23
Outstanding at 31 December	8,205,773	251.64	1,540,024	205.87
Exercisable at 31 December	-	-	-	-

Share award scheme (all awards)	2017 Number	2017 WAEP US\$	2016 Number	2016 WAEP US\$
Outstanding at 1 January	1,540,024	0.67	4,249,000	1.50
Granted during the year	6,665,749	0.86	159,484	1.17
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	0.05
Outstanding at 31 December	8,205,773	0.82	1,540,024	0.67
Exercisable at 31 December	-	-	-	-

Notes to the consolidated financial statements

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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.

	2017 Number	2017 WAEP ₦	2016 Number	2016 WAEP ₦
Deferred Bonus Scheme				
Outstanding at 1 January	427,370	399.55	212,701	224.69
*Granted during the year	311,132	428.69	214,669	380.04
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	738,502	412.05	427,370	399.55
Exercisable at 31 December	-	-	-	-

	2017 Number	2017 WAEP US\$	2016 Number	2016 WAEP US\$
Deferred Bonus Scheme				
Outstanding at 1 January	427,370	1.31	212,701	1.13
Granted during the year	311,132	1.40	214,669	1.49
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	738,502	1.35	427,370	1.31
Exercisable at 31 December	-	-	-	-

*In 2017, the Group increased the number of shares attributable to the 2015 Deferred Bonus scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification were determined to be ₦ 380.04 (US\$ 1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted.

The increase in share based payment expense of ₦ 12.7 million (US\$ 41,513) was calculated using the portion of the additional number of shares issued and the fair value per share at the original grant date. The amount is recognised as an expense in the current period until the end of the vesting period. The expense for the original scheme will continue to be recognised as if the terms had not been modified.

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.

	2017 Number	2017 WAEP ₦	2016 Number	2016 WAEP ₦
Long term incentive Plan (LTIP)				
Outstanding at 1 January	14,886,453	253.2	7,460,613	151.12
Granted during the year	7,938,589	367.45	10,294,300	227.10
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	15.23
Outstanding at 31 December	22,825,042	292.25	14,886,453	253.2
Exercisable at 31 December	-	-	-	-

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Long term incentive Plan (LTIP)	2017 Number	2017 WAEP US\$	2016 Number	2016 WAEP US\$
Outstanding at 1 January	14,886,453	0.83	7,460,613	0.76
Granted during the year	7,938,589	1.20	10,294,300	0.89
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	0.05
Outstanding at 31 December	22,825,042	0.96	14,886,453	0.83
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 2017 range from 0.3 to 2.3 years.

The weighted average fair value of awards granted during the year range from ₦366.9 to ₦428.1 (US\$1.20 to US\$1.40).

The exercise prices for options outstanding at the end of the year range from ₦293.5 to ₦412.8 (US\$0.96 to US\$1.35).

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

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

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2017:

	2016 Deferred bonus	2016 LTIP	2017 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	56%	43%
Risk-free interest rate (%)	n/a	0.63%	0.44%
Expected life of share options	1.40	2.35	2.40
Weighted average share price (\$)	1.4	1.497	1.4
Weighted average share price (₦)	428.12	457.78	428.12
Model used	n/a	Monte Carlo	Monte Carlo

21c. Share Premium

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Share premium	82,080	82,080	497,457	497,457

Section 120.2 of Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 requires that where a Company issues shares at premium (i.e. above the par value), the value of the premium should be transferred to share premium.

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22. 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.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Capital contribution	5,932	5,932	40,000	40,000

23. Foreign currency translation reserve

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

24. Interest bearing loans and borrowings

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Non-Current				
Bank borrowings	93,170	136,060	304,677	446,098
Current				
Bank borrowings	81,159	66,489	265,400	217,998
Total borrowings	174,329	202,549	570,077	664,096

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a ₦518 billion (US\$1.7 billion) debt refinancing package, made up of the following facilities:

- ₦214 billion (US\$700 million) seven year term loan with an ability to stretch it to ₦427 billion (US\$1.4billion) contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven year maturity period.
- ₦91 billion (US\$300 million) three year corporate revolving loan primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three year maturity period.

As at 31 December 2017, there were no further draw downs (2016: Nil) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5% to 8.5%. Principal and interest repayments in 2017 were made, the outstanding balance as at 31 December 2017 is ₦176 billion, 2016: ₦206 billion (US\$578 million, 2016: US\$676million).

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

31 December 2017 Term Loan	Interest	Current ₦ million	Non- Current ₦ million	Total ₦ million	Current US\$'000	Non- Current US\$'000	Total US\$'000
SBSA	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
FBN	8.5% + LIBOR	10,070	21,651	31,721	32,931	70,800	103,731
UBA	8.5% + LIBOR	11,402	24,513	35,915	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	18,243	39,221	57,464	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	1,331	2,862	4,193	4,353	9,359	13,712
		44,464	95,593	140,057	145,401	312,599	458,000

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

31 December 2017		Current Non-Current		Total	Current Non-Current		Total
Corporate loan	Interest	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
Citibank Nigeria Limited	6% + LIBOR	4,280	-	4,280	14,000	-	14,000
Firststrand Bank Limited Acting	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Nedbank Limited, London Branch	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Standard Chartered Bank	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Natixis	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Stanbic Ibtch Bank Plc	6% + LIBOR	2,751	-	2,751	9,000	-	9,000
The Standard Bank Of South Africa	6% + LIBOR	3,974	-	3,974	13,000	-	13,000
		36,683	-	36,683	120,000	-	120,000

31 December 2016		Current Non-Current		Total	Current Non-Current		Total
Term Loan	Interest	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
SBSA	8.5% + LIBOR	504	5,368	5,872	1,652	17,601	19,253
Stanbic	8.5% + LIBOR	504	5,368	5,872	1,652	17,601	19,253
FBN	8.5% + LIBOR	3,363	35,821	39,184	11,026	117,445	128,471
UBA	8.5% + LIBOR	3,363	35,821	39,184	11,026	117,445	128,471
Zenith Bank	8.5% + LIBOR	5,381	57,313	62,694	17,642	187,910	205,552
		13,115	139,691	152,806	42,998	458,002	501,000

31 December 2016		Current Non-Current		Total	Current Non-Current		Total
Corporate loan	Interest	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
Citibank Nigeria Limited	6% + LIBOR	8,006	-	8,006	26,250	-	26,250
Firststrand Bank Limited Acting	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
JPMorgan Chase Bank N A London	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
Nedbank Limited, London Branch	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
Bank Of America Merrill Lynch	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
Standard Chartered Bank	6% + LIBOR	8,006	-	8,006	26,250	-	26,250
Natixis	6% + LIBOR	8,006	-	8,006	26,250	-	26,250
Stanbic Ibtch Bank Plc	6% + LIBOR	4,002	-	4,002	13,125	-	13,125
The Standard Bank Of South Africa	6% + LIBOR	4,002	-	4,002	13,125	-	13,125
		53,374	-	53,374	175,000	-	175,000

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	2017	2016	2017	2016
Loans	₦ million	₦ million	US\$'000	US\$'000
Term loan	140,057	152,806	458,000	501,000
Corporate loan	36,683	53,374	120,000	175,000
Less: Capitalised loan transaction costs	(2,411)	(3,631)	(7,923)	(11,904)
	174,329	202,549	570,077	664,096

Below is the net debt reconciliation on 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 2017	66,489	136,060	202,549	217,998	446,098	664,096
Effective interest	22,430	-	22,430	73,347	-	73,347
Effect of loan restructuring	(8,807)	8,807	-	(28,798)	28,798	-
Reclassification	52,055	(52,055)	-	170,219	(170,219)	-
Principal repayment	(29,970)	-	(29,970)	(98,000)	-	(98,000)
Interest repayment	(21,213)	-	(21,213)	(69,366)	-	(69,366)
Exchange differences	175	358	533	-	-	-
Balance as at 31 December 2017	81,159	93,170	174,329	265,400	304,677	570,077

25. Contingent consideration

	₦ million	US\$ '000
At 1 January 2016	4,355	21,900
Fair value loss	596	2,614
Additions	-	-
Deconsolidation of subsidiary	(3,805)	(12,474)
Exchange differences	2,526	-
At 31 December 2016	3,672	12,040
At 1 January 2017	3,672	12,040
Fair value loss	568	1,860
Additions	-	-
Exchange differences	11	-
At 31 December 2017	4,251	13,900

In 2016, the Group derecognised the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of ₦5.6 billion (US\$18.5 million) for OML 53 is being recognised at the fair value of ₦4.3 billion, 2016: ₦3.6 billion (US\$ 13.9 million, 2016: US\$12 million). This is contingent on oil price rising above US\$90 (₦27,522)/bbl. over the next three years.

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26. Provision for decommissioning obligation

	₦ million	US\$ '000
At 1 January 2016	769	3,869
Unwinding of discount due to passage of time	105	480
Deconsolidation of subsidiary	10	(32)
Change in estimate	(1,135)	(3,720)
Exchange differences	433	-
At 31 December 2016	182	597
At 1 January 2017	182	597
Unwinding of discount due to passage of time	29	96
Change in estimate	32,299	105,619
At 31 December 2017	32,510	106,312

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 2047 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2027 to 2047. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

Following the review of the current assumptions for the year ended 31 December 2017, the risk-free discount rate and inflation rate were adjusted to reflect economic reality in the primary economic environment in which the Group operates.

As a result the change in estimate in the current year for the Group amounted to ₦32.3 billion, 2016: ₦1.1 billion (US\$105.6 million, 2016: US\$3.7million)

	Current estimated life span of reserves	
	2017 In years	2016 In years
Seplat Petroleum Development Company:	2027	2045
OML 4	2034	2056
OML 38	2027 - 2034	2052
OML 41	2034	2066
Newton Energy Limited (OPL 283)	2027 - 2047	2045
Seplat East Onshore Ltd (OML 53)	2041 - 2043	2054

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27. Employee benefit obligation

27a. 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 2017 was ₦55 million, 2016: ₦127 million (US\$180,462 2016: US\$419,005)

27b. Defined benefit plan

The Group commenced its unfunded defined benefit plan (gratuity) in July 2015. The Group makes provisions for gratuity for employees from day one of employment in the Group. The employee qualifies to receive the gratuity after five years of continuous service. The employee's entitlement to the accrued benefits occurs on retirement from the Group. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on an independent actuarial valuation performed by Logic Professional Services (LPS) using the projected unit credit method.

The Group does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

i) Liability recognised in the financial position

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Defined benefit obligation	1,994	1,559	6,518	5,112

ii) Amount recognised in profit or loss

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Present value of obligation				
Current service cost	444	474	1,451	1,554
Past service cost due to curtailment	(180)	-	(589)	-
Interest cost on benefit obligation	238	162	779	530
	502	636	1,641	2,084

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:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Charged to receivables	-	396	-	1,146
Charged to profit or loss	502	240	1,641	938
	502	636	1,641	2,084

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Remeasurement losses/(gains) due to changes in financial and demographic assumptions	172	(558)	561	(1,829)
Remeasurement (gains)/losses due to experience adjustment	(82)	177	(267)	578
	90	(381)	294	(1,251)

The Group recognises a part of the remeasurement gains/losses in other comprehensive income and recharges/credits the other part to its joint operations partners, this is recognised as a receivable from the partners. Below is the breakdown:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Credited to receivables	-	(209)	-	(688)
Credited to other comprehensive income	90	(172)	294	(563)
	90	(381)	294	(1,251)

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Defined benefit obligation as at 1 January	1,559	1,377	5,112	6,926
Current service cost	444	474	1,451	1,554
Past service cost due to curtailment	(180)	-	(589)	-
Interest cost	238	162	779	530
Remeasurement losses/(gains)	90	(381)	294	(1,251)
Benefits paid by the employer	(163)	(74)	(532)	(242)
Exchange differences	6	1	3	(2,405)
Defined benefit obligation at 31 December	1,994	1,559	6,518	5,112

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

	2017 %	2016 %
Discount rate	14	16
Average future pay increase	12	13
Average future rate of inflation	12	12

a) Mortality in service

	Number of deaths in year out of 10,000 lives	
Sample age	2017	2016
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

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b) Withdrawal from service

Age band	Rates	
	2017	2016
Less than or equal to 30	1.0%	1.0%
31 - 39	1.5%	1.5%
40 - 44	1.5%	1.5%
45 - 55	1.0%	1.0%
56 - 60	0.0%	0.0%

c) A quantitative sensitivity analysis for significant assumption as at 31 December 2017 is as shown below:

Assumptions	Base	Discount Rate		Salary increases		Mortality	
		1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2017	1,994	(215)	253	266	(229)	27	(28)
31 December 2016	1,559	(145)	170	180	(156)	9	(9)

Assumptions	Base	Discount Rate		Salary increases		Mortality	
		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 2017	6,518	(704)	828	869	(749)	88	(91)
31 December 2016	5,112	(476)	556	591	(511)	31	(30)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Within the next 12 months (next annual reporting period)	70	111	228	364
Between 2 and 5 years	926	887	3,028	2,909
Between 5 and 10 years	3,796	2,413	12,412	7,912
	4,792	3,411	15,668	11,185

The weighted average liability duration for the Plan is 11.96 years. The longest weighted duration for Nigerian Government bond as at 31 December 2017 was about 6.37 years with a gross redemption yield of about 14.12%.

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d) Risk exposure

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

i) Liquidity risk

The plan liabilities are unfunded and as a result, there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long term asset values and a rise in liability values.

iii) Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

28. Trade and other payables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Trade payable	19,191	32,983	62,758	108,140
Accruals and other payables	45,570	25,447	149,020	83,430
Pension payable	55	127	180	419
NDDC levy	2,564	6	8,383	19
Deferred revenue	41,970	10,727	137,248	35,171
Royalties	16,209	10,476	53,004	34,349
	125,559	79,766	410,593	261,528

Included in accruals and other payables are field-related accruals of ₦17.1 billion, 2016: ₦10.7 billion (US\$56 million, 2016: US\$35 million) and other vendor payables of ₦28.7 billion, 2016: ₦14.9 billion (US\$94 million, 2016: US\$49 million). Deferred revenue includes advance payments for crude oil sales of ₦41 billion, 2016: ₦10 billion (US\$136 million, 2016: US\$34 million) and royalties include accruals in respect of gas sales for which payment is outstanding at the end of the year.

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29. Earnings/(loss) per share (EPS/LPS)

Basic

Basic EPS/LPS 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

Diluted EPS/LPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from outstanding share awards in the share based payment scheme) into ordinary shares.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Profit/(loss) for the year attributable to equity holders of the parent	81,111	(44,921)	265,230	(164,590)
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	563,445	563,445	563,445
Share awards	8,206	1,540	8,206	1,540
Weighted average number of ordinary shares adjusted for the effect of dilution	571,651	564,985	571,651	564,985
	₦	₦	US\$	US\$
Basic earnings/(loss) per share	143.96	(79.73)	0.47	(0.29)
Diluted earnings/(loss) per share	141.89	(79.51)	0.46	(0.29)
	₦ million	₦ million	US\$ '000	US\$ '000
Profit/(loss) attributable to equity holders of the parent	81,111	(44,921)	265,230	(164,590)
Profit/(loss) used in determining diluted earnings/(loss) per share	81,111	(44,921)	265,230	(164,590)

30. Dividends paid and proposed

As at 31 December 2017, final dividend proposed was nil for the Group (2016: Nil).

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2017: US\$ Nil per share, 563,444,561 shares in issue (2016: ₦9.13, US\$ 0.04 per share, 563,444,561 shares in issue)	-	5,118	-	22,534
Final dividend for 2017: US\$ Nil per share, 563,444,561 shares in issue (2016: : ₦Nil, US\$ Nil per share, 563,444,561 shares in issue)	-	-	-	-
Total		5,118	-	22,534
Proposed dividends on ordinary shares:				
Total cash dividend for 2017: ₦ Nil (US\$ Nil) per share (2016: ₦ Nil, US\$ 0.04 per share)		5,118	-	22,423

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31. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). The parent Company is owned 8.39% either directly or by entities controlled by A.B.C Orjiako (SPDCL(BVI)) and members of his family and 13.23% 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.

31a. Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: the Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Berwick Nigeria Limited: The chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent Company. The company provides drilling rigs and drilling services to Seplat.

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

Helko Nigeria Limited: The chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Stage leasing (Ndosumili Ventures Limited): is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

Nerine Support Services Limited: Is owned by common shareholders with the parent company. Seplat leases a warehouse from Nerine and the company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

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

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

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The following transactions were carried by Seplat with related parties:

31b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Shareholders of the parent company				
SPDCL (BVI)	413	358	1,350	1,364
Total	413	358	1,350	1,364
Entities controlled by key management personnel:				
Contracts > \$1million in 2017				
Nerine Support Services Limited*	2,161	3,948	7,066	14,991
Cardinal Drilling Services Limited	1,001	1,543	3,272	6,931
Helko Nigeria Limited	444	560	1,453	1,976
	3,606	6,051	11,791	23,898
Contracts < \$1million in 2017				
Montego Upstream Services Limited	131	2,937	427	13,513
Abbeycourt Trading Company Limited	199	164	650	598
Oriental Catering Services Limited	159	148	520	579
Keco Nigeria Enterprises	110	77	361	259
ResourcePro Inter Solutions Limited	9	17	31	81
Nabila Resources & Investment Ltd	-	17	-	58
Berwick Nigeria Limited	-	6	-	28
Neimeth International Pharmaceutical Plc	1	3	2	10
Charismond Nigeria Limited	17	-	55	-
Stage leasing(formerly Ndosumuli Venture Limited)	171	422	560	1,729
	797	3,791	2,606	16,855
	4,403	9,842	14,397	40,753

* Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e. it includes salaries and Nerine's mark-up. Total costs for agency and contracts during 2017 is ₦1.4 billion, 2016: ₦2.4 billion (US\$4.6 million, 2016: US\$7.9million).

31c. Balances:

Year-end balances arising from related party transactions

i) Prepayments / receivables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Entities controlled by key management personnel				
Cardinal Drilling Services Limited - current portion	1,681	1,894	5,498	6,211
Cardinal Drilling Services Limited - non-current portion	-	-	-	-
	1,681	1,894	5,498	6,211

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ii) Payables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Entities controlled by key management personnel				
Montego Upstream Services Limited	115	3,520	375	11,540
Nerine Support Services Limited	2	3,480	8	11,411
Keco Nigeria Enterprises	8		25	-
Cardinal Drilling Services Limited	292	308	954	1,009
	417	7,308	1,362	23,960

32. Information relating to employees

32a. 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:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Salaries and other short-term employee benefits	5,221	1,252	17,117	4,104
Post-employment benefits	53	214	172	700
Share based payment expenses	87	88	283	289
	5,361	1,554	17,572	5,093

32b. Chairman and Directors' emoluments

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Chairman (Non-executive)	342	279	1,118	1,116
Chief Executive Officer	476	405	1,557	1,644
Executive Directors	284	458	928	1,858
Non-Executive Directors	580	662	1,897	2,652
Bonus*	632	-	2,067	-
JV Partner Share	(418)	(587)	(1,367)	(1,926)
Total	1,896	1,217	6,200	5,344

*This relates to 2017 accrued bonus to be paid in 2018 and 2016 bonus paid in 2017. Out of this amount, ₦401 million, 2016: nil million (US\$1.3 million, 2016: US\$ nil million) relates to 2017 accrued bonus to be paid in 2018 and ₦231 million, 2016: ₦nil million (US\$0.7 million, 2016: US\$ nil) relates to 2016 bonus accrued and paid in 2017.

32c. Highest paid Director

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Highest paid Director	476	405	1,557	1,644

Emoluments are inclusive of income taxes.

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32d. The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	2017 Number	2016 Number
Zero - ₦ 19,878,000	-	-
₦19,878,001 - ₦115,597,000	8	7
₦115,597,001 - ₦157,799,000	1	1
Above ₦157,799,000	3	3
	12	11

	2017 Number	2016 Number
Zero - US\$65,000	-	-
US\$65,001 - US\$378,000	8	7
US\$378,001 - US\$516,000	1	1
Above US\$516,000	3	3
	12	11

32e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,988,000 (US\$6,500), received remuneration (excluding pension contributions) in the following ranges:

	2017 Number	2016 Number
₦1,988,000 - ₦4,893,000	7	1
₦4,893,001 - ₦9,786,000	21	33
₦9,786,001 - ₦14,679,000	102	136
Above ₦14,679,000	269	220
	399	390

	2017 Number	2016 Number
US\$6,500 - US\$16,000	7	1
US\$16,001 - US\$32,000	21	33
US\$32,001 - US\$48,000	102	136
Above US\$48,000	269	220
	399	390

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32f. The average number of persons (excluding Directors) in employment during the year was as follows:

	2017 Number	2016 Number
Senior management	33	15
Managers	65	78
Senior staff	162	110
Junior staff	145	187
	405	390

32g. Employee cost

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Salaries & wages	5,326	9,330	17,417	20,055
	5,326	9,330	17,417	20,055

33. Commitments and contingencies

33a. Operating lease commitments - Group as lessee

The Group leases drilling rigs, buildings, land, boats and storage facilities. The lease terms are between 1 and 5 years. The operating lease commitments of the Group as at 31 December 2017 are:

Operating lease commitments	As at 31 Dec 2017 ₦ million	As at 31 Dec 2016 ₦ million	As at 31 Dec 2017 \$'000	As at 31 Dec 2016 \$'000
Not later than one year	728	308	2,382	1,011
Later than one year and not later than five years	565	1,146	1,846	3,757
	1,293	1,454	4,228	4,768

33b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2017 is ₦57 billion, 2016: ₦4.7 billion (US\$ 187 million, 2016: US\$15.5 million). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

Notes to the consolidated financial statements

Continued

34. Events after the reporting period

The Group confirmed that proceedings have begun in the English High Court against its wholly owned subsidiary, Newton Energy Limited, by Crestar Natural Resources Limited, relating to the deposit of ₦6.2 billion (US\$20.5 million) currently held in an escrow account.

The potential acquisition of an interest in OML 25 was initially identified in 2014 at which time the Group placed a sum of ₦138 billion (US\$453million) as a deposit towards the potential investment. However, after material delays, ₦112 billion (US\$368 million) was returned to the Group in July 2015, certain events then led to renewed efforts by the consortium to secure the asset and to the Group providing the escrow monies. See Note 19c for further details.

Furthermore, the Group paid ₦3.4 billion (US\$11 million) to Crestar for past costs and a ₦13.7 billion (US\$45 million) deposit remains with the potential vendor of the asset. Crestar alleges bad faith conduct by Seplat's subsidiary, Newton Energy Limited with regards to the Group's request for the escrow monies to be released to Seplat. Seplat has emphasised that it intends to defend the claim vigorously and further announcement, if appropriate, will be made in due course.

On 1 February, 2018, the issued share capital increased by 25,000,000 shares in furtherance of the Group's Long Term Incentive Plan after approval was received from the regulators. Seplat's share capital now consists of 588,444,561 ordinary shares of ₦0.50k each, all with voting rights.

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2016 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

Statement of value added

For the year ended 31 December 2017

	2017 ₦ million	%	2016 ₦ million	%	2017 US\$'000	%	2016 US\$'000	%
Revenue	138,281		63,384		452,179		254,217	
Finance income	1,326		15,800		4,335		59,017	
Cost of goods and other services:								
Local	(41,757)		(52,735)		(136,543)		(198,817)	
Foreign	(27,838)		(35,157)		(91,028)		(132,544)	
Valued added/(eroded)	70,012	100%	(8,708)	100%	228,943	100%	(18,127)	100%

Applied as follows:

	2017 ₦ million	%	2016 ₦ million	%	2017 US\$'000	%	2016 US\$'000	%
To employees:								
- as salaries and labour related expenses	7,925	11	5,340	-61	25,917	11	20,869	-115
To external providers of capital:								
- as interest	22,248	32	18,270	-210	72,752	32	73,900	-408
To Government:								
- as Group taxes	687	1	536	-6	2,248	1	1,759	-10
Retained for the Group's future:								
- For asset replacement, depreciation, depletion & amortisation	26,385	38	15,101	-173	86,277	38	59,870	-330
Deferred tax credit	(68,344)	-98	(2,571)	30	(223,481)	-98	(8,431)	47
Profit/(loss) for the year	81,111	116	(45,384)	521	265,230	116	(166,094)	916
Valued added/(eroded)	70,012	100%	(8,708)	100%	228,943	100%	(18,127)	100%

The value added/(eroded) represents the additional wealth which the Group has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the creation of future wealth.

Five year financial summary

As at 31 December 2017

	2017	2016	2015	2014	2013
	₦ million	₦ million	₦ million	₦ million	₦ million
Revenue	138,281	63,384	112,972	124,377	136,658
Profit/(loss) before taxation	13,454	(47,419)	17,243	40,481	71,032
Income tax expense	67,657	2,035	(4,252)	-	14,399
Profit/(loss) for the year	81,111	(45,384)	12,991	40,481	85,431

	2017	2016	2015	2014	2013
	₦ million	₦ million	₦ million	₦ million	₦ million
Capital employed:					
Issued share capital	283	283	282	277	200
Share premium	82,080	82,080	82,080	82,080	-
Share based payment reserve	4,332	2,597	1,729	-	-
Capital contribution	5,932	5,932	5,932	5,932	5,932
Retained earnings	166,149	85,052	134,919	135,727	106,992
Foreign translation reserve	200,870	200,429	56,182	35,642	591
Non-controlling interest	-	-	(148)	-	-
Total equity	459,646	376,373	280,976	259,658	113,715
Represented by:					
Non-current assets	539,672	462,402	295,735	182,162	107,852
Current assets	259,881	202,274	249,462	261,864	96,712
Non-current liabilities	(131,925)	(141,473)	(131,786)	(48,247)	(22,391)
Current liabilities	(207,982)	(146,830)	(132,435)	(136,121)	(68,458)
Net assets	459,646	376,373	280,976	259,658	113,715

Five year financial summary

As at 31 December 2017

	2017	2016	2015	2014	2013
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	452,179	254,217	570,477	775,019	880,227
Profit/(loss) before taxation	43,997	(172,766)	87,079	252,253	457,523
Income tax expense	221,233	6,672	(21,472)	-	92,745
Profit/(loss) for the year	265,230	(166,094)	65,607	252,253	550,268

	2017	2016	2015	2014	2013
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Capital employed:					
Issued share capital	1,826	1,826	1,821	1,798	1,334
Share premium	497,457	497,457	497,457	497,457	-
Share based payment reserve	17,809	12,135	8,734	-	-
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	944,108	678,922	865,483	869,861	690,807
Foreign currency translation reserve	1,897	3,675	325	26	58
Non-controlling interest	-	-	(745)	-	-
Total equity	1,503,097	1,234,015	1,413,075	1,409,142	732,199
Represented by:					
Non-current assets	1,764,789	1,516,073	1,487,307	988,576	694,558
Current assets	849,841	663,200	1,254,583	1,421,114	623,003
Non-current liabilities	(431,407)	(463,847)	(662,774)	(261,834)	(144,271)
Current liabilities	(680,126)	(481,411)	(666,041)	(738,714)	(441,091)
Net assets	1,503,097	1,234,015	1,413,075	1,409,142	732,199

Supplementary financial information (unaudited)

For the year ended 31 December 2017

35. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 31 December 2016	195.4	1,544.1	461.6
Revisions	37.3	(46.6)	29.3
Discoveries and extensions	-	-	-
Acquisitions	-	-	-
Production	(6.5)	(41.8)	(13.6)
At 31 December 2017	226.2	1,455.7	477.3

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.

36. Capitalised costs related to oil producing activities

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Capitalised costs:				
Unproved properties	-	-	-	-
Proved properties	508,314	463,043	1,662,243	1,518,174
Total capitalised costs	508,314	463,043	1,662,243	1,518,174
Accumulated depreciation	114,937	89,601	375,856	293,774
Net capitalised costs	393,377	373,442	1,286,387	1,224,400

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.

37. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2017 are:

		Original	Term in years expired	Unexpired
Seplat	OML 4, 38 & 41	10	8	2
Newton	OML 56	10	8	2
Seplat East Swamp	OML 53	30	20	10
Seplat Swamp	OML 55	30	20	10

Supplementary financial information (unaudited)

For the year ended 31 December 2017 - continued

38. Results of operations for oil producing activities

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Revenue	138,281	63,384	452,179	254,217
Other income	-	-	-	-
Production and administrative expenses	(99,725)	(97,120)	(326,100)	(372,657)
Depreciation & amortisation	(25,102)	(13,683)	(82,082)	(54,326)
Profit/(loss) before taxation	13,454	(47,419)	43,997	(172,766)
Taxation	67,657	2,035	221,233	6,672
Profit/(loss) after taxation	81,111	(45,384)	265,230	(166,094)

39. Reclassification

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

40. Exchange rates used in translating the accounts to Naira

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

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

Company Accounts

For the year ended 31 December 2017

(Expressed in Naira and US Dollars)

Separate financial statements

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2017

		31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	Notes	₦ million	₦ million	US\$ '000	US\$ '000
Revenue	5	127,655	51,995	417,428	202,446
Cost of sales	6	(67,666)	(36,048)	(221,258)	(157,333)
Gross profit		59,989	15,947	196,170	45,113
General and administrative expenses	7	(15,321)	(23,017)	(50,095)	(92,629)
Gains/(losses) on foreign exchange (net)	8	334	(29,537)	1,092	(104,328)
Fair value loss	9	(5,931)	(2,186)	(19,393)	(12,455)
Operating profit/ (loss)		39,071	(38,793)	127,774	(164,299)
Finance income	10	11,924	26,846	38,992	94,139
Finance costs	10	(22,236)	(17,314)	(72,710)	(68,751)
Profit/(loss) before taxation		28,759	(29,261)	94,056	(138,911)
Taxation	11	67,657	4,421	221,233	14,499
Profit/(loss) for the year		96,416	(24,840)	315,289	(124,412)
Other comprehensive income:					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		1,027	147,881	-	-
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	25b	(90)	172	(294)	563
Deferred tax assets on remeasurement of post-employment benefit obligations	12a	76	-	250	-
Remeasurement of post-employment benefit obligations (net of tax)		(14)	172	(44)	563
Other comprehensive income for the year(net of tax)		1,013	148,053	(44)	563
Total comprehensive income/(loss) for the year(net of tax)		97,429	123,213	315,245	(123,849)
Earnings/(Loss) per share for (loss)/profit attributable to the ordinary equity holders of the Company:					
Basic earnings/(loss) per share ₦/(US\$)	27	171.12	(44.09)	0.56	(0.22)
Diluted earnings/(loss) per share ₦/(US\$)	27	168.66	(43.97)	0.55	(0.22)

Notes 1 to 32 on pages 116 to 181 are an integral part of the financial statements.

Separate financial statements

Statement of financial position

As at 31 December 2017

	Notes	31 Dec 2017 ₦ million	31 Dec 2016 ₦ million	31 Dec 2017 US\$ '000	31 Dec 2016 US\$ '000
ASSETS					
Non-current assets					
Oil & gas properties	14a	278,841	264,626	911,839	867,627
Other property, plant and equipment	14b	1,537	2,414	5,025	7,914
Prepayments	15	9,957	10,253	32,562	33,616
Deferred tax assets	12	68,417	-	223,731	-
Investment in subsidiaries	16	345	325	1,129	1,064
Total non-current assets		359,097	277,618	1,174,286	910,221
Current assets					
Inventories	17	29,576	31,295	96,719	102,608
Trade and other receivables	18	327,528	326,046	1,071,044	1,069,003
Prepayments	15	513	1,983	1,674	6,500
Cash and cash equivalents	19	117,220	44,950	383,321	147,377
Total current assets		474,837	404,274	1,552,758	1,325,488
Total assets		833,934	681,892	2,727,044	2,235,709
EQUITY AND LIABILITIES					
Equity					
Issued share capital	20	283	283	1,826	1,826
Share premium	20c	82,080	82,080	497,457	497,457
Share based payment reserve	20b	4,332	2,597	17,809	12,135
Capital contribution	21	5,932	5,932	40,000	40,000
Retained earnings		203,072	106,670	1,045,985	730,740
Foreign currency translation reserve		194,526	193,499	-	-
Total shareholders' equity		490,225	391,061	1,603,077	1,282,158
Non-current liabilities					
Interest bearing loans and borrowings	23	93,170	136,060	304,677	446,098
Provision for decommissioning obligation	24	30,716	103	100,447	339
Defined benefit plan	25	1,994	1,559	6,518	5,112
Total non-current liabilities		125,880	137,722	411,642	451,549
Current liabilities					
Interest bearing loans and borrowings	23	81,159	66,489	265,400	217,998
Trade and other payables	26	135,406	86,045	442,792	282,119
Current taxation	11	1,264	575	4,133	1,885
Total current liabilities		217,829	153,109	712,325	502,002
Total liabilities		343,709	290,831	1,123,967	953,551
Total shareholders' equity and liabilities		833,934	681,892	2,727,044	2,235,709

Notes 1 to 32 on pages 116 to 181 are an integral part of the financial statements

Separate statement of financial position continued

As at 31 December 2017

The financial statements of Seplat Development Company Plc for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 28 February 2018 and were signed on its behalf by:



A. B. C. Orjiako
FRC/2013/IODN/00000003161
Chairman
28 February 2018



A. O. Avuru
FRC/2013/IODN/00000003100
Chief Executive Officer
28 February 2018



R.T. Brown
FRC/2014/ANAN/00000017939
Chief Financial Officer
28 February 2018

Separate financial statements

Statement of changes in equity

For the year ended 31 December 2017

		Issued Share Capital	Share Premium	Capital Contribution	Share Based Payment Reserve	Retained Earnings	Foreign currency translation reserve	Total Equity
	Notes	₦ million	₦ million	₦ million	₦ million	₦ million	₦ million	₦ million
At 1 January 2016		282	82,080	5,932	1,729	136,456	45,618	272,097
Loss for the year		-	-	-	-	(24,840)	-	(24,840)
Other comprehensive income		-	-	-	-	172	147,881	148,053
Total comprehensive (loss) for the year		-	-	-	-	(24,668)	147,881	123,213
Transactions with owners in their capacity as owners:								
Dividends	28	-	-	-	-	(5,118)	-	(5,118)
Share based payments	20b	-	-	-	869	-	-	869
Issue of shares	20b	1	-	-	(1)	-	-	-
Total		1	-	-	868	(5,118)	-	(4,249)
At 31 December 2016		283	82,080	5,932	2,597	106,670	193,499	391,061
At 1 January 2017		283	82,080	5,932	2,597	106,670	193,499	391,061
Profit for the year	-	-	-	-	-	96,416	-	96,416
Other comprehensive (loss)/income	-	-	-	-	-	(14)	1,027	1,013
Total comprehensive income/(loss) for the year		-	-	-	-	96,402	1,027	97,429
Transactions with owners in their capacity as owners:								
Share based payments	25b	-	-	-	1,735	-	-	1,735
Total		-	-	-	1,735	-	-	1,735
At 31 December 2017		283	82,080	5,932	4,332	203,072	194,526	490,255

Notes 1 to 32 on pages 116 to 181 are an integral part of the financial statements.

Separate financial statements

Statement of changes in equity continued

For the year ended 31 December 2017

		Issued Share Capital	Share Premium	Capital Contribution	Share Based Payment Reserve	Retained Earnings	Total Equity
	Notes	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2016		1,821	497,457	40,000	8,734	877,123	1,425,135
Loss for the year		-	-	-	-	(124,412)	(124,412)
Other comprehensive income		-	-	-	-	563	563
otal comprehensive (loss) for the year		-	-	-	-	(123,849)	(123,849)
Transactions with owners in their capacity as owners:							
Dividends	28	-	-	-	-	(22,534)	(22,534)
Share based payments	20b	-	-	-	3,406	-	3,406
Issue of shares	20b	5	-	-	(5)	-	-
Total		5	-	-	3,401	(22,534)	(19,128)
At 31 December 2016		1,826	497,457	40,000	12,135	730,740	1,282,158
At 1 January 2017		1,826	497,457	40,000	12,135	730,740	1,282,158
Profit for the year		-	-	-	-	315,289	315,289
Other comprehensive loss		-	-	-	-	(44)	(44)
Total comprehensive income/(loss) for the year		-	-	-	-	315,245	315,245
Transactions with owners in their capacity as owners:							
Share based payments	25b	-	-	-	5,674	-	5,674
Total		-	-	-	5,674	-	5,674
At 31 December 2017		1,826	497,457	40,000	17,809	1,045,985	1,603,077

Notes 1 to 32 on pages 116 to 181 are an integral part of the financial statements.

Separate statement of cash flows

For the year ended 31 December 2017

	Notes	31 Dec 2017 ₦ million	31 Dec 2016 ₦ million	31 Dec 2017 US\$ '000	31 Dec 2016 US\$ '000
Cash flows from operating activities					
Cash generated from operations	13	118,577	37,258	387,760	156,907
Receipts from derivatives		-	3,275	-	10,739
Defined benefits paid		(163)	(74)	(532)	(242)
Net cash inflows from operating activities		118,414	40,459	387,228	167,404
Cash flows from investing activities					
Investment in oil and gas properties		(4,818)	(15,805)	(15,756)	(51,834)
Investment in other property, plant and equipment		(441)	(992)	(1,442)	(2,352)
Investment in subsidiary	16	(20)	-	(65)	-
Proceeds from disposal of other property plant and equipment		50	151	162	385
Proceeds from sale of other asset		-	-	-	-
Interest received		11,924	26,846	38,992	1,644
Net cash inflows/(outflows) from investing activities		6,695	10,200	21,891	(52,157)
Cash flows from financing activities					
Repayments of bank financing		(29,970)	(43,774)	(98,000)	(187,000)
Dividends paid		-	(5,118)	-	(22,534)
Interest paid on bank financing		(21,213)	(17,227)	(69,366)	(68,421)
Interest paid on crude oil advances		(1,770)	-	(5,789)	-
Net cash inflows/(outflows) from financing activities		(52,953)	(66,119)	(173,155)	(277,955)
Net increase/(decrease) in cash and cash equivalents		72,156	(15,460)	235,964	(162,708)
Cash and cash equivalents at beginning of year		44,950	62,908	147,377	316,374
Effects of exchange rate changes on cash and cash equivalents		114	(2,498)	(20)	(6,289)
Cash and cash equivalents at end of year	19	117,220	44,950	383,321	147,377

Notes 1 to 32 on pages 116 to 181 are an integral part of the financial statements.

Notes to the separate financial statements

1. Corporate information and business

Seplat Petroleum Development Company Plc ('Seplat' or the 'Company') was incorporated on 17 June 2009 as a private limited liability company and re-registered as a public company on 3 October 2014, under the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004. The Company commenced operations on 1 August 2010. The Company is principally engaged in oil and gas exploration and production.

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

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

OML 4, OML 38 and OML 41 located in Nigeria. The total purchase price for these assets was US\$340 million (₦ 104 billion) paid at the completion of the acquisition on 31 July 2010 and a contingent payment of US\$33 million (₦ 10 billion) payable 30 days after the second anniversary, 31 July 2012, if the average price per barrel of Brent Crude oil over the period from acquisition up to 31 July 2012 exceeds US\$80 (₦ 24,464) per barrel. US\$358.6 million (₦ 110 billion) was allocated to the producing assets including US\$18.6 million (₦ 5.7 billion) as the fair value of the contingent consideration as calculated on acquisition date. The contingent consideration of US\$33 million (₦ 10 billion) was paid on 22 October 2012.

Notes to the separate financial statements

Continued

2. Summary of significant accounting policies

2.1 Introduction to summary of significant accounting policies

During the reporting period ended 31 December 2017, the Company renegotiated its lending arrangements resulting in a twelve month extension of its revolving credit facility till 31 December 2018. Force majeure was also lifted in the period and as a result the Company significantly increased its production volumes. The Company continued its efforts towards securing alternative evacuation routes to ensure sustained growth in production volumes.

Resumption of exports via the Forcados terminal, has strengthened the Company's financial performance and position during the period ended 31 December 2017.

2.2 Basis of preparation

i) Compliance with IFRS

The financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). Additional information required by National regulations is included where appropriate.

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

ii) Historical cost convention

The financial information has been prepared under the going concern assumption and historical cost convention, except financial instruments on initial recognition measured at fair value. The financial statements are presented in Nigerian Naira and US Dollars and all values are rounded to the nearest thousand (₦'million and US\$'000), 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 twelve months from the date of this statement.

iv) New and amended standards adopted by the Company

There were a number of new standards and amendments to standards that are effective for annual periods beginning after 1 January 2017; the Company has adopted these new or amended standards in its financial statements. The nature and impact of the new standards and amendments to the standards are described below.

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

a. Disclosure initiative - Amendments to IAS 7

The Company is now required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets are included in this disclosure if the cash flows were, or are, included in cash flows from financing activities. This is the case, for example, for assets that hedge liabilities arising from financing liabilities.

The Company may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items are disclosed separately from the changes in liabilities arising from financing activities.

Notes to the separate financial statements

Continued

The Company discloses this information in tabular format as a reconciliation from opening and closing balances. There were no other standards adopted that had a material impact on the financial statements.

The Company discloses this information in Note 23.

v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 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.

Title of standard	IFRS 9 Financial Instruments
Nature of change	IFRS 9 Financial instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.
Impact	The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:
Impact	Classification and measurement: From the results, the Company does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets which are all currently classified as loans and receivables and are measured at amortised cost. IFRS 9 retains but simplifies the mixed measurement model and establishes three (3) primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The financial assets currently classified as loans and receivables in the financial statement will satisfy the conditions for classification at amortised cost under IFRS 9. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect financial liabilities that are designated at fair value through profit or loss and the Company does not have such liabilities. The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. Impairment of financial assets: The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) which considers more forward looking information in establishing a provision for impairment. It applies to financial assets classified at amortised cost and contract assets under IFRS 15: Revenue from Contracts with Customers. Based on assessments undertaken on the Company's portfolio of impaired NPDC receivables, it estimates that on adoption of the new principles on 1 January 2018, loss allowance for NPDC receivables would increase by approximately US\$1.6 million (£489 million) at that date and retained earnings would decrease by the same amount. The loss allowance is an estimated value which is subject to change in the 2018 financial statements. Hedge Accounting: The new hedge accounting rules will align the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Company does not expect a significant impact on the accounting for its hedging relationships as a result of the adoption of IFRS 9, as they have not formally elected to apply hedge accounting. Disclosures: The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.
Date of adoption	The Company will apply the new rules retrospectively from 1 January 2018. Comparatives for 2017 will not be restated.

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Title of standard	IFRS 15 Revenue from contracts with customers
Nature of change	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard introduces a five step model approach which is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Company will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.
Impact	Management has assessed the effects of applying the new standard on the Company's financial statements and has identified the following areas that will be affected: Accounting for under lifts and over lifts: IFRS 15 is applicable only if the counterparty to the contract is a customer. The standard defines a customer as a party that has contracts with an entity to obtain goods or services that are an output of the entity's ordinary activities. IFRS 15 makes a distinction between customers and partners or collaborators who share in the risks and benefits that result from the activity or process. Since the Joint Venture (JV) partners do not meet the definition of a customer, over lifts and under lifts should not be recognised as revenue from contracts with customers. In addition, even if the partner meets the definition of a customer, the transaction would still be outside the scope of the standard since the transaction is a non-monetary exchange (exchange of crude oil for crude oil). The Company estimates that on adoption of the new principles on 1 January 2018, revenue would increase by ₦7 billion (US\$24 million) and cost of sales would increase by the same amount, as a result of the accounting for overlifts and underlifts. Accounting for consideration payable to the customer: The standard requires that an entity accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, net of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity accounts for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it accounts for all of the consideration payable to the customer as a reduction of the transaction price. The Company incurs barging costs in the course of the satisfaction of its performance obligations i.e. delivery of crude oil and gas. These costs do not transfer any distinct good or service to Seplat and as such represent consideration payable to customer and will be accounted for as a direct deduction from revenue when Seplat recognises revenue for the delivery of crude oil and gas. The Company estimates that on adoption of the new principles as at 1 January 2018, revenue would reduce by an additional ₦2.7 billion (US\$9 million) as a result of barging costs reclassified from general and administrative expenses Presentation of contract assets and contract liabilities on the balance sheet: IFRS 15 requires the separate presentation of contract assets and contract liabilities on the balance sheet. On adoption of the new principles as at 1 January 2018, it would result in a reclassification of advances for future oil sales amounting to ₦41 billion (US\$136 million) which are currently included in deferred revenue to contract liabilities. The estimated impact in revenue on adoption of the new principles of IFRS 15 is subject to change in the 2018 financial statements.
Date of adoption	The Company will adopt the new standard on 1 January 2018 using the modified retrospective approach.
Title of standard	IFRS 16 Leases
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	Operating leases: The standard will affect primarily the accounting for the Company's operating leases which include leases of buildings, boats, storage facilities, rigs, land and motor vehicles. As at the reporting date, the Company has non-cancellable operating lease commitments of ₦1.3 billion (US\$4.2 million). A Right of use asset and lease liability will be recognised for these commitments. As at the reporting period, the full extent of the impact is yet to be quantified for the affected leases.

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Impact	Short term leases & Low value leases: The Company's one-year contracts with no planned extension commitments mostly applicable to leased staff flats will be covered by the exception for short-term leases, while none of the Company's leases will be covered by the exception for low value leases. Service contracts: Some commitments such as contracts for the provision of drilling, cleaning and community services were identified as service contracts as they did not contain an identifiable asset which the Company had a right to control. It therefore did not qualify as leases under IFRS 16.
Date of adoption	The standard for leases is mandatory for financial years commencing on or after 1 January 2019. The Company does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US dollar. The financial statements are presented in US Dollars and Nigerian Naira.

The Company has chosen to show both presentation and functional currency side by side and this 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 exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss in profit or loss or loss or other comprehensive income depending on where fair value gain or loss is reported.

2.4 Oil and gas accounting

i) Pre-license costs

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

ii) Exploration license cost

Exploration license costs are capitalised within oil and gas properties. License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised on a straight-line basis over the life of the permit.

License costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license is written off through profit or loss.

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iii) Acquisition of producing assets

Upon acquisition of producing assets which do not constitute a business combination, the Company identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed.

The purchase price paid for the Company of assets is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

iv) Exploration and evaluation expenditures

Geological and geophysical exploration costs are charged to profit or loss as incurred.

Exploration and evaluation expenditures incurred by the entity are accumulated separately for each area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure, but do not include general overheads or administrative expenditure that is not directly related to a particular area of interest. Each area of interest is limited to a size related to a known or probable hydrocarbon resource capable of supporting an oil operation.

Costs directly associated with an exploration well, exploratory stratigraphic test well and delineation wells are temporarily suspended (capitalised) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons ('proved reserves') are not found, the exploration expenditure is written off as a dry hole and charged to profit or loss. If hydrocarbons are found, the costs continue to be capitalised.

Suspended exploration and evaluation expenditure in relation to each area of interest is carried forward as an asset provided that one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale;
- exploration and/or evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically; and
- recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and/or evaluation expenditures which fail to meet at least one of the conditions outlined above are written off. In the event that an area is subsequently abandoned or exploration activities do not lead to the discovery of proved or probable reserves, or if the Directors consider the expenditure to be of no value, any accumulated costs carried forward relating to the specified areas of interest are written off in the year in which the decision is made. While an area of interest is in the development phase, amortisation of development costs is not charged pending the commencement of production. Exploration and evaluation costs are transferred from the exploration and/or evaluation phase to the development phase upon commitment to a commercial development.

v) Development expenditures

Development expenditure incurred by the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure directly related to the development property. All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment is expected to be derived from the sale of production from the relevant development property.

2.5 Revenue recognition

Revenue arises from the sale of crude oil and gas. Revenue comprises the realised value of crude oil lifted by customers. Revenue is recognised when crude products are lifted by a third party (buyer) Free on Board ('FOB') at the Company's designated loading facility or lifting terminals. At the point of lifting, all risks and rewards are transferred to the buyer. Gas revenue is recognised when gas passes through the custody transfer point.

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i) Overlift and underlift

The excess of the product sold during the period over the Company's ownership share of production is termed as an overlift and is accrued for as a liability and not as revenue. Conversely, an underlift is recognised as an asset and the corresponding revenue is also reported.

Overlifts and underlifts are initially measured at the market price of oil at the date of lifting, consistent with the measurement of the sale and purchase.

Subsequently, they are remeasured at the current market value. The change arising from this remeasurement is included in the profit or loss as revenue or cost of sales.

2.6 Property, plant and equipment

Oil and gas properties and other plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the entity, the expenditure is capitalised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Overhaul costs for major maintenance programmes are capitalised as incurred as long as these costs increase the efficiency of the unit or extend the useful life of the asset. All other maintenance costs are expensed as incurred.

i) Depreciation

Production and field facilities are depreciated on a unit-of-production basis over the estimated proved developed reserves. Assets under construction are not depreciated. Other property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives. Depreciation commences when an asset is available for use. The depreciation rate for each class is as follows:

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

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

2.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently. Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. This should be at a level not higher than an operating segment.

If any such indication of impairment exists or when annual impairment testing for an asset group is required, the entity makes an estimate of its recoverable amount. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

The recoverable amount is the higher of an asset's fair value less costs of disposal ('FVLCD') and value in use ('VIU'). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the asset is tested as part of a larger cash generating unit to 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.

i) 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.

ii) 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.

2.9 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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2.10 Inventories

Inventories represent the value of tubulars, casing and wellheads. These are stated at the lower of cost and net realisable value. Cost is determined using the invoice value and all other directly attributable costs to bringing the inventory to the point of use determined on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2.11 Segment reporting

Segment reporting has not been prepared as the Company operates one segment, being the exploration, development and production of oil and gas related products located in Nigeria. Operations in the different OMLs are integrated due to geographic proximity, the use of shared infrastructure and common operational management.

2.12 Financial instruments

2.12.1 Financial assets

i) Financial assets initial recognition and measurement

The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs. The Company's financial assets include cash and short-term deposits, trade and other receivables, favourable derivatives and loan and other receivables.

ii) Subsequent measurement

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

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in the current assets, except for maturities greater than 12 months after the reporting date. The Company's loan and receivables comprise trade and other receivables in the consolidated historical financial information.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all the amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade is uncollectable, it is written off against the allowance account for trade receivables.

iii) Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable

Notes to the separate financial statements

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data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

iv) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial assets is transferred, the transfer qualifies for derecognition if the Company transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

2.12.2 Financial liabilities

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

i) Financial liabilities initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

ii) Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost while any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of borrowings using the effective interest method.

Fees paid on establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

iii) Derecognition of financial liabilities

A financial liability is derecognised when the associated obligation is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

2.12.3 Derivative financial instruments

The Company uses derivative financial instruments, such as forward exchange contracts, to hedge its foreign exchange risks as well as put options to hedge against its oil price risk. However, such contracts are not accounted for as designated hedges. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss and presented within operating profit.

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Commodity contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Company recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 4 financial risk management.

2.12.4 Fair value of financial instruments

The Company measures all financial instruments at initial recognition at fair value and financial instruments carried at fair value through profit and loss such as derivatives at fair value at reporting sheet date. From time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit ('CGU') at FVLCD.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. From time to time external valuers are used to assess FVLCD of the Company's non-financial assets. Involvement of external valuers is decided upon by the valuation committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

Changes in estimates and assumptions about these inputs could affect the reported fair value. The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

2.13 Share capital

Issued share capital has been translated at the exchange rate prevailing at the date of the transaction and is not retranslated subsequent to initial recognition.

2.14 Earnings and dividends per share

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 attributable to ordinary equity holders (after adjusting for outstanding share options arising from the share based payment scheme) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

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2.15 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.

Remeasurements, comprising actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur.

Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Company recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation.

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

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2.16 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;
- when discounting is used, the increase of the provision over time is recognised as interest expense;
- future events such as changes in law and technology, are taken into account where there is subjective audit evidence that they will occur; and
- gains from expected disposal of assets are not taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

Decommissioning

Liabilities for decommissioning costs are recognised as a result of the constructive obligation of past practice in the oil and gas industry, when it is probable that an outflow of economic resources will be required to settle the liability and a reliable estimate can be made. The estimated costs, based on current requirements, technology and price levels, prevailing at the reporting date, are computed based on the latest assumptions as to the scope and method of abandonment.

Provisions are measured at the present value of management's best estimates of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. The corresponding amount is capitalised as part of the oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the estimated cost of the restoration and abandonment cost is capitalised, while the charge arising from the accretion of the discount applied to the expected expenditure is treated as a component of finance charges.

If the change in estimate results in an increase in the decommissioning provision and, therefore, an addition to the carrying value of the asset, the 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.

2.17 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.

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2.18 Income taxation

i) Current income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Taxation on crude oil activities is provided in accordance with the Petroleum Profits Tax Act ('PPTA') CAP. P13 Vol. 13 LFN 2004 and on gas operations in accordance with the Companies Income Tax Act ('CITA') CAP. C21 Vol. 3 LFN 2004. Education tax is assessed at 2% of the assessable profits.

ii) Deferred tax

Deferred tax is recognised, using the liability method, on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated historical financial information and the corresponding tax bases used in the computation of taxable profit.

A deferred income tax charge is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

iii) New tax regime

Effective 1 January 2013, the Company was granted the inter tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2018), corporate income tax on natural gas profits (currently taxed at 30 per cent.) and education tax of 2%.

2.19 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

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2.20 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).

iv) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the 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.

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3. 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.

3.1 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 consolidated historical financial information:

i) OMLs 4, 38 and 41

OMLs 4, 38, 41 are grouped together as a cash generating unit for the purpose of impairment testing. These three OMLs are grouped together because they each cannot independently generate cash flows. They currently operate as a single block sharing resources for the purpose of generating cash flows. Crude oil and gas sold to third parties from these OMLs are invoiced together.

ii) New tax regime

As at the end of the year, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Company's current and deferred taxation in the financial statements. Deferred tax assets have been recognised during the year. Deferred tax liabilities were not recognised in current and prior reporting periods as the Company was not liable to make future income taxes payment in respect of taxable temporary differences.

iii) 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 ₦ 12.8 billion (2016: ₦ 5.2 billion)

3.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The 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) NPDC receivables

In 2016, an impairment assessment was carried out on NPDC receivables using the future estimated cash flow expected to be recoverable from NPDC over the next eighteen months. The estimated future cash payments and receipts recoverable over the expected life of the receivable was discounted using Seplat's average borrowing cost of 8%. The resulting adjustment was recognised under general and administrative expenses in the statement of comprehensive income.

As at December 2017, management's reassessment of these receivables showed that the full value was deemed to be fully recoverable. As a result, the previously recognised impairment loss was reversed. The total amount owed by NPDC as at 31 December 2017 is ₦34 billion, 2016: ₦72 billion (US\$113 million, 2016: US\$239 million).

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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. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

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 20b.

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.

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.

During the year, the Company undertook a detailed review of the assumptions used in calculating the provision for decommissioning liabilities and has revised its estimates at the end of the reporting period. This resulted in a change in inflation rate, risk-free discount rate and reserves estimate which increased the oil and gas properties and provision for decommissioning liabilities. See Note 24 for further details.

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.

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During the year, the Company carried out an impairment assessment on OML 4, 38 and 48. The Company used the value in use in determining the recoverable amount of the cash-generating unit. In determining the value, the Company used a recent forward curve for five years, reverting to the Company's long-term price assumption for impairment testing which is US\$45 (₦ 13,725) in 2018, US\$50 (₦ 15,250) in 2019 and US\$55 (₦ 16,775) per barrel from 2020 point forward. The Company used a post-tax discount rate of 10% based on its weighted average cost of capital. The impairment test did not result in an impairment charge for both 2017 and 2016 reporting periods.

In 2016 however, the impairment assessment was as a result of the force majeure on OML 4, 38 and 48. The Company calculated the value in use of the assets using a recent forward curve for five years, reverting to the Company's long-term price assumption for impairment testing which is US\$55 (₦ 16,775) in 2017, US\$60 (₦ 18,300) in 2018 and US\$70 (₦ 21,350) per barrel from 2019 point forward. The Company used a post-tax discount rate of 10% based on the Company weighted average cost of capital. The assessment did not result in an impairment charge.

Management has considered whether a reasonable possible change in one of the main assumptions will cause an impairment and believes otherwise. See Note 14 for further details.

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) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events. See Note 33 for further details.

ix) 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. See Note 11 for further details.

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4. Financial risk management

4.1 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	Long term 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 cash equivalents, trade receivables and derivative financial instruments.	Aging analysis Credit ratings	Diversification of bank deposits.
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

4.1.1 Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

i) Commodity price risk

The Company is exposed to the risk of fluctuations on crude oil prices. The Company economically hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the Off-take Agreement.

The following table summarises the impact on the Company's profit/ (loss) before tax of a 10 % change in crude oil prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+10%	8,974	-	2,958	-
-10%	(8,974)	-	(2,958)	-

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+10%	29,346	-	9,699	-
-10%	(29,346)	-	(9,699)	-

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The following table summarises the impact on the Company's profit/ (loss) before tax of a 10% change in gas prices, with all other variables held constant:

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+10%	3,791	-	3,217	-
-10%	(3,791)	-	(3,217)	-

Increase/decrease in Commodity Price	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+10%	12,397	-	10,546	-
-10%	(12,397)	-	(10,546)	-

ii) Cash flow and fair value interest rate risk

The Company's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. At the end of the reporting date, the Company had no borrowings at fixed rates. The Company's borrowings 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 reductions in market interest rates would result in a decrease in the interest earned by the Company.

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

Increase/decrease in interest rate	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/ profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+1%	(1,743)	-	(2,025)	-
-1%	1,743	-	2,025	-

Increase/decrease in interest rate	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/ profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+1%	(5,701)	-	(6,641)	-
-1%	5,701	-	6,641	-

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iii) Foreign exchange risk

The Company has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currency. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US dollar.

The Company holds the majority of its cash and cash equivalents in US dollar. However, the Company does maintain deposits in Naira in order to fund ongoing general and administrative activities and other expenditure incurred in this currency. Other monetary assets and liabilities which give rise to foreign exchange risk include trade and other receivables and trade and other payables.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, Company's profit/(loss) before tax due to changes in the carrying value of monetary assets and liabilities at the reporting date:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Financial assets				
Cash and cash equivalents	26,565	8,358	86,869	27,402
Trade and other receivables	22,699	20,604	74,229	67,555
	49,264	28,962	161,098	94,957
Financial liabilities				
Trade and other payables	(23,335)	(2,793)	(76,307)	(9,159)
Net exposure to foreign exchange risk	25,929	26,169	84,791	85,798

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

Increase/decrease in foreign exchange risk	Effect on profit/(loss) before tax 2017 ₦ million	Effect on other components of equity before tax 2017 ₦ million	Effect on (loss)/profit before tax 2016 ₦ million	Effect on other components of equity before tax 2016 ₦ million
+5%	(1,235)	-	(1,246)	-
-5%	1,365	-	1,377	-

Increase/decrease in foreign exchange risk	Effect on profit/(loss) before tax 2017 US\$ '000	Effect on other components of equity before tax 2017 US\$ '000	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000
+5%	(4,038)	-	(4,086)	-
-5%	4,463	-	4,516	-

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4.1.2 Credit risk

Credit risk refers to the risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments, deposits with banks and financial institutions as well as credit exposures to customers.

i) Risk management

The Company is exposed to credit risk from its sale of crude oil to Shell Western Supply and Trading Limited and Mercuria. The Company's trade with Shell Western Supply and Trading Limited is as specified within the terms of the crude off-take agreement and runs for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria also runs for five years until 31 July 2020 with a 30 day payment term.

In addition, the Company is exposed to credit risk in relation to its sale of gas to Nigerian Gas Company (NGC) Limited, a subsidiary of NNPC, its sole gas customer during the year.

The Company monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which are now deemed to be fully recoverable during the reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that have an acceptable credit rating assigned by an international credit agency. The Company's maximum exposure to credit risk due to default of the counterparty is equal to the carrying value of its financial assets.

The accounts receivable balance includes the following related party receivables:

		Percentage of total receivables	
		2017	2016
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	1%	1%

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Trade and other receivables (Gross)	324,552	326,572	1,061,321	1,070,728
Cash and cash equivalents	117,220	44,950	383,321	147,377
Gross amount	441,772	371,522	1,444,642	1,218,105
Impairment of NPDC receivables	-	(3,129)	-	(10,260)
Net amount	441,772	368,393	1,444,642	1,207,845

Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes and pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as the financial statements approximate their fair values.

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31 Dec 2017	Trade receivables & Intercompany receivables	NPDC receivables	Other receivables	Cash & bank balances	Total
	₦ million	₦ million	₦ million	₦ million	₦ million
Neither past due nor impaired	267,595	-	9	117,220	384,824
Past due but not impaired	22,496	34,453	-	-	56,949
Gross amount	290,091	34,453	9	117,220	441,773
Impairment loss	-	-	-	-	-
Net amount	290,091	34,453	9	117,220	441,773
31 Dec 2016					
Neither past due nor impaired	232,398	-	8	44,950	277,356
Past due but not impaired	21,261	-	-	-	21,261
Impaired	-	72,905	-	-	72,905
Gross amount	253,659	72,905	8	44,950	371,522
Impairment loss	-	(3,129)	-	-	(3,129)
Net amount	253,659	69,776	8	44,950	368,393

31 Dec 2017	Trade Receivables & Intercompany receivables	NPDC receivables	Other receivables	Cash & bank balances	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Neither past due nor impaired	875,064	-	29	383,321	1,258,414
Past due but not impaired	73,564	112,664	-	-	186,228
Gross amount	948,628	112,664	29	383,321	1,444,642
Impairment loss	-	-	-	-	-
Net amount	948,628	112,664	29	383,321	1,444,642
31 Dec 2016					
Neither past due nor impaired	761,960	-	25	147,377	909,362
Past due but not impaired	69,708	-	1	-	69,709
Impaired	-	239,034	-	-	239,034
Gross amount	831,668	239,034	26	147,377	1,218,105
Impairment loss	-	(10,260)	-	-	(10,260)
Net amount	831,668	228,774	26	147,377	1,207,845

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ii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	2017	2016	2017	2016
	₦ million	₦ million	US\$'000	US\$'000
Counterparties with external credit rating (Fitch's)				
Cash and cash equivalents				
Non rated	59,153	24,457	193,437	80,188
B -	16,019	587	52,384	1,924
B	14,937	6,446	48,845	21,134
B +	2,647	2,447	8,655	8,024
A +	24,464	11,013	80,000	36,107
A A-	-	-	-	-
	117,220	44,950	383,321	147,377
Counterparties without external credit rating				
Trade and other receivables *				
Company 1	-	-	-	-
Company 2	267,603	232,405	875,093	761,985
Company 3	-	-	-	-
	267,603	232,405	875,093	761,985

* Includes trade receivables, intercompany receivables, NPDC receivables and other receivables.

Group 1 - new customers (less than 1 year)

Group 2 - existing customers (more than 1 year) with some defaults in the past. All defaults are recoverable.

Group 3 - Government entities

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iii) Ageing analysis for financial assets that are past due but not impaired

The ageing analysis of the trade receivables and amounts due from NPDC/NAPIMS is as follows:

	Total	Past due but not impaired				
	₦ million	<30 days ₦ million	30-60 days ₦ million	60-90 days ₦ million	90-120 days ₦ million	>120 days ₦ million
Trade receivables						
31 December 2017	22,496	4,217	3,328	5,168	6,103	3,680
31 December 2016	21,261	13,925	-	1,513	-	5,823

NPDC receivables

31 December 2017	34,453	-	11,370	-	-	23,083
31 December 2016	-	-	-	-	-	-

	Total	Past due but not impaired				
	US\$ '000	<30 days US\$ '000	30-60 days US\$ '000	60-90 days US\$ '000	90-120 days US\$ '000	>120 days US\$ '000
Trade receivables						
31 December 2017	73,564	13,790	10,884	16,899	19,957	12,034
31 December 2016	69,708	45,656	-	4,961	-	19,091

NPDC/NAPIMS receivables

31 December 2017	112,664	-	37,179	-	-	75,485
31 December 2016	-	-	-	-	-	-

iv) Impaired receivables

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate allowance for impairment. The Company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue)

Receivables for which an impairment allowance was recognised are written off against the allowance when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within general and administrative expenses. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses. See Note 2.14.1(iii) for information about how impairment losses are calculated.

Individually impaired trade receivables relate to NPDC receivables that were outstanding in 2016 (₦2.27 billion, US\$10.26 million) which are now deemed to be fully recoverable. The Company expects to recover the receivables, however due to the timing of the receipts, the future cash flows have been discounted to reflect the time value of money.

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Movements in the provision for impairment of trade receivables that are assessed for impairment are as follows:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
At 1 January	3,129	-	10,260	-
Allowance for impairment recognised during the year	-	2,273	-	10,260
Reversal of previously recognised impairment losses	(3,138)	856	(10,260)	-
Exchange differences	9	-	-	-
At 31 December	-	3,129	-	10,260

4.1.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk by ensuring that sufficient funds are available to meet its commitments as they fall due.

The Company uses both long-term and short-term cash flow projections to monitor funding requirements for activities and to ensure there are sufficient cash resources to meet operational needs. Cash flow projections take into consideration the Company's debt financing plans and covenant compliance. Surplus cash held is transferred to the treasury department which invests in deposit bearing current accounts, time deposits and money market deposits.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed maturity periods. The table has been drawn based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Company can be required to pay.

	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	After 5 years ₦ million	Total ₦ million
31 December 2017							
Non - derivatives							
Variable interest rate borrowings (bank loans):							
Allan Gray	8.5% + LIBOR	1,696	1,564	1,124	538	-	4,922
Zenith Bank Plc	8.5% + LIBOR	23,243	21,439	15,404	7,371	-	67,457
First Bank of Nigeria Limited	8.5% + LIBOR	12,830	11,835	8,503	4,069	-	37,237
United Bank for Africa Plc	8.5% + LIBOR	14,527	13,400	9,628	4,607	-	42,162
Stanbic IBTC Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	-	6,318
Standard Bank Plc	8.5% + LIBOR	2,177	2,008	1,443	690	-	6,318
Standard Chartered Bank	6.0% + LIBOR	5,747	-	-	-	-	5,747
Natixis	6.0% + LIBOR	5,747	-	-	-	-	5,747
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	4,470	-	-	-	-	4,470
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	-	-	-	-	-	-
FirstRand Bank Limited Acting	6.0% + LIBOR	3,831	-	-	-	-	3,831
Nomura Bank Plc*	6.0% + LIBOR	3,831	-	-	-	-	3,831
NedBank Ltd, London Branch	6.0% + LIBOR	3,831	-	-	-	-	3,831
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	3,831	-	-	-	-	3,831
Stanbic IBTC Bank Plc	6.0% + LIBOR	2,874	-	-	-	-	2,874
Other non - derivatives							
Trade and other payables**	-	59,351	-	-	-	-	59,351
		150,163	52,254	37,545	17,965	-	257,927

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

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

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	Effective interest rate %	Less than 1 year ₦ million	1 - 2 year ₦ million	2 - 3 years ₦ million	3 - 5 years ₦ million	After 5 years ₦ million	Total ₦ million
31 December 2016							
Non - derivative							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	11,409	23,182	21,383	22,715	-	78,689
First Bank of Nigeria Limited	8.5% + LIBOR	7,131	14,489	13,364	14,197	-	49,181
United Bank for Africa Plc	8.5% + LIBOR	7,131	14,489	13,364	14,197	-	49,181
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,069	2,171	2,003	2,128	-	7,371
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,069	2,171	2,003	2,128	-	7,371
Standard Chartered Bank	6.0% + LIBOR	8,452	-	-	-	-	8,452
Natixis	6.0% + LIBOR	8,452	-	-	-	-	8,452
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	8,452	-	-	-	-	8,452
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	5,635	-	-	-	-	5,635
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	5,635	-	-	-	-	5,635
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	5,635	-	-	-	-	5,635
NedBank Ltd, London Branch	6.0% + LIBOR	5,635	-	-	-	-	5,635
Stanbic IBTC Bank Plc	6.0% + LIBOR	4,225	-	-	-	-	4,225
The Standard Bank of South Africa Ltd	6.0% + LIBOR	4,225	-	-	-	-	4,225
Other non - derivative							
Trade and other payables*		58,226	-	-	-	-	58,226
		142,381	56,502	52,117	55,365	-	306,365

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

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	Effective interest rate %	Less than 1 year US\$ '000	1 - 2 year US\$ '000	2 - 3 years US\$ '000	3 - 5 years US\$ '000	After 5 years US\$ '000	Total US\$ '000
31 December 2017							
Non - derivatives							
Variable interest rate borrowings (bank loans):							
Allan Gray	8.5% + LIBOR	5,546	5,116	3,676	1,759	-	16,097
Zenith Bank Plc	8.5% + LIBOR	76,006	70,109	50,373	24,104	-	220,592
First Bank of Nigeria Limited	8.5% + LIBOR	41,957	38,702	27,807	13,306	-	121,772
United Bank for Africa Plc	8.5% + LIBOR	47,504	43,818	31,483	15,065	-	137,870
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	-	20,662
Standard Bank Plc	8.5% + LIBOR	7,119	6,567	4,718	2,258	-	20,662
Standard Chartered Bank	6.0% + LIBOR	18,794	-	-	-	-	18,794
Natixis	6.0% + LIBOR	18,794	-	-	-	-	18,794
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	14,617	-	-	-	-	14,617
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	12,529	-	-	-	-	12,529
FirstRand Bank Limited Acting	6.0% + LIBOR	12,529	-	-	-	-	12,529
Nomura Bank Plc*	6.0% + LIBOR	12,529	-	-	-	-	12,529
NedBank Ltd, London Branch	6.0% + LIBOR	12,529	-	-	-	-	12,529
The Mauritius Commercial Bank Plc*	6.0% + LIBOR	9,399	-	-	-	-	9,399
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,576	-	-	-	-	13,576
Other non - derivatives							
Trade and other payables**	-	194,084	-	-	-	-	194,084
		504,631	170,879	122,775	58,750	-	857,035

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

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

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	Effective interest rate %	Less than 1 year US\$ '000	1 - 2 year US\$ '000	2 - 3 years US\$ '000	3 - 5 years US\$ '000	After 5 years US\$ '000	Total US\$ '000
31 December 2016							
Non - derivative							
Variable interest rate borrowings (bank loans):							
Zenith Bank Plc	8.5% + LIBOR	37,406	76,006	70,109	74,477	-	257,998
First Bank of Nigeria Limited	8.5% + LIBOR	23,379	47,504	43,818	46,548	-	161,249
United Bank for Africa Plc	8.5% + LIBOR	23,379	47,504	43,818	46,548	-	161,249
Stanbic IBTC Bank Plc	8.5% + LIBOR	3,504	7,119	6,567	6,976	-	24,166
The Standard Bank of South Africa Limited	8.5% + LIBOR	3,504	7,119	6,567	6,976	-	24,166
Standard Chartered Bank	6.0% + LIBOR	27,711	-	-	-	-	27,711
Natixis	6.0% + LIBOR	27,711	-	-	-	-	27,711
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	27,711	-	-	-	-	27,711
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	18,474	-	-	-	-	18,474
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	18,474	-	-	-	-	18,474
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	18,474	-	-	-	-	18,474
NedBank Ltd, London Branch	6.0% + LIBOR	18,474	-	-	-	-	18,474
Stanbic IBTC Bank Plc	6.0% + LIBOR	13,856	-	-	-	-	13,856
The Standard Bank of South Africa Ltd	6.0% + LIBOR	13,856	-	-	-	-	13,856
Other non - derivative							
Trade and other payables*		190,905	-	-	-	-	190,905
		466,818	185,252	170,879	181,525	-	1,004,474

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

4.2 Fair value

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

	Carrying amount		Fair value	
	2017 ₦ million	2016 ₦ million	2017 ₦ million	2016 ₦ million
Financial assets				
Trade and other receivables	324,552	323,443	324,552	323,443
Cash and cash equivalents	117,220	44,950	117,220	44,950
	441,772	368,393	441,772	368,393
Financial liabilities				
Borrowings - Bank loans	174,329	202,549	174,329	202,549
Trade and other payables	59,351	58,226	59,351	58,226
	233,680	260,775	233,680	260,775

Notes to the separate financial statements

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	Carrying amount		Fair value	
	2017	2016	2017	2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets				
Trade and other receivables	1,061,321	1,060,468	1,061,321	1,060,468
Cash and cash equivalents	383,321	147,377	383,321	147,377
	1,444,642	1,207,845	1,444,642	1,207,845
Financial liabilities				
Borrowings - Bank loans	570,077	664,096	570,077	664,096
Trade and other payables	194,084	190,905	194,084	190,905
	764,161	855,001	764,161	855,001

In determining the fair value of the borrowings, non-performance risks of Seplat as at year-end were assessed to be insignificant.

Trade and other payables (excludes non-financial liabilities such as provisions, accruals, taxes, pension and other non-contractual payables), trade and other receivables (excluding prepayments) and cash and cash equivalents are financial instruments whose carrying amounts as per the financial statements approximate their fair values. This is mainly due to their short term nature. Contingent consideration are being measured and recognised at fair value.

4.2.1 Fair Value Hierarchy

The Company has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table. These are all recurring fair value measurements.

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000
31 Dec 2017						
Financial liabilities:						
Borrowings - Bank loans	-	174,329	-	-	570,077	-
	-	174,329	-	-	570,077	-
31 Dec 2016						
Financial liabilities:						
Borrowings - Bank loans	-	202,549	-	-	664,096	-
	-	202,549	-	-	664,096	-

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between fair value levels during the year.

The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair values:

Fair values of the Company's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the year.

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4.3 Capital management

4.3.1. Risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain optimal capital structure and reduce cost of capital. Consistent with others in the industry, the Company monitors capital on the basis of the following gearing ratio, net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Borrowings:	174,329	202,549	570,077	664,096
Less: cash and cash equivalents	(117,220)	(44,950)	(383,321)	(147,377)
Net debt	57,109	157,599	186,756	516,719
Total equity	490,225	391,061	1,603,077	1,282,158
Total capital	547,334	548,660	1,789,833	1,798,877
Net debt (net debt/total capital) ratio	10%	29%	10%	29%

During 2017, the Company's strategy which was unchanged from 2016, was to maintain a gearing ratio of 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the Company.

4.3.2. Loan covenant

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants every 6 months:

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- 6-month Debt Service Reserve Account (DSCRa) not to be lower than 1.25x on a forward looking basis,
- Satisfactory 12-months Company liquidity test.

The Company has complied with these covenants throughout the reporting period (2016: The Company complied with the applicable covenants) with the exception of the financial indebtedness/EBITDA covenant which was waived by a majority lender consent.

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5. Revenue

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Crude oil sale	97,313	26,111	318,210	104,235
(Overlift)/ Underlift	(7,571)	(1,579)	(24,755)	(7,249)
	89,742	24,532	293,455	96,986
Gas sales	37,913	27,463	123,973	105,460
	127,655	51,995	417,428	202,446

The major off-takers for crude oil is Mercuria (₦96 billion, 2016: ₦26.1 billion) (US\$316 million, 2016: US\$104 million). The major off-taker of gas is the Nigerian Gas Company (₦22 billion, 2016: ₦27 billion), (2017: US\$72 million, 2016: US\$105 million).

6. Cost of Sales

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Royalties	20,963	10,534	68,546	37,043
Depletion, depreciation and amortisation (Note 14a)	23,877	6,909	78,078	48,600
Crude handling fees	8,556	618	27,976	5,351
Nigeria Export Supervision Scheme (NESS) fee	104	30	340	109
Barging costs	2,787	5,484	9,113	17,885
Niger Delta Development Commission Levy	1,061	-	3,469	-
Rig related costs	985	2,609	3,220	9,154
Operational & maintenance expenses	9,333	9,864	30,516	39,191
	67,666	36,048	221,258	157,333

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7. General and administrative expenses

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Depreciation (Note 14b)	1,265	1,336	4,137	5,207
Auditor's remuneration	222	53	727	245
Professional and consulting fees	1,746	7,358	5,707	27,683
Directors' emoluments (executive)	711	434	2,322	1,641
Directors' emoluments (non-executive)	933	1,056	3,051	4,244
Donations	102	41	333	178
Employee benefits (Note 7a)	6,407	4,978	20,951	19,354
Business development expenses	-	6	-	20
Flights and other travel costs	2,036	1,395	6,657	5,248
Rentals	509	1,235	1,664	4,325
Loss on disposal of plant & equipment	10	307	32	1,509
Impairment losses	-	2,273	-	10,260
Other general expenses	1,380	2,545	4,514	12,715
	15,321	23,017	50,095	92,629

Directors' emoluments have been split between executive & non-executive directors', share based payment expenses are included in employee benefits expense.

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. It also includes reversal of impairment loss of ₦ 3.14 billion, 2016: ₦2.27 billion (US\$ 10 million, 2016: US\$ 10 million). Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company (NPDC) in Note 18. This provision is no longer required and the reversal of ₦2 billion (US\$10 million) is included in general and administrative expenses.

7a. Salaries and employee related costs include the following:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Short term employee benefits:				
Basic salary	2,761	2,108	9,028	8,194
Housing allowances	421	821	1,376	3,190
Other allowances	685	586	2,241	2,249
Post employment benefits:				
Defined contribution expenses	303	354	991	1,377
Defined benefit expenses (Note 25)	502	240	1,641	938
Share based payment benefits (Note 20b)	1,735	869	5,674	3,406
Total salaries and employee related costs	6,407	4,978	20,951	19,354

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8. Gains/(losses) on foreign exchange (net)

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Exchange gains/(losses)	334	(29,537)	1,092	(104,328)
Total	334	(29,537)	1,092	(104,328)

This is principally as a result of translation of naira denominated monetary assets and liabilities. In the current reporting period, the Naira which is the Company's major foreign currency was relatively stable all year round (2016: Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria).

9. Fair value loss

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Realised fair value losses on crude oil hedges	(5,931)	-	(19,393)	-
Unrealised fair value losses on crude oil hedges	-	(2,186)	-	(12,455)
Total	(5,931)	(2,186)	(19,393)	(12,455)

Realised fair value losses on crude oil hedges represent the payments for crude oil price options. These options expired on 31 December 2017.

10. Finance (cost)/income

Finance income

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Interest income	11,924	26,846	38,992	94,139

Finance cost

Finance cost				
Interest on advance payment on crude oil sales	1,770	-	5,789	-
Interest on bank loans	22,431	17,227	73,347	68,421
Unwinding of discount on provision for decommissioning (Note 24)	17	87	54	330
Interest capitalised (Note 14a)	(1,982)	-	(6,480)	-
	22,236	17,314	72,710	68,751
Finance (cost)/income (net)	(10,312)	9,532	(33,718)	25,388

Finance income represents interest on fixed deposits for the Company.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Company's general borrowings denominated in dollars during the year, in this case 9.41% (2016 - Nil).

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11. Taxation

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

11a. Income tax expense

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Current tax:				
Current tax on profit for the year	-	-	-	-
Education tax	687	575	2,248	1,885
Prior period over provision	-	-	-	-
Total current tax	687	575	2,248	1,885
Deferred tax:				
Deferred tax credit in profit or loss	(68,344)	(8,341)	(223,481)	(16,384)
Total tax credit in statement of profit or loss	(67,657)	(4,421)	(221,233)	(14,499)
Deferred tax recognised in other comprehensive income	(76)	-	(250)	-
Total tax credit for the period	(67,733)	(4,421)	(221,483)	(14,499)
Effective tax rate	(236%)	15%	(235%)	15%

11b. Reconciliation of effective tax rate

The applicable tax rate for 2017 was 85% (2016: 65.75%).

During 2013, applications were made by Seplat for the tax incentives available under the provisions of the Industrial Development (Income Tax Relief) Act. In February 2014, Seplat was granted the incentives in respect of the tax treatment of OMLs 4, 38 and 41.

Under these incentives, the companies' profits are subject to a tax rate of 0% with effect from 1 January 2013 to 31 December 2015 in the first instance and then for an additional two years for the Company if certain conditions included in the Nigerian Investment Promotion Commission (NIPC) pioneer status award document are met.

As at the end of the reporting period, the NIPC is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Company's current and deferred taxation in the financial statements. The current tax for the period has been utilized against tax losses brought forward

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Profit/(loss) before taxation	28,759	(29,261)	94,056	(138,911)
Tax rate of 85% (2016 - 65.75%)	24,445	(19,239)	79,948	(91,334)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Income not subject to tax	(25,578)	-	(83,644)	-
Expenses not deductible for tax purposes	27,305	11,488	89,290	37,672
Recognition of previously unrecognised deductible temporary difference	(64,335)	-	(210,380)	-
Impact of unutilised tax losses	-	2,755	-	37,278
Impact of tax incentive	(29,227)	-	(95,577)	-
Education tax	687	575	2,248	1,885
Prior period over provision	-	-	-	-
Tax loss utilised	(953)	-	(3,118)	-
Total tax credit in statement of profit or loss	(67,657)	(4,421)	(221,233)	(14,499)

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The movement in the current tax liability is as follows:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
As at 1 January	575	-	1,885	-
Tax charge	687	575	2,248	1,885
Deconsolidation of subsidiary	-	-	-	-
Prior period over provision	-	-	-	-
Exchange difference	2	-	-	-
As 31 December	1,264	575	4,133	1,885

12. Deferred income tax

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Deferred tax assets				
Deferred tax asset to be recovered in less than 12 months	-	-	-	-
Deferred tax asset to be recovered after more than 12 months	68,417	-	223,731	-
	68,417	-	223,731	-
Deferred tax liabilities				
Deferred tax liabilities to be recovered in less than 12 months	-	-	-	-
Deferred tax liability to be recovered after more than 12 months	-	-	-	-
	-	-	-	-
Net deferred tax asset/(liability)	68,417	-	223,731	-

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.

Following a significant improvement in the financial position of the Company in 2017, the Company conducted an assessment of its assessable profit based on a five (5) year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. As a result, the Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, deferred tax assets of ₦68 billion, 2016: nil (US\$224 million, 2016: nil) was recognised for those losses.

The Company did not recognise deferred income tax assets of nil, 2016: ₦44 billion (Nil, 2016: US\$162 million) in respect of temporary differences amounting to nil, 2016: ₦67 billion (nil, 2016: US\$247 million). Out of this, deferred tax asset of nil, 2016: ₦9 billion (Nil, 2016: US\$34 million) relates tax losses of nil, 2016: ₦14 billion (Nil, 2016: US\$51 million). There are no expiration dates for the tax losses.

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12a. Deferred tax asset/(liability)

	Property, plant and equipment ₦ million	Decommissioning provision ₦ million	Defined benefit expenses ₦ million	Underlift/ overlift ₦ million	Unrealised foreign Exchange (gain)/loss ₦ million	Tax losses ₦ million	Other provisions ₦ million	Total ₦ million
At 1 January 2016	(3,614)	388	906	(920)	(18)	-	-	(3,258)
Credited/(charged) to the profit or loss	-	-	-	-	-	-	-	-
Deferred tax credit	5,542	(596)	(1,389)	1,412	27	-	-	4,996
Exchange difference	(1,928)	208	483	(492)	(9)	-	-	(1,738)
At 31 December 2016	-	-	-	-	-	-	-	-
At 1 January 2017	-	-	-	-	-	-	-	-
Deferred tax credit:								
Credited to profit or loss	37,536	103	1,173	6,489	4,210	12,392	6,441	68,344
Credited to other comprehensive income	-	-	76	-	-	-	-	76
Exchange difference	(1)	(1)	1	-	(1)	-	(1)	(3)
At 31 December 2017	37,535	102	1,250	6,489	4,209	12,392	6,440	68,417

	Property, plant and equipment US\$ '000	Decommissioning provision US\$ '000	Defined benefit expenses US\$ '000	Underlift/ overlift US\$ '000	Unrealised foreign exchange (gain)/ loss US\$ '000	Tax losses US\$ '000	Other provisions US\$ '000	Total US\$ '000
At 1 January 2016	(18,173)	1,953	4,554	(4,629)	(89)	-	-	(16,384)
Credited/(charged) to the profit or loss	-	-	-	-	-	-	-	-
Deferred tax credit	18,173	(1,953)	(4,554)	4,629	89	-	-	16,384
At 31 December 2016	-	-	-	-	-	-	-	-
At 1 January 2017	-	-	-	-	-	-	-	-
Deferred tax credit:								
Credited to profit or loss	122,742	334	3,837	21,219	13,765	40,523	21,061	223,481
Credited to other comprehensive income	-	-	250	-	-	-	-	250
At 31 December 2017	122,742	334	4,087	21,219	13,765	40,523	21,061	223,731

Notes to the separate financial statements

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13. Computation of cash generated from operations

	Notes	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Profit/(loss) before tax		28,759	(29,261)	94,056	(138,911)
Adjusted for:					
Depletion, depreciation and amortization	14	25,142	8,245	82,215	53,807
Impairment loss		(3,138)	2,273	(10,260)	10,260
Finance income	10	(11,924)	(26,846)	(38,992)	(94,139)
Interest on advance payments for crude oil sales	10	1,770	-	5,789	-
Interest on bank loans and other bank charges	10	22,431	17,227	73,347	68,421
Interest capitalised	10	(1,982)	-	(6,480)	-
Unwinding of discount on provision for decommissioning liabilities	10	17	87	54	330
Unrealised fair value loss on crude oil hedges	9	-	2,186	-	12,455
Unrealised foreign exchange (gain)/ loss	8	(334)	29,537	(1,092)	104,328
Share based payment expenses	20	1,735	869	5,674	3,406
Defined benefit expenses		502	287	1,641	(1,467)
Loss on disposal of other property, plant and equipment	7	10	307	32	1,509
Changes in working capital (excluding the effects of exchange differences and deconsolidation):					
Trade and other receivables		3,989	58,958	13,045	233,741
Prepayments		322	3,759	1,054	15,247
Trade and other payables		49,477	(25,602)	161,788	(88,337)
Inventories		1,801	(4,768)	5,889	(23,743)
Net cash from operating activities		118,577	37,258	387,760	156,907

Notes to the separate financial statements

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14. Property, plant and equipment

14a. Oil and gas properties

	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
Cost	₦ million	₦ million	₦ million	US\$ '000	US\$ '000	US\$ '000
At 1 January 2016	148,166	53,925	202,091	785,033	301,244	1,086,277
Additions	-	21,492	21,492	-	70,484	70,484
Changes in decommissioning	(903)	-	(903)	(2,962)	-	(2,962)
Transfer from asset under construction	50,596	(50,596)	-	248,324	(248,324)	-
Disposal	-	(307)	(307)	-	(1,509)	(1,509)
Exchange differences	116,411	12,664	129,075	-	-	-
At 31 December 2016	314,270	37,178	351,448	1,030,395	121,895	1,152,290
Depreciation						
At 1 January 2016	44,312	-	44,312	236,063	-	236,063
Charged for the year	6,909	-	6,909	48,600	-	48,600
Deconsolidation of subsidiary	-	-	-	-	-	-
Exchange differences	35,601	-	35,601	-	-	-
At 31 December 2016	86,822	-	86,822	284,663	-	284,663
NBV						
At 31 December 2016	227,448	37,178	264,626	745,732	121,895	867,627
Cost						
At 1 January 2017	314,270	37,178	351,448	1,030,395	121,895	1,152,290
Additions	4,818	-	4,818	15,756	-	15,756
Changes in decommissioning	30,598	-	30,598	100,054	-	100,054
Transfer from asset under construction	10,305	(10,305)	-	33,698	(33,698)	-
Interest capitalised	-	1,982	1,982	-	6,480	6,480
Exchange differences	823	97	920	-	-	-
At 31 December 2017	360,814	28,952	389,766	1,179,903	94,677	1,274,580
Depreciation						
At 1 January 2017	86,822	-	86,822	284,663	-	284,663
Charged for the year	23,877	-	23,877	78,078	-	78,078
Exchange differences	226	-	226	-	-	-
At 31 December 2017	110,925	-	110,925	362,741	-	362,741
NBV						
At 31 December 2017	249,889	28,952	278,841	817,162	94,677	911,839

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The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (Note 24).

Assets under construction represent costs capitalised in connection with the development of the Company's oil fields and other property, plant and equipment not yet ready for their intended use. Some of which are qualifying assets which take a substantial period of time to get ready for their intended use. A capitalisation rate has been determined and used to capitalise borrowing cost from the Company's general borrowings. Borrowing costs capitalised during the year amounted to ₦1.98 billion, 2016: Nil (US\$6.48 million, 2016: Nil).

14b. Other property, plant and equipment

Cost	Plant & machinery ₦ million	Motor vehicle ₦ million	Office Furniture & IT equipment ₦ million	Leasehold improvements ₦ million	Total ₦ million
At 1 January 2016	797	1,346	2,467	626	5,236
Additions	163	118	711	-	992
Disposals	-	(28)	-	(137)	(165)
Exchange differences	502	744	928	375	2,549
At 31 December 2016	1,462	2,180	4,106	864	8,612
Depreciation					
At 1 January 2016	339	679	1,721	279	3,018
Disposals	-	(14)	-	-	(14)
Charge for the year	216	327	649	144	1,336
Exchange differences	222	417	1,042	177	1,858
At 31 December 2016	777	1,409	3,412	600	6,198
NBV					
At 31 December 2016	685	771	694	264	2,414

Cost					
At 1 January 2017	1,462	2,180	4,106	864	8,612
Addition	122	169	136	13	440
Disposal	-	(141)	-	-	(141)
Exchange differences	4	5	12	3	24
At 31 December 2017	1,588	2,213	4,254	880	8,935
Depreciation					
At 1 January 2017	777	1,409	3,412	600	6,198
Disposals	-	(82)	-	-	(82)
Charge for the year	267	364	515	119	1,265
Exchange differences	2	4	9	2	17
At 31 December 2017	1,046	1,695	3,936	721	7,398
NBV					
At 31 December 2017	542	518	318	159	1,537

Notes to the separate financial statements

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	Plant & machinery US\$ '000	Motor vehicle US\$ '000	Office Furniture & IT equipment US\$ '000	Leasehold improvements US\$ '000	Total US\$ '000
Cost					
At 1 January 2016	4,007	6,773	12,406	3,150	26,336
Additions	786	509	1,057	-	2,352
Disposals	-	(136)	-	(317)	(453)
At 31 December 2016	4,793	7,146	13,463	2,833	28,235
Depreciation					
At 1 January 2016	1,706	3,416	8,656	1,404	15,182
Disposals	-	(68)	-	-	(68)
Charge for the year	840	1,273	2,531	563	5,207
At 31 December 2016	2,546	4,621	11,187	1,967	20,321
NBV					
At 31 December 2016	2,247	2,525	2,276	866	7,914
Cost					
At 1 January 2017	4,793	7,146	13,463	2,833	28,235
Addition	399	554	446	43	1,442
Disposal	-	(462)	-	-	(462)
At 31 December 2017	5,192	7,238	13,909	2,876	29,215
Depreciation					
At 1 January 2017	2,546	4,621	11,187	1,967	20,321
Disposal	-	(268)	-	-	(268)
Charge for the year	876	1,189	1,683	389	4,137
At 31 December 2017	3,422	5,542	12,870	2,356	24,190
NBV					
At 31 December 2017	1,770	1,696	1,039	520	5,025

15. Prepayments

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Non-current				
Tax paid in advance	9,670	9,645	31,623	31,623
Rent	287	608	939	1,993
	9,957	10,253	32,562	33,616
Current				
Rent	173	793	565	2,600
Others	340	1,190	1,109	3,900
	513	1,983	1,674	6,500
Total prepayments	10,470	12,236	34,236	40,116

Notes to the separate financial statements

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Included in non-current prepayments are the following:

15a. Tax paid in advance

In 2013 and 2014 Petroleum Profit Tax payments (2013: ₦8.6 billion and 2014: ₦0.88 billion) (2013: US\$28.7 million and 2014: US\$2.9 million) were made by the Company prior to obtaining a pioneer status. This was accounted for as a tax credit under non-current prepayments until a future date when the Company will be expected to offset it against its tax liability. The current tax liability for the year has been utilised against tax losses brought forward. The current tax liability for the year has been utilised against tax losses brought forward has been utilised against current tax liability for the year.

15b. Rent

In 2014, the Company entered into three new commercial leases in relation to three buildings that it occupies two in Lagos and one in Delta state. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The rent on the building in Delta state has been renewed and now expires in 2021. The Company has prepaid these rents. The long-term portion as at 31 December 2017 is ₦0.2 billion, 2016: ₦0.6 billion (US\$0.9 million, 2016: US\$1.9 million).

16. Investment in subsidiaries

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Newton Energy Limited	290	290	950	950
Seplat Petroleum Development UK	15	15	50	50
Seplat East Onshore Ltd	10	10	32	32
Seplat East Swamp Ltd	10	10	32	32
Seplat Gas Company	10	-	32	-
ANOH Gas Processing Company Limited	10	-	33	-
	345	325	1,129	1,064

17. Inventories

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Tubular, casing and wellheads	29,576	31,295	96,719	102,608

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is ₦1.3 billion, 2016: ₦30.6 million (US\$4.3 million, 2016: US\$0.1 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2017.

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18. Trade and other receivables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Trade receivables	30,890	21,061	101,011	69,052
Nigerian Petroleum Development Company (NPDC) receivables	34,453	69,776	112,664	228,774
National Petroleum Investment Management Services	-	-	-	-
Intercompany receivables	231,348	218,266	756,532	715,625
Advances on investments	188	-	613	1
Advances to related parties	27,854	14,132	91,086	46,335
Advances to suppliers	1,929	2,467	6,307	8,087
Other receivables	866	344	2,831	1,129
	327,528	326,046	1,071,044	1,069,003

18a. Trade receivables

Included in trade receivables is an amount due from Nigerian Gas Company (NGC) and Central Bank of Nigeria (CBN) of ₦22 billion, 2016: ₦20 billion (US\$72 million, 2016: US\$67 million) with respect to the sale of gas.

18b. NPDC receivables

NPDC receivables represent the outstanding cash calls due to Seplat from its JV partner, Nigerian Petroleum Development Company. In this reporting period, impairment loss on NPDC receivables were reversed (2016: ₦2.27 billion, US\$10.3 million impairment loss recognised). As at 31 December 2017, the undiscounted value of this receivable is ₦34 billion, 2016: ₦72 billion (US\$113 million, 2016: US\$239 million).

19. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, short-term deposits with a maturity of three months or less and restricted cash balances.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Cash on hand	3	2	9	7
Restricted cash	19,166	19,887	62,674	65,203
Cash at bank	98,051	25,061	320,638	82,167
Cash and cash equivalents	117,220	44,950	383,321	147,377

At 31 December 2017, cash at bank includes the debt service reserve of ₦19 billion, 2016: ₦19.9 billion (US\$62 million, 2016: US\$65 million) deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest.

Notes to the separate financial statements

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20. Share capital

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 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				
563,444,561 (2016: 563,444,561) issued shares denominated in Naira of 50 kobo per share	283	283	1,826	1,826

20a. Employee share based payment scheme

In 2017, the Company gave share awards of 33,697,792 shares (2016: 25,448,071 shares) to certain employees and senior executives in line with its share based incentive scheme. During the year ended 31 December 2017, no shares were vested. In 2016, 2,868,460 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 561 million to 563 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company subdivided its shares from 1 to 0.50 per share resulting in an increase in the number of shares issued from 100 million to 200 million ordinary shares. On 31 July 2013, the number of ordinary shares was increased to 400 million by way of a bonus issue to existing shareholders; these were issued from the revenue reserve. In August 2013 the authorised share capital was increased from 400 million to 1 billion denominated in 0.50 per share.

20b. Share based payment reserve

The Company has made a number of share-based awards under incentive plans since its IPO in 2014: IPO-related grants to Executive and Non-Executive Directors, 2014/2015/2016 deferred bonus awards and 2014/2015/2016/2017 Long-term Incentive plan ('LTIP') awards. Shares under these incentive plans were awarded at the IPO in April 2014, 2015, 2016 and 2017 conditional on the Nigerian Stock Exchange ('NSE') approving the share delivery mechanism proposed by the Company.

Description of the awards valued

Seplat Deferred Bonus Award

25% of each Executive Director's 2014, 2015 and 2016 bonus (paid in 2015, 2016 and 2017 respectively) has been deferred into shares and is released on 1 June 2017, 1 June 2018 and 20 April 2019 respectively subject to continued employment. No performance criteria are attached to this award. As a result the fair value of these awards is the share price at the actual date of grant.

Long Term Incentive Plan (LTIP) awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after 3 years) based on the following conditions.

- 50% award vesting where the reserves growth was more than a 10% decrease.
- Straight line basis between 50% and 100% where reserves growth was between a 10% decrease and a 10% increase.
- 100% award vesting where the reserves growth is equal to or greater than a 10% increase.
- If the Company outperforms the median TSR performance level with the LTIP exploration and production comparator group.

The LTIP awards have been approved by the NSE.

Notes to the separate financial statements

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

	2017	2016	2017	2016
	₦ million	₦ million	US\$ '000	US\$ '000
Expense arising from equity-settled share-based payment transactions	1,735	869	5,674	3,406

There were no cancellations to the awards in 2017 or 2016. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of Service Period	End of service period	Number of awards
Global Bonus Offer	4 November 2015	9 April 2014	9 April 2015	6,472,138
Non- Executive Shares	4 November 2015	9 April 2014	9 April 2015	793,650
2014 Deferred Bonus	14 December 2015	14 December 2015	21 April 2017	212,701
2014 Long term incentive Plan	14 December 2015	14 December 2015	09 April 2017	2,173,259
2015 Long term incentive Plan	31 December 2015	14 December 2015	21 April 2018	5,287,354
2015 Deferred Bonus	21 April 2016	21 April 2016	20 April 2018	247,610
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
2016 Deferred Bonus	24 November 2017	24 November 2017	20 April 2019	278,191
2017 Long term incentive Plan	24 November 2017	24 November 2017	20 April 2020	7,938,589
				33,697,792

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2017.

Share award scheme (all awards)	2017 Number	2017 WAEP ₦	2016 Number	2016 WAEP ₦
Outstanding at 1 January	1,540,024	205.87	4,249,000	298.26
Granted during the year	6,665,749	262.45	159,484	356.35
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	15.23
Outstanding at 31 December	8,205,773	251.64	1,540,024	205.87
Exercisable at 31 December	-	-	-	-

Share award scheme (all awards)	2017 Number	2017 WAEP US\$	2016 Number	2016 WAEP US\$
Outstanding at 1 January	1,540,024	0.67	4,249,000	1.50
Granted during the year	6,665,749	0.86	159,484	1.17
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	0.05
Outstanding at 31 December	8,205,773	0.82	1,540,024	0.67
Exercisable at 31 December	-	-	-	-

Notes to the separate financial statements

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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.

	2017 Number	2017 WAEP ₦	2016 Number	2016 WAEP ₦
Deferred Bonus Scheme				
Outstanding at 1 January	427,370	399.55	212,701	224.69
*Granted during the year	311,132	428.69	214,669	380.04
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	738,502	412.05	427,370	399.55
Exercisable at 31 December	-	-	-	-

	2017 Number	2017 WAEP US\$	2016 Number	2016 WAEP US\$
Deferred Bonus Scheme				
Outstanding at 1 January	427,370	1.31	212,701	1.13
*Granted during the year	311,132	1.40	214,669	1.49
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	738,502	1.35	427,370	1.31
Exercisable at 31 December	-	-	-	-

* In 2017, the Company increased the number of shares attributable to the 2015 Deferred Bonus scheme by 32,914 shares following a revaluation of the total number of share awards applicable to the scheme. The fair value per share of the additional shares at the date of the modification were determined to be ₦ 380.04(US\$ 1.49). There were no incremental changes in the fair value per share and the vesting period did not change as the additional shares were assumed to have been issued in the same period and with the same terms as the original shares granted.

The increase in share based payment expense of ₦ 12.7 million (US\$ 41,513) was calculated using the portion of the additional number of shares issued and the fair value per share at the original grant date. The amount is recognised as an expense in the current period until the end of the vesting period. The expense for the original scheme will continue to be recognised as if the terms had not been modified.

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.

	2017 Number	2017 WAEP ₦	2016 Number	2016 WAEP ₦
Long term incentive Plan (LTIP)				
Outstanding at 1 January	14,886,453	253.2	7,460,613	151.12
Granted during the year	7,938,589	367.45	10,294,300	227.10
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	15.23
Outstanding at 31 December	22,825,042	292.25	14,886,453	253.2
Exercisable at 31 December	-	-	-	-

	2017 Number	2017 WAEP US\$	2016 Number	2016 WAEP US\$
Long term incentive Plan (LTIP)				
Outstanding at 1 January	14,886,453	0.83	7,460,613	0.76
Granted during the year	7,938,589	1.20	10,294,300	0.89
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(2,868,460)	0.05
Outstanding at 31 December	22,825,042	0.96	14,886,453	0.83
Exercisable at 31 December	-	-	-	-

Notes to the separate financial statements

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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 2017 range from 0.3 to 2.3 years.

The weighted average fair value of awards granted during the year range from ₦366.9 to ₦428.1 (US\$1.20 to US\$1.40).

The exercise prices for options outstanding at the end of the year range from ₦293.5 to ₦412.8 (US\$0.96 to US\$1.35).

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.

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2017:

	2016 Deferred bonus	2016 LTIP	2017 LTIP
Weighted average fair values at the measurement date			
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	n/a	56%	42.9%
Risk-free interest rate (%)	n/a	0.63%	0.44%
Expected life of share options	1.40	2.35	2.40
Weighted average share price (\$)	1.40	1.497	1.40
Weighted average share price (₦)	428.12	457.78	428.12
Model used	n/a	Monte Carlo	Monte Carlo

20c. Share Premium

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Share premium	82,080	82,080	497,457	497,457

Section 120.2 of Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 requires that where a Company issues shares at premium (i.e. above the par value), the value of the premium should be transferred to share premium.

21. 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.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Capital contribution	5,932	5,932	40,000	40,000

22. Foreign currency translation reserve

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

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23. Interest bearing loans and borrowings

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Non-Current				
Bank borrowings	93,170	136,060	304,677	446,098
Current				
Bank borrowings	81,159	66,489	265,400	217,998
Total borrowings	174,329	202,549	570,077	664,096

Bank loan

Syndicate credit facility

On 31 December 2014, Seplat signed a ₦518 billion (US\$1.7 billion) debt refinancing package, made up of the following facilities:

- ₦214 billion (US\$700 million) seven year term loan with an ability to stretch it to ₦427 billion (US\$1.4billion) contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven year maturity period.
- ₦91 billion (US\$300 million) three year corporate revolving loan primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three year maturity period.

As at 31 December 2017, there were no further draw downs (2016: Nil) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. Principal and interest repayments in 2017 were made, the outstanding balance as at 31 December 2017 is ₦176 billion, 2016: ₦206 billion (US\$578 million, 2016: US\$676million).

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

31 December 2017 Term Loan	Interest	Current ₦ million	Non-Current ₦ million	Total ₦ million	Current US\$'000	Non-Current US\$'000	Total US\$'000
SBSA	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
Stanbic	8.5% + LIBOR	1,709	3,673	5,382	5,588	12,012	17,600
FBN	8.5% + LIBOR	10,070	21,651	31,721	32,931	70,800	103,731
UBA	8.5% + LIBOR	11,402	24,513	35,915	37,285	80,160	117,445
Zenith Bank	8.5% + LIBOR	18,243	39,221	57,464	59,656	128,256	187,912
Allan Gray	8.5% + LIBOR	1,331	2,862	4,193	4,353	9,359	13,712
		44,464	95,593	140,057	145,401	312,599	458,000

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31 December 2017

		Current	Non-Current	Total	Current	Non-Current	Total
Corporate loan	Interest	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
Citibank Nigeria Limited	6% + LIBOR	4,280	-	4,280	14,000	-	14,000
Firststrand Bank Limited Acting	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
JPMorgan Chase Bank N A London	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Nedbank Limited, London Branch	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
The Mauritius Commercial Bank Plc	6% + LIBOR	3,668	-	3,668	12,000	-	12,000
Standard Chartered Bank	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Natixis	6% + LIBOR	5,503	-	5,503	18,000	-	18,000
Stanbic Ibtcc Bank Plc	6% + LIBOR	2,751	-	2,751	9,000	-	9,000
The Standard Bank Of South Africa	6% + LIBOR	3,974	-	3,974	13,000	-	13,000
		36,683	-	36,683	120,000	-	120,000

31 December 2016

		Current	Non-Current	Total	Current	Non-Current	Total
Term Loan	Interest	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
SBSA	8.5% + LIBOR	504	5,368	5,872	1,652	17,601	19,253
Stanbic	8.5% + LIBOR	504	5,368	5,872	1,652	17,601	19,253
FBN	8.5% + LIBOR	3,363	35,821	39,184	11,026	117,445	128,471
UBA	8.5% + LIBOR	3,363	35,821	39,184	11,026	117,445	128,471
Zenith Bank	8.5% + LIBOR	5,381	57,313	62,694	17,642	187,910	205,552
		13,115	139,691	152,806	42,998	458,002	501,000

31 December 2016

		Current	Non-Current	Total	Current	Non-Current	Total
Corporate loan	Interest	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
Citibank Nigeria Limited	6% + LIBOR	8,006	-	8,006	26,250	-	26,250
Firststrand Bank Limited Acting	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
JPMorgan Chase Bank N A London	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
Nedbank Limited, London Branch	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
Bank Of America Merrill Lynch	6% + LIBOR	5,338	-	5,338	17,500	-	17,500
Standard Chartered Bank	6% + LIBOR	8,006	-	8,006	26,250	-	26,250
Natixis	6% + LIBOR	8,006	-	8,006	26,250	-	26,250
Stanbic Ibtcc Bank Plc	6% + LIBOR	4,002	-	4,002	13,125	-	13,125
The Standard Bank Of South Africa	6% + LIBOR	4,002	-	4,002	13,125	-	13,125
		53,374	-	53,374	175,000	-	175,000

	2017	2016	2017	2016
Loans	₦ million	₦ million	US\$'000	US\$'000
Term loan	140,057	152,806	458,000	501,000
Corporate loan	36,683	53,374	120,000	175,000
Less: Capitalised loan transaction costs	(2,411)	(3,631)	(7,923)	(11,904)
	174,329	202,549	570,077	664,096

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

	Borrowings due within 1 year	Borrowings due above 1 year	Total	Borrowings due within 1 year	Borrowings due above 1 year	Total
	₦ million	₦ million	₦ million	US\$'000	US\$'000	US\$'000
Balance as at 1 January 2017	66,489	136,060	202,549	217,998	446,098	664,096
Effective interest	22,430	-	22,430	73,347	-	73,347
Effect of loan restructuring	(8,807)	8,807	-	(28,798)	28,798	-
Reclassification	52,055	(52,055)	-	170,219	(170,219)	-
Principal repayment	(29,970)	-	(29,970)	(98,000)	-	(98,000)
Interest repayment	(21,213)	-	(21,213)	(69,366)	-	(69,366)
Exchange differences	175	358	533	-	-	-
Balance as at 31 December 2017	81,159	93,170	174,329	265,400	304,677	570,077

24. Provision for decommissioning obligation

	₦ million	US\$ '000
At 1 January 2016	591	2,971
Unwinding of discount due to passage of time	87	330
Deconsolidation of subsidiary	-	-
Change in estimate	(903)	(2,962)
Exchange difference	328	-
At 31 December 2016	103	339
At 1 January 2017	103	339
Unwinding of discount due to passage of time	17	54
Change in estimate	30,596	100,054
At 31 December 2017	30,716	100,447

The Company makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a “probable future sacrifice of economic benefits arising from a present obligation”, and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2027 to 2047 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2027 to 2047. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

Following the review of the current assumptions for the year ended 31 December 2017, the risk-free discount rate and inflation rate were adjusted to reflect economic reality in the primary economic environment in which the Company operates.

As a result the change in estimate in the current year for the Company amounted to ₦30.7 billion, 2016: ₦0.9 billion (US\$100m, 2016: US\$2.9m)

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	Current estimated life span of reserves	
	2017	2016
	In years	In years
Seplat Petroleum Development Company:	2027	2045
OML 4	2034	2056
OML 38	2027 - 2034	2052
OML 41	2034	2066

25. Employee benefit obligation

25a. Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') - a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2017 was ₦59 million, 2016: ₦127 million (US\$195,304 2016: US\$419,005). This is included in Trade and other payable.

25b. Defined benefit plan

The Company commenced its unfunded defined benefit plan (gratuity) in July 2015. The Company makes provisions for gratuity for employees from day one of employment in the Company. The employee qualifies to receive the gratuity after five years of continuous service. The employee's entitlement to the accrued benefits occurs on retirement from the Company. The level of benefits provided depends on the member's length of service and salary at retirement age. The gratuity liability is adjusted for inflation, interest rate risks, changes in salary and changes in the life expectancy for the beneficiaries. The provision for gratuity was based on an independent actuarial valuation performed by Logic Professional Services (LPS) using the projected unit credit method.

The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallise.

The following tables summarise the components of net benefit expense recognised in the statement of profit or loss and other comprehensive income and in the statement of financial position for the respective plans:

i) Liability recognised in the financial position

	2017	2016	2017	2016
	₦ million	₦ million	US\$ '000	US\$ '000
Defined benefit obligation	1,994	1,559	6,518	5,112

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ii) Amount recognised in profit or loss

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Present value of obligation				
Current service cost	444	474	1,451	1,554
Past service cost due to curtailment	(180)	-	(589)	-
Interest cost on benefit obligation	238	162	779	530
	502	636	1,641	2,084

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:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Charged to receivables	-	396	-	1,146
Charged to profit or loss	502	240	1,641	938
	502	636	1,641	2,084

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Remeasurement losses/(gains) due to changes in financial and demographic assumptions	172	(558)	561	(1,829)
Remeasurement (gains)/losses due to experience adjustment	(82)	177	(267)	578
	90	(381)	294	(1,251)

The Company recognises a part of the remeasurement gains/losses in other comprehensive income and recharges/credits the other part to its joint operations partners, this is recognised as a receivable from the partners. Below is the breakdown:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Credited to receivables	-	(209)	-	(688)
Credited to other comprehensive income	90	(172)	294	(563)
	90	(381)	294	(1,251)

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Defined benefit obligation as at 1 January	1,559	1,377	5,112	6,926
Current service cost	444	474	1,451	1,554
Past service cost due to curtailment	(180)	-	(589)	-
Interest cost	238	162	779	530
Remeasurement losses/(gains)	90	(381)	294	(1,251)
Benefits paid by the employer	(163)	(74)	(532)	(242)
Exchange differences	6	1	3	(2,405)
Defined benefit obligation at 31 December	1,994	1,559	6,518	5,112

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

	2017 %	2016 %
Discount rate	14	16
Average future pay increase	12	13
Average future rate of inflation	12	12

a) Mortality in service

	Number of deaths in year out of 10,000 lives	
Sample age	2017	2016
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

b) Withdrawal from service

	Rates	
Age band	2017	2016
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%

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C) A quantitative sensitivity analysis for significant assumption as at 31 December 2017 is as shown below:

	Base	Discount Rate		Salary increases		Mortality	
		1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million	1% increase ₦ million	1% decrease ₦ million
Assumptions							
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2017	1,994	(215)	253	266	(229)	27	(28)
31 December 2016	1,559	(145)	170	180	(156)	9	(9)

	Base	Discount Rate		Salary increases		Mortality	
		1% increase US\$'000	1% decrease US\$'000	1% increase US\$'000	1% decrease US\$'000	1% increase US\$'000	1% decrease US\$'000
Assumptions							
Sensitivity Level: Impact on the net defined benefit obligation							
31 December 2017	6,518	(704)	828	869	(749)	88	(91)
31 December 2016	5,112	(476)	556	591	(511)	31	(30)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The methods and assumptions used in preparing the sensitivity analysis did not change compared to prior period.

The following payments are expected contributions to be made in the future years out of the defined benefit plan obligation:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Within the next 12 months (next annual reporting period)	70	111	228	364
Between 2 and 5 years	926	887	3,028	2,909
Between 5 and 10 years	3,796	2,413	12,412	7,912
	4,792	3,411	15,668	11,185

The weighted average liability duration for the Plan is 11.96 years. The longest weighted duration for Nigerian Government bond as at 31st December 2017 was about 6.37 years with a gross redemption yield of about 14.12%.

d) Risk exposure

Through its defined benefit pension plans and post-employment medical 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 unfunded and as a result, there is a risk of the Group not having the required cash flow to fund future defined benefit obligations as they fall due.

ii) Inflation risk

This is the risk of an unexpected significant rise/fall of market interest rates. A rise leads to a fall in long term asset values and a rise in liability values.

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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.

26. Trade and other payables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Trade payable	15,119	29,342	49,440	96,205
Accruals and other payables	30,758	20,392	100,580	66,858
Pension payable	59	127	195	419
NDDC levy	2,363	6	7,728	19
Deferred revenue	41,970	10,727	137,248	35,171
Royalties	14,364	8,469	46,971	27,766
Intercompany payable	30,772	16,982	100,630	55,681
	135,405	86,045	442,792	282,119

Included in accruals and other payables are field-related accruals of ₦12 billion, 2016: ₦10.7 billion (US\$39 million, 2016: US\$35 million) and other vendor payables of ₦19 billion, 2016: ₦9 billion (US\$63 million, 2016: US\$32 million). Deferred revenue includes advance payments for crude oil sales of ₦41 billion, 2016: ₦10 billion (US\$136 million, 2016: US\$34 million) and royalties include accruals in respect of gas sales for which payment is outstanding at the end of the year.

27. Earnings/(loss) per share (EPS/LPS)

Basic

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

Diluted

Diluted EPS/LPS is calculated by dividing the profit or loss attributable to ordinary equity holders of 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.

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Profit/(loss) for the year attributable to equity holders of the parent	96,416	(24,840)	315,289	(124,412)
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	563,445	563,445	563,445
Share awards	8,206	1,540	8,206	1,540
Weighted average number of ordinary shares adjusted for the effect of dilution	571,651	564,985	571,651	564,985
	₦	₦	US\$	US\$
Basic earnings/(loss) per share	171.12	(44.09)	0.56	(0.22)
Diluted earnings/(loss) per share	168.66	(43.97)	0.55	(0.22)
	₦ million	₦ million	US\$ '000	US\$ '000
Profit/(loss) attributable to equity holders of the parent	96,416	(24,840)	315,289	(124,412)
Profit/(loss) used in determining diluted earnings/(loss) per share	96,416	(24,840)	315,289	(124,412)

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28. Dividends paid and proposed

As at 31 December 2017, final dividend proposed was nil (2016: Nil).

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Cash dividends on ordinary shares declared and paid:				
Interim dividend for 2017: ₦Nil (US\$ Nil) per share, 563,444,561 shares in issue (2016: ₦9.13, US\$ 0.04) per share, 563,444,561 shares in issue)	-	5118	-	22,534
Final dividend for 2017: ₦Nil (US\$ Nil) per share, 563,444,561 shares in issue (2016: ₦Nil, US\$ Nil) per share, 563,444,561 shares in issue)	-	-	-	-
Total	-	5,118	-	22,534
Proposed dividends on ordinary shares:				
Total cash dividend for 2017: ₦Nil per share (US\$ Nil) per share (2016: ₦9.13, US\$ 0.04) per share	-	5,118	-	22,534

29. Related party relationships and transactions

The Company is owned 8.39% either directly or by entities controlled by A.B.C Orjiako (SPDCL(BVI)) and members of his family and 13.23% 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.

29a. Related party relationships

The services provided by the related parties:

Abbeycourt Trading Company Limited: the Chairman of Seplat is a director and shareholder. The company provides diesel supplies to Seplat in respect of Seplat's rig operations.

Berwick Nigeria Limited: The chairman of Seplat is a shareholder and director. The company provides construction services to Seplat in relation to a field base station in Sapele.

Cardinal Drilling Services Limited (formerly Caroil Drilling Nigeria Limited): Is owned by common shareholders with the parent company. The company provides drilling rigs and drilling services to Seplat.

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

Helko Nigeria Limited: The chairman of Seplat is shareholder and director. The company owns the lease to Seplat's main office at 25A Lugard Avenue, Lagos, Nigeria.

Keco Nigeria Enterprises: The Chief Executive Officer's sister is shareholder and director. The company provides diesel supplies to Seplat in respect of its rig operations.

Montego Upstream Services Limited: The chairman's nephew is shareholder and director. The company provides drilling and engineering services to Seplat.

Nabila Resources & Investment Ltd: The chairman's in-law is a shareholder and director. The company provides lubricant to Seplat.

Stage leasing (Ndosumili Ventures Limited): is a subsidiary of Platform Petroleum Limited. The company provides transportation services to Seplat.

Neimeth International Pharmaceutical Plc: The chairman of Seplat is also the chairman of this company. The company provides medical supplies and drugs to Seplat, which are used in connection with Seplat's corporate social responsibility and community healthcare programmes.

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Nerine Support Services Limited: Is owned by common shareholders with the parent company. Seplat leases a warehouse from Nerine and the Company provides agency and contract workers to Seplat.

Oriental Catering Services Limited: The Chief Executive Officer of Seplat's spouse is shareholder and director. The company provides catering services to Seplat at the staff canteen.

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

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

The following transactions were carried by Seplat with related parties:

29b. Related party transactions

Year-end balances arising from related party transactions

i) Purchases of goods and services

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Shareholders of the parent company				
SPDCL (BVI)	413	358	1,350	1,364
Total	413	358	1,350	1,364
Entities controlled by key management personnel:				
Contracts > \$1million in 2017				
Nerine Support Services Limited*	2,161	3,948	7,066	14,991
Cardinal Drilling Services Limited	1,001	1,543	3,272	6,931
Helko Nigeria Limited	444	560	1,453	1,976
	3,606	6,051	11,791	23,898
Contracts < \$1million in 2017				
Montego Upstream Services Limited	131	2,937	427	13,513
Abbeycourt Trading Company Limited	199	164	650	598
Oriental Catering Services Limited	159	148	520	579
Keco Nigeria Enterprises	110	77	361	259
ResourcePro Inter Solutions Limited	9	17	31	81
Nabila Resources & Investment Ltd	-	17	-	58
Berwick Nigeria Limited	-	6	-	28
Neimeth International Pharmaceutical Plc	1	3	2	10
Charismond Nigeria Limited	17	-	55	-
Stage leasing(formerly Ndosumuli Venture Limited)	171	422	560	1,729
	797	3,791	2,606	16,855
	4,403	9,842	14,397	40,753

* Nerine on average charges a mark-up of 7.5% on agency and contract workers assigned to Seplat. The amounts shown above are gross i.e. it includes salaries and Nerine's mark-up. Total costs for agency and contracts during 2017 is ₦1.4 billion, 2016: ₦2.4 billion (\$4.6 million, 2016:\$7.9million).

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29c. Balances:

Year-end balances arising from related party transactions

i) Prepayments/receivables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Entities controlled by key management personnel				
Cardinal Drilling Services Limited - current portion	1,681	1,894	5,498	6,211
Cardinal Drilling Services Limited - non-current portion	-	-	-	-
	1,681	1,894	5,498	6,211

ii) Payables

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Entities controlled by key management personnel				
Montego Upstream Services Limited	115	3,520	375	11,540
Nerine Support Services Limited	2	3,480	8	11,411
Keco Nigeria Enterprises	8	-	25	-
Cardinal Drilling Services Limited	292	308	954	1,009
	417	7,308	1,362	23,960

30. Information relating to employees

30a. 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:

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Salaries and other short-term employee benefits	5,221	1,252	17,117	4,104
Post-employment benefits	53	214	172	700
Share based payment expenses	87	88	283	289
	5,361	1,554	17,572	5,093

30b. Chairman and Directors' emoluments

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Chairman (Non-executive)	342	279	1,118	1,116
Chief Executive Officer	476	405	1,557	1,644
Executive Directors	284	458	928	1,858
Non-Executive Directors	580	662	1,897	2,652
Bonus*	632	-	2,067	-
JV Partner Share	(418)	(587)	(1,367)	(1,926)
Total	1,896	1,217	6,200	5,344

*This relates to 2017 accrued bonus to be paid in 2018 and 2016 bonus paid in 2017. Out of this amount, ₦401 million, 2016: nil million (US\$1.3 million, 2016: US\$ nil million) relates to 2017 accrued bonus to be paid in 2018 and ₦231 million, 2016: ₦nil million (US\$0.7 million, 2016: US\$ nil) relates to 2016 bonus paid in 2017.

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30c. Highest paid Director

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Highest paid Director	476	405	1,557	1,644

Emoluments are inclusive of income taxes.

30d. The number of Directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	2017 Number	2016 Number
Zero - ₦ 19,878,000	-	-
₦19,878,001 - ₦115,597,000	8	7
₦115,597,001 - ₦157,799,000	1	1
Above ₦157,799,000	3	3
	12	11

	2017 Number	2016 Number
Zero - US\$65,000	-	-
US\$65,001 - US\$378,000	8	7
US\$378,001 - US\$516,000	1	1
Above US\$516,000	3	3
	12	11

30e. Employees

The number of employees (other than the Directors) whose duties were wholly or mainly discharged within Nigeria, and who earned over ₦1,988,800 (US\$6,500), received remuneration (excluding pension contributions) in the following ranges:

	2017 Number	2016 Number
₦1,988,000 - ₦4,893,000	7	1
₦4,893,001 - ₦9,786,000	21	33
₦9,786,001 - ₦14,679,000	102	136
Above ₦14,679,000	269	220
	399	390

	2017 Number	2016 Number
US\$6,500 - US\$16,000	7	1
US\$16,001 - US\$32,000	21	33
US\$32,001 - US\$48,000	102	136
Above US\$48,000	269	220
	399	390

Notes to the separate financial statements

Continued

30f. The average number of persons (excluding Directors) in employment during the year was as follows:

	2017 Number	2016 Number
Senior management	33	15
Managers	65	78
Senior staff	162	110
Junior staff	145	187
	405	390

30g. Employee cost

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

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Salaries & wages	5,326	9,330	17,417	20,055
	5,326	9,330	17,417	20,055

31. Commitments and contingencies

31a. Operating lease commitments - company as lessee

The company leases drilling rigs, buildings, land, boats and storage facilities. The lease terms are between 1 and 5 years. The operating lease commitments of the company as at 31 December 2017 are:

Operating lease commitments	As at 31 Dec 2017 ₦ million	As at 31 Dec 2016 ₦ million	As at 31 Dec 2017 \$'000	As at 31 Dec 2016 \$'000
Not later than one year	728	308	2,382	1,011
Later than one year and not later than five years	565	1,146	1,846	3,757
	1,293	1,454	4,228	4,768

31b. 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 2017 is ₦54 billion, 2016: ₦4.7 billion (US\$176 million, 2016: US\$15.5 million). 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.

Notes to the separate financial statements

Continued

32. Events after the reporting period

On 1 February, 2018, the issued share capital increased by 25,000,000 shares in furtherance of the Company's Long Term Incentive Plan after approval was received from the regulators. Seplat's share capital now consists of 588,444,561 ordinary shares of ₦0.50k each, all with voting rights.

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Company as at 31 December 2017 and on the profit or loss for the year ended on that date, which have not been adequately provided for or disclosed in these financial statements.

Statement of value added

For the year ended 31 December 2017

	2017		2016		2017		2016	
	₦ million	%	₦ million	%	US\$'000	%	US\$'000	%
Revenue	127,655		51,995		417,428		202,446	
Finance income	11,924		26,846		38,992		94,139	
Cost of goods and other services:								
Local	(34,221)		(46,539)		(111,893)		(176,150)	
Foreign	(22,814)		(31,026)		(74,595)		(117,434)	
Valued added/(eroded)	82,544	100%	1,276	100%	269,932	100%	3,001	100%

Applied as follows:

	2017		2016		2017		2016	
	₦ million	%	₦ million	%	US\$'000	%	US\$'000	%
To employees:								
- as salaries and labour related expenses	6,407	8	4,978	390	20,951	8	19,354	645
To external providers of capital:								
- as interest	22,236	27	17,314	1357	72,710	27	68,751	2291
To Government:								
- as Company taxes	687	1	575	45	2,248	1	1,885	63
Retained for the Company's future:								
- For asset replacement, depreciation, depletion & amortisation	25,142	30	8,245	646	82,215	30	53,807	1793
Deferred tax credit	(68,344)	-83	(4,996)	-392	(223,481)	-83	(16,384)	-546
Profit/(loss) for the year	96,416	117	(24,840)	-1947	315,289	117	(124,412)	-4146
Valued added/(eroded)	82,544	100	1,276	100	269,932	100%	3,001	100

The value added/ (eroded) represents the additional wealth which the Company has been able to create by its own and its employees' efforts. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for the creation of future wealth.

Five year financial summary

As at 31 December 2017

	2017	2016	2015	2014	2013
	₦ million	₦ million	₦ million	₦ million	₦ million
Revenue	127,655	51,995	98,593	121,246	135,068
Profit/(loss) before taxation	28,759	(29,261)	15,159	43,529	71,025
Income tax expense	67,657	4,421	(3,245)	-	14,399
Profit/(loss) for the year	96,416	(24,840)	11,914	43,529	85,424

	2017	2016	2015	2014	2013
	₦ million	₦ million	₦ million	₦ million	₦ million
Capital employed:					
Issued share capital	283	283	282	277	200
Share premium	82,080	82,080	82,080	82,080	-
Share based payment reserve	4,332	2,597	1,729	-	-
Capital contribution	5,932	5,932	5,932	5,932	5,947
Foreign translation reserve	194,526	193,499	45,618	36,086	580
Retained earnings	203,072	106,670	136,456	138,768	106,886
Total equity	490,225	391,061	272,097	263,143	113,613
Represented by:					
Non-current assets	359,097	277,618	167,517	152,396	97,740
Current assets	474,837	404,274	348,199	293,558	102,681
Non-current liabilities	(125,880)	(137,722)	(115,850)	(45,994)	(21,019)
Current liabilities	(217,829)	(153,109)	(127,769)	(136,817)	(65,789)
Net assets	490,225	391,061	272,097	263,143	113,613

Five year financial summary

As at 31 December 2017

	2017	2016	2015	2014	2013
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	417,428	202,446	497,867	755,508	869,982
Profit/(loss) before taxation	94,056	(138,911)	76,549	271,236	457,477
Income tax expense	221,233	14,499	(16,384)	-	92,745
Profit/(loss) for the year	315,289	(124,412)	60,165	271,236	550,222

	2017	2016	2015	2014	2013
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Capital employed:					
Issued share capital	1,826	1,826	1,821	1,798	1,334
Share premium	497,457	497,457	497,457	497,457	-
Share based payment reserve	17,809	12,135	8,734	-	-
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	1,045,985	730,740	877,123	888,798	690,761
Total equity	1,603,077	1,282,158	1,425,135	1,428,053	732,095
Represented by:					
Non-current assets	1,174,286	910,221	899,186	827,042	629,393
Current assets	1,552,758	1,325,488	1,751,151	1,593,114	661,472
Non-current liabilities	(411,642)	(451,549)	(642,575)	(742,498)	(423,342)
Current liabilities	(712,325)	(502,002)	(582,627)	(249,605)	(135,428)
Net assets	1,603,077	1,282,158	1,425,135	1,428,053	732,095

Supplementary financial information (unaudited)

For the year ended 31 December 2017

33. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 31 December 2016	137.3	766.0	269.4
Revisions	43.2	(67.1)	31.6
Discoveries and extensions	-	-	-
Acquisitions	-	-	-
Production	(5.8)	(41.8)	(13.0)
At 31 December 2017	174.7	657.1	288.0

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.

34. Capitalised costs related to oil producing activities

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Capitalised costs:				
Unproved properties	-	-	-	-
Proved properties	389,766	351,448	1,274,580	1,152,290
Total capitalised costs	389,766	351,448	1,274,580	1,152,290
Accumulated depreciation	110,925	86,822	362,741	284,663
Net capitalised costs	278,841	264,626	911,839	867,627

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.

35. Concessions

The original, expired and unexpired terms of concessions granted to the Company as at 31 December 2017 is shown in the table below:

		Original	Term in years expired	Unexpired
Seplat	OML 4, 38 & 41	10	8	2

Supplementary financial information (unaudited)

For the year ended 31 December 2017 - continued

36. Results of operations for oil producing activities

	2017 ₦ million	2016 ₦ million	2017 US\$ '000	2016 US\$ '000
Revenue	127,655	51,995	417,428	202,446
Production and administrative expenses	(75,019)	(74,347)	(245,294)	(292,757)
Depreciation & amortisation	(23,877)	(6,909)	(78,078)	(48,600)
Profit/(loss) before taxation	28,759	(29,261)	94,056	(138,911)
Taxation	67,657	4,421	221,233	14,499
Profit/(loss) after taxation	96,416	(24,840)	315,289	(124,412)

37. Reclassification

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

38. Exchange rates used in translating the accounts to Naira

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

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