



seplat

# A clear **focus** on delivery

Seplat Petroleum Development Company Plc  
Full year 2016 financial results

30 March 2017

## Announcement

Lagos and London, 30 March 2017: 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 2016 financial results and provides an operational update.

### Key points

- Results impacted by force majeure at Forcados terminal - net working interest production 25,877 boepd, revenue US\$254 million; Gross profit US\$72 million; net loss after tax US\$166 million
- Cash from operations US\$172 million against capex incurred of US\$52 million
- 3 MMbbls gross oil and condensate exported via Warri refinery route in 2016 - gross exports to stabilise at 30,000 bopd during Q2 2017; completion of the 160,000 bopd Amukpe to Escravos pipeline is prioritised by government - anticipated in H2 2017
- Continued growth of the gas business - 2016 net working interest production up 10% year-on-year at 95 MMscfd (210 MMscfd gross) and gas revenue up 37% to US\$105 million - all gas supplied to domestic market
- Phase II Oben gas processing plant expansion takes total processing capacity to 525 MMscfd - gives headroom to increase contracted gas sales and handle 3<sup>rd</sup> party volumes in future
- Continued to deleverage the balance sheet - gross debt at year end US\$676 million (repaid US\$324 million, or almost one third, of principal outstanding since January 2015 re-financing)
- Cash at bank at year end US\$160 million
- Business fundamentals remain strong - working interest 2P reserves 462 MMboe, 2P + 2C volumes 552 MMboe; working interest production prior to force majeure in excess of 52,000 boepd; low unit cost of production at ca. US\$9/boe
- Proactive approach and management actions lead to improved performance outlook with greater diversification of export routes

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

“In addition to a difficult global oil market backdrop our business has had to contend with unprecedented operational challenges due to interruptions and these are reflected in our full year results. Whilst force majeure at the Forcados terminal has materially affected our oil production, I am particularly pleased to see the growth in our gas business which in 2016 exceeded the US\$100 million revenue milestone demonstrating its robustness and providing a solid base from which to grow. In addition, we have now established a longer-term alternative export route via the Warri refinery jetty and are nearing completion of upgrade works to the infrastructure enabling a doubling of barging volumes to a steady 30,000 bopd gross during Q2 2017. Alongside this we are collaborating and supporting government on completion of the Amukpe to Escravos pipeline that will offer a third export route through the Escravos terminal. With multiple export routes expected to be operational during the second half of 2017, we will have significantly de-risked our route to market.

Whilst the quality of our asset base remains undiminished we will continue to maintain strict financial discipline to ensure that we preserve a sufficient liquidity buffer in the current environment and at the same time retain discretion over spend in our portfolio of production opportunities.”

### Financial overview

	US\$ million			₦ billion	
	2016	2015	% change	2016	2015
Revenue	254	570	-55%	63	113
Gross profit	72	249	-71%	16	49
Operating Profit/(loss)	(158)	158	-200%	(45)	31
Net Profit/(loss)	(166)	66	-352%	(45)	13
Basic earnings/(loss) per share	(0.29)	0.12	-342%	(79.73)	23.94
Cash flow from ops	172	38	+353%	66	8
Working interest production (boepd)	25,877	43,372	-40%		
Realised oil price (US\$/₦ per bbl)	40.4	51.2	-21%	9,726	10,138
Realised gas price (US\$/₦ per Mscf)	3.03	2.55	+19%	792	505

## Conference call

At 9:00 am BST (London), 09:00 am WAT (Lagos), 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 569 393

Conference ID (to be quoted): 56076276

The webcast can be accessed via the Company's website [www.seplatpetroleum.com](http://www.seplatpetroleum.com) or at the following address:

<https://webconnect.webex.com/webconnect/onstage/g.php?MTID=ea6e6397b259fc88d3ab6599471387529>

## Enquiries

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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 2016 results overview

### Working interest reserves

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

	W.I reserves at 31/12/2015			W.I reserves at 31/12/2016		
	Liquids	Gas	Oil equivalent	Liquids	Gas	Oil equivalent
	MMbbls	Bscf	MMboe	MMbbls	Bscf	MMboe
OMLs 4, 38 & 41	137.1	786	273	137.3	766	269
OPL 283	9.1	81	23	8.5	72	21
OML 53	46.0	533	138	41.1	671	157
OML 55 <sup>(2)</sup>	16.7	173	47	8.5	35	15
<b>Total</b>	<b>208.9</b>	<b>1,573</b>	<b>480</b>	<b>195.4</b>	<b>1,544</b>	<b>462</b>

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

### Full year average daily production

	Seplat %	Gross production			Working Interest production		
		Liquids <sup>(1)</sup>	Gas	Oil equivalent	Liquids	Gas	Oil equivalent
		bopd	MMscfd	boepd	bopd	MMscfd	boepd
OMLs 4, 38 & 41	45.0%	16,560	210	51,640	7,452	95	23,238
OPL 283	40.0%	1,531	-	1,531	612	-	612
OML 53	40.0%	2,954	-	2,954	1,182	-	1,182
OML 55 <sup>(2)</sup>	n/a	3,756	-	3,756	845	-	845
<b>Total</b>		<b>24,801</b>	<b>210</b>	<b>59,881</b>	<b>10,091</b>	<b>95</b>	<b>25,877</b>

<sup>(1)</sup> Liquid production volumes as measured at the LACT unit for OMLs 4, 38 and 41. Volumes stated are subject to reconciliation and will differ from sales volumes within the period. Based on preliminary compilations.

<sup>(2)</sup> Under the revised commercial terms in relation to OML 55 Seplat will no longer be a shareholder in BelemaOil but will instead have a revenue interest until a discharge sum of US\$330 million has been paid to Seplat. Working interest production reported for OML 55 is for preceding volumes to end June 2016.

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

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

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

## Full year 2016 results overview continued

### Alternative oil export route

Seplat is actively pursuing alternative crude oil evacuation options for production at OMLs 4, 38 and 41 and potential strategies to further grow and diversify production in order to reduce any over-reliance on one particular third party operated export system in the future. In line with this objective we successfully implemented an alternative export solution during the second quarter whereby crude oil production from OMLs 4, 38 and 41 is sent via the Company's own 100,000 bopd capacity pipeline to available storage tanks at the Warri refinery and sold FOB to Seplat's offtaker Mercuria at the Warri refinery jetty, from where the oil is then transported by barge to a mother-tanker positioned offshore. At 31 December 2016 a gross volume of 3 million barrels had been evacuated via this route. The Company's intention is to establish regular exports of 30,000 bopd (gross) via Warri.

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

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

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

### Gas business

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

Phase I expansion of the Oben gas processing facility was successfully completed in mid-2015 when the new 150 MMscfd processing plant was installed and commissioned, doubling gross Company processing capacity to 300 MMscfd. Further to this we embarked on the Phase II expansion project in 2016 that has seen a further 3 x 75 MMscfd processing modules installed at the new plant location (adding an additional 225 MMscfd aggregate processing capacity) that takes gross Company processing capacity to a minimum of 525 MMscfd. The new processing modules arrived in-country in June and clearing/site delivery was completed in August. Installation of the new modules and completion activities were carried out in Q3/Q4 2016 and are now being commissioned with project hand over expected in Q2 2017. Of the 525 MMscfd total processing capacity, 465 MMscfd is located at Oben with the remaining 60 MMscfd located at Sapele. The 375 MMscfd expansion at Oben (Phases I and II) was completed by Seplat as a 100% sole risk project.

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

## Full year 2016 results overview *continued*

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

### Rig based activity

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

### Finance

The significantly lower oil production, lower oil price realisation and shut-in of exports at the Forcados terminal from mid-February onwards adversely impacted revenue and more than offset the higher gas volumes and prices. Consequently, revenue for 2016 was down 55% from 2015 at US\$254 million. Net loss for the year stood at US\$166 million impacted primarily by a downward revision to receivables on account of unrealised FX losses (US\$101 million), impairment charges (US\$10 million) but reduced by interest income on receivables (US\$51 million). Cash flow from operations was US\$172 million and capital investments US\$52 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\$160 million and US\$516 million respectively. At end of 2016 the net NPDC receivables balance stood at US\$229 million, down from US\$435 million at end 2015.

Considering the unforeseen extended force majeure conditions where the Forcados terminal was shut-in, and the inevitable impact on revenues, the Company adopted a prudent approach and proactively engaged in discussions with its lenders in the US\$700 million seven-year term facility (the “term loan”) to re-align near-term debt service obligations within the existing tenor. Having re-financed in January 2015 and set a sculpted repayment schedule which was front-ended (i.e. three years’ average life for a seven-year facility) the Company received approvals from its lenders in September 2016 and successfully concluded the re-profiling to set a more evenly balanced repayment schedule over the remaining loan life which runs out to 2021

The Company is currently engaged with the lenders on the three year corporate facility with a view to extending the tenor until the end of 2018 and reprofiling principal repayments while the Company looks at optimising the capital structure.

### Recommended full year dividend

Owing to the exceptional circumstances as a direct result of force majeure events at the Forcados terminal no dividend is being declared. During a period in which Seplat is focusing 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 today announces that Stuart Connal will retire 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. He has provided excellent operational and technical leadership that has translated into the consistent growth in reserves and production capacity Seplat has delivered, and also in particular his contribution to the growth of Seplat’s gas business. Stuart’s vast expertise will remain available to the Company through his continued involvement on a consultancy basis in support the large scale ANOH gas and condensate project, which is at a critical juncture as the JV pushes towards FID for the upstream and midstream elements of the project in 2017.

Following his retirement Stuart’s responsibilities have been divided into two leadership roles. Jay Smulders joined Seplat in 2016 as Technical Director and will assume responsibility for all technical works including capital projects and reserve reporting. Alongside this Seplat is in the process of appointing an Operations Director that will assume responsibility for day to day production operations and P&L accountability for the assets. The board believes this new structure will provide an optimal framework as the Company pushes ahead with delivery of critical near term steps to restore full production and new projects in the future.

## 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
2016 working interest liquids production:	7,452 bopd
2016 working interest gas production:	95 MMscfd
Remaining working interest 2P oil reserves:	137.3 MMbbls
Remaining working interest 2P gas reserves:	766 Bscf
2017 activities:	Production and development

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

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

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

#### Background

OML 4 covers an area of 267km<sup>2</sup> and is located 78km north east of Warri, Delta State. The Oben field is located in OML 4 and is the main producing field on the block. Facilities on the block include a 60,000 bopd capacity flow station, a 465 MMscfd capacity non-associated gas processing plant and an associated gas compressor station with three 10 MMscfd associated gas ('AG') compressors. Oil exports from the Oben flow station are routed via the Oben - Amukpe pipeline to the Amukpe facilities and onwards to either the Forcados terminal or Warri Refinery. Production operations and facilities are supported by the Oben Field Logistics Base. The Oben field in particular is central to the Company's future gas expansion plans and is strategically located as an important gas hub with access to Nigeria's main gas demand centres. The licence was renewed in 1989 for a further 30 years and is next due for renewal on 30 June 2019.

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

## Operations review continued

OML 41 covers an area of 291km<sup>2</sup> and is located 50km from Warri, Delta State. There are currently three producing fields on the block, namely Sapele, Sapele Shallow and Ovhor (which straddles OML 41 and OML 38), and two discoveries with contingent resources, the Ubaleme and Okoporo discoveries. Facilities on the block include a flow station with 60,000 bpd capacity, a 60 MMscfd capacity non associated gas processing plant and a 26 MMscfd NGC owned gas compressor station. Produced oil is exported via the Sapele - Amukpe delivery line to the Amukpe facilities and onwards to either the Forcados terminal or Warri refinery. The condensate stream is combined with the oil for export and produced gas is exported via the NGC owned Oben-Sapele pipeline system which feeds into the Sapele power plant. The licence was renewed in 1989 for a further 30 years and is next due for renewal on 30 June 2019.

### 2016 activity

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

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

On OML 41 the ongoing focus is the development of the Sapele Shallow field. During 2015 the partners drilled and completed three oil development wells on the field. Following the pause in drilling activities in 2016 Seplat is defining a full development and drilling strategy for Sapele Shallow, which overlies the productive reservoirs in the main Sapele field and is estimated to hold a significant accumulation of oil (around 500 MMbbls 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
2016 working interest liquids production:	1,531 bopd
2016 working interest gas production:	n/a
Remaining working interest 2P oil reserves:	8.5 MMbbls
Remaining working interest 2P gas reserves:	72 Bscf
2017 activities:	Production

### Background

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

## Operations review continued

### 2016 activity

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

Negotiations with contractors for the acquisition of 106 km<sup>2</sup> of 3D seismic data over the southern section of the Igbuku field were concluded with the contract planned to be awarded in the second half of 2017. The seismic will allow full definition of the Igbuku structure required for future development drilling activities. During the year pre-drill and site preparation was undertaken for the planned Anagba-1 appraisal well. The well is intended to appraise a structure that straddles the block boundary with adjacent OML 60 (where the reservoirs are in production). Timing of the well is subject to finalisation between the JV partners.

### OML 53

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

### Background

OML 53 covers an area of approximately 1,585km<sup>2</sup> and is located onshore in the north eastern Niger Delta. The Jisike oil field, located in the north western area of the block, is currently the only producing field on OML 53. Existing infrastructure at Jisike comprises flow-lines, phase one separation facilities and a flow station with a design capacity of 12,000 bopd and 8 MMscfd. Oil production is sent for further processing at the nearby Izombe facilities on OML 124 from where it is exported via pipeline to the Brass oil terminal. The block also contains the large undeveloped Ohaji South gas and condensate field, the development of which will be coordinated with the SPDC operated Assa North field on adjacent OML 21, together referred to as the ANOH project which is set to be one of the largest greenfield gas condensate development projects in Nigeria to date. The expectation is that future gas production from the ANOH project will supply the domestic market, for which significant work on commercialisation terms and development concepts has been undertaken. There is also shallow oil development potential at Ohaji South that could be pursued as a separate standalone project in the near term. Prior to initiating development of the ANOH project, Seplat expects to focus efforts on increasing oil production at the Jisike field and development of the shallow oil reservoirs in Ohaji South. Pursuant to the Joint Operating Model, Seplat is designated operator of OML 53.

### 2016 activity

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

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

## Operations review continued

### OML 55

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

### Background

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

### 2016 activity

Representatives of both Seplat and BelemaOil agreed to a new commercial arrangement in July 2016 which provides for a discharge sum of US\$330 million to be paid to Seplat over a six year period, through allocation of crude oil reserves of OML 55. In turn, Seplat will no longer be a shareholder in BelemaOil but instead hold a financial revenue interest until the discharge sum has been received in full. The 40.00% operated interest in OML 55 will be jointly controlled by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and unanimous consent of all parties is required for decision making. As such, Seplat no longer exercises full control. Joint control however exists over OML 55 through the representation on the Asset Management team.

## Financial review

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

### Revenue

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

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

The Group put in place dated Brent put options covering a volume of 6.0 MMbbls to year end at an average strike price of US\$42.75/bbl. The amount paid out during the year was US\$20.3 million (with realised gains on hedging net of costs standing at US\$0.74 million). The Company has also put in place dated Brent puts covering a further volume of 3.69 MMbbls at an average strike price of US\$48.38/bbl over 2017. The board and management continue to closely monitor prevailing oil market dynamics, and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and volatility.

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

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

### Gross profit

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

## Financial review continued

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

### Operating loss

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

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

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

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

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

### Tax

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

In line with Sections of the Companies Income Tax Act which provides the incentives available to companies that deliver gas utilisation projects, Seplat is entitled to a tax holiday of 3 years extendable to 5 years on the new Oben Gas Plant. The Federal Inland Revenue Service has been notified that there will be a claim on these incentives in the tax returns for 2016.

### Net loss

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

### Dividends

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

## Financial review continued

### Cash flows and liquidity

#### Cash flows from operating activities

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

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

#### Reconciliation of net NPDC receivables balance

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

#### Cash flows from investing activities

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

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

In turn, Seplat will no longer be a shareholder in BelemaOil. The 40.00% operated interest in OML 55 will be jointly controlled by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and unanimous consent of all parties is required for decision making. As such, Seplat no longer exercises control and has now deconsolidated BelemaOil in the financial statements in accordance with IFRS 10 (par B97). Joint control however will exist over OML 55 through the representation on the Asset Management team.

## Financial review continued

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

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

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

### Cash flows from financing activities

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

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

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

### Net debt at 31 December 2016

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

## Financial review continued

### Outlook

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

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

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# **Financial Statements**

## **For the year ended 31 December 2016**

### **Expressed in US Dollars ('USD')**

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## General information

### Board of directors:

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

\*Madame Nathalie Delapalme acts as alternate Director to Michel Hochard

<b>Company secretary</b>	Mirian Kachikwu
<b>Registered office and business address of directors</b>	25a Lugard Avenue Ikoyi Lagos Nigeria
<b>Registered number</b>	RC No. 824838
<b>FRC number</b>	FRC/2015/NBA/00000010739
<b>Auditor</b>	Ernst & Young (10 <sup>th</sup> & 13th Floors), UBA House 57 Marina Lagos, Nigeria
<b>Registrar</b>	DataMax Registrars Limited 7 Anthony Village Road Anthony P.M.B 10014 Shomolu Lagos, Nigeria
<b>Solicitors</b>	Olaniwun Ajayi LP Adepetun Caxton-Martins Agbor & Segun ("ACAS-Law") Herbert Smith Freehills LLP Freshfields Bruckhaus Deringer LLP Norton Rose Fulbright LLP Winston & Strawn London LLP Chief J.A. Ororho & Co. Ogaga Ovwah & Co. Consolex LP J.E. Okodaso & Company O. Obrik. Uloho and Co. V.E. Akpoguma & Co. Thompson Okpoko & Partners G.C. Arubayi & Co. Abraham Uhunmwagho & Co Winston & Strawn London LLP Austin and Berns Solicitors Streamsowers & Kohn
<b>Bankers</b>	First Bank of Nigeria Limited Skye Bank Plc 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 2016

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

#### Principal activity

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

#### Corporate structure and business

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

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

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

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

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

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

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

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

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

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

Subsequently, and in a bid to resolve pending legal disputes, representatives of both Seplat and BelemaOil have agreed to a new arrangement which provides for a discharge sum of US\$330 million, as at the reporting date fair valued at US\$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

## Report of the directors continued

### For the year ended 31 December 2016

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

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

### Operating results:

	The Group		The Company	
	2016	2015	2016	2015
Revenue	254,217	570,477	202,446	497,867
Operating (Loss)/Profit	(157,883)	157,865	(164,299)	145,754
(Loss)/Profit before taxation	(172,766)	87,079	(138,911)	76,549
(Loss)/Profit after taxation	(166,094)	65,607	(124,412)	60,165

### Proposed dividend

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

### Changes in property, plant and equipment

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

### Rotation of Directors

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

### Corporate governance

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

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

## Report of the directors continued

### For the year ended 31 December 2016

In order to carry out its responsibilities, the Board has established 5 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 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. HSSE and Risk Management Committee

Basil Omiyi  
Macaulay Agbada Ofurhie  
Ifueko Omoigui Okauru

**Committee Chairman**  
Member  
Member

#### 5. Corporate Social Responsibility Committee

Lord Mark Malloch-Brown  
Macaulay Agbada Ofurhie  
Ifueko Omoigui Okauru

**Committee Chairman**  
Member  
Member

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

#### 1. Statutory Audit Committee

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

**Committee Chairman**  
Member  
Member (until 1 June 2016 AGM)  
Member (after 1 June 2016 AGM)  
Member  
Member  
Member

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

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

## Report of the directors continued

For the year ended 31 December 2016

### Record of attendance of board and committee meetings

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

#### Board of Directors

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

\*One meeting attended by alternate Director Madame Nathalie Delapalme

#### Finance Committee

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

#### Nomination and Establishment Committee

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

#### Remuneration Committee

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

#### HSSE and Risk Management Committee

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

## Report of the directors continued

### For the year ended 31 December 2016

#### Corporate Social Responsibility Committee

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

#### Statutory Audit Committee

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

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

#### Directors' interest in shares

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

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

#### Notes:

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

## Report of the directors continued

For the year ended 31 December 2016

### Director's interest in contracts

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

### Substantial interest in shares

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

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

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

### Free float

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

### Acquisition of own shares

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

### Shareholding analysis

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

Share Range	Number of Shareholders	% of Shareholders	Number of Holdings	% Shareholding
1-10000	1,574	83.63	1,577,442	0.28
10001-50000	163	8.66	4,239,526	0.75
50001-100000	41	2.18	2,828,884	0.50
100001-500000	67	3.56	14,918,813	2.65
500001-1000000	11	0.58	7,630,767	1.35
1000001-5000000	18	0.96	45,796,731	8.13
5000001-10000000	3	0.16	20,336,351	3.61
10000001-50000000	4	0.21	112,700,512	20.00
100000001-500000000	1	0.05	353,415,535	62.72
<b>Total</b>	<b>1,882</b>	<b>100.00</b>	<b>563,444,561</b>	<b>100.00</b>

### Share Capital History

Year	Authorised increase	Cummulative	Issued increase	Cummulative	Consideration
Jun-09	-	100,000,000	100,000,000	100,000,000	cash
Mar-13	100,000,000	200,000,000	100,000,000	200,000,000	stock split from 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

## Report of the directors continued

For the year ended 31 December 2016

### Donations

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

Name of beneficiary	US\$
University of Lagos - Faculty of Clinical Science Research Fund	23,488
Society of Petroleum Engineers	19,708
Nigerian Association of Petroleum Engineers	14,446
Petroleum Technology Association	14,076
University of Port Harcourt- Institute of Petroleum Studies	11,744
Milken Institute	11,695
Raitas Communications	11,646
The Nigerian Stock Exchange	7,819
Nigerian Society of Chemical Engineering	7,669
London School of Economics & Political Science	6,604
Delta State Economic Summit	4,959
Congress of Medical Womens Association	4,693
The Nigeria 2015 Cup	3,524
Urhobo Progress Union	2,357
National Judicial Institute	2,349
Centre for Petroleum Information	2,346
Nigerian Gas Association	2,308
The Petroleum Club	2,299
Eye Can See	2,276
Nigeria & Entrepreneurship, Summit & Honors (NESH)	1,533
Police Community Relations Committee	1,179
Centre for Petroleum Information	1,115
The Athletics Federation of Nigeria	827
Nigerian American Chamber of Commerce	768
National Association of Energy Correspondents	757
University of Ibadan Technical Conference	560
Women in Successful Careers (WISCAR)	385
World Environment Day	352
<b>Total</b>	<b>163,482</b>

### Employment and employees

#### a) Employees involvement and training:

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

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

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

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

## Report of the directors continued

For the year ended 31 December 2016

b) Health, safety and welfare of employees:

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

c) Employment of disabled or physically challenged persons:

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

### Auditor

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

By Order of the Board



**Dr. Mirian Kene Kachikwu**

FRC/2015/NBA/00000010739

Company Secretary,

Seplat Petroleum Development Company Plc

25a Lugard Avenue

Ikoyi

Lagos

Nigeria

Date: 30 March 2017

## Audit Committee's Report

For the year ended 31 December 2016

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 2016 as follows:

- The scope and plan of the audit for the year ended 31 December 2016 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 day 30 March 2017



Ifueko Omoigui-Okauru  
Member, Audit Committee  
FRC/2016/ICAN/00000014169

## Statement of directors' responsibilities

For the year ended 31 December 2016

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

- a) keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004;
- b) establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
- c) prepares its financial statements using suitable accounting policies supported by reasonable and prudent 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 Company and of its financial performance for the year. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed On Behalf Of the Directors By



**Ambrosie Bryant Chukwueloka Orjiako**  
Chairman  
FRC/2014/IODN/00000003161

30 March 2017



**Ojunekwu Augustine Avuru**  
Chief Executive Officer  
FRC/2014/IODN/00000003100

30 March 2017



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

## For the year ended 31 December 2016

### Opinion

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

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

In our opinion:

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

### Basis for Opinion

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

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

For the year ended 31 December 2016

## Key Audit Matters

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

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

Key Audit Matter	How the matter was addressed in the audit
<p><b>Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment</b></p> <p>As at 31 December 2016, Seplat reported 461.7 MMboe of proved plus probable reserves.</p> <p>The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&amp;A, impairments and decommissioning provisions. There is technical uncertainty in assessing reserve quantities.</p>	<p>We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• ensured that significant movements in reserves are compliant with guidelines and policy;</li> <li>• ensured that additions to oil assets during the year were properly recognised and accounted for;</li> <li>• performed analytical review procedures on reserve revisions;</li> <li>• confirmed that the reserve information at year end is supported by underlying documentation and data;</li> <li>• performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and</li> <li>• reviewed disclosures in the Annual Report to ensure consistency with the reserves data that we have reviewed.</li> </ul>
<p><b>The assessment of the recoverable amount of exploration and production assets</b></p> <p>As at 31 December 2016, Seplat recognised US\$1.224 billion of oil and gas properties.</p> <p>A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties.</p> <p>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.</p> <p>Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• assessed whether or not reserve movements represented an impairment trigger;</li> <li>• considered oil and gas forward curves and long term commodity price assumptions and whether these are indicators of impairment;</li> <li>• discussed with management the operational status of key assets;</li> <li>• separately from management, we assessed whether or not indicators of impairment exist; and</li> <li>• challenged management's assumptions in estimating future cash flows from assets.</li> </ul>

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

For the year ended 31 December 2016

Key Audit Matter	How the matter was addressed in the audit
<p><b>Deconsolidation of subsidiary</b></p> <p>During 2016, following the restructuring of the arrangement with BelemaOil, Seplat deconsolidated BelemaOil as it no longer exercised control over the entity.</p> <p>Seplat has recorded its rights to receive the discharge sum of US\$330 million from the crude oil reserves of OML 55 as a right to receive oil to the tune of the discharge sum. The fair value of the discharge sum on the date of deconsolidation is US\$250 million.</p>	<p>We carried out the following audit procedures:</p> <ul style="list-style-type: none"> <li>• reviewed the terms of the agreements relating to BelemaOil, including the Asset Management Team agreement, Deed of Settlement and Release and other Deeds of Settlement;</li> <li>• reviewed management's assessment and accounting of the transaction to ensure that the appropriate accounting treatment is reflected in the financial statements; and</li> <li>• assessed the appropriateness of the estimated fair value of the discharge sum and management's assessment for recoverability.</li> </ul>
<p><b>Recoverability of the Nigerian Petroleum Development Company (NPDC) receivables</b></p> <p>As at 31 December 2016, the undiscounted/discounted value of the receivable balance is US\$239/US\$229 million respectively.</p> <p>Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's past experiences with NPDC, current discussions with NPDC and financial capacity of NPDC.</p>	<p>We carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• validated the receipts during the year and post year-end;</li> <li>• obtained confirmation from NNPC of amounts owed to Seplat;</li> <li>• recalculated the US dollar equivalent of amounts owed in Nigerian naira;</li> <li>• discussed and challenged management's expectations in relation to the in-flow of funds; and</li> <li>• ensured that amounts due are discounted to reflect the time value of money in line with expected timing of receipts.</li> </ul>

## 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.

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

For the year ended 31 December 2016

## Responsibilities of the directors for the financial statements

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

For the year ended 31 December 2016

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

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

## Report on other legal and regulatory requirements

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

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii) the statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account;
- iv) and in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.



Yemi Odutola

FRC/2012/ICAN/0000000141

Partner

For: Ernst & Young

Lagos, Nigeria

30 March 2017

## Consolidated and separate financial statements

### Statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

	Notes	The Group		The Company	
		31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
		US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	5	254,217	570,477	202,446	497,867
Cost of sales	6	(182,424)	(321,694)	(157,333)	(270,505)
Gross profit		71,793	248,783	45,113	227,362
Other operating income	7	-	2,316	-	2,316
General and administrative expenses	8	(113,832)	(121,474)	(92,629)	(106,104)
(Losses)/gains on foreign exchange (net)	9	(101,455)	7,747	(104,328)	8,985
Gain on deconsolidation of subsidiary	17c	680	-	-	-
Fair value (loss)/gain	10	(15,069)	20,493	(12,455)	13,195
Operating (loss)/profit		(157,883)	157,865	(164,299)	145,754
Finance income	11	59,017	12,802	94,139	8,133
Finance costs	11	(73,900)	(83,588)	(68,751)	(77,338)
(Loss)/profit before taxation		(172,766)	87,079	(138,911)	76,549
Taxation	12	6,672	(21,472)	14,499	(16,384)
(Loss)/profit for the year		(166,094)	65,607	(124,412)	60,165
(Loss)/profit attributable to equity holders of parent		(164,590)	67,761	(124,412)	60,165
(Loss) attributable to non-controlling interest		(1,504)	(2,154)	-	-
		(166,094)	65,607	(124,412)	60,165
<b>Other comprehensive income:</b>					
Items that may be reclassified to profit or loss:					
Foreign currency translation difference		3,350	(299)	-	-
Items that will not be reclassified to profit or loss:					
Remeasurement of post-employment benefit obligations	30b	563	-	563	-
Other comprehensive income/(loss) for the year		3,913	(299)	563	-
Total comprehensive (loss)/income for the year		(162,181)	65,308	(123,849)	60,165
Total comprehensive (loss)/income attributable to equity holders of parent		(160,677)	67,462	(123,849)	60,165
Total comprehensive (loss) attributable to non-controlling interest		(1,504)	(2,154)	-	-
		(162,181)	65,308	(123,849)	60,165
(Loss)/earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:					
Basic (loss)/earnings per share (US\$)	32	(0.29)	0.12	(0.22)	0.11
Diluted (loss)/ earnings per share (US\$)	32	(0.29)	0.12	(0.22)	0.11

See notes to the financial statements.

# Consolidated and separate financial statements

## Statement of financial position

As at 31 December 2016

	Notes	The Group		The Company	
		31 Dec 2016 US\$ '000	31 Dec 2015 US\$ '000	31 Dec 2016 US\$ '000	31 Dec 2015 US\$ '000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Oil & gas properties	15a	1,224,400	1,436,950	867,627	850,214
Other property, plant and equipment	15b	7,967	11,603	7,914	11,154
Other asset	17	250,090	-	-	-
Goodwill	16	-	2,000	-	-
Prepayments	18	33,616	36,754	33,616	36,754
Investment in subsidiaries	19	-	-	1,064	1,064
<b>Total non-current assets</b>		<b>1,516,073</b>	<b>1,487,307</b>	<b>910,221</b>	<b>899,186</b>
<b>Current assets</b>					
Inventories	20	106,213	82,466	102,608	78,865
Trade and other receivables	21	390,694	811,255	1,069,003	1,322,039
Prepayments	18	6,672	11,639	6,500	10,679
Cash & cash equivalents	22	159,621	326,029	147,377	316,374
Derivatives	23	-	23,194	-	23,194
<b>Total current assets</b>		<b>663,200</b>	<b>1,254,583</b>	<b>1,325,488</b>	<b>1,751,151</b>
<b>Total assets</b>		<b>2,179,273</b>	<b>2,741,890</b>	<b>2,235,709</b>	<b>2,650,337</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Issued share capital	24	1,826	1,821	1,826	1,821
Share premium	24c	497,457	497,457	497,457	497,457
Share based payment reserve	24b	12,135	8,734	12,135	8,734
Capital contribution	25	40,000	40,000	40,000	40,000
Retained earnings		678,922	865,483	730,740	877,123
Foreign currency translation reserve		3,675	325	-	-
Non-controlling interest		-	(745)	-	-
<b>Total shareholders' equity</b>		<b>1,234,015</b>	<b>1,413,075</b>	<b>1,282,158</b>	<b>1,425,135</b>
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	27	446,098	608,846	446,098	556,346
Deferred tax liabilities	13	-	21,233	-	16,384
Contingent consideration	28	12,040	21,900	-	-
Provision for decommissioning obligation	29	597	3,869	339	2,971
Defined benefit plan	30	5,112	6,926	5,112	6,926
<b>Total non-current liabilities</b>		<b>463,847</b>	<b>662,774</b>	<b>451,549</b>	<b>582,627</b>
<b>Current liabilities</b>					
Interest bearing loans and borrowings	27	217,998	290,769	217,998	290,769
Trade and other payables	31	261,528	375,033	282,119	351,806
Current taxation	12	1,885	239	1,885	-
<b>Total current liabilities</b>		<b>481,411</b>	<b>666,041</b>	<b>502,002</b>	<b>642,575</b>
<b>Total liabilities</b>		<b>945,258</b>	<b>1,328,815</b>	<b>953,551</b>	<b>1,225,202</b>
<b>Total shareholders' equity and liabilities</b>		<b>2,179,273</b>	<b>2,741,890</b>	<b>2,235,709</b>	<b>2,650,337</b>

See notes to the financial statements.

# Consolidated and separate financial statements

## Statement of financial position

Continued

As at 31 December 2016


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

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



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**A. B. C. Orjiako**  
FRC/2014/IODN/00000003161  
Chairman  
30 March 2017



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**A. O. Avuru**  
FRC/2014/IODN/00000003100  
Chief Executive Officer  
30 March 2017



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**R. T. Brown**  
FRC/2015/IODN/00000007983  
Chief Financial Officer  
30 March 2017

# Consolidated and separate financial statements

## Statement of changes in equity

For the year ended 31 December 2016

										The Group
	Notes	Issued Share Capital US\$ '000	Share Premium US\$ '000	Capital Contribution US\$ '000	Share Based Payment Reserve US\$ '000	Retained Earnings US\$ '000	Foreign Currency Translation Reserve US\$ '000	Total US\$ '000	Non-Controlling Interest US\$ '000	Total Equity US\$ '000
At 1 January 2015		1,798	497,457	40,000	-	869,861	26	1,409,142	-	1,409,142
Profit/(loss) for the year		-	-	-	-	67,462	-	67,462	(2,154)	65,308
Other comprehensive income		-	-	-	-	-	299	299	-	299
<b>Total comprehensive income/(loss) for the year</b>		-	-	-	-	<b>67,462</b>	<b>299</b>	<b>67,761</b>	<b>(2,154)</b>	<b>65,607</b>
Transactions with owners in their capacity as owners:										
Dividends	33	-	-	-	-	(71,840)	-	(71,840)	-	(71,840)
Employee share schemes	24b	-	-	-	8,757	-	-	8,757	-	8,757
NCI on acquisition of subsidiary		-	-	-	-	-	-	-	1,409	1,409
Issue of shares	24b	23	-	-	(23)	-	-	-	-	-
<b>Total</b>		<b>23</b>	<b>-</b>	<b>-</b>	<b>8,734</b>	<b>(71,840)</b>	<b>-</b>	<b>(63,083)</b>	<b>1,409</b>	<b>(61,674)</b>
<b>At 31 December 2015</b>		<b>1,821</b>	<b>497,457</b>	<b>40,000</b>	<b>8,734</b>	<b>865,483</b>	<b>325</b>	<b>1,413,820</b>	<b>(745)</b>	<b>1,413,075</b>
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
<b>Total comprehensive (loss)/ income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(164,027)</b>	<b>3,350</b>	<b>(160,677)</b>	<b>(1,504)</b>	<b>(162,181)</b>
Transactions with owners in their capacity as owners:										
Dividends	33	-	-	-	-	(22,534)	-	(22,534)	-	(22,534)
Employee share schemes	24b	-	-	-	3,406	-	-	3,406	-	3,406
NCI on acquisition of subsidiary		-	-	-	-	-	-	-	-	-
Loss of control		-	-	-	-	-	-	-	2,249	2,249
Issue of shares	24b	5	-	-	(5)	-	-	-	-	-
<b>Total</b>		<b>5</b>	<b>-</b>	<b>-</b>	<b>3,401</b>	<b>(22,534)</b>	<b>-</b>	<b>(19,128)</b>	<b>2,249</b>	<b>(16,879)</b>
<b>At 31 December 2016</b>		<b>1,826</b>	<b>497,457</b>	<b>40,000</b>	<b>12,135</b>	<b>678,922</b>	<b>3,675</b>	<b>1,234,015</b>	<b>-</b>	<b>1,234,015</b>

See notes to the financial statements.

# Consolidated and separate financial statements

## Statement of changes in equity

For the year ended 31 December 2016

	Notes	The Company					
		Issued Share Capital	Share Premium	Capital Contribution	Share Based Payment Reserve	Retained Earnings	Total Equity
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2015		1,798	497,457	40,000		888,798	1,428,053
Profit for the year		-	-	-		60,165	60,165
Other comprehensive income		-	-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	-	<b>60,165</b>	<b>60,165</b>
Transactions with owners in their capacity as owners:							
Dividends	33	-	-	-	-	(71,840)	(71,840)
Employee share schemes	24b	-	-	-	8,757	-	8,757
Issue of shares	24b	23	-	-	(23)	-	-
<b>Total</b>		<b>23</b>	<b>-</b>	<b>-</b>	<b>8,734</b>	<b>(71,840)</b>	<b>(63,083)</b>
<b>At 31 December 2015</b>		<b>1,821</b>	<b>497,457</b>	<b>40,000</b>	<b>8,734</b>	<b>877,123</b>	<b>1,425,135</b>
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
<b>Total comprehensive (loss)/income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(123,849)</b>	<b>(123,849)</b>
Transactions with owners in their capacity as owners:							
Dividends	33	-	-	-	-	(22,534)	(22,534)
Employee share schemes	24b	-	-	-	3,406	-	3,406
Issue of shares	24b	5	-	-	(5)	-	-
<b>Total</b>		<b>5</b>	<b>-</b>	<b>-</b>	<b>3,401</b>	<b>(22,534)</b>	<b>(19,128)</b>
<b>At 31 December 2016</b>		<b>1,826</b>	<b>497,457</b>	<b>40,000</b>	<b>12,135</b>	<b>730,740</b>	<b>1,282,158</b>

See notes to the financial statements.

# Consolidated and separate financial statements

## Statement of cash flows

For the year ended 31 December 2016

	Notes	The Group		The Company	
		31 Dec 2016 US\$ '000	31 Dec 2015 US\$ '000	31 Dec 2016 US\$ '000	31 Dec 2015 US\$ '000
<b>Cash flows from operating activities</b>					
Cash generated from operations	14	160,856	38,039	156,665	96,918
Receipts from derivatives		10,739	-	10,739	-
<b>Net cash inflows from operating activities</b>		<b>171,595</b>	<b>38,039</b>	<b>167,404</b>	<b>96,918</b>
<b>Cash flows from investing activities</b>					
Investment in oil and gas properties		(51,834)	(366,878)	(51,834)	(139,985)
Acquisition of other property, plant and equipment		(2,349)	(4,615)	(2,352)	(4,656)
Disposal of other property plant and equipment		385	-	385	-
Acquisition of subsidiary		-	(79,409)	-	-
Proceeds from sale of assets		-	208	-	208
Interest received		1,664	3,243	1,644	3,243
Refunds from advances on investment		-	368,160	-	-
<b>Net cash (outflows) from investing activities</b>		<b>(52,134)</b>	<b>(79,291)</b>	<b>(52,157)</b>	<b>(141,190)</b>
<b>Cash flows from financing activities</b>					
Proceeds from bank financing		-	967,101	-	967,101
Repayments of bank financing		(187,000)	(735,940)	(187,000)	(735,940)
Dividends paid		(22,534)	(71,840)	(22,534)	(71,840)
Interest paid		(73,420)	(77,338)	(68,421)	(77,338)
<b>Net cash (outflows)/ inflows from financing activities</b>		<b>(282,954)</b>	<b>81,983</b>	<b>(277,955)</b>	<b>81,983</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(163,493)</b>	<b>40,731</b>	<b>(162,708)</b>	<b>37,711</b>
Cash and cash equivalents at beginning of year		326,029	285,298	316,374	278,663
Effects of exchange rate changes on cash and cash equivalent		(2,915)	-	(6,289)	-
<b>Cash and cash equivalents at end of year</b>	22	<b>159,621</b>	<b>326,029</b>	<b>147,377</b>	<b>316,374</b>

See notes to the financial statements.

# Notes to the consolidated and separate financial statements

## 1. Corporate information and business

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

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

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

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

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

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

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

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

Subsequently, and in a bid to resolve pending legal disputes representatives of both Seplat and BelemaOil have agreed to a new arrangement which provides for a discharge sum of US\$330 million, as at the reporting date fair valued at US\$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

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

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

## 2. Summary of significant accounting policies

### 2.1 Introduction to summary of significant accounting policies

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

### 2.2 Basis of preparation

#### i) Compliance with IFRS

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

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

#### ii) Historical cost convention

The financial information has been prepared under the going concern assumption and historical cost convention, except for contingent consideration, borrowings on initial recognition and financial instruments - derivatives that have been measured at fair value. The historical financial information is presented in US Dollars and all values are rounded to the nearest thousand (US\$'000), except when otherwise indicated. The accounting policies are applicable to both the Company and Group.

#### iii) Going concern

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least 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 interpretations, effective from 1 January 2016 that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future is described below. Several other amendments apply for the first time in 2016; however, they do not impact the annual financial statements of the Group.

# Notes to the consolidated and separate financial statements

## Continued

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

a) **Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in joint operations**

The amendments to IFRS 11 require that a joint operator account for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, using the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in Note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity. BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising of equal representatives of both parties. As required by this amendment, the application of IFRS 3 principles in accounting for this transaction had no material impact in the financial statements as the transfer of assets between parties was in settlement of a pre-existing relationship and Seplat has no other interests in the jointly managed OML 55 except for the discharge sum which has been recognised at fair value and the resulting gain on the transaction recognised in the profit or loss account.

b) **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

c) **Annual Improvements to IFRS 2012-2014.** These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

- IAS 34 Interim Financial Reporting
- Amendments to IAS 1: Disclosure Initiative
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts
- Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

As these amendments merely clarify the existing requirements, they do not materially affect the Group's accounting policies or any of the disclosures.

v) **New standards and interpretations not yet adopted**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

i) **IFRS 9 Financial Instruments**

IFRS 9 Financial instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, the standard introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect accounting for own credit risk of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

# Notes to the consolidated and separate financial statements

## Continued

The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles based approach. The Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 - Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group is yet to assess the full impact of IFRS 9.

### ii) IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the Group is yet to estimate the effect of the new principles on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

### iii) IFRS 16 Leases

This standard eliminates the classification of leases as either operating or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases under IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, the Group also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 does not require a lessee to recognise assets and liabilities for (a) short term leases (b) leases of low-value assets. The Group is yet to assess the full impact of IFRS 16 and intends to adopt IFRS 16 no later than 1 January 2019 as required by the standard.

At this stage, the Group is yet to estimate the effect of the new rules on its financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2019.

# Notes to the consolidated and separate financial statements

## Continued

### iv) Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

This amendment is effective 1 January 2017.

## 2.3 Basis of consolidation

### i) Subsidiaries

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

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

### ii) Change in the ownership interest of subsidiary

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

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

### iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

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

### iv) Joint arrangements

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

#### Joint operations

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

The Group recognises in its own accounting records as follows:

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

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

## 2.4 Functional and presentation currency

Items included in the financial statements of the Company and each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate ('the functional currency'), which is the US dollar. The consolidated and separate financial statements are presented in US Dollars.

### i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

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

# Notes to the consolidated and separate financial statements

## Continued

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

### ii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

## 2.5 Oil and gas accounting

### i) Pre-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.

# Notes to the consolidated and separate financial statements

## Continued

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.

## 2.6 Revenue recognition

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

### Overlift and underlift

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

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

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

## 2.7 Property, plant and equipment

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

### Depreciation

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

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

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

## 2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 2.9 Impairment of non-financial assets

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

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

### Impairment - exploration and evaluation assets

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

### Impairment - proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## 2.10 Cash and cash equivalents

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

## 2.11 Inventories

Inventories represent the value of tubulars, 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 stated at the amount initially recognised, less accumulated impairment losses.

The carrying value of the other asset is reviewed for impairment whenever events or circumstances indicate the carrying value may not be recoverable.

# Notes to the consolidated and separate financial statements

## Continued

### 2.13 Segment reporting

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

### 2.14 Financial instruments

#### 2.14.1 Financial assets

##### i) Financial assets initial recognition and measurement

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

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

##### ii) Subsequent measurement

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

##### *Trade receivables, loans and other receivables*

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

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

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

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

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

##### iii) Impairment of financial assets

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

##### iv) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial 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.

# Notes to the consolidated and separate financial statements

## Continued

### 2.14.2 Financial liabilities

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

#### i) Financial liabilities initial recognition and measurement

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

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

#### ii) Subsequent measurement

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

##### *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable 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.

### 2.14.3 Derivative financial instruments

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

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

# Notes to the consolidated and separate financial statements

## Continued

### 2.14.4 Fair value of financial instruments

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

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

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

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

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

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

### 2.15 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

# Notes to the consolidated and separate financial statements

## Continued

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ('CGU') and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### 2.16 Share capital

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

### 2.17 Earnings and dividends per share

#### *Basic EPS*

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

#### *Diluted EPS*

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

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

### 2.18 Post-employment benefits

#### *Defined contribution scheme*

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

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

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

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

#### *Defined benefit scheme*

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

## Notes to the consolidated and separate financial statements

### Continued

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

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

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

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses.

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

### 2.19 Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money 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 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.

# Notes to the consolidated and separate financial statements

## Continued

### 2.20 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

### 2.21 Income taxation

#### i) Current income tax

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

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

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

#### ii) Deferred tax

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

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

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

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

#### iii) New Tax Regime

Effective 1 January 2014, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30 per cent.) 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.

# Notes to the consolidated and separate financial statements

## Continued

### 2.22 Leases

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

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

### 2.23 Share based payments

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

#### i) Equity-settled transactions

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

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

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

# Notes to the consolidated and separate financial statements

## Continued

### 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 (note 21)**

The Group considers that the advances on investment of 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. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group and Company's current and deferred taxation in the financial statements. There were no deferred tax liabilities recognized during the year. In 2015, deferred tax liabilities recognised in the period would have been reduced by US\$16 million for Group and Company, if assumed that the tax incentives were renewed.

iv) **Deconsolidation of subsidiary (note 17)**

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in Note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity.

BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising of equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and consent of all parties is required for decision making. Asset management team guidelines and other agreements that will govern the operations of the AMT has been approved. The Group has recognised this as other assets.

#### 3.2 Estimates and assumptions

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

i) **Other asset (note 17b)**

Seplat has recorded its rights to receive the discharge sum of US\$330 million from the crude oil reserves of OML 55 as other asset. The fair value of the discharge sum on the date of deconsolidation is US\$250 million and has been determined using the income approach in line with IFRS 13 (Discounted Cash Flow). The gain on deconsolidation recognized amounted to US\$ 680,000 and has been recognized in the income statement.

# Notes to the consolidated and separate financial statements

## Continued

### ii) NPDC receivables (note 21)

NPDC receivables were impaired during this year (2015: not materially impaired). The impairment assessment was carried out using the future estimated cash flow expected to be recoverable from NPDC over the next 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 has been recognized under general and administrative expenses in the statement of comprehensive income. As at 31 December 2016, the total amount owed by NPDC is US\$239 million (2015: US\$492 million). This is the undiscounted amount, see note 21 for the impairment loss and discounted value.

### iii) Contingent consideration (note 28)

During the year, the Group derecognized the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The Group continued to recognize the contingent consideration of US\$18.5 million for OML 53 at the fair value of US\$12 million, it is contingent on oil price rising above US\$90/bbl over the next three years.

### iv) Defined benefit plans (pension benefits) (note 30)

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

### v) Oil and gas reserves

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

### vi) Share-based payment reserve (note 24b)

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, and uses a Monte-Carlo model for the global offer, non-executive and long term incentive scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 24b.

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

### vii) Provision for decommissioning obligations (note 29)

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

# Notes to the consolidated and separate financial statements

## Continued

### viii) Property, plant and equipment (note 15)

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

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

In 2016, in response to the force majeure on OML 4, 38 and 48, the Group executed an impairment assessment. The Group used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$55 in 2017, US\$60 in 2018 and US\$70 per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital.

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

### ix) Useful life of other property, plant and equipment

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

### x) Contingencies (note 36)

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

### xi) Income taxes (note 12)

The Group is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

# Notes to the consolidated and separate financial statements

## Continued

### 4. Financial risk management

#### 4.1 Financial risk factors

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

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

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in US dollars.	Cash flow forecasting Sensitivity analysis	Match and settle foreign denominated cash inflows with foreign denominated cash outflows.
Market risk - interest rate	Long term borrowings at variable rate	Sensitivity analysis	None
Market risk - commodity prices	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and cash equivalents, trade receivables and derivative financial instruments.	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 currently hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the Off-take Agreement.

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

	Effect on (loss) profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in Commodity Price - The Group				
+10%	14,876	-	49,348	-
-10%	(14,876)	-	(49,348)	-

## Notes to the consolidated and separate financial statements

### Continued

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in Commodity Price - The Company				
+10%	9,699		42,087	
-10%	(9,699)		(42,087)	

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

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in Commodity Price - The Group				
+10%	10,546	-	7,700	-
-10%	(10,546)	-	(7,700)	-

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in Commodity Price - The Company				
+10%	10,546	-	7,700	-
-10%	(10,546)	-	(7,700)	-

#### ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Borrowings issued at fixed rates do not expose the Group to market interest rate risk. Most of the Group's borrowings are denominated in US dollars.

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

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

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in interest rate - The Group				
+1%	6,641	-	8,996	-
-1%	(6,641)	-	(8,996)	-

	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in interest rate - The Company				
+1%	6,641	-	8,471	-
-1%	(6,641)	-	(8,471)	-

# Notes to the consolidated and separate financial statements

Continued

### iii) Foreign exchange risk

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

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

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Financial assets</b>				
Cash and cash equivalents	32,695	16,214	27,402	15,990
Trade and other receivables	67,555	137,507	67,555	137,507
	100,250	153,721	94,957	153,497
<b>Financial liabilities</b>				
Trade and other payables	(9,406)	(39,958)	(9,159)	(39,989)
<b>Net exposure to foreign exchange risk</b>	<b>90,844</b>	<b>113,763</b>	<b>85,798</b>	<b>113,508</b>

Sensitivity to foreign exchange risk is based on the Group and Company's net exposure to foreign exchange risk due to Naira denominated balances.

	Effect on (loss)/ profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/ profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in foreign exchange risk - The Group				
+5%	(4,326)	-	(5,417)	-
-5%	4,781	-	5,988	-

	Effect on (loss)/ profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/ profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
Increase/decrease in foreign exchange risk - The Company				
+5%	(4,086)	-	(5,405)	-
-5%	4,516	-	5,974	-

## 4.1.2 Credit risk

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

## Notes to the consolidated and separate financial statements

Continued

### i) Risk management

The Company's trade with Shell Western Supply and Trading Limited, is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria is also to run for five years until 31 July 2020 with a 30 day payment term. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the year. The Company monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which have now been impaired during this reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that has 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:

Related party	Payment terms	The Group		The Company	
		Percentage of total receivables			
		2016	2015	2016	2015
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%	1%	1%

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

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade and other receivables (Gross)	391,579	799,923	1,070,728	1,310,806
Cash and cash equivalents	159,621	326,029	147,377	316,374
Derivative not designated as hedges	-	23,194	-	23,194
Gross amount	551,200	1,149,146	1,218,105	1,650,374
Impairment of NPDC receivables	(10,260)	-	(10,260)	-
Net amount	540,940	1,149,146	1,207,845	1,650,374

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

## Notes to the consolidated and separate financial statements

### Continued

	The Group					
	Trade receivables	NPDC/ NAPIMS receivables	Other receivables	Cash & cash equivalents	Derivative not designated as hedges	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
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
<b>Gross amount</b>	<b>73,427</b>	<b>247,267</b>	<b>70,885</b>	<b>159,621</b>	<b>-</b>	<b>551,200</b>
Impairment loss	-	(10,260)	-	-	-	(10,260)
<b>Net amount</b>	<b>73,427</b>	<b>237,007</b>	<b>70,885</b>	<b>159,621</b>	<b>-</b>	<b>540,940</b>
31 Dec 2015						
Neither past due nor impaired	79,704	274,465	174,044	326,029	23,194	877,436
Past due but not impaired	54,201	217,509	-	-	-	271,710
Impaired	-	-	-	-	-	-
<b>Gross amount</b>	<b>133,905</b>	<b>491,974</b>	<b>174,044</b>	<b>326,029</b>	<b>23,194</b>	<b>1,149,146</b>
Impairment loss	-	-	-	-	-	-
<b>Net amount</b>	<b>133,905</b>	<b>491,974</b>	<b>174,044</b>	<b>326,029</b>	<b>23,194</b>	<b>1,149,146</b>

	The Company					
	Trade receivables & Intercompany receivables	NPDC receivables	Other receivables	Cash & cash equivalents	Derivative not designated as hedges	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
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
<b>Gross amount</b>	<b>831,668</b>	<b>239,034</b>	<b>26</b>	<b>147,377</b>	<b>-</b>	<b>1,218,105</b>
Impairment loss	-	(10,260)	-	-	-	(10,260)
<b>Net amount</b>	<b>831,668</b>	<b>228,774</b>	<b>26</b>	<b>147,377</b>	<b>-</b>	<b>1,207,845</b>
31 Dec 2015						
Neither past due nor impaired	58,490	274,465	723,500	316,374	23,194	1,396,023
Past due but not impaired	36,842	217,509	-	-	-	254,351
Impaired	-	-	-	-	-	-
<b>Gross amount</b>	<b>95,332</b>	<b>491,974</b>	<b>723,500</b>	<b>316,374</b>	<b>23,194</b>	<b>1,650,374</b>
Impairment loss	-	-	-	-	-	-
<b>Net amount</b>	<b>95,332</b>	<b>491,974</b>	<b>723,500</b>	<b>316,374</b>	<b>23,194</b>	<b>1,650,374</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 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.

	The Group		The Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
<b>Counterparties with external credit rating (Fitch's)</b>				
Cash and cash equivalents				
Non rated	86,669	72,767	80,188	70,846
B -	1,924	26,200	1,924	26,200
B	25,527	30,437	21,134	22,716
B +	9,388	2,379	8,024	2,374
A +	36,113	194,246	36,107	194,238
	159,621	326,029	147,377	316,374

	The Group		The Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
<b>Counterparties without external credit rating</b>				
Trade and other receivables *				
Group 1	-	17,002	-	17,002
Group 2	6,276	449,700	761,985	977,942
Group 3	-	61,511	-	61,511
	6,276	528,213	761,985	1,056,455

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

	The Group		The Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
<b>Counterparties without external credit rating</b>				
Derivatives				
Group 1	-	23,194	-	23,194
Group 2	-	-	-	-
	-	23,194	-	23,194
<b>Total that are neither past due nor impaired</b>	165,897	877,436	909,362	1,396,023

Group 1 - new customers (less than 1 year)

Group 2 - existing customers (more than 1 year) with some defaults in the past. All defaults were fully recovered.

Group 3 - Government entities

## Notes to the consolidated and separate financial statements

### Continued

#### 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			
	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
<b>The Group:</b>						
<b>Trade receivables</b>						
31 December 2016	72,331	45,656	-	4,961	-	21,714
31 December 2015	54,201	5,261	9,965	6,732	9,039	23,204
<b>NPDC/NAPIMS receivables</b>						
31 December 2016	8,233	-	588	3,526	600	3,519
31 December 2015	217,509	27,213	56,886	10,021	41,842	81,547

	Total		Past due but not impaired			
	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
<b>The Company:</b>						
<b>Trade receivables</b>						
31 December 2016	69,708	45,656	-	4,961	-	19,091
31 December 2015	36,842	5,261	7,165	8,145	9,039	7,232
<b>NPDC receivables</b>						
31 December 2016	-	-	-	-	-	-
31 December 2015	217,509	27,213	56,886	10,021	41,842	81,547

#### iv) Impaired receivables

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

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

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

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

Individually impaired trade receivables relate to NPDC receivables that have been outstanding over the years (2015 - Nil). The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

## Notes to the consolidated and separate financial statements

### Continued

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

	The Group and Company	
	2016 US\$ '000	2015 US\$ '000
At 1 January	-	-
Allowance for impairment recognised during the year	10,260	-
At 31 December	10,260	-

#### 4.1.3 Liquidity risk

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

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

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

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

# Notes to the consolidated and separate financial statements

## Continued

							The Group	
	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	
<b>31 December 2016</b>								
<b>Non - derivatives</b>								
<b>Variable interest rate borrowings (bank loans):</b>								
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	
<b>Other non - derivatives</b>								
Trade and other payables	-	161,773	-	-	-	-	161,773	
Contingent consideration	-	-	-	-	18,500	-	18,500	
		<b>437,686</b>	<b>185,252</b>	<b>170,879</b>	<b>200,025</b>	<b>-</b>	<b>993,842</b>	

# Notes to the consolidated and separate financial statements

## Continued

	Effective interest rate %	Less than 1 year US\$ '000	1 - 2 year US\$ '000	2 - 3 years US\$ '000	3 - 5 years US\$ '000	The Group	
						After 5 years US\$ '000	Total US\$ '000
<b>31 December 2015</b>							
<b>Non - derivatives</b>							
<b>Variable interest rate borrowings (bank loans):</b>							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.0% + LIBOR	17,534	27,711	-	-	-	45,245
Natixis	6.0% + LIBOR	17,534	27,711	-	-	-	45,245
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	17,534	27,711	-	-	-	45,245
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
NedBank Ltd, London Branch	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
Stanbic IBTC Bank Plc	6.0% + LIBOR	8,767	13,856	-	-	-	22,623
The Standard Bank of South Africa Ltd	6.0% + LIBOR	8,767	13,856	-	-	-	22,623
Sterling bank	-	52,500	-	-	-	-	52,500
<b>Other non-derivatives</b>							
Trade and other payables	-	302,475	-	-	-	-	302,475
Contingent consideration	-	-	-	-	39,400	-	39,400
		<b>671,669</b>	<b>356,375</b>	<b>124,792</b>	<b>221,599</b>	<b>58,750</b>	<b>1,433,185</b>

# Notes to the consolidated and separate financial statements

## Continued

	Effective interest rate						The Company
		Less than 1 year	1 - 2 year	2 - 3 years	3 - 5 years	After 5 years	Total
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>31 December 2016</b>							
<b>Non - derivatives</b>							
<b>Variable interest rate borrowings (bank loans):</b>							
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
<b>Other non - derivatives</b>							
Trade and other payables	-	190,905	-	-	-	-	190,905
		<b>466,818</b>	<b>185,252</b>	<b>170,879</b>	<b>181,525</b>	<b>-</b>	<b>1,004,474</b>

# Notes to the consolidated and separate financial statements

## Continued

	The Company						Total US\$ '000
	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	
<b>31 December 2015</b>							
<b>Non - derivative</b>							
<b>Variable interest rate borrowings (bank loans):</b>							
Zenith Bank Plc	8.5% + LIBOR	81,976	70,418	51,200	74,753	24,104	302,451
First Bank of Nigeria Limited	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
United Bank for Africa Plc	8.5% + LIBOR	51,235	44,012	32,000	46,721	15,065	189,033
Stanbic IBTC Bank Plc	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
The Standard Bank of South Africa Limited	8.5% + LIBOR	7,678	6,596	4,796	7,002	2,258	28,330
Standard Chartered Bank	6.0% + LIBOR	17,534	27,711	-	-	-	45,245
Natixis	6.0% + LIBOR	17,534	27,711	-	-	-	45,245
Citibank Nigeria Ltd and Citibank NA	6.0% + LIBOR	17,534	27,711	-	-	-	45,245
Bank of America Merrill Lynch Int'l Ltd	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
JP Morgan Chase Bank NA, London Branch	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
NedBank Ltd, London Branch	6.0% + LIBOR	11,689	18,474	-	-	-	30,163
Stanbic IBTC Bank Plc	6.0% + LIBOR	8,767	13,856	-	-	-	22,623
The Standard Bank of South Africa Ltd	6.0% + LIBOR	8,767	13,856	-	-	-	22,623
<b>Other non - derivative</b>							
Trade and other payables		287,921	-	-	-	-	287,921
		604,615	356,375	124,792	182,199	58,750	1,326,731

## 4.2 Fair value

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

	The Group			
	Carrying amount		Fair value	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Financial assets</b>				
Trade and other receivables	381,319	799,923	381,319	799,923
Cash and cash equivalents	159,621	326,029	159,621	326,029
Derivatives	-	23,194	-	23,194
	540,940	1,149,146	540,940	1,149,146
<b>Financial liabilities</b>				
Borrowings - Bank loans	664,096	899,615	664,096	899,615
Contingent consideration	12,040	21,900	12,040	21,900
Trade and other payables	161,773	302,475	161,773	302,475
	837,909	1,223,990	837,909	1,223,990

## Notes to the consolidated and separate financial statements

### Continued

	Carrying amount		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Financial assets</b>				
Trade and other receivables	1,060,468	1,310,806	1,060,468	1,310,806
Cash and cash equivalents	147,377	316,374	147,377	316,374
Derivatives	-	23,194	-	23,194
	<b>1,207,845</b>	<b>1,650,374</b>	<b>1,207,845</b>	<b>1,650,374</b>
<b>Financial liabilities</b>				
Borrowings - Bank loans	664,096	847,115	813,569	847,115
Contingent consideration	-	-	-	-
Trade and other payables	190,905	287,921	190,905	287,921
	<b>855,001</b>	<b>1,135,036</b>	<b>1,004,474</b>	<b>1,135,036</b>

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

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

	The Group			The Company		
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000
31 Dec 2016						
<b>Financial assets:</b>						
Derivatives	-	-	-	-	-	-
<b>Financial liabilities:</b>						
Borrowings - Bank loans	-	664,096	-	-	664,096	-
Contingent consideration	-	-	12,040	-	-	-
	-	<b>664,096</b>	<b>12,040</b>	-	<b>664,096</b>	-
31 Dec 2015						
<b>Financial assets:</b>						
Derivatives	-	23,194	-	-	1,751,151	-
<b>Financial liabilities:</b>						
Borrowings - Bank loans	-	899,615	-	-	847,115	-
Contingent consideration	-	-	21,900	-	-	-
	-	<b>899,615</b>	<b>21,900</b>	-	<b>847,115</b>	-

## Notes to the consolidated and separate financial statements

### Continued

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

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 Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity option contracts. The most frequently applied valuation techniques include option pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2016, there were no open derivative financial instruments (2015: the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value). The fair values of derivative financial instruments are disclosed in note 23.

#### 4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

	The Group
	US\$ '000
<b>Contingent consideration</b>	
At 1 January 2015	9,377
Additions	19,198
Write-off	(10,000)
Fair value movement	3,325
At 31 December 2015	21,900
At 1 January 2016	21,900
Fair value movement	2,614
Deconsolidation of subsidiary	(12,474)
At 31 December 2016	12,040

# Notes to the consolidated and separate financial statements

## Continued

### 4.2.3 Contingent consideration sensitivity

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

Increase/decrease in discount rate	Effect on (loss)/profit before tax 2016 US\$ '000	Effect on other components of equity before tax 2016 US\$ '000	Effect on (loss)/ profit before tax 2015 US\$ '000	Effect on other components of equity before tax 2015 US\$ '000
- The Group				
+10%	5,868		1,093	
-10%	(8,535)		(1,093)	

The Company has no contingent consideration.

## 4.3 Capital management

### 4.3.1 Risk management

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Borrowings:</b>	664,096	899,615	664,096	847,115
Less: cash and cash equivalents	(159,621)	(326,029)	(147,377)	(316,374)
Net debt	504,475	573,586	516,719	530,741
Total equity	1,234,015	1,413,075	1,282,158	1,425,135
Total capital	1,738,490	1,986,661	1,798,877	1,955,876
Net debt (net debt/total capital) ratio	29%	29%	29%	27%

During 2016, the Group's strategy which was unchanged from 2015, was to maintain a gearing ratio between 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

### 4.3.2 Loan covenant

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

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- 6-month Debt Service Reserve Account (DSCR) 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 (2015: The Group complied with the applicable covenants) with the exception of the financial indebtedness/EBITDA covenant which was waived by a majority lender consent.

## Notes to the consolidated and separate financial statements

### Continued

#### 5. Revenue

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Crude oil sale	132,975	459,389	104,235	404,018
Underlift/ (overlift)	15,782	34,091	(7,249)	16,852
	148,757	493,480	96,986	420,870
Gas sales	105,460	76,997	105,460	76,997
	<b>254,217</b>	<b>570,477</b>	<b>202,446</b>	<b>497,867</b>

The major off-takers for crude oil are Mercuria (2016: US\$104 million, 2015: US\$94.5 million) and Shell Western Supply and Trading Limited (2016: Nil, 2015: US\$368.8 million). The major off-taker of gas is the Nigerian Gas Company (2016: US\$105 million, 2015: US\$76 million).

#### 6. Cost of Sales

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Royalties	44,796	102,243	37,043	89,033
Depletion, depreciation and amortisation (note 15a)	54,326	68,097	48,600	59,102
Crude handling fee	7,804	64,499	5,351	58,670
NESS fee	142	663	109	521
Barging costs	17,885	-	17,885	-
Niger Delta Development Commission Levy	-	7,766	-	7,552
Rig related costs	9,067	8,640	9,154	8,553
Operational & maintenance expenses	48,404	69,786	39,191	47,074
	<b>182,424</b>	<b>321,694</b>	<b>157,333</b>	<b>270,505</b>

#### 7. Other operating income

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Long stop date income	-	2,250	-	2,250
Profit on disposal of plant & equipment	-	66	-	66
	-	<b>2,316</b>	-	<b>2,316</b>

##### 7a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015. There was no long stop date income during the current reporting period.

## Notes to the consolidated and separate financial statements

### Continued

#### 8. General and administrative expenses

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Depreciation (note 15b)	5,544	5,502	5,207	5,133
Auditor's remuneration`	505	1,000	245	1,000
Professional and consulting fees	28,424	42,788	27,683	39,898
Directors' emoluments (executive)	2,758	6,446	1,641	4,568
Directors' emoluments (non-executive)	4,309	6,028	4,244	5,257
Donations	184	210	178	206
Employee benefits (note 8a)	20,869	26,042	19,354	21,639
Business development expenses	11,023	165	20	165
Flights and other travel costs	6,176	7,580	5,248	6,934
Rentals	4,855	3,435	4,325	2,793
Impact of receivables discounting (note 21)	10,260	-	10,260	-
Other general expenses	18,925	22,278	14,224	18,511
	<b>113,832</b>	<b>121,474</b>	<b>92,629</b>	<b>106,104</b>

Directors' emoluments have been split between executive & non-executive directors and include share-based benefits recognised, the basis of which has been further highlighted in note 35.

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

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company (NPDC) in note 21.

#### 8a. Salaries and employee related costs include the following:

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Short term employee benefits:</b>				
Basic salary	8,194	8,226	8,194	3,823
Housing allowance	3,190	3,345	3,190	3,345
Other allowances	3,468	5,380	2,249	5,380
<b>Post employment benefits:</b>				
Defined contribution expenses	1,673	1,511	1,377	1,511
Defined benefit expenses (note 30)	938	3,117	938	3,117
Share based payment benefits	3,406	4,463	3,406	4,463
<b>Total salaries and employee related costs</b>	<b>20,869</b>	<b>26,042</b>	<b>19,354</b>	<b>21,639</b>

#### 9. (Losses)/gains on foreign exchange(net)

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Exchange (losses)/gains	(101,455)	7,747	(104,328)	8,985
<b>Total</b>	<b>(101,455)</b>	<b>7,747</b>	<b>(104,328)</b>	<b>8,985</b>

# Notes to the consolidated and separate financial statements

## Continued

Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria during the year. These losses were majorly attributed to outstanding balances due from NPDC. See also note 11 for income related to these outstanding receivables and recognized in the period and reported in accordance with provisions of the Joint Operating agreement.

### 10. Fair value (loss)/gain

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Fair value (loss)/gain on option derivatives	(12,455)	13,195	(12,455)	13,195
Fair value (loss)/gain on contingent consideration (note 28)	(2,614)	7,298	-	-
<b>Total</b>	<b>(15,069)</b>	<b>20,493</b>	<b>(12,455)</b>	<b>13,195</b>

Fair value loss on commodity derivatives represents the losses on crude oil price options charged to profit or loss. Fair value loss on contingent consideration loss arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OMLs. The contingency criteria are the achievement of certain production milestones.

### 11. Finance (cost)/income

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Finance income</b>				
Interest income	59,017	12,802	94,139	8,133
<b>Finance cost</b>				
Finance cost				
Interest on bank loans and other bank charges	73,420	83,588	68,421	77,338
Unwinding of discount on provision for decommissioning (note 29)	480	-	330	-
	73,900	83,588	68,751	77,338
<b>Finance (cost)/income (net)</b>	<b>(14,883)</b>	<b>(70,786)</b>	<b>25,388</b>	<b>(69,205)</b>

Finance income represents interest on fixed deposits for the Group and Company. Included in other income are interests of \$48m calculated on outstanding NPDC receivables in accordance with provisions of the Joint operating agreement. Discussions will continue with our government partners on the recovery of all outstanding receivables.

### 12. Taxation

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

#### 12a. Income tax expenses

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Current tax:</b>				
Current tax on profit for the year	-	239	-	-
Education tax	1,885	-	1,885	-
Prior period over provision	(126)	-	-	-
<b>Total current tax</b>	<b>1,759</b>	<b>239</b>	<b>1,885</b>	<b>-</b>
<b>Deferred tax:</b>				
Net deferred tax in profit or loss	-	21,233	-	16,384
Deferred tax credit	(8,431)	-	(16,384)	-
<b>Total tax (credit)/charge in statement of profit or loss</b>	<b>(6,672)</b>	<b>21,472</b>	<b>(14,499)</b>	<b>16,384</b>
<b>Effective tax rate</b>	<b>4%</b>	<b>25%</b>	<b>10%</b>	<b>21%</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 12b. Reconciliation of effective tax rate

The applicable tax rate for 2016 was 65.75% (2015: 65.75%) for both Group and Company.

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

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

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

As at the end of the reporting period, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group and Company's current and deferred taxation in the financial statements.

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
(Loss)/ profit before taxation	(172,766)	87,079	(138,911)	76,549
Tax rate of 65.75% (2015 - 65.75%)	(113,594)	57,254	(91,334)	50,331
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenses not deductible for tax purposes	33,856	-	37,672	-
Impact of deferred tax not recognised	71,307	-	37,278	-
Impact of tax incentive on deferred tax balances	-	(35,782)	-	(33,947)
Education tax	1,885	-	1,885	-
Prior period over provision	(126)	-	-	-
<b>Total tax (credit)/charge in statement of profit or loss</b>	<b>(6,672)</b>	<b>21,472</b>	<b>(14,499)</b>	<b>16,384</b>

The movement in the current tax liability is as follows:

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>As at 1 January</b>	<b>239</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tax charge	1,885	239	1,885	-
Deconsolidation of subsidiary	(113)	-	-	-
Prior period over provision	(126)	-	-	-
<b>As 31 December</b>	<b>1,885</b>	<b>239</b>	<b>1,885</b>	<b>-</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 13. Deferred income tax

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Deferred tax assets</b>				
Deferred tax asset to be recovered in less than 12 months	-	-	-	-
Deferred tax asset to be recovered after more than 12 months	-	-	-	-
	-	-	-	-
	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Deferred tax liabilities</b>				
Deferred tax liabilities to be recovered in less than 12 months	-	-	-	-
Deferred tax liability to be recovered after more than 12 months	-	(21,233)	-	(16,384)
	-	(21,233)	-	(16,384)
<b>Net deferred tax asset/(liability)</b>	<b>-</b>	<b>(21,233)</b>	<b>-</b>	<b>(16,384)</b>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group and Company did not recognise deferred income tax assets of US\$178m and US\$145 m (2015: Nil for both Group and Company) in respect of losses of the Group and Company amounting to US\$271 million and US\$221 million (2015: Nil) that can be carried forward against future taxable income. There are no expiration dates for the tax losses.

#### 13a. Deferred tax asset/(liability)

	The Group							
	Property, plant and equipment US\$ '000	Decommissioning provision US\$ '000	Defined Benefit expenses US\$ '000	Underlift/ overlift US\$ '000	Unrealised foreign exchange (Gain)/ loss US\$ '000	Tax losses US\$ '000	Contingent liability US\$ '000	Total US\$ '000
<b>At 1 January 2015</b>								
Credited/(charged) to profit or loss	(10,448)	2,544	4,554	(17,794)	(89)	-	-	(21,233)
<b>At 31 December 2015</b>	(10,448)	2,544	4,554	(17,794)	(89)	-	-	(21,233)
<b>At 1 January 2016</b>	(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
<b>At 31 December 2016</b>	-	-	-	-	-	-	-	-

## Notes to the consolidated and separate financial statements

### Continued

#### 13b. Deferred tax asset/(liability)

	The Company							
	Property, plant and equipment US\$ '000	Decommissioning provision US\$ '000	Defined Benefit expenses US\$ '000	Underlift/ overlift US\$ '000	Unrealised foreign exchange (gain)/ loss US\$ '000	Tax losses US\$ '000	Contingent liability US\$ '000	Total US\$ '000
<b>At 1 January 2015</b>								
Credited/(charged) to profit or loss	(18,173)	1,953	4,554	(4,629)	(89)	-	-	(16,384)
<b>At 31 December 2015</b>	(18,173)	1,953	4,554	(4,629)	(89)	-	-	(16,384)
<b>At 1 January 2016</b>	(18,173)	1,953	4,554	(4,629)	(89)	-	-	(16,384)
Credited/(charged) to profit or loss	-	-	-	-	-	-	-	-
Deferred tax credit	18,173	(1,953)	(4,554)	4,629	89	-	-	16,384
<b>At 31 December 2016</b>	-	-	-	-	-	-	-	-

#### 14. Computation of cash generated from operations

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
(Loss)/profit before tax	(172,766)	87,079	(138,911)	76,549
<b>Adjusted for:</b>				
Depreciation and amortization	59,870	73,599	53,807	64,235
Impairment loss	10,260	-	10,260	-
Finance income(note 11)	(59,017)	(12,802)	(94,139)	(8,133)
Interest on bank loans (note 11)	73,420	83,588	68,421	77,338
Accretion discount (note 11)	480	-	330	-
Fair value movement on contingent consideration (including gains on derecognition) (note 10)	2,614	(7,298)	-	-
Gain on disposal of property, plant and equipment	-	(66)	-	(66)
Fair value movements on derivatives (note 10)	12,455	(17,762)	12,455	(17,762)
Loss/(gains) on unrealised foreign exchange	101,455	(8,046)	104,328	(8,985)
Share-based payment expenses	3,406	(8,757)	3,406	(8,757)
Defined benefit expenses (note 30)	(1,709)	-	(1,709)	-
Gain on deconsolidation (note 17)	(680)	-	-	-
Loss on disposal	1,509	-	1,509	-
<b>Changes in working capital (excluding the effects of exchange differences and deconsolidation):</b>				
Trade and other receivables	244,102	(104,338)	233,741	(77,765)
Prepayments	16,035	(8,145)	15,247	2,625
Trade and other payables	(106,831)	(10,961)	(88,337)	25,921
Inventories	(23,747)	(28,052)	(23,743)	(28,282)
<b>Net cash from operating activities</b>	<b>160,856</b>	<b>38,039</b>	<b>156,665</b>	<b>96,918</b>

# Notes to the consolidated and separate financial statements

## Continued

### 15. Property, plant and equipment

#### 15a. Oil and gas properties

	The Group			The Company		
	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
<b>Cost</b>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>At 1 January 2015</b>	590,548	432,580	1,023,128	529,965	416,327	946,292
Additions	426,203	-	426,203	146,852	-	146,852
Additions from business combination	244,062	-	244,062	-	-	-
Changes in decommissioning	(8,821)	-	(8,821)	(6,867)	-	(6,867)
Transfer from asset under construction	113,760	(113,760)	-	115,083	(115,083)	-
<b>At 31 December 2015</b>	<b>1,365,752</b>	<b>318,820</b>	<b>1,684,572</b>	<b>785,033</b>	<b>301,244</b>	<b>1,086,277</b>
<b>Depreciation</b>						
<b>At 1 January 2015</b>	179,525	-	179,525	176,961	-	176,961
Charged for the year	68,097	-	68,097	59,102	-	59,102
<b>At 31 December 2015</b>	<b>247,622</b>	<b>-</b>	<b>247,622</b>	<b>236,063</b>	<b>-</b>	<b>236,063</b>
<b>NBV</b>						
<b>At 31 December 2015</b>	<b>1,118,130</b>	<b>318,820</b>	<b>1,436,950</b>	<b>548,970</b>	<b>301,244</b>	<b>850,214</b>
<b>Cost</b>						
<b>At 1 January 2016</b>	1,365,752	318,820	1,684,572	785,033	301,244	1,086,277
Additions	-	82,893	82,893	-	70,484	70,484
Changes in decommissioning	(3,720)	-	(3,720)	(2,962)	-	(2,962)
Transfer from asset under construction	248,324	(248,324)	-	248,324	(248,324)	-
Deconsolidation of subsidiary	(244,062)	-	(244,062)	-	-	-
Disposal	-	(1,509)	(1,509)	-	(1,509)	(1,509)
<b>At 31 December 2016</b>	<b>1,366,294</b>	<b>151,880</b>	<b>1,518,174</b>	<b>1,030,395</b>	<b>121,895</b>	<b>1,152,290</b>
<b>Depreciation</b>						
<b>At 1 January 2016</b>	247,622	-	247,622	236,063	-	236,063
Charged for the year	54,326	-	54,326	48,600	-	48,600
Deconsolidation of subsidiary	(8,174)	-	(8,174)	-	-	-
<b>At 31 December 2016</b>	<b>293,774</b>	<b>-</b>	<b>293,774</b>	<b>284,663</b>	<b>-</b>	<b>284,663</b>
<b>NBV</b>						
<b>At 31 December 2016</b>	<b>1,072,520</b>	<b>151,880</b>	<b>1,224,400</b>	<b>745,732</b>	<b>121,895</b>	<b>867,627</b>

## Notes to the consolidated and separate financial statements

### Continued

The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 27).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

#### 15b. Other property, plant and equipment

	The Group				
<b>Cost</b>	Plant & machinery US\$ '000	Motor vehicles US\$ '000	Office furniture and IT equipment US\$ '000	Leasehold improvements US\$ '000	Total US\$ '000
<b>At 1 January 2015</b>	4,714	5,356	11,469	2,463	24,002
Additions	-	1,663	2,146	687	4,496
Reclassification to assets under construction	(707)	-	-	-	(707)
Disposals	-	(246)	-	-	(246)
<b>At 31 December 2015</b>	4,007	6,773	13,615	3,150	27,545
<b>Depreciation</b>					
<b>At 1 January 2015</b>	1,091	2,171	6,436	845	10,543
Disposals	-	(103)	-	-	(103)
Charged for the year	619	1,442	2,873	568	5,502
<b>At 31 December 2015</b>	1,710	3,510	9,309	1,413	15,942
<b>NBV</b>					
<b>At 31 December 2015</b>	2,297	3,263	4,306	1,737	11,603
<b>Cost</b>					
<b>At 1 January 2016</b>	4,007	6,773	13,615	3,150	27,545
Addition	785	508	1,056	-	2,349
Disposals	-	(136)	-	(317)	(453)
Transfer	12	173	(205)	20	-
Exchange differences	-	-	(206)	-	(206)
<b>At 31 December 2016</b>	4,804	7,318	14,260	2,853	29,235
<b>Depreciation</b>					
<b>At 1 January 2016</b>	1,710	3,510	9,309	1,413	15,942
Disposal	-	(68)	-	-	(68)
Charge for the year	842	1,316	2,819	567	5,544
Exchange differences	-	-	(150)	-	(150)
<b>At 31 December 2016</b>	2,552	4,758	11,978	1,980	21,268
<b>NBV</b>					
<b>At 31 December 2016</b>	2,252	2,560	2,282	873	7,967

## Notes to the consolidated and separate financial statements

### Continued

	The Company				
	Plant & machinery US\$ '000	Motor vehicle US\$ '000	Office Furniture and IT equipment US\$ '000	Leasehold improvements US\$ '000	Total US\$ '000
<b>Cost</b>					
<b>At 1 January 2015</b>	3,322	5,357	10,539	2,462	21,680
Additions	685	1,662	1,867	688	4,902
Reclassification to assets under construction	-	-	-	-	-
Disposals	-	(246)	-	-	(246)
<b>At 31 December 2015</b>	4,007	6,773	12,406	3,150	26,336
<b>Depreciation</b>					
<b>At 1 January 2015</b>	982	2,171	6,155	845	10,153
Disposals	-	(104)	-	-	(104)
Charge for the year	724	1,349	2,501	559	5,133
<b>At 31 December 2015</b>	1,706	3,416	8,656	1,404	15,182
<b>NBV</b>					
<b>At 31 December 2015</b>	2,301	3,357	3,750	1,746	11,154
<b>Cost</b>					
<b>At 1 January 2016</b>	4,007	6,773	12,406	3,150	26,336
Addition	786	509	1,057	-	2,352
Disposal	-	(136)	-	(317)	(453)
<b>At 31 December 2016</b>	4,793	7,146	13,463	2,833	28,235
<b>Depreciation</b>					
<b>At 1 January 2016</b>	1,706	3,416	8,656	1,404	15,182
Disposal	-	(68)	-	-	(68)
Charge for the year	840	1,273	2,531	563	5,207
<b>At 31 December 2016</b>	2,546	4,621	11,187	1,967	20,321
<b>NBV</b>					
<b>At 31 December 2016</b>	2,247	2,525	2,276	866	7,914

## Notes to the consolidated and separate financial statements

### Continued

#### 16. Goodwill

Seplat, via a wholly owned subsidiary, entered into a share purchase agreement with First Act, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and BelemaOil (the four shareholders of BelemaOil) to acquire 56.25% of BelemaOil. This sale and purchase agreement was consummated on 5 February 2015 upon acquisition of Chevron Nigeria Limited's 40% interest in OMLs 55. This resulted in Seplat having an indirect interest of 22.5% in OML 55.

The fair value of the purchase consideration and the assets acquired were US\$139 million and US\$137 million respectively, giving rise to a goodwill on acquisition of US\$2million.

As at the year end, goodwill recognised on consolidation of BelemaOil has now been derecognised due to the loss of control of the subsidiary. See further details in note 17.

#### Impairment test for goodwill

Management reviews the business performance of BelemaOil based on the reserve and production forecast. Goodwill is monitored by the management at the level of one operating segment. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on reserve, production and financial forecasts approved by management. As at the year end, goodwill arising from BelemaOil has been derecognized.

	The Group	
	2016 US\$ '000	2015 US\$ '000
<b>At 1 January</b>	2,000	-
Acquisition of subsidiary	-	2,000
Deconsolidation of subsidiary	(2,000)	-
<b>As at 31 December</b>	-	2,000

## Notes to the consolidated and separate financial statements

### Continued

#### 17. Deconsolidation of subsidiary

The details of the deconsolidation of subsidiary has been disclosed in Note 1 - Corporate information and business and Note 3 - Significant accounting judgments, estimates and assumptions. A summary of assets and liabilities derecognised and the resulting gain on deconsolidation are shown below.

##### 17a. Summary of assets and liabilities derecognised

	The Group
	2016
	US\$ '000
<b>Non-current assets</b>	
Producing assets	235,888
Goodwill	2,000
<b>Current assets</b>	
Trade and other receivables	86,340
Underlift	38,555
<b>Total assets</b>	<b>362,783</b>
<b>Equity</b>	
Non-controlling interest	(2,249)
<b>Non-current liabilities</b>	
Deferred tax liability	12,802
Contingent consideration	12,474
Provision for decommissioning obligation	32
<b>Current liabilities</b>	
Interest bearing loans and borrowings	52,500
Trade and other payables	37,701
Current tax	113
<b>Total liabilities</b>	<b>115,622</b>
<b>Total equity and liabilities</b>	<b>113,373</b>
<b>Net asset derecognized</b>	<b>249,410</b>

##### 17b. Summary of assets recognised

	The Group
	2016
	US\$ '000
<b>Other asset:</b>	
Investment in OML 55	250,090
<b>Net asset recognised</b>	<b>250,090</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 17c. Gain on deconsolidation of subsidiary

	The Group
	2016
	US\$ '000
Summary of assets and liabilities derecognised (note 17a)	(249,410)
Summary of assets and liabilities recognized (note 17b)	250,090
<b>Gain on deconsolidation of BelemaOil</b>	<b>680</b>

#### 18. Prepayments

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Non-current</b>				
Tax paid in advance	31,623	31,623	31,623	31,623
Rent	1,993	2,760	1,993	2,760
Drilling services	-	2,371	-	2,371
	<b>33,616</b>	<b>36,754</b>	<b>33,616</b>	<b>36,754</b>
<b>Current</b>				
Rent	2,632	11,639	2,600	10,679
Others	4,040	-	3,900	-
	6,672	11,639	6,500	10,679
<b>Total prepayments</b>	<b>40,288</b>	<b>48,393</b>	<b>40,116</b>	<b>47,433</b>

Included in non-current prepayments are the following:

#### 18a. Tax paid in advance

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

#### 18b. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies two in Lagos and one in Delta state. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The rent on the building in Delta state has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2016 is US\$1.9 million (2015: US\$2.7 million). The Group has no future minimum lease payments to be disclosed for the rental lease because the total lease payment has been prepaid at inception of the lease.

#### 18c. Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a US\$20 million advance in relation to the exclusive use of these rigs. This amount has been recognised as a prepayment and amortised over the life of the agreement (five years). The long term portion as at 31 December 2016 is Nil (2015: US\$2.4 million).

The Group has no future minimum lease payments to be disclosed for the drilling services agreement because the total payment had been prepaid at inception of the contract.

# Notes to the consolidated and separate financial statements

## Continued

### 19. Investment in subsidiaries

	The Company	
	2016	2015
	US\$ '000	US\$ '000
Newton Energy Limited	950	950
Seplat Petroleum Development UK	50	50
Seplat East Onshore Ltd	32	32
Seplat East Swamp Ltd	32	32
	<b>1,064</b>	<b>1,064</b>

### 20. Inventories

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Tubular, casing and wellheads	106,213	82,466	102,608	78,865

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is US\$0.1 million (2015: US\$0.19 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2016.

### 21. Trade and other receivables

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trade receivables	73,427	133,905	69,052	95,332
Nigerian Petroleum Development Company (NPDC) receivables	239,034	491,974	239,034	491,974
National Petroleum Investment Management Services	8,233	-	-	-
Intercompany receivables	-	-	715,625	708,843
Advances on investments	65,705	85,236	1	-
Advances	-	53,175	46,335	8,632
Underlift	4,498	27,063	-	7,041
Advances to suppliers	8,921	2,597	8,087	2,498
Hedging receivables	-	7,585	-	7,585
Interest receivable from shareholders of Belema Oil	-	9,546	-	-
Other receivables	1,136	174	1,129	134
Impairment loss on NPDC receivables	(10,260)	-	(10,260)	-
	<b>390,694</b>	<b>811,255</b>	<b>1,069,003</b>	<b>1,322,039</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 21a. Trade receivables

Included in trade receivables are receivables from sale of crude oil and gas due from NGC of US\$67 million (2015: US\$62 million) for both Group and Company.

#### 21b. NPDC receivables

NPDC receivables represent the outstanding cash calls due Seplat. Receivables have been discounted to reflect the impact of time value of money. This has been recognized in the statement of comprehensive income. As at 31 December 2016, the undiscounted value of this receivables for Group and Company is US\$239 million (2015: US\$492 million for Group and Company).

#### 21c. Advances on investment

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

### 22. Cash and cash equivalents

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Cash on hand	7	50	7	50
Restricted cash	65,203	68,957	65,203	68,957
Cash at bank	94,411	257,022	82,167	247,367
<b>Cash and cash equivalents</b>	<b>159,621</b>	<b>326,029</b>	<b>147,377</b>	<b>316,374</b>

At 31 December 2016, cash at bank includes the debt service reserve of US\$65 million (2015: US\$68.9 million) for both Group and Company deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest which is on a quarterly basis.

### 23. Derivatives

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Derivatives	-	23,194	-	23,194

In November 2015, management completed a crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of US\$10 million (US\$3.03/bbl.). A fair value loss of US\$12.4 million (gain - 2015: US\$13.2 million) was recognized in the reporting period for both Group and Company.

# Notes to the consolidated and separate financial statements

## Continued

### 24. Share capital

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Authorised ordinary share capital</b>				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	3,335	3,335	3,335	3,335
<b>Issued and fully paid</b>				
563,444,561 (2015: 560,576,101) issued shares denominated in Naira of 50 kobo per share	1,826	1,821	1,826	1,821

#### 24a. Employee share based payment scheme

In 2016, the Company gave share awards of 25,448,071 shares (2015: 14,939,102 shares) to certain employees and senior executives in line with its share based incentive scheme. During the year ended 31 December 2016, 2,868,460 shares were vested. In 2015, 7,265,788 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company 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.

#### 24b. Share based payment reserve

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

##### Description of the awards valued

###### Global Offer Bonus awards

Shares were conditionally awarded, subject to NSE approval, to selected executives to recognise their historic contribution to the Company in the lead up to Admission on the London Stock Exchange on 9 April 2014. The awards operated as follows:

50% of the share bonus was awarded on IPO, there were no performance conditions attached to it, and it fully vested in 2015. The second 50% of the award vested on the first anniversary of the IPO (9 April 2015). The award fully met the performance condition, as follows:

- The Company outperformed the median TSR performance level within the 2014 LTIP E&P comparator group, over the one year period from Admission (i.e. to 9 April 2015).
- The reserves growth underpin in FY2014 was met.

The valuation of the Global Offer Bonus awards ignores these conditions because as at the deemed date of grant the conditions were fully met. As a result, the fair value of these awards is the share price at the date of grant.

###### Non-Executive Directors nominal value shares

Non-Executive Directors were provided with the opportunity to subscribe for shares at nominal value on IPO i.e. at a discount to their market value. These awards were vested immediately. There was no vesting criteria for these awards. As a result the fair value of these awards is the share price at the deemed date of grant.

# Notes to the consolidated and separate financial statements

## Continued

### Seplat 2014 and 2015 Deferred Bonus Award

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

### Long Term Incentive Plan (LTIP) awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after 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 2014 and 2015 LTIP awards have been approved by the NSE, however, 2016 LTIP are still subject to approval.

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Expense arising from equity-settled share-based payment transactions	3,406	8,757	3,406	8,757

There were no cancellations or modifications to the awards in 2016 or 2015. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of Service Period	End of service period	Number of awards
Global 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	214,669
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
				<b>25,448,071</b>

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2016.

Share award scheme (All Awards)	The Group and Company			
	2016 Number 000	2016 WAEP US\$	2015 Number 000	2015 WAEP US\$
Outstanding at 1 January	4,249	1.50	-	-
Granted during the year	159	1.17	11,515	0.97
Forfeited during the year	-	-	-	-
Exercised during the year	(2,868)	-	(7,266)	1.18
<b>Outstanding at 31 December</b>	<b>1,540</b>	<b>0.67</b>	<b>4,249</b>	<b>1.50</b>
<b>Exercisable at 31 December</b>	<b>-</b>	<b>-</b>	<b>7,266</b>	<b>1.18</b>

## Notes to the consolidated and separate financial statements

### Continued

#### Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in share awards during the year for each available scheme.

	The Group and Company			
	2016 Number	2016 WAEP US\$	2015 Number	2015 WAEP US\$
<b>Global Bonus Offer</b>				
Outstanding at 1 January	-	-	-	-
Granted during the year	-	-	6,472,138	1.18
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(6,472,138)	1.18
<b>Outstanding at 31 December</b>	-	-	-	-
<b>Exercisable at 31 December</b>	-	-	-	-

	The Group and Company			
	2016 Number	2016 WAEP US\$	2015 Number	2015 WAEP US\$
<b>Non- Executive Directors Shares</b>				
Outstanding at 1 January	-	-	-	-
Granted during the year	-	-	793,650	1.18
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(793,650)	1.18
<b>Outstanding at 31 December</b>	-	-	-	-
<b>Exercisable at 31 December</b>	-	-	-	-

	The Group and Company			
	2016 Number	2016 WAEP US\$	2015 Number	2015 WAEP US\$
<b>Deferred Bonus Scheme</b>				
Outstanding at 1 January	212,701	1.13	-	-
Granted during the year	214,669	1.49	212,701	1.13
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
<b>Outstanding at 31 December</b>	427,370	1.31	212,701	1.13
<b>Exercisable at 31 December</b>	-	-	-	-

## Notes to the consolidated and separate financial statements

### Continued

	The Group and Company			
	2016 Number	2016 WAEP US\$	2015 Number	2015 WAEP US\$
<b>Long term incentive Plan (LTIP)</b>				
Outstanding at 1 January	7,460,613	0.76	-	-
Granted during the year	10,294,300	0.89	7,460,613	0.76
Forfeited during the year	-	-	-	-
Exercised during the year	(2,868,460)	0.05	-	-
<b>Outstanding at 31 December</b>	<b>14,886,453</b>	<b>0.83</b>	<b>7,460,613</b>	<b>0.76</b>
<b>Exercisable at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The shares are granted to the employees at no cost.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2016 range from 0.80 to 1.52 years.

The weighted average fair value of awards granted during the year range from US\$0.89 to US\$1.49.

The exercise prices for options outstanding at the end of the year range from US\$0.83 to US\$1.31.

The following table lists the inputs to the models used for the four plans for the year ended 31 December 2016:

## Notes to the consolidated and separate financial statements

### Continued

	The Group and Company				
	2015 Global offer bonus	2015 Non-executive shares bonus	2015 Deferred bonus	2015 LTIP	2016 LTIP
Weighted average fair values at the measurement date					
Dividend yield (%)	n/a	n/a	n/a	0.00%	0.00%
Expected volatility (%)	n/a	n/a	n/a	56%	56%
Risk-free interest rate (%)	n/a	n/a	n/a	0.63%	0.63%
Expected life of share options	nil	nil	1.46	2.35	2.35
Weighted average share price (\$)	1.5386	1.5386	1.512	1.497	1.497

#### 24c. Share Premium

	The Group and Company	
	2016 US\$ '000	2015 US\$ '000
Share premium	497,457	497,457

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

#### 25. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations. Subsequently, the interest held by M&P was transferred to MPI. All terms and conditions previously held by M&P were re-assigned to MPI.

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Capital contribution	40,000	40,000	40,000	40,000

#### 26. Foreign currency translation reserve

Cumulative exchange difference arising from translation of foreign subsidiary is taken to foreign translation reserve through other comprehensive income.

#### 27. Interest bearing loans and borrowings

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Non-Current</b>				
Bank borrowings	446,098	608,846	446,098	556,346
<b>Current</b>				
Bank borrowings	217,998	290,769	217,998	290,769
<b>Total borrowings</b>	<b>664,096</b>	<b>899,615</b>	<b>664,096</b>	<b>847,115</b>

## Notes to the consolidated and separate financial statements

### Continued

#### Bank loan

##### Syndicate credit facility

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

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

As at 31 December 2016, there were no further draw downs (2015: US\$1 billion) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. Principal repayments in 2016 were made, the outstanding balance as at 31 December 2016 is US\$676 million (2015: US\$900 million).

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

31 December 2016 Term Loan	Interest	The Group			The Company		
		Current US\$'000	Non-Current US\$'000	Total US\$'000	Current US\$'000	Non-Current US\$'000	Total US\$'000
SBSA	8.5% + LIBOR	1,652	17,601	19,253	1,652	17,601	19,253
Stanbic	8.5% + LIBOR	1,652	17,601	19,253	1,652	17,601	19,253
FBN	8.5% + LIBOR	11,026	117,445	128,471	11,026	117,445	128,471
UBA	8.5% + LIBOR	11,026	117,445	128,471	11,026	117,445	128,471
Zenith Bank	8.5% + LIBOR	17,642	187,910	205,552	17,642	187,910	205,552
		42,998	458,002	501,000	42,998	458,002	501,000

31 December 2016 Corporate loan	Interest	The Group			The Company		
		Current US\$'000	Non-Current US\$'000	Total US\$'000	Current US\$'000	Non-Current US\$'000	Total US\$'000
Citibank Nigeria Limited	6% + LIBOR	26,250	-	26,250	26,250	-	26,250
Firststrand Bank Limited Acting	6% + LIBOR	17,500	-	17,500	17,500	-	17,500
JPMorgan Chase Bank N A London	6% + LIBOR	17,500	-	17,500	17,500	-	17,500
Nedbank Limited, London Branch	6% + LIBOR	17,500	-	17,500	17,500	-	17,500
Bank Of America Merrill Lynch	6% + LIBOR	17,500	-	17,500	17,500	-	17,500
Standard Chartered Bank	6% + LIBOR	26,250	-	26,250	26,250	-	26,250
Natixis	6% + LIBOR	26,250	-	26,250	26,250	-	26,250
Stanbic Ibtc Bank Plc	6% + LIBOR	13,125	-	13,125	13,125	-	13,125
The Standard Bank Of South Africa	6% + LIBOR	13,125	-	13,125	13,125	-	13,125
		175,000	-	175,000	175,000	-	175,000

# Notes to the consolidated and separate financial statements

Continued

		The Group			The Company		
		Current	Non-Current	Total	Current	Non-Current	Total
<b>31 December 2015</b>							
<b>Term Loan</b>	<b>Interest</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
SBSA	8.5% + LIBOR	5,649	16,947	22,596	5,649	16,947	22,596
Stanbic	8.5% + LIBOR	5,649	16,947	22,596	5,649	16,947	22,596
FBN	8.5% + LIBOR	37,695	113,085	150,780	37,695	113,085	150,780
UBA	8.5% + LIBOR	37,695	113,085	150,780	37,695	113,085	150,780
Zenith Bank	8.5% + LIBOR	60,312	180,936	241,248	60,312	180,936	241,248
		147,000	441,000	588,000	147,000	441,000	588,000

		The Group			The Company		
		Current	Non-Current	Total	Current	Non-Current	Total
<b>31 December 2015</b>							
<b>Corporate loan</b>	<b>Interest</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Citibank Nigeria Limited	6% + LIBOR	8,333	14,583	22,916	8,333	14,583	22,916
Firststrand Bank Limited Acting	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
JPMorgan Chase Bank N A London	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Nedbank Limited, London Branch	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Bank Of America Merrill Lynch	6% + LIBOR	10,000	17,500	27,500	10,000	17,500	27,500
Standard Chartered Bank	6% + LIBOR	15,000	26,250	41,250	15,000	26,250	41,250
Citibank N.A.	6% + LIBOR	6,667	11,667	18,334	6,667	11,667	18,334
Natixis	6% + LIBOR	15,000	26,250	41,250	15,000	26,250	41,250
Stanbic Ibtcc Bank Plc	6% + LIBOR	7,500	13,125	20,625	7,500	13,125	20,625
The Standard Bank Of South Africa	6% + LIBOR	7,500	13,125	20,625	7,500	13,125	20,625
		100,000	175,000	275,000	100,000	175,000	275,000

<b>Loans</b>	The Group		The Company	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Term loan	501,000	588,000	501,000	588,000
Corporate loan	175,000	275,000	175,000	275,000
Sterling bank loan (business combination)	-	52,500	-	-
Less: Capitalised loan transaction costs	(11,904)	(15,885)	(11,904)	(15,885)
	664,096	899,615	664,096	847,115

## Notes to the consolidated and separate financial statements

### Continued

#### 28. Contingent consideration

	The Group
	US\$ '000
At 1 January 2015	9,377
Fair value movement	3,325
Additions	19,198
Write-off	(10,000)
<b>At 31 December 2015</b>	<b>21,900</b>
At 1 January 2016	21,900
Fair value movement	2,614
Additions	-
Deconsolidation of subsidiary	(12,474)
<b>At 31 December 2016</b>	<b>12,040</b>

In 2014, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the 'Umuseti/Igbuku Fields'). The contingency criteria are the achievement of certain production milestones. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability was carried at fair value through profit or loss. These milestones were not achieved as at mid-2015 and as such the liability was de-recognised during the year.

During the year, the Group derecognized the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of US\$18.5 million for OML 53 is being recognized at the fair value of US\$12 million. This is still contingent on oil price rising above US\$90/bbl. over the next three years.

#### 29. Provision for decommissioning obligation

	The Group	The Company
	US\$ '000	US\$ '000
At 1 January 2015	12,690	9,838
Unwinding of discount due to passage of time	-	-
Change in estimate	(8,821)	(6,867)
<b>At 31 December 2015</b>	<b>3,869</b>	<b>2,971</b>
At 1 January 2016	3,869	2,971
Unwinding of discount due to passage of time	480	330
Deconsolidation of subsidiary	(32)	-
Change in estimate	(3,720)	(2,962)
<b>At 31 December 2016</b>	<b>597</b>	<b>339</b>

## Notes to the consolidated and separate financial statements

### Continued

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a “probable future sacrifice of economic benefits arising from a present obligation”, and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2045 to 2066 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2045 to 2066. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

The change in estimate in the current year for Group and Company is US\$3.7 million and US\$2.9 million respectively (2015: US\$ 8.8 million and US\$6.9 million) is due to the increase in the expected cessation of operations.

	Current estimated life span of reserves	
	2016 In years	2015 In years
Seplat Petroleum Development Company:	2045	2052
OML 4	2056	2052
OML 38	2052	2052
OML 41	2066	2052
Newton Energy Limited (OPL 283)	2045	2052
Seplat East Onshore Ltd (OML 53)	2054	2052

The discount rate used in the calculation of unwinding of the provision for both Group and Company for 2016 was within the range of 11.1% to 14.82% (2015: 11.1%). As of 31 December 2016, management has estimated decommissioning expenditure to occur from 2045 to 2066 for Group and Company (2015: 2052 for Group and Company).

### 30. Employee benefit obligation

#### 30a. Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator ('PFA') - a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company's contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2016 was US\$419,005 (2015: US\$394,561).

#### 30b. Defined benefit plan

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

## Notes to the consolidated and separate financial statements

### Continued

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

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

i) Liability recognised in the financial position

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Defined benefit obligation	5,112	6,926	5,112	6,926

ii) Amount recognised in profit or loss

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Current service cost	1,554	6,926	1,554	6,926
Interest cost on benefit obligation	530	-	530	-
	2,084	6,926	2,084	6,926

The Group recognizes a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners, this is recognized as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Charged to receivables	1,146	3,809	1,146	3,809
Charged to profit or loss	938	3,117	938	3,117
	2,084	6,926	2,084	6,926

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Remeasurement (gains)/losses due to changes in financial and demographic assumptions	(1,829)	-	(1,829)	-
Remeasurement (gains)/losses due to experience adjustment	578	-	578	-
	(1,251)	-	(1,251)	-

## Notes to the consolidated and separate financial statements

### Continued

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 recognized as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Credited to receivables	(688)	-	(688)	-
Credited to other comprehensive income	(563)	-	(563)	-
	(1,251)	-	(1,251)	-

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

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Defined benefit obligation as at 1 January</b>	6,926	-	6,926	-
Current service cost	1,554	6,926	1,554	6,926
Interest cost	530	-	530	-
Remeasurement (gains)/losses	(1,251)	-	(1,251)	-
Benefits paid by the employer	(242)	-	(242)	-
Exchange differences	(2,405)	-	(2,405)	-
<b>Defined benefit obligation at 31 December</b>	5,112	6,926	5,112	6,926

For the purpose of presentation in the statement of cash flows, defined benefit expenses is as follows:

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Movement in defined benefit expense during the year</b>	(1,814)	-	(1,814)	-
Adjustment for non-cash movements:				
Remeasurement gains/(losses)	1,251	-	1,251	-
Current service and interest cost charged to receivables	(1,146)	-	(1,146)	-
<b>Defined benefit expenses in the cash flow</b>	(1,709)	-	(1,709)	-

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

	The Group and Company	
	2016 %	2015 %
Discount rate	16	12
Average future pay increase	13	12
Average future rate of inflation	12	9

# Notes to the consolidated and separate financial statements

## Continued

### a) Mortality in service

Sample age	The Group and Company	
	Number of deaths in year out of 10,000 lives	
	2016	2015
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

### b) Withdrawal from service

Age band	The Group and Company	
	Rates	
	2016	2015
Less than or equal to 30	1.0%	1.0%
31 - 39	1.5%	1.5%
40 - 44	1.5%	1.5%
45 - 55	1.0%	1.0%
56 - 60	0.0%	0.0%

### c) A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

Assumptions	The Group and Company						
	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 2016	5,112	476	(556)	(591)	511	31	(30)
31 December 2015	6,926	811	(987)	(1,013)	41	(56)	845

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

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

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Within the next 12 months (next annual reporting period)	364	298	364	298
Between 2 and 5 years	2,909	2,356	2,909	2,356
Between 5 and 10 years	7,912	9,378	7,912	9,378
	11,185	12,032	11,185	12,032

The weighted average liability duration for the Plan is 11.53years. The longest weighted duration for Nigerian Government bond as at 31st December 2016 was about 5.85 years with a gross redemption yield of about 15.32%.

## Notes to the consolidated and separate financial statements

### Continued

#### 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.

### 31. Trade and other payables

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Trade payable	108,140	125,408	96,205	125,166
Accruals and other payables	117,600	216,265	101,028	169,158
NDDC levy	19	6,272	19	6,272
Deferred revenue	1,420	1,420	1,420	1,420
Royalties	34,349	25,668	27,766	25,212
Intercompany payable	-	-	55,681	24,578
	261,528	375,033	282,119	351,806

The accruals balance is mainly composed of other field-related accruals - US\$35m and others of US\$24m for the Group and Company (2015: US\$97.9m). Royalties include accruals for unpaid gas revenues during the period.

### 32. Earnings per share (EPS)

#### Basic EPS

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

#### Diluted EPS

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

## Notes to the consolidated and separate financial statements

### Continued

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Loss)/profit for the year attributable to equity holders of the parent	(164,590)	67,462	(124,412)	60,165
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	560,576	563,445	560,576
Share awards	1,540	189	1,540	189
Weighted average number of ordinary shares adjusted for the effect of dilution	564,985	560,765	564,985	560,765
	US\$	US\$	US\$	US\$
Basic (loss)/earnings per share	(0.29)	0.12	(0.22)	0.11
Diluted (loss)/earnings per share	(0.29)	0.12	(0.22)	0.11
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
(Loss)/profit attributable to equity holders of the parent	(164,590)	67,462	(124,412)	60,165
(Loss)/profit used in determining diluted earnings per share	(164,590)	67,462	(124,412)	60,165

### 33. Dividends paid and proposed

As at 31 December 2016, the dividend proposed for the year was Nil for both Group and Company (2015: US\$49.7 million).

	The Group and Company	
	2016 US\$ '000	2015 US\$ '000
<b>Cash dividends on ordinary shares declared and paid:</b>		
Interim dividend for 2016: US\$0.04 per share, 563,444,561 shares in issue (2015: US\$ 0.04 per share, 560,576,101 shares in issue)	22,534	22,139
Final dividend for 2016: US\$ Nil per share, 563,444,561 shares in issue (2015: US\$'0.09 per share, 560,576,101 shares in issue)	-	49,701
<b>Total</b>	<b>22,534</b>	<b>71,840</b>
<b>Proposed dividends on ordinary shares:</b>		
Final cash dividend for 2016: US\$ Nil per share (2015: US\$'0.04 per share)	22,534-	22,423

### 34. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). As at 31 December 2016, the parent Company is owned 13.84% either directly or by entities controlled by A.B.C Orjiako (SEPCOL) and members of his family and 13.15% either directly or by entities controlled by Austin Avuru (Professional Support Limited and Platform Petroleum Limited). The remaining shares in the parent Company are widely held.

#### 34a. Related party relationships

The services provided by the related parties:

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

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

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

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

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

**Ndosumili Ventures Limited:** is a subsidiary of Platform Petroleum Limited. The Company provides transportation services to Seplat.

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

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

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

**Platform Petroleum Limited:** The Chief Executive Officer of Seplat is a director and shareholder of this company. The Company seconded support staff to Seplat.

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

**Shebah Exploration and Production Company Limited ('SEPCOL'):** The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provided consulting services to Seplat.

## Notes to the consolidated and separate financial statements

### Continued

The following transactions were carried by Seplat with related parties:

#### 34b. Related party transactions

Year-end balances arising from related party transactions

##### i) Purchases of goods and services

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
<b>Shareholders of the parent company</b>				
SEPCOL	1,364	1,517	1,364	1,517
Platform Petroleum Limited	-	35	-	35
	1,364	1,552	1,364	1,552
<b>Entities controlled by key management personnel:</b>				
<b>Contracts &gt; \$1m in 2016</b>				
Nerine Support Services Limited*	14,991	21,015	14,991	21,015
Montego Upstream Services Limited	13,513	9,449	13,513	9,449
Cardinal Drilling Services Limited	6,931	17,244	6,931	17,244
Helko Nigeria Limited	1,976	566	1,976	556
Ndosumili Ventures Limited	1,729	1,350	1,729	1,350
	39,140	49,624	39,140	49,614
<b>Contracts &lt; \$1m in 2016</b>				
Abbeycourt Trading Company Limited	598	2,362	598	2,362
Oriental Catering Services Limited	579	941	579	941
Keco Nigeria Enterprises	259	1,896	259	1,896
ResourcePro Inter Solutions Limited	81	1,841	81	1,841
Nabila Resources & Investment Ltd	58	226	58	226
Berwick Nigeria Limited	28	27	28	27
Neimeth International Pharmaceutical Plc	10	-	10	-
	1,613	7,293	1,613	7,293
	40,753	56,917	40,753	56,907

\* 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 2016 is \$7.9million

# Notes to the consolidated and separate financial statements

## Continued

### 34c. Balances:

Year-end balances arising from related party transactions

#### i) Prepayments / receivables

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
<b>Entities controlled by key management personnel</b>		
Cardinal Drilling Services Limited - current portion	6,211	12,632
Cardinal Drilling Services Limited - non-current portion	-	1,333
	6,211	13,965

#### ii) Payables

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
<b>Entities controlled by key management personnel</b>		
Montego Upstream Services Limited	11,540	-
Nerine Support Services Limited	11,411	-
Cardinal Drilling Services Limited	1,009	-
	23,960	-

## 35. Information relating to Employees

### 35a. Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	The Group		The Company	
	2016	2015	2016	2015
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Salaries and other short-term employee benefits	4,104	4,522	4,104	4,522
Post-employment benefits	700	1,357	700	1,357
Share based payment expenses	289	3,788	289	3,788
	5,093	9,667	5,093	9,667

## Notes to the consolidated and separate financial statements

Continued

### 35b. Chairman and Directors' emoluments

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Chairman (Non-executive)	1,116	1,125	1,116	1,125
Chief Executive Officer	1,644	1,645	1,644	1,645
Executive Directors	1,858	2,917	1,858	2,917
Non-Executive Directors	2,652	2,708	2,652	2,461
Bonus	-	1,661	-	1,661
JV Partner Share	(1,926)	(2,208)	(1,926)	(2,208)
<b>Total</b>	<b>5,344</b>	<b>7,848</b>	<b>5,344</b>	<b>7,601</b>

### 35c. Highest paid Director

	The Group and Company	
	2016 US\$ '000	2015 US\$ '000
Highest paid Director	1,644	1,645

Emoluments are inclusive of income taxes.

### 35d. The number of directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	The Group and Company	
	2016 Number	2015 Number
Zero - US\$65,000	-	-
US\$65,001 - US\$378,000	7	7
US\$378,001 - US\$516,000	1	-
Above US\$516,000	3	4
	<b>11</b>	<b>11</b>

## Notes to the consolidated and separate financial statements

Continued

### 35e. Employees

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

	The Group and Company	
	2016	2015
	Number	Number
US\$6,500 - US\$16,000	1	4
US\$16,001 - US\$32,000	33	6
US\$32,001 - US\$48,000	136	76
Above US\$48,000	220	303
	390	389

35f. The average number of persons (excluding Directors) in employment during the year was as follows:

	The Group and Company	
	2016	2015
	Number	Number
Senior management	15	19
Managers	78	68
Senior staff	110	111
Junior staff	187	191
	390	389

### 35g. Employee cost

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

	The Group and Company	
	2016	2015
	US\$ '000	US\$ '000
Salaries & wages	20,055	19,057
	20,055	19,057

## 36. Commitments and contingencies

### 36a. Operating lease commitments - group as lessee

The Group has entered into operating leases for the use of drilling rigs and rentals. The Group has no minimum lease payments to be disclosed because the total lease payment has been prepaid at inception of the lease.

### 36b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2016 is US\$ 15.5 million (31 December 2015: US\$299.9 million). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

# Notes to the consolidated and separate financial statements

Continued

## 37. Events after the reporting period

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

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

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

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

## Statement of value added

For the year ended 31 December 2016

	The Group				The Company			
	2016		2015		2016		2015	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
Revenue	254,217		570,477		202,446		497,867	
Other income	-		2,316		-		2,316	
Finance income	59,017		12,802		94,139		8,133	
Cost of goods and other services:								
Local	(190,810)		(219,876)		(158,752)		(179,875)	
Foreign	(127,207)		(95,889)		(105,834)		(88,680)	
Valued added	(4,783)	100%	269,830	100%	31,999	100%	239,761	100%

Applied as follows:

	The Group				The Company			
	2016		2015		2016		2015	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
To employees:								
- as salaries and labour related expenses	20,869	-463	26,042	10%	19,354	60	21,639	9%
To external providers of capital:								
- as interest	73,900	-1545	83,588	31%	68,751	215	77,338	32%
To Government:								
- as Company taxes	(1,759)	37	(239)	-	(1,885)	-6	-	-
Retained for the Company's future:								
- For asset replacement, depreciation, depletion & amortisation	59,870	-1252	73,599	27%	53,807	168	64,235	27%
Deferred tax	8,431	-2	21,233	8%	16,384	51	16,384	7%
Loss for the year	(166,094)	3473	65,607	24%	(124,412)	-389	60,165	25%
Valued added	(4,783)	100%	269,830	100%	31,999	100	239,761	100%

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

## Five year financial summary

As at 31 December 2016

	The Group				
	2016	2015	2014	2013	2012
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	254,217	570,477	775,019	880,227	-
(Loss)/ profit before taxation	(172,766)	87,079	252,253	457,523	-
Income tax expense	6,672	(21,472)	-	92,745	-
(Loss)/profit for the year	(166,094)	65,607	252,253	550,268	-

	The Group				
	2016	2015	2014	2013	2012
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Capital employed:</b>					
Issued share capital	1,826	1,821	1,798	1,334	690
Share premium	497,457	497,457	497,457	-	-
Share based payment reserve	12,135	8,734	-	-	-
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	678,922	865,483	869,861	690,807	141,183
Foreign currency translation reserve	3,675	325	26	58	-
Non-controlling interest	-	(745)	-	-	-
<b>Total equity</b>	<b>1,234,015</b>	<b>1,413,075</b>	<b>1,409,142</b>	<b>732,199</b>	<b>181,873</b>
<b>Represented by:</b>					
Non-current assets	1,516,073	1,487,307	988,576	694,558	426,599
Current assets	663,200	1,254,583	1,421,114	623,003	473,583
Non-current liabilities	(463,847)	(662,774)	(261,834)	(144,271)	(281,489)
Current liabilities	(481,411)	(666,041)	(738,714)	(441,091)	(436,820)
<b>Net assets/(liabilities)</b>	<b>1,234,015</b>	<b>1,413,075</b>	<b>1,409,142</b>	<b>732,199</b>	<b>181,873</b>

## Five year financial summary

As at 31 December 2016

	The Company				
	2016	2015	2014	2013	2012
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	202,446	497,867	755,508	869,982	624,546
(Loss)/ profit before taxation	(138,911)	76,549	271,236	457,477	295,655
Income tax expense	14,499	(16,384)	-	92,745	(186,556)
Loss/profit for the year	(124,412)	60,165	271,236	550,222	109,099

	The Company				
	2016	2015	2014	2013	2012
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Capital employed:</b>					
Issued share capital	1,826	1,821	1,798	1,334	690
Share premium	497,457	497,457	497,457	-	-
Share based payment reserve	12,135	8,734	-	-	-
Capital contribution	40,000	40,000	40,000	40,000	40,000
Retained earnings	730,740	877,123	888,798	690,761	141,183
<b>Total equity</b>	<b>1,282,158</b>	<b>1,425,135</b>	<b>1,428,053</b>	<b>732,095</b>	<b>181,873</b>
<b>Represented by:</b>					
Non-current assets	910,221	899,186	827,042	629,393	426,599
Current assets	1,325,488	1,751,151	1,593,114	661,472	473,583
Non-current liabilities	(451,549)	(642,575)	(742,498)	(423,342)	(436,820)
Current liabilities	(502,002)	(582,627)	(249,605)	(135,428)	(281,489)
<b>Net assets/(liabilities)</b>	<b>1,282,158</b>	<b>1,425,135</b>	<b>1,428,053</b>	<b>732,095</b>	<b>181,873</b>

## Supplementary financial information (unaudited)

For the year ended 31 December 2016

### 38. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 31 December 2015	208.9	1,573.2	480.2
Revisions	(9.8)	5.6	(8.8)
Discoveries and extensions	-	-	-
Acquisitions	-	-	-
Production	(3.7)	(34.7)	(9.7)
<b>At 31 December 2016</b>	<b>195.4</b>	<b>1,544.1</b>	<b>461.7</b>

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.

### 39. Capitalised costs related to oil producing activities

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Capitalised costs:				
Unproved properties	-	-	-	-
Proved properties	1,518,174	1,684,572	1,152,290	1,086,277
Total capitalised costs	1,518,174	1,684,572	1,152,290	1,086,277
Accumulated depreciation	293,774	247,622	284,663	236,063
<b>Net capitalised costs</b>	<b>1,224,400</b>	<b>1,436,950</b>	<b>867,627</b>	<b>850,214</b>

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.

### 40. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2016 are:

		Original	Term in years expired	Unexpired
Seplat	OML 4, 38 & 41	10	7	3
Newton	OML 56	10	7	3
Seplat East Swamp	OML 53	30	19	11
Seplat Swamp	OML 55	30	19	11

## Supplementary financial information (unaudited)

For the year ended 31 December 2016 - continued

### 41. Results of operations for oil producing activities

	The Group		The Company	
	2016 US\$ '000	2015 US\$ '000	2016 US\$ '000	2015 US\$ '000
Revenue	254,217	570,477	202,446	497,867
Other income	-	2,316	-	2,316
Production and administrative expenses	(372,657)	(417,617)	(292,757)	(364,532)
Depreciation & amortisation	(54,326)	(68,097)	(48,600)	(59,102)
(Loss)/ profit before taxation	(172,766)	87,079	(138,911)	76,549
Taxation	6,672	(21,472)	14,499	(16,384)
Profit after taxation	(166,094)	65,607	(124,412)	60,165

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# **Financial Statements**

## **For the year ended 31 December 2016**

### **Expressed in Nigerian Naira ('NGN')**

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## General information

### Board of directors:

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

\*Madame Nathalie Delapalme acts as an alternate Director to Michel Hochard

<b>Company secretary</b>	Mirian Kachikwu
<b>Registered office and business address of directors</b>	25a Lugard Avenue Ikoyi Lagos Nigeria
<b>Registered number</b>	RC No. 824838
<b>FRC number</b>	FRC/2015/NBA/00000010739
<b>Auditor</b>	Ernst & Young (Chartered Accountants) 10 <sup>th</sup> & 13th Floor, UBA House 57 Marina Lagos
<b>Registrar</b>	DataMax Registrars Limited 7 Anthony Village Road Anthony P.M.B 10014 Shomolu Lagos, Nigeria
<b>Solicitors</b>	Olaniwun Ajayi LP Adepetun Caxton-Martins Agbor & Segun ("ACAS-Law") Herbert Smith Freehills LLP Freshfields Bruckhaus Deringer LLP Norton Rose Fulbright LLP Winston & Strawn London LLP Chief J.A. Ororho & Co. Ogaga Ovwah & Co. Consolex LP J.E. Okodaso & Company O. Obrik. Uloho and Co. V.E. Akpoguma & Co. Thompson Okpoko & Partners G.C. Arubayi & Co. Jakpa Edoge & Co. Abraham Uhumwagho & Co K.S. Sogo & Co. Winston & Strawn London LLP
<b>Bankers</b>	First Bank of Nigeria Limited Skye Bank Plc 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 2016

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

### Principal activity

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

### Corporate structure and business

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

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

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

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

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

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

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

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

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

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

Subsequently, and in a bid to resolve pending legal disputes, representatives of both Seplat and BelemaOil have agreed to a new arrangement which provides for a discharge sum of US\$330 million, as at the reporting date fair valued at US\$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

## Report of the directors continued

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

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

### Operating results:

	Nigerian ₦ million			
	The Group		The Company	
	2016	2015	2016	2015
Revenue	63,384	112,972	51,995	98,593
Operating Profit	(44,949)	31,261	(38,793)	28,863
(Loss)/Profit before taxation	(47,419)	17,243	(29,261)	15,159
(Loss)/Profit after taxation	(45,384)	12,991	(24,840)	11,914

### Proposed dividend

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

### Changes in property, plant and equipment

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

### Rotation of Directors

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

### Corporate governance

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

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

## Report of the directors continued

In order to carry out its responsibilities, the Board has established 5 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 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 Dodo

**Committee Chairman**  
Member  
Member  
Member

### 3. Remuneration Committee

Michael Alexander  
Basil Omiyi  
Charles Okeahalam  
Damian Dodo

**Committee Chairman**  
Member  
Member  
Member

### 4. HSSE and Risk Management Committee

Basil Omiyi  
Macaulay Agbada Ofurhie  
Ifueko Omoigui Okauru

**Committee Chairman**  
Member  
Member

### 5. Corporate Social Responsibility Committee

Lord Mark Malloch-Brown  
Macaulay Agbada Ofurhie  
Ifueko Omoigui Okauru

**Committee Chairman**  
Member  
Member

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

### 1. Statutory Audit Committee

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

**Committee Chairman**  
Member  
Member  
Member  
Member  
Member

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

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

## Report of the directors continued

### Record of attendance of board and committee meetings

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

#### Board of Directors

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

\*One meeting attended by alternate Director Madame Nathalie Delapalme

#### Finance Committee

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

#### Nomination and Establishment Committee

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

#### Remuneration Committee

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

#### HSSE and Risk Management Committee

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

## Report of the directors continued

### Corporate Social Responsibility Committee

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

### Statutory Audit Committee

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

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

### Directors' interest in shares

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

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

#### Notes:

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

## Report of the directors continued

### Director's interest in contracts

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

### Substantial interest in shares

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

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

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

### Free float

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

### Acquisition of own shares

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

### Shareholding analysis

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

Share Range	Number of Shareholders	% of Shareholders	Number of Holdings	% Shareholding
1-10000	1,574	83.63	1,577,442	0.28
10001-50000	163	8.66	4,239,526	0.75
50001-100000	41	2.18	2,828,884	0.50
100001-500000	67	3.56	14,918,813	2.65
500001-1000000	11	0.58	7,630,767	1.35
1000001-5000000	18	0.96	45,796,731	8.13
5000001-10000000	3	0.16	20,336,351	3.61
10000001-50000000	4	0.21	112,700,512	20.00
100000001-500000000	1	0.05	353,415,535	62.72
<b>Total</b>	<b>1,882</b>	<b>100.00</b>	<b>563,444,561</b>	<b>100.00</b>

### Share Capital History

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

## Report of the directors continued

### Donations

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

Name of beneficiary	₦'000
University of Lagos - Faculty of Clinical Science Research Fund	5,364
Society of Petroleum Engineers	4,501
Nigerian Association of Petroleum Engineers	3,299
Petroleum Technology Association	3,214
University of Port Harcourt- Institute of Petroleum Studies	2,682
Milken Institute	2,671
Raitas Communications	2,659
The Nigerian Stock Exchange	1,786
Nigerian Society of Chemical Engineering	1,751
London School of Economics & Political Science	1,508
Delta State Economic Summit	1,132
Congress of Medical Womens Association	1,072
The Nigeria 2015 Cup	805
Urhobo Progress Union	538
National Judicial Institute	536
Centre for Petroleum Information	536
Nigerian Gas Association	527
The Petroleum Club	525
Eye Can See	520
Nigeria & Entrepreneurship, Summit & Honors (NESH)	350
Police Community Relations Committee	269
Centre for Petroleum Information	255
The Athletics Federation of Nigeria	189
Nigerian American Chamber of Commerce	175
National Association of Energy Correspondents	173
University of Ibadan Technical Conference	128
Women in Successful Careers (WISCAR)	88
World Environment Day	80
<b>Total</b>	<b>37,333</b>

### Employment and employees

#### a) Employees involvement and training:

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

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

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

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

## Report of the directors continued

### b) Health, safety and welfare of employees:

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

### c) Employment of disabled or physically challenged persons:

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

### Auditor

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

By Order of the Board



**Dr. Mirian Kene Kachikwu**

FRC/2015/NBA/00000010739

Company Secretary,

Seplat Petroleum Development Company Plc

25a Lugard Avenue

Ikoyi

Lagos

Nigeria

Date: 30 March 2017

## Audit Committee's Report

For the year ended 31 December 2016

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 2004, members of the Audit Committee of Seplat Petroleum Development Company Plc hereby report on the financial statements of the Company for the year ended 31 December as follows:

- The scope and plan of the audit for the year ended 31 December 2016 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 day 30 March 2017



Ifueko Omoigui-Okauru  
Member, Audit Committee  
FRC/2016/ICAN/00000014169

## Statement of directors' responsibilities

For the year ended 31 December 2016

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

- a) keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004;
- b) establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
- c) prepares its financial statements using suitable accounting policies supported by reasonable and prudent 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 Company and of its financial performance for the year. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Signed On Behalf Of the Directors By



**Ambrosie Bryant Chukwueloka Orjiako**  
Chairman  
FRC/2014/IODN/00000003161



**Ojunekwu Augustine Avuru**  
Chief Executive Officer  
FRC/2014/IODN/00000003100

30 March 2017



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

For the year ended 31 December 2016

### Opinion

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

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

In our opinion:

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

### Basis for Opinion

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

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

For the year ended 31 December 2016

## Key Audit Matters

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

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

Key Audit Matter	How the matter was addressed in the audit
<p><b>Impact of the estimation of the quantity of oil and gas reserves on impairment testing, depreciation, depletion and amortisation, decommissioning provisions and the going concern assessment</b></p> <p>As at 31 December 2016, Seplat reported 461.7 MMboe of proved plus probable reserves.</p> <p>The estimation and measurement of oil and gas reserves impacts a number of material elements of the financial statements including DD&amp;A, impairments and decommissioning provisions. There is technical uncertainty in assessing reserve quantities.</p>	<p>We focused on management's estimation process, including whether bias exists in the determination of reserves and resources. We carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• ensured that significant movements in reserves are compliant with guidelines and policy;</li> <li>• ensured that additions to oil assets during the year were properly recognised and accounted for;</li> <li>• performed analytical review procedures on reserve revisions;</li> <li>• confirmed that the reserve information at year end is supported by underlying documentation and data;</li> <li>• performed procedures to assess the competence and objectivity of the experts involved in the estimation process; and</li> <li>• reviewed disclosures in the Annual Report to ensure consistency with the reserves data that we have reviewed.</li> </ul>
<p><b>The assessment of the recoverable amount of exploration and production assets</b></p> <p>As at 31 December 2016, Seplat recognised US\$1.224 billion of oil and gas properties.</p> <p>A sustained low oil and gas price environment could have a significant impact on the recoverable amounts of Seplat's oil and gas properties.</p> <p>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.</p> <p>Other key inputs used in assessing recoverable amounts are the discount rate used, future expected production volumes and capital and operating expenditures.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• assessed whether or not reserve movements represented an impairment trigger;</li> <li>• considered oil and gas forward curves and long term commodity price assumptions and whether these are indicators of impairment;</li> <li>• discussed with management the operational status of key assets;</li> <li>• separately from management, we assessed whether or not indicators of impairment exist; and</li> <li>• challenged management's assumptions in estimating future cash flows from assets.</li> </ul>

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

For the year ended 31 December 2016

Key Audit Matter	How the matter was addressed in the audit
<p><b>Deconsolidation of subsidiary</b></p> <p>During 2016, following the restructuring of the arrangement with BelemaOil, Seplat deconsolidated BelemaOil as it no longer exercised control over the entity.</p> <p>Seplat has recorded its rights to receive the discharge sum of US\$330 million from the crude oil reserves of OML 55 as a right to receive oil to the tune of the discharge sum. The fair value of the discharge sum on the date of deconsolidation is US\$250 million.</p>	<p>We carried out the following audit procedures:</p> <ul style="list-style-type: none"> <li>• reviewed the terms of the agreements relating to BelemaOil, including the Asset Management Team agreement, Deed of Settlement and Release and other Deeds of Settlement;</li> <li>• reviewed management's assessment and accounting of the transaction to ensure that the appropriate accounting treatment is reflected in the financial statements; and</li> <li>• assessed the appropriateness of the estimated fair value of the discharge sum and management's assessment for recoverability.</li> </ul>
<p><b>Recoverability of the Nigerian Petroleum Development Company (NPDC) receivables</b></p> <p>As at 31 December 2016, the undiscounted/discounted value of the receivable balance is US\$239/US\$229 million respectively.</p> <p>Management has made certain assumptions about the recoverability of financial assets exposed to credit risk from NPDC. These are based on management's past experiences with NPDC, current discussions with NPDC and financial capacity of NPDC.</p>	<p>We carried out the following procedures:</p> <ul style="list-style-type: none"> <li>• validated the receipts during the year and post year-end;</li> <li>• obtained confirmation from NNPC of amounts owed to Seplat;</li> <li>• recalculated the US dollar equivalent of amounts owed in Nigerian naira;</li> <li>• discussed and challenged management's expectations in relation to the in-flow of funds; and</li> <li>• ensured that amounts due are discounted to reflect the time value of money in line with expected timing of receipts.</li> </ul>

## 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.

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

For the year ended 31 December 2016

## Responsibilities of the directors for the financial statements

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

For the year ended 31 December 2016

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

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

## Report on other legal and regulatory requirements

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

- v) 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;
- vi) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- vii) the statement of financial position and profit or loss and other comprehensive income are in agreement with the books of account;
- viii) and in our opinion, the financial statements have been prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20, Laws of the Federation of Nigeria 2004 so as to give a true and fair view of the state of affairs and financial performance.



Yemi Odutola

FRC/2012/ICAN/0000000141

Partner

For: Ernst & Young

Lagos, Nigeria

30 March 2017

# Consolidated and separate financial statements

## Statement of profit or loss and other comprehensive income

For the year ended 31 December 2016

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

# Consolidated and separate financial statements

## Statement of financial position

As at 31 December 2016

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

# Consolidated and separate financial statements

## Statement of financial position

Continued

As at 31 December 2016

Notes 5 to 37 form an integral part of the financial statements.

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



**A. B. C. Orjiako**  
FRC/2014/IODN/00000003161  
Chairman  
30 March 2017



**A. O. Avuru**  
FRC/2014/IODN/00000003100  
Chief Executive Officer  
30 March 2017



**R. T. Brown**  
FRC/2015/IODN/00000007983  
Chief Financial Officer  
30 March 2017

# Consolidated and separate financial statements

## Statement of changes in equity

For the year ended 31 December 2016

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

# Consolidated and separate financial statements

## Statement of changes in equity

For the year ended 31 December 2016

		The Company						
	Notes	Issued Share Capital N'm	Share Premium N'm	Capital Contribution N'm	Share Based Payment Reserve N'm	Retained Earnings N'm	Foreign Currency Translation Reserve N'm	Total Equity N'm
At 1 January 2015		277	82,080	5,932	-	138,768	36,086	263,143
Profit for the year		-	-	-	-	11,914	-	11,914
Other comprehensive income		-	-	-	-	-	9,532	9,532
Total comprehensive income for the year		-	-	-	-	11,914	9,532	21,446
Transactions with owners in their capacity as owners:								
Dividends	33	-	-	-	-	(14,226)	-	(14,226)
Employee share schemes	24b	-	-	-	1,734	-	-	1,734
Issue of shares	24b	5	-	-	(5)	-	-	-
Total		5	-	-	1,729	(14,226)	-	(12,492)
At 31 December 2015		282	82,080	5,932	1,729	136,456	45,618	272,097
At 1 January 2016		282	82,080	5,932	1,729	136,456	45,618	272,097
Loss for the year		-	-	-	-	(24,840)	-	(24,840)
Other comprehensive income		-	-	-	-	172	147,881	148,053
Total comprehensive income/(loss) for the year		-	-	-	-	(24,668)	147,881	123,213
Transactions with owners in their capacity as owners:								
Dividends	33	-	-	-	-	(5,118)	-	(5,118)
Employee share schemes	24b	-	-	-	869	-	-	869
NCI on acquisition of subsidiary		-	-	-	-	-	-	-
Issue of shares	24b	1	-	-	(1)	-	-	-
Total		1	-	-	868	(5,118)	-	(4,249)
At 31 December 2016		283	82,080	5,932	2,597	106,670	193,499	391,061

# Consolidated and separate financial statements

## Statement of cash flows

For the year ended 31 December 2016

	Notes	The Group		The Company	
		31 Dec 2016 N'm	31 Dec 2015 N'm	31 Dec 2016 N'm	31 Dec 2015 N'm
<b>Cash flows from operating activities</b>					
Cash generated from operations	14	62,587	7,533	37,184	19,132
Receipts from derivatives		3,275	-	3,275	-
<b>Net cash inflows from operating activities</b>		<b>65,862</b>	<b>7,533</b>	<b>40,459</b>	<b>19,132</b>
<b>Cash flows from investing activities</b>					
Investment in oil and gas properties		(15,805)	(72,653)	(15,805)	(27,721)
Acquisition of other property, plant and equipment		(992)	(914)	(992)	(922)
Disposal of other property plant and equipment		151	-	151	-
Acquisition of subsidiary		-	(15,725)	-	-
Proceeds from sale of assets		-	41	-	41
Interest received		15,800	642	26,846	642
Refunds from advances on investment		-	72,907	-	-
<b>Net cash (outflows)/inflows from investing activities</b>		<b>(846)</b>	<b>(15,702)</b>	<b>10,200</b>	<b>(27,960)</b>
<b>Cash flows from financing activities</b>					
Proceeds from bank financing		-	191,515	-	191,515
Repayments of bank financing		(44,835)	(145,738)	(43,774)	(145,738)
Dividends paid		(5,118)	(14,226)	(5,118)	(14,226)
Interest paid		(18,165)	(15,315)	(17,227)	(15,315)
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(68,118)</b>	<b>16,236</b>	<b>(66,119)</b>	<b>16,236</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(3,102)</b>	<b>8,067</b>	<b>(15,460)</b>	<b>7,408</b>
Cash and cash equivalents at beginning of year		64,828	52,571	62,908	51,348
Effects of exchange rate changes on cash and cash equivalent		(13,042)	4,190	(2,498)	4,152
<b>Cash and cash equivalents at end of year</b>	<b>22</b>	<b>48,684</b>	<b>64,828</b>	<b>44,950</b>	<b>62,908</b>

# Notes to the consolidated and separate financial statements

## 1. Corporate information and business

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

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

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

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

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

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

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

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

Subsequently, and in a bid to resolve pending legal disputes representatives of both Seplat and BelemaOil have agreed to a new arrangement which provides for a discharge sum of US\$330 million, as at the reporting date fair valued at US\$250 million, to be paid to Seplat over a six-year period, through allocation of crude oil reserves of OML 55. In turn, Seplat relinquishes all claims to its shareholding of BelemaOil as an entity. The 40% stake in OML 55 will be held by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the relevant activities of the underlying asset, and consent of all parties is required for decision making. The agreements have been signed by both parties but are subject to ministerial consent. The Group however believes consent will be received as the agreements were brokered by the Ministry of Petroleum Resources.

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

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

## 2. Summary of significant accounting policies

### 2.1 Introduction to summary of significant accounting policies

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

### 2.2 Basis of preparation

#### i) Compliance with IFRS

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

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

#### ii) Historical cost convention

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

#### iii) Going concern

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least 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 interpretations, effective from 1 January 2016 that the Group applied for the first time in the current year. The nature and the impact of each new standard and amendment that may have an impact on the Group now or in the future is described below. Several other amendments apply for the first time in 2016; however, they do not impact the annual financial statements of the Group.

# Notes to the consolidated and separate financial statements

## Continued

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

a) **Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in joint operations**

The amendments to IFRS 11 require that a joint operator account for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, using the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in Note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity. BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising of equal representatives of both parties. As required by this amendment, the application of IFRS 3 principles in accounting for this transaction had no material impact in the financial statements as the transfer of assets between parties was in settlement of a pre-existing relationship and Seplat has no other interests in the jointly managed OML 55 except for the discharge sum which has been recognised at fair value and the resulting gain on the transaction recognised in the profit or loss account.

b) **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

c) **Annual Improvements to IFRS 2012-2014.** These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

- IAS 34 Interim Financial Reporting
- Amendments to IAS 1: Disclosure Initiative
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures (i) Servicing contracts
- Applicability of the amendments to IFRS 7 to condensed interim financial statements
- IAS 19 Employee Benefits
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

As these amendments merely clarify the existing requirements, they do not materially affect the Group's accounting policies or any of the disclosures.

## v) **New standards and interpretations not yet adopted**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

### i) **IFRS 9 Financial Instruments**

IFRS 9 Financial instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, the standard introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect accounting for own credit risk of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

# Notes to the consolidated and separate financial statements

## Continued

The de-recognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles based approach. The Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 - Revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group is yet to assess the full impact of IFRS 9.

### ii) IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the Group is yet to estimate the effect of the new principles on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

### iii) IFRS 16 Leases

This standard eliminates the classification of leases as either operating or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases under IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, the Group also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 does not require a lessee to recognise assets and liabilities for (a) short term leases (b) leases of low-value assets. The Group is yet to assess the full impact of IFRS 16 and intends to adopt IFRS 16 no later than 1 January 2019 as required by the standard.

At this stage, the Group is yet to estimate the effect of the new rules on its financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2019.

# Notes to the consolidated and separate financial statements

## Continued

### iv) Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12

Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

This amendment is effective 1 January 2017.

## 2.3 Basis of consolidation

### i) Subsidiaries

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

The consolidated financial information comprises the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

### ii) Change in the ownership interest of subsidiary

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

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

## Notes to the consolidated and separate financial statements

### Continued

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

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

#### iii) Disposal of subsidiary

If the Group loses control over a subsidiary, it:

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

#### iv) Joint arrangements

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

##### Joint operations

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

The Group recognises in its own accounting records as follows:

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

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

## 2.4 Functional and presentation currency

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

#### i) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

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

# Notes to the consolidated and separate financial statements

## Continued

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

### ii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

## 2.5 Oil and gas accounting

### i) Pre-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.

## Notes to the consolidated and separate financial statements

### Continued

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.

## 2.6 Revenue recognition

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

#### Overlift and underlift

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

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

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

## 2.7 Property, plant and equipment

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

### Depreciation

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

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

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

## 2.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 2.9 Impairment of non-financial assets

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

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

### Impairment - exploration and evaluation assets

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

### Impairment - proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

## 2.10 Cash and cash equivalents

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

## 2.11 Inventories

Inventories represent the value of tubulars, 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 stated at the amount initially recognised, less accumulated impairment losses.

The carrying value of the other asset is reviewed for impairment whenever events or circumstances indicate the carrying value may not be recoverable.

# Notes to the consolidated and separate financial statements

## Continued

### 2.13 Segment reporting

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

### 2.14 Financial instruments

#### 2.14.1 Financial assets

##### i) Financial assets initial recognition and measurement

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

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

##### ii) Subsequent measurement

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

##### *Trade receivables, loans and other receivables*

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

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

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

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

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

##### iii) Impairment of financial assets

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

##### iv) Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. When an existing financial 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.

# Notes to the consolidated and separate financial statements

## Continued

### 2.14.2 Financial liabilities

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

#### i) Financial liabilities initial recognition and measurement

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

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

#### ii) Subsequent measurement

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

##### *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable 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.

### 2.14.3 Derivative financial instruments

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

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

# Notes to the consolidated and separate financial statements

## Continued

### 2.14.4 Fair value of financial instruments

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

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

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

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

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

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

### 2.15 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

# Notes to the consolidated and separate financial statements

## Continued

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit ('CGU') and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### 2.16 Share capital

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

### 2.17 Earnings and dividends per share

#### *Basic EPS*

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

#### *Diluted EPS*

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

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

### 2.18 Post-employment benefits

#### *Defined contribution scheme*

The Group contributes to a defined contribution scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. The scheme is fully funded and is managed by licensed Pension Fund Administrators. Membership of the scheme is automatic upon commencement of duties at the Group. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

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

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

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

#### *Defined benefit scheme*

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

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

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

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

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefit expenses in general and administrative expenses.

- Service costs comprises current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.

## 2.19 Provisions

Provisions are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of economic resources will be required to settle the obligation as a whole; and (iii) the amount can be reliably estimated. Provisions are not recognised for future operating losses.

In measuring the provision:

- risks and uncertainties are taken into account;
- the provisions are discounted where the effects of the time value of money 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 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.

# Notes to the consolidated and separate financial statements

## Continued

### 2.20 Contingencies

A contingent asset or contingent liability is a possible asset or obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events. The assessment of the existence of the contingencies will involve management judgement regarding the outcome of future events.

### 2.21 Income taxation

#### i) Current income tax

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

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

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

#### ii) Deferred tax

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

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

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

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

#### iii) New Tax Regime

Effective 1 January 2014, the Company was granted the pioneer tax status incentive by the Nigerian Investment Promotion Commission for an initial three-year period and a further two-year period on approval. For the period the incentive applies, the Company is exempt from petroleum profits tax on crude oil profits (which would be otherwise taxed at 65.75%, to increase to 85% in 2015), corporate income tax on natural gas profits (currently taxed at 30 per cent.) 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.

# Notes to the consolidated and separate financial statements

## Continued

### 2.22 Leases

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

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

### 2.23 Share based payments

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

#### i) Equity-settled transactions

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

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

Service and non-market performance conditions are not taken into account when determining the grant date and for fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

# Notes to the consolidated and separate financial statements

## Continued

### 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 (note 21)**

The Group considers that the advances on investment of ₦20 billion 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. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and hence this forms the basis of the Group and Company's current and deferred taxation in the financial statements. There were no deferred tax liabilities recognized during the year. In 2015, deferred tax liabilities recognised in the period would have been reduced by ₦ 3 billion for Group and Company, if assumed that the tax incentives were renewed.

iv) **Deconsolidation of subsidiary (note 17)**

Following the restructuring of the arrangement with BelemaOil with respect to OML 55, as described in Note 1, the Group has now deconsolidated BelemaOil in these financial statements in accordance with IFRS 10 (par B97), as it no longer exercises control over the entity.

BelemaOil's 40% stake in OML 55 will be jointly managed by Seplat and BelemaOil over the period of this arrangement through an Asset Management Team comprising of equal representatives of both parties. The Asset Management Team makes all the key decisions regarding the technical and commercial activities of the underlying asset, and consent of all parties is required for decision making. Asset management team guidelines and other agreements that will govern the operations of the AMT has been approved. The Group has recognised this as other assets.

#### 3.2 Estimates and assumptions

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

i) **Other asset (note 17b)**

Seplat has recorded its rights to receive the discharge sum of ₦ 100 billion (US\$ 330 million) from the crude oil reserves of OML 55 as other asset.. The fair value of the discharge sum on the date of deconsolidation is ₦ 76 billion (US\$ 250 million) and has been determined using the income approach in line with IFRS 13 (Discounted Cash Flow). The gain on deconsolidation recognized amounted to ₦ 210 million (US\$ 680,000) and has been recognized in the income statement.

# Notes to the consolidated and separate financial statements

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### ii) NPDC receivables (note 21)

NPDC receivables were impaired during this year (2015: not materially impaired). The impairment assessment was carried out using the future estimated cash flow expected to be recoverable from NPDC over the next two years. The estimated future cash payments and receipts recoverable over the expected life of the receivable was discounted using Seplat's average borrowing cost of 8%. The resulting adjustment has been recognized under general and administrative expenses in the statement of comprehensive income. As at 31 December 2016, the total amount owed by NPDC is ₦72 billion (2015: ₦97 billion). This is the undiscounted amount, see note 21 for the impairment loss and discounted value.

### iii) Contingent consideration (note 28)

During the year, the Group derecognized the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The Group continued to recognize the contingent consideration of ₦5.6 billion for OML 53 at the fair value of ₦3.6 billion, it is contingent on oil price rising above US\$90/bbl over the next three years.

### iv) Defined benefit plans (pension benefits) (note 30)

The cost of the defined benefit retirement plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and changes in inflation rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bond in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The rates of mortality assumed for employees are the rates published in 67/70 ultimate tables, published jointly by the Institute and Faculty of Actuaries in the UK.

### v) Oil and gas reserves

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

### vi) Share-based payment reserve (note 24b)

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share award or appreciation right, volatility and dividend yield and making assumptions about them. The Group measures the fair value of equity-settled transactions with employees at the grant date, and uses a Monte-Carlo model for the global offer, non-executive and long term incentive scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 24b.

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

### vii) Provision for decommissioning obligations (note 29)

Provisions for environmental clean-up and remediation costs associated with the Group's drilling operations are based on current constructions, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

# Notes to the consolidated and separate financial statements

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### viii) Property, plant and equipment (note 15)

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

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

In 2016, in response to the force majeure on OMI 4, 38 and 48, the Group executed an impairment assessment. The Group used the value in use in determining the recoverable amount of the cash-generating unit. The assessment did not result in an impairment charge. In determining the value, the Group used a recent forward curve for five years, reverting to the Group's long-term price assumption for impairment testing which is US\$55 in 2017, US\$60 in 2018 and US\$70 per barrel from 2019 point forward. The Group used a post-tax discount rate of 10% based on the Group weighted average cost of capital.

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

### ix) Useful life of other property, plant and equipment

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

### x) Contingencies (note 36)

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

### xi) Income taxes (note 12)

The Group is subject to income taxes by the Nigerian tax authority, which does not require significant judgement in terms of provision for income taxes, but a certain level of judgement is required for recognition of deferred tax assets. Management is required to assess the ability of the Group to generate future taxable economic earnings that will be used to recover all deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. The estimates are based on the future cash flow from operations taking into consideration the oil and gas prices, volumes produced, operational and capital expenditure.

# Notes to the consolidated and separate financial statements

## Continued

### 4. Financial risk management

#### 4.1 Financial risk factors

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

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

Risk	Exposure arising from	Measurement	Management
Market risk - foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in US dollars.	Cash flow forecasting Sensitivity analysis	Match and settle foreign denominated cash inflows with foreign denominated cash outflows.
Market risk - interest rate	Long term borrowings at variable rate	Sensitivity analysis	None
Market risk - commodity prices	Future sales transactions	Sensitivity analysis	Oil price hedges
Credit risk	Cash and cash equivalents, trade receivables and derivative financial instruments.	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 currently hedges against this risk and sells the oil that it produces to Shell Trading and Mercuria at market prices calculated in accordance with the terms of the Off-take Agreement.

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

Increase/decrease in Commodity Price - The Group	Effect on (loss)/ profit before tax	Effect on other components of equity before tax	Effect on (loss)/ profit before tax	Effect on other components of equity before tax
	2016 ₦'m	2016 ₦'m	2015 ₦'m	2015 ₦'m
+10%	4,537		9,812	-
-10%	(4,537)		(9,812)	-

## Notes to the consolidated and separate financial statements

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Increase/decrease in Commodity Price - The Company	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	2,958		8,369	-
-10%	(2,958)		(8,369)	-

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

Increase/decrease in Commodity Price - The Group	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	3,217		1,531	-
-10%	(3,217)		(1,531)	-

Increase/decrease in Commodity Price - The Company	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	3,217		1,531	-
-10%	(3,217)		(1,531)	-

#### ii) Cash flow and fair value interest rate risk

The Group's exposure to interest rate risk relates primarily to long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and fixed deposit held at variable rates. Borrowings issued at fixed rates do not expose the Group to market interest rate risk. Most of the Group's borrowings are denominated in US dollars.

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

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

Increase/decrease in interest rate - The Group	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+1%	2,025		1,789	-
-1%	(2,025)		(1,789)	-

Increase/decrease in interest rate - The Company	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+1%	2,025		1,684	-
-1%	(2,025)		(1,684)	-

## Notes to the consolidated and separate financial statements

### Continued

#### iii) Foreign exchange risk

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

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

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

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Financial assets</b>				
Cash and cash equivalents	9,972	3,224	8,358	3,179
Trade and other receivables	20,604	27,342	20,604	27,342
	30,576	30,566	28,962	30,521
<b>Financial liabilities</b>				
Trade and other payables	(2,869)	(7,945)	(2,793)	(7,951)
<b>Net exposure to foreign exchange risk</b>	<b>27,707</b>	<b>22,621</b>	<b>26,169</b>	<b>22,570</b>

Sensitivity to foreign exchange risk is based on the Group and Company's net exposure to foreign exchange risk due to Naira denominated balances.

	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on (loss)/profit before tax 2016 ₦'m	Effect on other components of equity before tax 2015 ₦'m
Increase/decrease in foreign exchange risk - The Group				
+5%	(1,319)	-	(1,077)	-
-5%	1,458	-	1,191	-
Increase/decrease in foreign exchange risk - The Company				
+5%	(1,246)	-	(1,075)	-
-5%	1,377	-	1,188	-

#### 4.1.2 Credit risk

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

## Notes to the consolidated and separate financial statements

Continued

### i) Risk management

The Company's trade with Shell Western Supply and Trading Limited, is as specified within the terms of the crude off-take agreement and will run for five years until 31 December 2017 with a 30 day payment term. The off-take agreement with Mercuria is also to run for five years until 31 July 2020 with a 30 day payment term. In addition, the Company is exposed to credit risk in relation to its trade with Nigerian Gas Company Limited, a subsidiary of NNPC, the sole customer during the year. The Company monitors receivable balances on an ongoing basis and there has been no significant history of impairment losses except for the NPDC receivables which have now been impaired during this reporting period.

The credit risk on cash is limited because the majority of deposits are with banks that has 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:

Related party	Payment terms	The Group		The Company	
		2016	2015	2016	2015
		Percentage of total receivables			
Cardinal Drilling Services Limited	Receivables relate to deposits that are expected to be utilised or refunded	2%	2%	1%	1%

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

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Trade and other receivables (Gross)	119,431	159,057	326,572	260,641
Cash and cash equivalents	48,684	64,828	44,950	62,908
Derivatives	-	4,612	-	4,612
Gross amount	168,115	228,497	371,522	328,161
Impairment of NPDC receivables	(3,129)	-	(3,129)	-
Net amount	164,986	228,497	368,393	328,161

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

## Notes to the consolidated and separate financial statements

### Continued

	The Group					
	Trade receivables	NPDC/ NAPIMS receivables	Other receivables	Cash & cash equivalents	Derivatives	Total
	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
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
<b>Gross amount</b>	<b>22,395</b>	<b>75,417</b>	<b>21,619</b>	<b>48,684</b>	<b>-</b>	<b>168,115</b>
Impairment loss	-	(3,129)	-	-	-	(3,129)
<b>Net amount</b>	<b>22,395</b>	<b>72,288</b>	<b>21,619</b>	<b>48,684</b>	<b>-</b>	<b>164,986</b>
31 Dec 2015						
Neither past due nor impaired	15,848	54,574	34,608	64,828	4,612	174,470
Past due but not impaired	10,777	43,250	-	-	-	54,027
Impaired	-	-	-	-	-	-
<b>Gross amount</b>	<b>26,625</b>	<b>97,824</b>	<b>34,608</b>	<b>64,828</b>	<b>4,612</b>	<b>228,497</b>
Impairment loss	-	-	-	-	-	-
<b>Net amount</b>	<b>26,625</b>	<b>97,824</b>	<b>34,608</b>	<b>64,828</b>	<b>4,612</b>	<b>228,497</b>

	The Company					
	Trade receivables & Intercompany receivables	NPDC receivables	Other receivables	Cash & cash equivalents	Derivatives	Total
	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
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
<b>Gross amount</b>	<b>253,659</b>	<b>72,905</b>	<b>8</b>	<b>44,950</b>	<b>-</b>	<b>371,522</b>
Impairment loss	-	(3,129)	-	-	-	(3,129)
<b>Net amount</b>	<b>253,659</b>	<b>69,776</b>	<b>8</b>	<b>44,950</b>	<b>-</b>	<b>368,393</b>
31 Dec 2015						
Neither past due nor impaired	11,630	54,574	143,861	62,908	4,612	277,585
Past due but not impaired	7,326	43,250	-	-	-	50,576
Impaired	-	-	-	-	-	-
<b>Gross amount</b>	<b>18,956</b>	<b>97,824</b>	<b>143,861</b>	<b>62,908</b>	<b>4,612</b>	<b>328,161</b>
Impairment loss	-	-	-	-	-	-
<b>Net amount</b>	<b>18,956</b>	<b>97,824</b>	<b>143,861</b>	<b>62,908</b>	<b>4,612</b>	<b>328,161</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 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.

	The Group		The Company	
	2016	2015	2016	2015
Counterparties with external credit rating (Fitch's)	₦'m	₦'m	₦'m	₦'m
Cash and cash equivalents				
Non rated	26,434	14,469	24,457	14,087
B -	587	5,210	587	5,210
B	7,786	6,052	6,446	4,517
B +	2,863	473	2,447	472
A +	11,014	38,624	11,013	38,622
	48,684	64,828	44,950	62,908

	The Group		The Company	
	2016	2015	2016	2015
Counterparties with external credit rating	₦'m	₦'m	₦'m	₦'m
Trade and other receivables *				
Group 1	-	3,381	-	3,381
Group 2	1,914	89,418	232,405	194,453
Group 3	-	12,231	-	12,231
	1,914	105,030	232,405	210,065

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

	The Group		The Company	
	2016	2015	2016	2015
Counterparties with external credit rating	₦'m	₦'m	₦'m	₦'m
Derivatives				
Group 1	-	4,612	-	4,612
Group 2	-	-	-	-
	-	4,612	-	4,612
<b>Total that are neither past due nor impaired</b>	<b>50,598</b>	<b>174,470</b>	<b>277,355</b>	<b>277,585</b>

Group 1 - new customers (less than 1 year)

Group 2 - existing customers (more than 1 year) with some defaults in the past. All defaults were fully recovered.

Group 3 - Government entities

## Notes to the consolidated and separate financial statements

### Continued

#### 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				
		<30 days	30-60 days	60-90 days	90-120 days	>120 days
The Group	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
<b>Trade receivables</b>						
31 December 2016	22,061	13,925	-	1,513	-	6,623
31 December 2015	10,777	1,046	1,981	1,339	1,797	4,614
<b>NPDC/NAPIMS receivables</b>						
31 December 2016	2,510	-	179	1,075	183	1,073
31 December 2015	43,250	5,411	11,311	1,993	8,320	16,215

	Total	Past due but not impaired				
		<30 days	30-60 days	60-90 days	90-120 days	>120 days
The Company	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
<b>Trade receivables</b>						
31 December 2016	21,261	13,925	-	1,513	-	5,823
31 December 2015	7,326	1,046	1,425	1,620	1,797	1,438
<b>NPDC receivables</b>						
31 December 2016	-	-	-	-	-	-
31 December 2015	43,250	5,411	11,311	1,993	8,320	16,215

#### iv) Impaired receivables

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

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

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

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

Individually impaired trade receivables relate to NPDC receivables that have been outstanding over the years (2015 - Nil). The Group expects to recover the receivables, however due to the timing of the receipts the future cash flows have been discounted to reflect the time value of money.

## Notes to the consolidated and separate financial statements

### Continued

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

	The Group and Company	
	2016 ₦'m	2015 ₦'m
At 1 January	-	-
Allowance for impairment recognised during the year	2,273	-
Exchange differences	856	-
At 31 December	3,129	-

#### 4.1.3 Liquidity risk

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

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

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

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

# Notes to the consolidated and separate financial statements

Continued

							The Group	
	Effective interest rate %	Less than 1 year ₦'m	1 - 2 year ₦'m	2 - 3 years ₦'m	3 - 5 years ₦'m	After 5 years ₦'m	Total ₦'m	
<b>31 December 2016</b>								
<b>Non - derivatives</b>								
<b>Variable interest rate borrowings (bank loans):</b>								
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	8.5% + LIBOR	8,452	-	-	-	-	8,452	
Natixis	6.00% + LIBOR	8,452	-	-	-	-	8,452	
Citibank Nigeria Ltd and Citibank NA	6.00% + LIBOR	8,452	-	-	-	-	8,452	
Bank of America Merrill Lynch Int'l Ltd	6.00% + LIBOR	5,635	-	-	-	-	5,635	
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.00% + LIBOR	5,635	-	-	-	-	5,635	
JP Morgan Chase Bank NA, London Branch	6.00% + LIBOR	5,635	-	-	-	-	5,635	
NedBank Ltd, London Branch	6.00% + LIBOR	5,635	-	-	-	-	5,635	
Stanbic IBTC Bank Plc	6.00% + LIBOR	4,225	-	-	-	-	4,225	
The Standard Bank of South Africa Ltd	6.00% + LIBOR	4,225	-	-	-	-	4,225	
<b>Other non - derivatives</b>								
Trade and other payables		49,341	-	-	-	-	49,341	
Contingent consideration		-	-	-	5,643	-	5,643	
		<b>133,496</b>	<b>56,502</b>	<b>52,117</b>	<b>61,008</b>	<b>-</b>	<b>303,123</b>	

# Notes to the consolidated and separate financial statements

Continued

	Effective interest rate %						The Group	
		Less than 1 year ₦'m	1 - 2 year ₦'m	2 - 3 years ₦'m	3 - 5 years ₦'m	After 5 years ₦'m	Total ₦'m	
<b>31 December 2015</b>								
<b>Non - derivatives</b>								
<b>Variable interest rate borrowings (bank loans):</b>								
Zenith Bank Plc	8.5% + LIBOR	16,300	14,002	10,181	14,864	4,763	60,110	
First Bank of Nigeria Limited	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588	
United Bank for Africa Plc	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588	
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634	
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634	
Standard Chartered Bank	6.00% + LIBOR	3,486	5,510	-	-	-	8,996	
Natixis	6.00% + LIBOR	3,486	5,510	-	-	-	8,996	
Citibank Nigeria Ltd and Citibank NA	6.00% + LIBOR	3,486	5,510	-	-	-	8,996	
Bank of America Merrill Lynch Int'l Ltd	6.00% + LIBOR	2,324	3,673	-	-	-	5,997	
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.00% + LIBOR	2,324	3,673	-	-	-	5,997	
JP Morgan Chase Bank NA, London Branch	6.00% + LIBOR	2,324	3,673	-	-	-	5,997	
NedBank Ltd, London Branch	6.00% + LIBOR	2,324	3,673	-	-	-	5,997	
Stanbic IBTC Bank Plc	6.00% + LIBOR	1,743	2,755	-	-	-	4,498	
The Standard Bank of South Africa Ltd	6.00% + LIBOR	1,743	2,755	-	-	-	4,498	
Sterling bank	-	10,439	-	-	-	-	10,439	
<b>Other non-derivatives</b>								
Trade and other payables	-	60,144	-	-	-	-	60,144	
Contingent consideration	-	-	-	-	7,834	-	7,834	
		<b>133,553</b>	<b>70,860</b>	<b>24,815</b>	<b>44,062</b>	<b>11,653</b>	<b>284,943</b>	

# Notes to the consolidated and separate financial statements

Continued

	Effective interest rate						The Company	
		Less than 1 year	1 - 2 year	2 - 3 years	3 - 5 years	After 5 years	Total	
	%	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m	
<b>31 December 2016</b>								
<b>Non - derivatives</b>								
<b>Variable interest rate borrowings (bank loans):</b>								
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	8.5% + LIBOR	8,452	-	-	-	-	8,452	
Natixis	6.00% + LIBOR	8,452	-	-	-	-	8,452	
Citibank Nigeria Ltd and Citibank NA	6.00% + LIBOR	8,452	-	-	-	-	8,452	
Bank of America Merrill Lynch Int'l Ltd	6.00% + LIBOR	5,635	-	-	-	-	5,635	
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.00% + LIBOR	5,635	-	-	-	-	5,635	
JP Morgan Chase Bank NA, London Branch	6.00% + LIBOR	5,635	-	-	-	-	5,635	
NedBank Ltd, London Branch	6.00% + LIBOR	5,635	-	-	-	-	5,635	
Stanbic IBTC Bank Plc	6.00% + LIBOR	4,225	-	-	-	-	4,225	
The Standard Bank of South Africa Ltd	6.00% + LIBOR	4,225	-	-	-	-	4,225	
<b>Other non-derivatives</b>								
Trade and other payables		58,226	-	-	-	-	58,226	
		<b>142,381</b>	<b>56,502</b>	<b>52,117</b>	<b>55,365</b>	<b>-</b>	<b>306,365</b>	

# Notes to the consolidated and separate financial statements

## Continued

	Effective interest rate %	Less than 1 year ₦'m	1 - 2 year ₦'m	2 - 3 years ₦'m	3 - 5 years ₦'m	The Company	
						After 5 years ₦'m	Total ₦'m
<b>31 December 2015</b>							
<b>Non - derivatives</b>							
<b>Variable interest rate borrowings (bank loans):</b>							
Zenith Bank Plc	8.5% + LIBOR	16,300	14,002	10,181	14,864	4,793	60,140
First Bank of Nigeria Limited	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588
United Bank for Africa Plc	8.5% + LIBOR	10,188	8,751	6,363	9,290	2,996	37,588
Stanbic IBTC Bank Plc	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634
The Standard Bank of South Africa Limited	8.5% + LIBOR	1,527	1,312	954	1,392	449	5,634
Standard Chartered Bank	6.00% + LIBOR	3,486	5,510	-	-	-	8,996
Natixis	6.00% + LIBOR	3,486	5,510	-	-	-	8,996
Citibank Nigeria Ltd and Citibank NA	6.00% + LIBOR	3,486	5,510	-	-	-	8,996
Bank of America Merrill Lynch Int'l Ltd	6.00% + LIBOR	2,324	3,673	-	-	-	5,997
FirstRand Bank Ltd (Rand Merchant Bank Division)	6.00% + LIBOR	2,324	3,673	-	-	-	5,997
JP Morgan Chase Bank NA, London Branch	6.00% + LIBOR	2,324	3,673	-	-	-	5,997
NedBank Ltd, London Branch	6.00% + LIBOR	2,324	3,673	-	-	-	5,997
Stanbic IBTC Bank Plc	6.00% + LIBOR	1,743	2,755	-	-	-	4,498
The Standard Bank of South Africa Ltd	6.00% + LIBOR	1,743	2,755	-	-	-	4,498
<b>Other non-derivatives</b>							
Trade and other payables	-	57,250	-	-	-	-	57,250
		120,220	70,860	24,815	36,228	11,653	263,806

## 4.2 Fair value

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

	Carrying amount		Fair value	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Financial assets</b>				
Trade and other receivables	116,302	159,057	116,302	159,057
Cash and cash equivalents	48,684	64,828	48,684	64,828
Derivatives	-	4,612	-	4,612
	164,986	228,497	164,986	228,497
<b>Financial liabilities</b>				
Borrowings - Bank loans	202,549	178,880	202,549	178,880
Contingent consideration	3,672	4,355	3,672	4,355
Trade and other payables	49,341	60,144	49,341	60,144
	255,562	243,379	255,562	243,379

## Notes to the consolidated and separate financial statements

### Continued

	Carrying amount		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
<b>Financial assets</b>				
Trade and other receivables	323,443	260,641	323,443	260,641
Cash and cash equivalents	44,950	62,908	44,950	62,908
Derivatives	-	4,612	-	4,612
	<b>368,393</b>	<b>328,161</b>	<b>368,393</b>	<b>328,161</b>
<b>Financial liabilities</b>				
Borrowings - Bank loans	202,549	168,441	248,139	168,441
Contingent consideration	-	-	-	-
Trade and other payables	58,226	57,250	58,226	57,250
	<b>260,775</b>	<b>225,691</b>	<b>306,365</b>	<b>225,691</b>

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

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

	The Group			The Company		
	Level 1 ₦'m	Level 2 ₦'m	Level 3 ₦'m	Level 1 ₦'m	Level 2 ₦'m	Level 3 ₦'m
31 Dec 2016						
<b>Financial assets:</b>						
Derivatives	-	-	-	-	-	-
<b>Financial liabilities:</b>						
Borrowings - Bank loans	-	202,549	-	-	202,549	-
Contingent consideration	-	-	3,672	-	-	-
	-	202,549	3,672	-	202,549	-
31 Dec 2015						
<b>Financial assets:</b>						
Derivatives	-	4,612	-	-	4,612	-
<b>Financial liabilities:</b>						
Borrowings - Bank loans	-	178,880	-	-	168,441	-
Contingent consideration	-	-	4,355	-	-	-
	-	178,880	4,355	-	168,441	-

## Notes to the consolidated and separate financial statements

### Continued

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

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

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

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

- Fair values of the Group's interest-bearing loans and borrowings are determined by using discounted cash flow models that use effective interest rates that reflect the borrowing rate as at the end of the reporting period.
- The fair value of the Group's contingent consideration is determined using the discounted cash flow model. The cash flow 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 Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly commodity option contracts. The most frequently applied valuation techniques include option pricing and swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rate curves of the underlying commodity. All derivative contracts are fully cash-funded, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2016, there were no open derivative financial instruments (2015: the marked-to-market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on financial instruments recognised at fair value). The fair values of derivative financial instruments are disclosed in note 23.

#### 4.2.2 Reconciliation of fair value measurements of Level 3 financial instruments

	The Group
<b>Contingent consideration</b>	<b>₦'m</b>
At 1 January 2015	1,728
Additions	3,817
Write-off	(1,988)
Fair value movement	661
Exchange difference	137
At 31 December 2015	4,355
At 1 January 2016	4,355
Fair value movement	596
Deconsolidation of subsidiary	(3,805)
Exchange difference	2,526
At 31 December 2016	3,672

# Notes to the consolidated and separate financial statements

## Continued

### 4.2.3 Contingent consideration sensitivity

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

Increase/decrease in discount rate - The Group	Effect on profit before tax 2016 ₦'m	Effect on other components of equity before tax 2016 ₦'m	Effect on profit before tax 2015 ₦'m	Effect on other components of equity before tax 2015 ₦'m
+10%	1,338		216	
-10%	(2,602)		(216)	

The Company has no contingent consideration

## 4.3 Capital management

### 4.3.1 Risk management

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

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Borrowings:</b>	202,549	178,880	202,549	168,441
Less: cash and cash equivalents	(48,684)	(64,828)	(44,950)	(62,908)
Net debt	153,865	114,052	157,599	105,533
Total equity	376,374	280,976	391,061	272,097
Total capital	530,239	395,028	548,660	377,630
Net debt (net debt/total capital) ratio	29%	29%	29%	28%

During 2016, the Group's strategy which was unchanged from 2015, was to maintain a gearing ratio of less than 20% to 40%. Capital includes share capital, share premium, capital contribution and all other equity reserves attributable to the equity holders of the parent.

### 4.3.2 Loan covenant

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

- Total net financial indebtedness to annualised EBITDA is not to be greater than 3:1;
- 6-month Debt Service Reserve Account (DSCR) 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 (2015: The Group complied with the applicable covenants) with the exception of the financial indebtedness to EBITDA covenant, which was waived by a majority lender consent.

## Notes to the consolidated and separate financial statements

### Continued

#### 5. Revenue

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Crude oil sale	34,575	90,973	26,111	80,008
Underlift/ (overlift)	1,346	6,751	(1,579)	3,337
	35,921	97,724	24,532	83,345
Gas sales	27,463	15,248	27,463	15,248
	63,384	112,972	51,995	98,593

The major off-takers for crude oil are Mercuria (2016: ₦26.1 billion, 2015: ₦18.8 billion) and Shell Western Supply and Trading Limited (2016: Nil, 2015: ₦73 billion). The major off-taker of gas is the Nigerian Gas Company (2016: ₦27 billion, 2015: ₦15 billion).

#### 6. Cost of Sales

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Royalties	12,308	20,247	10,534	17,631
Depletion, depreciation and amortisation (note 15a)	13,683	13,485	6,909	11,704
Crude handling fee	1,202	12,773	618	11,618
NESS fee	35	131	30	103
Barging costs	5,484	-	5,484	-
Niger Delta Development Commission Levy	-	1,538	-	1,496
Rig related costs	2,584	1,711	2,609	1,694
Operational & maintenance expenses	11,780	13,823	9,864	9,323
	47,076	63,708	36,048	53,569

#### 7. Other operating income

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Long stop date income	-	446	-	446
Profit on disposal of plant & equipment	-	13	-	13
	-	459	-	459

##### 7a. Long stop date income

This represents the penalties levied on Azura Energy for failure to take up 100mmscf of gas from 1 July 2014. The long stop date period is from 1 July 2014 to 31 December 2015. There was no long stop date income during the current reporting period.

## Notes to the consolidated and separate financial statements

### Continued

#### 8. General and administrative expenses

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Depreciation (note 15b)	1,418	1,090	1,336	1,016
Auditor's remuneration	150	198	53	198
Professional and consulting fees	7,559	8,473	7,358	7,901
Directors' emoluments (executive)	680	1,277	434	905
Directors' emoluments (non-executive)	1,075	1,194	1,056	1,041
Donations	42	42	41	41
Employee benefits (note 8a)	5,340	5,399	4,978	4,529
Business development expenses	3,362	33	6	33
Flights and other travel costs	1,647	1,500	1,395	1,373
Rentals	1,380	680	1,235	553
Impact of receivables discounting (note 21)	2,273	-	2,273	-
Other general expenses	5,075	4,168	2,852	3,422
	30,001	24,054	23,017	21,012

Directors' emoluments have been split between executive & non-executive directors and include share-based benefits recognised, the basis of which has been further highlighted in note 35.

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

Other general expenses relate to costs such as office maintenance costs, rentals, telecommunication costs, logistics costs and others. Impairment loss relates to the impairment of receivables due from Nigerian Petroleum Development Company (NPDC) in note 21.

#### 8a. Salaries and employee related costs include the following:

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Basic salary	2,097	1,629	2,108	757
Housing allowance	816	662	821	662
Share-based benefits	872	884	876	884
Defined contribution expenses	428	299	354	299
Defined benefit expenses (note 30)	240	617	241	617
Other allowances	887	1,308	578	1,310
<b>Total salaries and employee related costs</b>	<b>5,340</b>	<b>5,399</b>	<b>4,978</b>	<b>4,529</b>

#### 9. (Losses)/gains on foreign exchange(net)

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Exchange (losses)/gains	(28,684)	1,534	(29,537)	1,779
<b>Total</b>	<b>(28,684)</b>	<b>1,534</b>	<b>(29,537)</b>	<b>1,779</b>

## Notes to the consolidated and separate financial statements

### Continued

Foreign exchange losses resulted from the Naira devaluation of approximately 53% as announced by the Central Bank of Nigeria during the year. These losses were majorly attributed to outstanding balances due from NPDC. See also note 11 for income related to these outstanding receivables and recognized in the period and reported in accordance with provisions of the Joint Operating agreement.

#### 10. Fair value (loss)/gain

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Fair value (loss)/gain on option derivatives	(2,186)	2,613	(2,186)	2,613
Fair value (loss)/gain on contingent consideration (note 28)	(596)	1,445	-	-
<b>Total</b>	<b>(2,782)</b>	<b>4,058</b>	<b>(2,186)</b>	<b>2,613</b>

Fair value loss on commodity derivatives represents the losses on crude oil price options charged to profit or loss. Fair value loss on contingent consideration arises in relation to remeasurement of contingent consideration on the Group's acquisition of participating interest in its OMLs. The contingency criteria are the achievement of certain production milestones.

#### 11. Finance (cost)/income

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Finance income</b>				
Interest income	15,800	2,535	26,846	1,611
<b>Finance cost</b>				
Finance cost	-	-	-	-
Interest on bank loans and other bank charges	18,165	16,553	17,227	15,315
Unwinding of discount on provision for decommissioning (note 29)	105	-	87	-
	18,270	16,553	17,314	15,315
<b>Finance (cost)/income (net)</b>	<b>(2,470)</b>	<b>(14,018)</b>	<b>9,532</b>	<b>(13,704)</b>

Finance income represents interest on fixed deposits for the Group and Company. . Included in finance income are interests of (₦14.6billion calculated on outstanding NPDC receivables in accordance with provisions of the Joint operating agreement. Discussions will continue with our government partners on the recovery of all outstanding receivables.

## Notes to the consolidated and separate financial statements

### Continued

#### 12. Taxation

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

##### 12a. Income tax expenses

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
<b>Current tax:</b>				
Current tax on profit for the year	-	47	-	-
Education tax	574	-	575	-
Prior period over provision	(38)	-	-	-
<b>Total current tax</b>	<b>536</b>	<b>47</b>	<b>575</b>	<b>-</b>
<b>Deferred tax:</b>				
Net deferred tax in profit or loss	-	4,205	-	3,245
Deferred tax credit	(2,571)	-	(4,996)	-
<b>Total tax (credit)/charge in statement of profit or loss</b>	<b>(2,035)</b>	<b>4,252</b>	<b>(4,421)</b>	<b>3,245</b>
<b>Effective tax rate</b>	<b>4%</b>	<b>25%</b>	<b>15%</b>	<b>21%</b>

##### 12b. Reconciliation of effective tax rate

The applicable tax rate for 2016 was 65.75% (2015: 65.75%) for both Group and Company.

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

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

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

As at the end of the reporting period, the Nigerian Investment Promotion Commission is yet to approve the tax incentives for the additional two years of the tax holidays. The financial statements have been prepared on the assumption that the tax incentives may not be renewed and this forms the basis of the Group and Company's current and deferred taxation in the financial statements.

## Notes to the consolidated and separate financial statements

### Continued

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

	The Group		The Company	
	2016 N'm	2015 N'm	2016 N'm	2015 N'm
(Loss)/ profit before taxation	(47,419)	17,243	(29,261)	15,159
Tax rate of 65.75% (2015 - 65.75%)	(31,178)	11,337	(19,239)	9,967
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Expenses not deductible for tax purposes	10,324	-	11,488	-
Impact of deferred tax not recognised	18,283	-	2,755	-
Impact of tax incentive on deferred tax balances	-	(7,085)	-	(6,722)
Education tax	574	-	575	-
Prior period over provision	(38)	-	-	-
<b>Total tax (credit)/charge in statement of profit or loss</b>	<b>(2,035)</b>	<b>4,252</b>	<b>(4,421)</b>	<b>3,245</b>

The movement in the current tax liability is as follows:

	The Group		The Company	
	2016 N'm	2015 N'm	2016 N'm	2015 N'm
<b>As at 1 January</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tax charge	574	47	575	-
Deconsolidation of subsidiary	(34)	-	-	-
Prior period over provision	(38)	-	-	-
Exchange Difference	26	-	-	-
<b>As 31 December</b>	<b>575</b>	<b>47</b>	<b>575</b>	<b>-</b>

# Notes to the consolidated and separate financial statements

## Continued

### 13. Deferred income tax

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

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Deferred tax assets</b>				
Deferred tax asset to be recovered in less than 12 months	-	-	-	-
Deferred tax asset to be recovered after more than 12 months	-	-	-	-
	-	-	-	-
	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Deferred tax liabilities</b>				
Deferred tax liabilities to be recovered in less than 12 months	-	-	-	-
Deferred tax liability to be recovered after more than 12 months	-	(4,222)	-	(3,258)
	-	(4,222)	-	(3,258)
<b>Net deferred tax asset/ (liability)</b>	<b>-</b>	<b>(4,222)</b>	<b>-</b>	<b>(3,258)</b>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group and Company did not recognise deferred income tax assets of ₦54 billion and ₦44 billion (2015: Nil for both Group and Company) in respect of losses amounting to ₦82 billion and ₦67 billion (2015: Nil) that can be carried forward against future taxable income. There are no expiration dates for the tax losses.

#### 13a. Deferred tax asset/(liability)

	The Group							
	Property, plant and equipment ₦'m	Decommissioning provision ₦'m	Defined Benefit expenses ₦'m	Underlift/ overlift ₦'m	Unrealised foreign exchange (gain)/ loss ₦'m	Tax losses ₦'m	Contingent liability ₦'m	Total ₦'m
<b>At 1 January 2015</b>								
Credited/(charged) to profit or loss	(2,069)	504	902	(3,524)	(18)	-	-	(4,205)
Exchange difference	(9)	2	4	(14)	-	-	-	(17)
<b>At 31 December 2015</b>	<b>(2,078)</b>	<b>506</b>	<b>906</b>	<b>(3,538)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>(4,222)</b>
<b>At 1 January 2016</b>	<b>(2,078)</b>	<b>506</b>	<b>906</b>	<b>(3,538)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>(4,222)</b>
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)
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 13b. Deferred tax asset/(liability)

	The Company							
	Property, plant and equipment N'm	Decommissioning provision N'm	Defined benefit expenses N'm	Underlift/ overlift N'm	Unrealised foreign exchange (gain)/ loss N'm	Tax losses N'm	Contingent liability N'm	Total N'm
<b>At 1 January 2015</b>								
Credited/(charged) to profit or loss	(3,599)	387	902	(917)	(18)	-	-	(3,245)
Exchange difference	(15)	1	4	(3)	-	-	-	(13)
<b>At 31 December 2015</b>	<b>(3,614)</b>	<b>388</b>	<b>906</b>	<b>(920)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>(3,258)</b>
<b>At 1 January 2016</b>	<b>(3,614)</b>	<b>388</b>	<b>906</b>	<b>(920)</b>	<b>(18)</b>	<b>-</b>	<b>-</b>	<b>(3,258)</b>
Deferred tax credit	5,542	(596)	(1,389)	1,412	27	-	-	4,996
Exchange difference	(1,928)	208	483	(492)	(9)	-	-	(1,738)
<b>At 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### 14. Computation of cash generated from operations

	The Group		The Company	
	2016 N'm	2015 N'm	2016 N'm	2015 N'm
(Loss)/ profit before tax	(47,419)	17,243	(29,261)	15,159
<b>Adjusted for:</b>				
Depreciation and amortisation	15,101	14,575	8,245	12,720
Impairment loss	2,273	-	2,273	-
Finance income (note 11)	(15,800)	(2,535)	(26,846)	(1,611)
Interest on bank loans (note 11)	18,165	16,553	17,227	15,316
Accretion discount (note 11)	105	-	87	-
Fair value movement on contingent consideration (including gains on derecognition) (note 10)	596	(1,445)	-	-
Gain on disposal of property, plant and equipment	-	(13)	-	(13)
Fair value movement on derivatives (note 10)	2,186	(3,517)	2,186	(3,516)
Loss/(gains) on unrealized foreign exchange	28,684	(1,593)	29,537	(1,779)
Share-based payment expenses	869	(1,734)	869	(1,733)
Defined benefit expenses (note 30)	213	-	213	-
Gain on deconsolidation (note 17)	(210)	-	-	-
Loss on disposal	307	-	307	-
<b>Changes in working capital (excluding the effects of exchange differences and deconsolidation):</b>				
Trade and other receivables	67,136	(20,662)	58,958	(15,463)
Prepayments	4,690	(1,613)	3,759	522
Trade and other payable	(9,470)	(2,171)	(25,602)	5,154
Inventories	(4,839)	(5,555)	(4,768)	(5,624)
<b>Net cash from operating activities</b>	<b>62,587</b>	<b>7,533</b>	<b>37,184</b>	<b>19,132</b>

# Notes to the consolidated and separate financial statements

## Continued

### 15. Property, plant and equipment

#### 15a. Oil and gas properties

	The Group			The Company		
	Production and field facilities	Assets under construction	Total	Production and field facilities	Assets under construction	Total
<b>Cost</b>	<b>₦'m</b>	<b>₦'m</b>	<b>₦'m</b>	<b>₦'m</b>	<b>₦'m</b>	<b>₦'m</b>
<b>At 1 January 2015</b>	108,818	79,710	188,528	97,655	76,715	174,370
Additions	84,401	-	84,401	29,081	-	29,081
Additions from business combination	48,332	-	48,332	-	-	-
Changes decommissioning	(1,747)	-	(1,747)	(1,360)	-	(1,360)
Transfer from asset under construction	22,528	(22,528)	-	22,790	(22,790)	-
Exchange differences	9,233	6,212	15,445	-	-	-
<b>At 31 December 2015</b>	<b>271,565</b>	<b>63,394</b>	<b>334,959</b>	<b>148,166</b>	<b>53,925</b>	<b>202,091</b>
<b>Depreciation</b>						
<b>At 1 January 2015</b>	<b>33,080</b>	-	<b>33,080</b>	<b>32,608</b>	-	<b>32,608</b>
Charged for the year	13,485	-	13,485	11,704	-	11,704
Exchange differences	2,672	-	2,672	-	-	-
<b>At 31 December 2015</b>	<b>49,237</b>	-	<b>49,237</b>	<b>44,312</b>	-	<b>44,312</b>
<b>NBV</b>						
<b>At 31 December 2015</b>	<b>222,328</b>	<b>63,394</b>	<b>285,722</b>	<b>103,854</b>	<b>53,925</b>	<b>157,779</b>
<b>Cost</b>						
<b>At 1 January 2016</b>	271,565	63,394	334,959	148,166	53,925	202,091
Additions	-	25,275	25,275	-	21,492	21,492
Changes in decommissioning	(1,134)	-	(1,134)	(903)	-	(903)
Transfer from asset under construction	50,596	(50,596)	-	50,596	(50,596)	-
Deconsolidation of subsidiary	(74,439)	-	(74,439)	-	-	-
Disposal	-	(307)	(307)	-	(307)	(307)
Exchange differences	170,132	8,557	178,689	116,411	12,664	129,075
<b>At 31 December 2016</b>	<b>416,720</b>	<b>46,323</b>	<b>463,043</b>	<b>314,270</b>	<b>37,178</b>	<b>351,448</b>
<b>Depreciation</b>						
<b>At 1 January 2016</b>	49,237	-	49,237	44,312	-	44,312
Charged for the year	13,683	-	13,683	6,909	-	6,909
Deconsolidation of subsidiary	(2,493)	-	(2,493)	-	-	-
Exchange Differences	29,174	-	29,174	35,601	-	35,601
<b>At 31 December 2016</b>	<b>89,601</b>	-	<b>89,601</b>	<b>86,822</b>	-	<b>86,822</b>
<b>NBV</b>						
<b>At 31 December 2016</b>	<b>327,119</b>	<b>46,323</b>	<b>373,442</b>	<b>227,448</b>	<b>37,178</b>	<b>264,626</b>

## Notes to the consolidated and separate financial statements

### Continued

The Company's present and future assets (except jointly owned with NNPC/NPDC) along with all equipment, machinery and immovable property of the Group situated on the property to which the oil mining leases relate are pledged as security for the syndicate loan (note 27).

Assets under construction represent costs capitalised in connection with the development of the Group's oil fields and other property, plant and equipment not yet ready for their intended use. These are funded from the Group's operations; hence no borrowing cost was capitalised during the year.

#### 15b. Other property, plant and equipment

	The Group				
	Plant & machinery	Motor vehicles	Office furniture and IT equipment	Leasehold improvements	Total
	₦'m	₦'m	₦'m	₦'m	₦'m
<b>Cost</b>					
<b>At 1 January 2015</b>	<b>869</b>	<b>987</b>	<b>2,113</b>	<b>453</b>	<b>4,422</b>
Additions	-	329	425	136	890
Reclassification to assets under construction	(140)	-	-	-	(140)
Disposals	-	(49)	-	-	(49)
Exchange differences	68	79	169	37	353
<b>At 31 December 2015</b>	<b>797</b>	<b>1,346</b>	<b>2,707</b>	<b>626</b>	<b>5,476</b>
<b>Depreciation</b>					
<b>At 1 January 2015</b>	<b>201</b>	<b>400</b>	<b>1,186</b>	<b>155</b>	<b>1,942</b>
Disposals	-	(21)	-	-	(21)
Charged for the year	123	286	569	112	1,090
Exchange differences	16	33	96	13	158
<b>At 31 December 2015</b>	<b>340</b>	<b>698</b>	<b>1,851</b>	<b>280</b>	<b>3,169</b>
<b>NBV</b>					
<b>At 31 December 2015</b>	<b>457</b>	<b>648</b>	<b>856</b>	<b>346</b>	<b>2,307</b>
<b>Cost</b>					
<b>At 1 January 2016</b>	<b>797</b>	<b>1,346</b>	<b>2,707</b>	<b>626</b>	<b>5,476</b>
Addition	163	118	711	-	992
Disposals	-	(28)	-	(137)	(165)
Transfer	3	35	(43)	5	-
Exchange differences	502	761	974	376	2,613
<b>At 31 December 2016</b>	<b>1,465</b>	<b>2,232</b>	<b>4,349</b>	<b>870</b>	<b>8,916</b>
<b>Depreciation</b>					
<b>At 1 January 2016</b>	<b>340</b>	<b>698</b>	<b>1,851</b>	<b>280</b>	<b>3,169</b>
Disposal	-	(14)	-	-	(14)
Charge for the year	215	337	721	145	1,418
Exchange differences	223	430	1,081	179	1,913
<b>At 31 December 2016</b>	<b>778</b>	<b>1,451</b>	<b>3,653</b>	<b>604</b>	<b>6,486</b>
<b>NBV</b>					
<b>At 31 December 2016</b>	<b>687</b>	<b>781</b>	<b>696</b>	<b>266</b>	<b>2,430</b>

## Notes to the consolidated and separate financial statements

### Continued

	The Company				
	Plant & machinery	Motor vehicle	Office Furniture and IT equipment	Leasehold improvements	Total
	₦'m	₦'m	₦'m	₦'m	₦'m
<b>Cost</b>					
<b>At 1 January 2015</b>	<b>612</b>	<b>987</b>	<b>1,942</b>	<b>454</b>	<b>3,995</b>
Additions	136	329	370	136	971
Reclassification to assets under construction	-	-	-	-	-
Disposals	-	(49)	-	-	(49)
Exchange differences	49	79	155	36	319
<b>At 31 December 2015</b>	<b>797</b>	<b>1,346</b>	<b>2,467</b>	<b>626</b>	<b>5,236</b>
<b>Depreciation</b>					
<b>At 1 January 2015</b>	<b>181</b>	<b>400</b>	<b>1,134</b>	<b>156</b>	<b>1,871</b>
Disposals	-	(21)	-	-	(21)
Charge for the year	143	267	495	111	1,016
Exchange differences	15	33	92	12	152
<b>At 31 December 2015</b>	<b>339</b>	<b>679</b>	<b>1,721</b>	<b>279</b>	<b>3,018</b>
<b>NBV</b>					
<b>At 31 December 2015</b>	<b>458</b>	<b>667</b>	<b>746</b>	<b>347</b>	<b>2,218</b>
<b>Cost</b>					
<b>At 1 January 2016</b>	<b>797</b>	<b>1,346</b>	<b>2,467</b>	<b>626</b>	<b>5,236</b>
Addition	163	118	711	-	992
Disposal	-	(28)	-	(137)	(165)
Exchange differences	502	744	928	375	2,549
<b>At 31 December 2016</b>	<b>1,462</b>	<b>2,180</b>	<b>4,106</b>	<b>864</b>	<b>8,612</b>
<b>Depreciation</b>					
<b>At 1 January 2016</b>	<b>339</b>	<b>679</b>	<b>1,721</b>	<b>279</b>	<b>3,018</b>
Disposal	-	(14)	-	-	(14)
Charge for the year	216	327	649	144	1,336
Exchange differences	222	417	1,042	177	1,858
<b>At 31 December 2016</b>	<b>777</b>	<b>1,409</b>	<b>3,412</b>	<b>600</b>	<b>6,198</b>
<b>NBV</b>					
<b>At 31 December 2016</b>	<b>685</b>	<b>771</b>	<b>694</b>	<b>264</b>	<b>2,414</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 16. Goodwill

Seplat, via a wholly owned subsidiary, entered into a share purchase agreement with First Act, Belema Refinery and Petrochemical Ltd, Mr. Jack Tein and BelemaOil (the four shareholders of BelemaOil) to acquire 56.25% of BelemaOil. This sale and purchase agreement was consummated on 5 February 2015 upon acquisition of Chevron Nigeria Limited's 40% interest in OMLs 55. This resulted in Seplat having an indirect interest of 22.5% in OML 55.

The fair value of the purchase consideration and the assets acquired were ₦42 billion (US\$139 million) and ₦41.7 billion (US\$137 million) respectively, giving rise to a goodwill on acquisition of ₦398 million (US\$2million)

As at the reporting date, goodwill recognised on consolidation of BelemaOil has now been derecognised due to the loss of control of the subsidiary. See further details in note 17.

#### Impairment test for goodwill

Management reviews the business performance of BelemaOil based on the reserve and production forecast. Goodwill is monitored by the management at the level of one operating segment. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on reserve, production and financial forecasts approved by management. As at the year end, arising from BelemaOil has been derecognized.

	The Group	
	2016 ₦'m	2015 ₦'m
<b>At 1 January</b>	398	-
Acquisition of subsidiary	-	398
Deconsolidation of subsidiary	(610)	-
Exchange difference	212	-
<b>As at 31 December</b>	-	398

## Notes to the consolidated and separate financial statements

### Continued

#### 17. Deconsolidation of subsidiary

The details of the deconsolidation of subsidiary has been disclosed in Note 1 - Corporate information and business and Note 3 - Significant accounting judgments, estimates and assumptions. A summary of assets and liabilities derecognised and the resulting gain on deconsolidation are shown below.

##### 17a. Summary of assets and liabilities derecognised

	The Group
	2016
	₦'m
<b>Non-current assets:</b>	
Producing assets	71,946
Goodwill	610
<b>Current assets:</b>	
Trade and other receivables	26,334
Underlift	11,759
<b>Total assets</b>	<b>110,649</b>
<b>Equity:</b>	
Non-controlling interest	(684)
<b>Non-current liabilities:</b>	
Deferred tax liability	3,905
Contingent consideration	3,805
Provision for decommissioning obligation	10
<b>Current liabilities:</b>	
Interest bearing loans and borrowings	16,013
Trade and other payables	11,499
Current tax	34
<b>Total liabilities</b>	<b>35,266</b>
<b>Total equity and liabilities</b>	<b>34,582</b>
<b>Net asset derecognised</b>	<b>76,067</b>

##### 17b. Summary of assets and liabilities recognised

	The Group
	2016
	₦'m
<b>Other asset:</b>	
Investment in OML 55	76,277
<b>Net assets recognised</b>	<b>76,277</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 17c. Gain on deconsolidation of subsidiary

	The Group
	2016
	₦'m
Summary of assets and liabilities derecognised (note 17a)	(76,067)
Summary of assets and liabilities recognized (note 17b)	76,277
<b>Gain on deconsolidation of BelemaOil</b>	<b>210</b>

#### 18. Prepayments

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
<b>Non-current</b>				
Tax paid in advance	9,645	6,288	9,645	6,288
Rent	608	549	608	549
Drilling services	-	471	-	471
	10,253	7,308	10,253	7,308
<b>Current</b>				
Rent	803	2,315	793	2,124
Others	1,232	-	1,190	-
	2,035	2,315	1,983	2,124
<b>Total prepayment</b>	<b>12,288</b>	<b>9,623</b>	<b>12,236</b>	<b>9,432</b>

Included in non-current prepayments are the following:

#### 18a. Tax paid in advance

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

#### 18b. Rent

In 2014, the Group entered into three new commercial leases in relation to three buildings that it occupies two in Lagos and one in Delta state. Two of the non-cancellable leases which relate to buildings in Lagos expire in 2019 and 2018 respectively. The rent on the building in Delta state has been renewed and now expires in 2021. The Group has prepaid these rents. The long-term portion as at 31 December 2016 is ₦0.6 billion (2015: ₦0.5 billion). The Group has no future minimum lease payments to be disclosed for the rental lease because the total lease payment has been prepaid at inception of the lease.

#### 18c. Drilling services

In 2012, Seplat signed an agreement with Cardinal Drilling Limited with respect to the exclusive use of two rigs for five years. Seplat agreed to pay a ₦6 billion (US\$20 million) advance in relation to the exclusive use of these rigs. This amount has been recognised as a prepayment and amortised over the life of the agreement (five years). The long term portion as at 31 December 2016 is Nil (2015: ₦0.5 billion). The Group has no future minimum lease payments to be disclosed for the drilling services agreement because the total payment had been prepaid at inception of the contract.

## Notes to the consolidated and separate financial statements

### Continued

#### 19. Investment in subsidiaries

	The Company	
	2016	2015
	₦'m	₦'m
Newton Energy Limited	290	188
Seplat Petroleum Development UK	15	10
Seplat East Onshore Ltd	10	7
Seplat East Swamp Ltd	10	7
	325	212

#### 20. Inventories

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Tubular, casing and wellheads	32,395	16,398	31,295	15,681

Inventory represents the value of tubulars, casings and wellheads. The inventory is carried at the lower of cost and net realisable value. Included in cost of sales is ₦16 million (2015: ₦3 million) representing inventory charged to profit or loss during the year. There was no inventory written down for the year ended 31 December 2016.

#### 21. Trade and other receivables

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Trade receivables	22,395	26,626	21,061	18,956
Nigerian Petroleum Development Company (NPDC) receivables	72,049	97,824	72,049	97,824
National Petroleum Investment Management Services	2,511	-	-	-
Intercompany receivables	-	-	218,266	140,946
Advances on investments	20,040	16,948	-	-
Advances	-	10,573	14,132	1,716
Underlift	1,372	5,381	-	1,400
Advances to suppliers	2,720	516	2,467	497
Hedging receivables	-	1,508	-	1,508
Interest receivable from shareholders of Belema Oil	-	1,898	-	-
Other receivables	346	35	344	27
Impairment loss on NPDC receivables	(2,273)	-	(2,273)	-
	119,160	161,309	326,046	262,874

## Notes to the consolidated and separate financial statements

### Continued

#### 21a. Trade receivables

Included in trade receivables are receivables from sale of crude oil and gas due from NGC of ₦20 billion (2015: ₦12 billion) for both Group and Company

#### 21b. NPDC receivables

NPDC receivables represent the outstanding cash calls due Seplat. Receivables have been discounted to reflect the impact of time value of money. This has been recognized in the statement of comprehensive income. As at 31 December 2016, the undiscounted value of this receivables for Group and Company is ₦72 billion (2015: ₦97 billion for Group and Company).

#### 21c. Advances on investment

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

### 22. Cash and cash equivalents

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

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Cash on hand	2	10	2	10
Restricted cash	19,887	13,711	19,887	13,711
Cash at bank	28,795	51,107	25,061	49,187
Cash and cash equivalents	48,684	64,828	44,950	62,908

At 31 December 2016, cash at bank includes the debt service reserve of ₦19.9 billion (2015: ₦13.7 billion) for both Group and Company deposited pursuant to the covenant in relation to the bank syndicated loan. The debt service reserve account balance is the amount equal to at least the aggregate of the amounts of principal and interest projected to fall due on the next successive principal repayment dates and dates for the payment of interest which is on a quarterly basis.

### 23. Derivatives

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Derivatives	-	4,612	-	4,612

In November 2015, management completed a crude oil price hedge of US\$45/bbl. for 3.3 million barrels at a cost of US\$10 million (US\$3.03/bbl.). A fair value loss of ₦ 2.1 billion (gain - 2015: ₦2.6 billion) was recognized in the reporting period for both Group and Company.

# Notes to the consolidated and separate financial statements

## Continued

### 24. Share capital

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Authorised ordinary share capital</b>				
1,000,000,000 ordinary shares denominated in Naira of 50 kobo per share	500	500	500	500
<b>Issued and fully paid</b>				
563,444,561 (2015: 560,576,101) issued shares denominated in Naira of 50 kobo per share	283	282	283	282

#### 24a. Employee share based payment scheme

In 2016, the Company gave share awards of 25,448,071 shares (2015: 14,939,102 shares) to certain employees and senior executives in line with its share based incentive scheme. During the year ended 31 December 2016, 2,868,460 shares were vested. In 2015, 7,265,788 shares had vested resulting in an increase in number of issued and fully paid ordinary shares of 50k each from 553 million to 561 million.

Fully paid ordinary shares carry one vote per share and carry the right to dividends. During 2013, the Company 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.

#### 24b. Share based payment reserve

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

##### Description of the awards valued

###### Global Offer Bonus awards

Shares were conditionally awarded, subject to NSE approval, to selected executives to recognise their historic contribution to the Company in the lead up to Admission on the London Stock Exchange on 9 April 2014. The awards operated as follows:

50% of the share bonus was awarded on IPO, there were no performance conditions attached to it, and it fully vested in 2015. The second 50% of the award vested on the first anniversary of the IPO (9 April 2015). The award fully met the performance condition, as follows:

- The Company outperformed the median TSR performance level within the 2014 LTIP E&P comparator group, over the one year period from Admission (i.e. to 9 April 2015).
- The reserves growth underpin in FY2014 was met.

The valuation of the Global Offer Bonus awards ignores these conditions because as at the deemed date of grant the conditions were fully met. As a result, the fair value of these awards is the share price at the date of grant.

###### Non-Executive Directors nominal value shares

Non-Executive Directors were provided with the opportunity to subscribe for shares at nominal value on IPO i.e. at a discount to their market value. These awards were vested immediately. There was no vesting criteria for these awards. As a result the fair value of these awards is the share price at the deemed date of grant.

## Notes to the consolidated and separate financial statements

### Continued

#### Seplat 2014 and 2015 Deferred Bonus Award

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

#### Long Term Incentive Plan (LTIP) awards

Under the LTIP Plan, shares are granted to management staff of the organisation at the end of every year. The shares were granted to the employees at no cost. The shares vest (after 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 2014 and 2015 LTIP awards have been approved by the NSE, however, 2016 LTIP are still subject to approval.

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

	The Group		The Company	
	2016 N'm	2015 N'm	2016 N'm	2015 N'm
Expense arising from equity-settled share-based payment transactions	869	1,734	869	1,734

There were no cancellations or modifications to the awards in 2016 or 2015. The share awards granted to Executive Directors and confirmed employees are summarised below.

Scheme	Deemed grant date	Start of Service Period	End of service period	Number of awards
Global 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	214,669
2016 Long term incentive Plan	22 December 2016	22 December 2016	21 December 2019	10,294,300
				<b>25,448,071</b>

Share awards used in the calculation of diluted earnings per shares are based on the outstanding shares as at 31 December 2016.

	The Group and Company			
	2016 Number 000	2016 WAEP N'	2015 Number 000	2015 WAEP N'
Share award scheme (All Awards)				
Outstanding at 1 January	4,249	298.26	-	-
Granted during the year	159	356.35	11,515	192.09
Forfeited during the year	-	-	-	-
Exercised during the year	(2,868)	-	(7,266)	-
<b>Outstanding at 31 December</b>	<b>1,540</b>	<b>205.87</b>	<b>4,249</b>	<b>298.26</b>
<b>Exercisable at 31 December</b>	<b>-</b>	<b>-</b>	<b>7,266</b>	<b>234.63</b>

## Notes to the consolidated and separate financial statements

### Continued

#### Movements during the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of and movements in share options during the year for each available scheme.

	The Group and Company			
	2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
<b>Global Bonus Offer</b>				
Outstanding at 1 January	-	-	-	-
Granted during the year	-	-	6,472,138	233.6
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(6,472,138)	-
<b>Outstanding at 31 December</b>	-	-	-	-
<b>Exercisable at 31 December</b>	-	-	-	-

	The Group and Company			
	2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
<b>Non- Executive Directors Shares</b>				
Outstanding at 1 January	-	-	-	-
Granted during the year	-	-	793,650	233.6
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(793,650)	-
<b>Outstanding at 31 December</b>	-	-	-	-
<b>Exercisable at 31 December</b>	-	-	-	-

	The Group and Company			
	2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
<b>Deferred Bonus Scheme</b>				
Outstanding at 1 January	212,701	224.6	-	-
Granted during the year	214,669	380.2	212,701	223.7
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
<b>Outstanding at 31 December</b>	427,370	399.6	212,701	224.6
<b>Exercisable at 31 December</b>	-	-	-	-

## Notes to the consolidated and separate financial statements

### Continued

	The Group and Company			
	2016 Number	2016 WAEP ₦	2015 Number	2015 WAEP ₦
<b>Long term incentive Plan (LTIP)</b>				
Outstanding at 1 January	7,460,613	151.1	-	-
Granted during the year	10,294,300	227.1	7,460,613	150.5
Forfeited during the year	-	-	-	-
Exercised during the year	(2,868,460)	-	-	-
<b>Outstanding at 31 December</b>	<b>14,886,453</b>	<b>253.2</b>	<b>7,460,613</b>	<b>151.1</b>
<b>Exercisable at 31 December</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The shares are granted to the employees at no cost.

The weighted average remaining contractual life for the share awards outstanding as at 31 December 2016 range from 0.80 to 1.52 years.

The weighted average fair value of awards granted during the year range from ₦227.1 to ₦380.2

The exercise prices for awards outstanding at the end of the year range from ₦253.2 to ₦399.6.

The following table lists the inputs to the models used for the four plans for the year ended 31 December 2016:

## Notes to the consolidated and separate financial statements

### Continued

	The Group and Company				
	Global offer bonus	Non-executive shares bonus	2015 Deferred bonus	2015 LTIP	2016 LTIP
Weighted average fair values at the measurement date					
Dividend yield (%)	n/a	n/a	n/a	0.00%	0.00%
Expected volatility (%)	n/a	n/a	n/a	56%	56%
Risk-free interest rate (%)	n/a	n/a	n/a	0.63%	0.63%
Expected life of share options	nil	nil	1.46	2.35	2.35
Weighted average share price (\$)	1.5386	1.5386	1.512	1.497	1.497

#### 24c. Share Premium

	The Group and Company	
	2016 ₦'m	2015 ₦'m
Share Premium	82,080	82,080

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

#### 25. Capital contribution

This represents M&P additional cash contribution to the Company. In accordance with the Shareholders' Agreement, the amount was used by the Company for working capital as was required at the commencement of operations. Subsequently, the interest held by M&P was transferred to MPI. All terms and conditions previously held by M&P were re-assigned to MPI.

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Capital contribution	5,932	5,932	5,932	5,932

#### 26. Foreign currency translation reserve

Cumulative exchange difference arising from translation from functional currency to presentation currency is taken to foreign currency translation reserve through other comprehensive income.

#### 27. Interest bearing loans and borrowings

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Non-Current</b>				
Bank borrowings	136,060	121,063	136,060	110,624
<b>Current</b>				
Bank borrowings	66,489	57,817	66,489	57,817
<b>Total borrowings</b>	<b>202,549</b>	<b>178,880</b>	<b>202,549</b>	<b>168,441</b>

## Notes to the consolidated and separate financial statements

### Continued

#### 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 (2015: ₦427 billion) (US\$1.4 billion) contingent on a qualifying acquisition with a consortium of five local banks. This facility has a seven year maturity period.
- ₦ 91 billion (US\$ 300 million) three year corporate revolver primarily to manage working capital requirements with a consortium of eight international banks. This facility has a three year maturity period.

As at 31 December 2016, there were no further draw downs (2015: ₦427 billion) (US\$1.4 billion) of this facility. Interest accrues monthly on the principal amount outstanding at the LIBOR rate plus a margin ranging from 6.5 to 8.5%. Principal repayments in 2016 were made, the outstanding balance as at 31 December 2016 is ₦ 206 billion (2015: ₦ 172 million).

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

31 December 2016 Term Loan	Interest	The Group			The Company		
		Current ₦'m	Non-Current ₦'m	Total ₦'m	Current ₦'m	Non-Current ₦'m	Total ₦'m
SBSA	8.5% + LIBOR	504	5,368	5,872	504	5,368	5,872
Stanbic	8.5% + LIBOR	504	5,368	5,872	504	5,368	5,872
FBN	8.5% + LIBOR	3,363	35,821	39,184	3,363	35,821	39,184
UBA	8.5% + LIBOR	3,363	35,821	39,184	3,363	35,821	39,184
Zenith Bank	8.5% + LIBOR	5,381	57,313	62,694	5,381	57,313	62,694
		13,115	139,691	152,806	13,115	139,691	152,806

31 December 2016 Corporate loan	Interest	The Group			The Company		
		Current ₦'m	Non-Current ₦'m	Total ₦'m	Current ₦'m	Non-Current ₦'m	Total ₦'m
Citibank Nigeria Limited	6% + LIBOR	8,006	-	8,006	8,006	-	8,006
Firststrand Bank Limited Acting	6% + LIBOR	5,338	-	5,338	5,338	-	5,338
JPMorgan Chase Bank N A London	6% + LIBOR	5,338	-	5,338	5,338	-	5,338
Nedbank Limited, London Branch	6% + LIBOR	5,338	-	5,338	5,338	-	5,338
Bank Of America Merrill Lynch	6% + LIBOR	5,338	-	5,338	5,338	-	5,338
Standard Chartered Bank	6% + LIBOR	8,006	-	8,006	8,006	-	8,006
Natixis	6% + LIBOR	8,006	-	8,006	8,006	-	8,006
Stanbic Ibtcc Bank Plc	6% + LIBOR	4,002	-	4,002	4,002	-	4,002
The Standard Bank Of South Africa	6% + LIBOR	4,002	-	4,002	4,002	-	4,002
		53,374	-	53,374	53,374	-	53,374

## Notes to the consolidated and separate financial statements

### Continued

31 December 2015		The Group			The Company		
		Current	Non-Current	Total	Current	Non-Current	Total
Term Loan	Interest	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
SBSA	8.5% + LIBOR	1,123	3,370	4,493	1,123	3,370	4,493
Stanbic	8.5% + LIBOR	1,123	3,370	4,493	1,123	3,370	4,493
FBN	8.5% + LIBOR	7,495	22,486	29,981	7,495	22,486	29,981
UBA	8.5% + LIBOR	7,495	22,486	29,981	7,495	22,486	29,981
Zenith Bank	8.5% + LIBOR	11,992	35,977	47,969	11,992	35,977	47,969
		29,228	87,689	116,917	29,228	87,689	116,917

31 December 2015	Corporate loan	Interest	The Group			The Company		
			Current	Non-Current	Total	Current	Non-Current	Total
			₦'m	₦'m	₦'m	₦'m	₦'m	₦'m
	Citibank Nigeria Limited	6% + LIBOR	1,657	2,900	4,557	1,657	2,900	4,557
	Firststrand Bank Limited Acting	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
	JPMorgan Chase Bank N A London	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
	Nedbank Limited, London Branch	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
	Bank Of America Merrill Lynch	6% + LIBOR	1,988	3,480	5,468	1,988	3,480	5,468
	Standard Chartered Bank	6% + LIBOR	2,983	5,220	8,203	2,983	5,220	8,203
	Citibank N.A.	6% + LIBOR	1,326	2,320	3,646	1,326	2,320	3,646
	Natixis	6% + LIBOR	2,983	5,220	8,203	2,983	5,220	8,203
	Stanbic Ibtcc Bank Plc	6% + LIBOR	1,490	2,610	4,100	1,490	2,610	4,100
	The Standard Bank Of South Africa	6% + LIBOR	1,490	2,610	4,100	1,490	2,610	4,100
			19,881	34,800	54,681	19,881	34,800	54,681

Loans	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Term loan	152,806	116,917	152,806	116,917
Corporate loan	53,374	54,681	53,374	54,681
Sterling bank loan (business combination)	-	10,439	-	-
Less: Capitalised loan transaction costs	(3,631)	(3,157)	(3,631)	(3,157)
	202,549	178,880	202,549	168,441

## Notes to the consolidated and separate financial statements

### Continued

#### 28. Contingent consideration

	The Group
	N'm
At 1 January 2015	1,728
Fair value movement	661
Additions	3,817
Write-off	(1,988)
Exchange difference	137
<b>At 31 December 2015</b>	<b>4,355</b>
At 1 January 2016	4,355
Fair value movement	596
Additions	-
Deconsolidation of subsidiary	(3,805)
Exchange difference	2,526
<b>At 31 December 2016</b>	<b>3,672</b>

In 2014, the Group recognised the contingent consideration in relation to its acquisition of a participating interest in assets within OPL 283 (the 'Umuseti/Igbuku Fields'). The contingency criteria are the achievement of certain production milestones. At inception, the present value was capitalised to the cost of the asset and a corresponding liability was recorded. The liability was carried at fair value through profit or loss. These milestones were not achieved as at mid-2015 and as such the liability was de-recognised during the year.

During the year, the Group derecognized the contingent consideration on OML 55 as a result of the deconsolidation of its subsidiary BelemaOil. The contingent consideration of ₦ 56 million (US\$18.5 million) for OML 53 is being recognized at the fair value of ₦ 3.7 billion. This is still contingent on oil price rising above US\$90/bbl. over the next three years.

#### 29. Provision for decommissioning obligation

	The Group	The Company
	N'm	N'm
At 1 January 2015	2,338	1,813
Unwinding of discount due to passage of time	-	-
Change in estimate	(1,754)	(1,365)
Exchange difference	185	143
<b>At 31 December 2015</b>	<b>769</b>	<b>591</b>
At 1 January 2016	769	591
Unwinding of discount due to passage of time	105	87
Deconsolidation of subsidiary	10	-
Change in estimate	(1,135)	(903)
Exchange difference	433	328
<b>At 31 December 2016</b>	<b>182</b>	<b>103</b>

## Notes to the consolidated and separate financial statements

### Continued

The Group makes full provision for the future cost of decommissioning oil production facilities on a discounted basis at the commencement of production. This relates to the removal of assets as well as their associated restoration costs. This obligation is recorded in the period in which the liability meets the definition of a “probable future sacrifice of economic benefits arising from a present obligation”, and in which it can be reasonably measured.

The provision represents the present value of estimated future expenditure to be incurred from 2045 to 2066 which is the current expectation as to when the producing facilities are expected to cease operations. Management engaged a third party to assist with an estimate of the expenditure to be incurred from 2045 to 2066. These provisions were based on estimations carried out by DeGolyer and MacNaughton based on current assumptions on the economic environment which management believes to be a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates.

The change in estimate in the current year for Group and Company is ₦ 1.1 billion and ₦ 0.9 billion respectively (2015: ₦1.8 billion and ₦1.4 billion) is due increase in the expected cessation of operations.

	Current estimated life span of reserves	
	2016 In years	2015 In years
Seplat Petroleum Development Company:	2045	2052
OML 4	2056	2052
OML 38	2052	2052
OML 41	2066	2052
Newton Energy Limited (OPL 283)	2045	2052
Seplat East Onshore Ltd (OML 53)	2054	2052

The discount rate used in the calculation of unwinding of the provision for both Group and Company for 2016 was within the range of 11.1% to 14.82% (2015: 11.1%). As of 31 December 2016, management has estimated decommissioning expenditure to occur from 2045 to 2066 for Group and Company (2015: 2052 for Group and Company).

### 30. Employee benefit obligation

#### 30a. Defined contribution plan

The Company contributes to a funded defined contribution retirement benefit scheme for its employees in compliance with the provisions of the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions to an approved Pension Fund Administrator (‘PFA’) - a separate entity. The assets of the scheme are managed by various Pension Fund Administrators patronised by employees of the Company. The Company’s contributions are charged to the profit and loss account in the year to which they relate. The amount payable as at 31 December 2016 was ₦127 million (2015: ₦ 78 million).

#### 30b. Defined benefit plan

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

## Notes to the consolidated and separate financial statements

### Continued

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

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

i) Liability recognised in the financial position

	The Group		The Company	
	2016	2015	2016	2015
Defined benefit obligation	1,559	1,377	1,559	1,377

ii) Amount recognised in profit or loss

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Current Service cost	474	1,377	474	1,377
Interest cost on benefit obligation	162	-	162	-
	636	1,377	636	1,377

The Group recognizes a part of its defined benefit expenses in profit or loss and recharges the other part to its joint operations partners, this is recognized as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Charged to receivables	350	760	350	760
Charged to profit or loss	240	617	241	617
	590	1,377	591	1,377

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

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Remeasurement (gains)/losses due to changes in financial and demographic assumptions	(558)	-	(558)	-
Remeasurement (gains)/losses due to experience adjustment	176	-	176	-
	(382)	-	(382)	-

## Notes to the consolidated and separate financial statements

### Continued

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 recognized as a receivable from the partners. Below is the breakdown:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Credited to receivables	(210)	-	(210)	-
Credited to other comprehensive income	(172)	-	(172)	-
	(382)	-	(382)	-

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

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Defined benefit obligation as at 1 January</b>	1,377	-	1,377	-
Current service cost	474	1,377	474	1,377
Interest cost	162	-	162	-
Remeasurement (gains)/losses	(381)	-	(381)	-
Benefits paid by the employer	(74)	-	(74)	-
Exchange differences	1	-	1	-
<b>Defined benefit obligation at 31 December</b>	<b>1,559</b>	<b>1,377</b>	<b>1,559</b>	<b>1,377</b>

For the purpose of presentation in the statement of cash flows, defined benefit expenses is as follows:

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
<b>Movement in defined benefit expense during the year</b>	<b>182</b>	<b>-</b>	<b>182</b>	<b>-</b>
Adjustment for non-cash movements:				
Remeasurement gains/(losses)	381	-	381	-
Current service and interest cost charged to receivables	(350)	-	(350)	-
<b>Defined benefit expenses in the cash flow</b>	<b>213</b>	<b>-</b>	<b>213</b>	<b>-</b>

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

	The Group and Company	
	2016 %	2015 %
Discount rate	16	12
Average future pay increase	13	12
Average future rate of inflation	12	9

## Notes to the consolidated and separate financial statements

### Continued

#### a) Mortality in service

Sample age	The Group and Company	
	Number of deaths in year out of 10,000 lives	
	2016	2015
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26

#### b) Withdrawal from service

Age band	The Group and Company	
	Rates	
	2016	2015
Less than or equal to 30	1.0%	1.0%
31 - 39	1.5%	1.5%
40 - 44	1.5%	1.5%
45 - 55	1.0%	1.0%
56 - 60	0.0%	0.0%

#### c) A quantitative sensitivity analysis for significant assumption as at 31 December 2016 is as shown below:

Assumptions	The Group and Company							
	Base	Discount Rate			Salary increases		Mortality	
		1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease	
Sensitivity Level: Impact on the net defined benefit obligation	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m	₦'m	
31 December 2016	1,559	145	(170)	(180)	156	9	(9)	
31 December 2015	1,377	161	(196)	(201)	8	(11)	168	

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

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

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Within the next 12 months (next annual reporting period)	111	59	111	59
Between 2 and 5 years	887	469	887	469
Between 5 and 10 years	2,413	1,864	2,413	1,864
	3,412	2,392	3,412	2,392

The weighted average liability duration for the Plan is 11.53years. The longest weighted duration for Nigerian Government bond as at 31st December 2016 was about 5.85 years with a gross redemption yield of about 15.32%.

## Notes to the consolidated and separate financial statements

### Continued

#### 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.

### 31. Trade and other payables

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Trade payable	32,983	24,936	29,342	24,888
Accruals and other payables	35,868	43,002	30,813	33,635
NDDC levy	6	1,247	6	1,247
Deferred revenue	433	282	433	282
Royalties	10,476	5,104	8,469	5,013
Intercompany payable	-	-	16,982	4,887
	79,766	74,571	86,045	69,952

The accruals balance is mainly composed of other field-related accruals - ₦10.7 billion and ₦7.6 billion for Group and Company (2015: ₦29.9 billion). Royalties include accruals for unpaid gas revenues during the period.

### 32. Earnings per share (EPS)

#### Basic EPS

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

#### Diluted EPS

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

# Notes to the consolidated and separate financial statements

## Continued

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
(Loss)/profit for the year attributable to equity holders of the parent	(44,921)	13,418	(24,840)	11,914
	Shares '000	Shares '000	Shares '000	Shares '000
Weighted average number of ordinary shares in issue	563,445	560,576	563,445	560,576
Share awards	1,540	189	1,540	189
Weighted average number of ordinary shares adjusted for the effect of dilution	564,985	560,765	564,985	560,765
	₦	₦	₦	₦
Basic (loss)/earnings per share	(79.73)	23.94	(44.09)	21.25
Diluted (loss)/earnings per share	(79.11)	23.93	(43.74)	21.25
	₦'m	₦'m	₦'m	₦'m
(Loss)/profit attributable to equity holders of the parent	(44,921)	13,418	(24,840)	11,914
(Loss)/profit used in determining diluted earnings per share	(44,921)	13,418	(24,840)	11,914

### 33. Dividends paid and proposed

As at 31 December 2016, the dividend for the year was Nil for both Group and Company (2015: ₦ 9.8 billion).

	The Group and Company	
	2016 ₦'m	2015 ₦'m
<b>Cash dividends on ordinary shares declared and paid:</b>		
Interim dividend for 2016: ₦ 9.13 per share, 563,445,561 shares in issue (2015: ₦ 7.82 per share, 560,576,101 shares in issue)	5,118	4,384
Final dividend for 2016: ₦ Nil per share, 563,445,561 shares in issue (2015: ₦ 17.56 per share, 560,576,101 shares in issue)	-	9,842
<b>Total</b>	<b>5,118</b>	<b>14,226</b>
<b>Proposed dividends on ordinary shares:</b>		
Final cash dividend for 2016: ₦ Nil per share (2015: ₦7.92 per share, 560,576,101 shares in issue)	5,118	4,460

### 34. Related party relationships and transactions

The Group is controlled by Seplat Petroleum Development Company Plc (the parent Company). The parent Company is owned 13.84% either directly or by entities controlled by A.B.C Orjiako (SEPCOL) and members of his family and 13.15% either directly or by entities controlled by Austin Avuru (Professional Support Limited) and Platform Petroleum Limited). The remaining shares in the parent Company are widely held.

#### 34a. Related party relationships

The services provided by the related parties:

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

# Notes to the consolidated and separate financial statements

## Continued

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

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

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

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

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

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

**Ndosumili Ventures Limited:** is a subsidiary of Platform Petroleum Limited. The Company provides transportation services to Seplat.

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

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

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

**Platform Petroleum Limited:** The Chief Executive Officer of Seplat is a director and shareholder of this company. The Company seconded support staff to Seplat.

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

**Shebah Exploration and Production Company Limited ('SEPCOL'):** The Chairman of Seplat is a director and shareholder of SEPCOL. SEPCOL provided consulting services to Seplat.

## Notes to the consolidated and separate financial statements

### Continued

The following transactions were carried by Seplat with related parties:

#### 34b. Related party transactions

Year-end balances arising from related party transactions

##### i) Purchases of goods and services

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
<b>Shareholders of the parent company</b>				
SEPCOL	358	302	358	302
Platform Petroleum Limited	-	7	-	7
	358	309	358	309
<b>Entities controlled by key management personnel:</b>				
<b>Contracts &gt; ₦1billion in 2016</b>				
Nerine Support Services Limited	3,948	4,179	3,948	4,179
Montego Upstream Services Limited	2,937	1,879	2,937	1,879
Cardinal Drilling Services Limited	1,543	3,429	1,543	3,429
	8,428	9,487	8,428	9,487
<b>Contracts &lt; ₦1billion in 2016</b>				
Helko Nigeria Limited	560	113	560	113
Ndosumili Ventures Limited	422	268	422	268
Abbeycourt Trading Company Limited	164	470	164	470
Oriental Catering Services Limited	148	187	148	187
Keco Nigeria Enterprises	77	377	77	377
ResourcePro Inter Solutions Limited	17	366	17	366
Nabila Resources & Investment Ltd	17	45	17	45
Berwick Nigeria Limited	6	5	6	5
Neimeth International Pharmaceutical Plc	3	-	3	-
	1,414	1,831	1,414	1,831
	9,842	11,318	9,842	11,318

\*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 2016 is ₦2.4billion

# Notes to the consolidated and separate financial statements

## Continued

### 34c. Balances:

Year-end balances arising from related party transactions

#### ii) Prepayments / receivables

	The Group and Company	
	2016	2015
	₦'m	₦'m
<b>Entities controlled by key management personnel</b>		
Cardinal Drilling Services Limited - current portion	1,894	1,716
Cardinal Drilling Services Limited - non-current portion	-	1,060
	1,894	2,776

#### iii) Payables

	The Group and Company	
	2016	2015
	₦'m	₦'m
<b>Entities controlled by key management personnel</b>		
Montego Upstream Services Limited	3,520	-
Nerine Support Services Limited	3,480	-
Cardinal Drilling Services Limited	308	-
	7,308	-

## 35. Information relating to Employees

### 35a. Key management compensation

Key management includes executive and members of the leadership team. The compensation paid or payable to key management for employee services is shown below:

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Salaries and other short-term employee benefits	1,252	763	1,252	763
Post-employment benefits	214	346	214	346
Share based payment expenses	88	750	88	750
	1,554	1,859	1,554	1,859

### 35b. Chairman and Directors' emoluments

	The Group		The Company	
	2016	2015	2016	2015
	₦'m	₦'m	₦'m	₦'m
Chairman (Non-executive)	279	223	279	223
Chief Executive Officer	405	326	405	326
Executive Directors	458	578	458	578
Non-Executive Directors	662	536	662	487
Bonus	-	329	-	329
JV Partner Share	(587)	(437)	(587)	(437)
<b>Total</b>	1,217	1,555	1,217	1,506

## Notes to the consolidated and separate financial statements

### Continued

#### 35c. Highest paid Director

	The Group and Company	
	2016	2015
	₦'m	₦'m
Highest paid Director	405	326

Emoluments are inclusive of income taxes.

#### 35d. The number of directors (excluding the Chairman) whose emoluments fell within the following ranges was:

	The Group and Company	
	2016	2015
	Number	Number
Zero - ₦ 16,743,000	-	-
₦16,743,001 - ₦97,367,000	7	7
₦97,367,001 - ₦132,913,000	1	-
Above ₦132,913,000	3	4
	11	11

#### 35e. Employees

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

	The Group and Company	
	2016	2015
	Number	Number
₦1,674,000 - ₦4,121,000	1	4
₦4,121,001 - ₦8,243,000	33	6
₦8,243,001 - ₦12,364,000	136	76
Above ₦12,364,000	220	303
	390	389

#### 35f. The average number of persons (excluding Directors) in employment during the year was as follows:

	The Group and Company	
	2016	2015
	Number	Number
Senior management	15	19
Managers	78	68
Senior staff	110	111
Junior staff	187	191
	390	389

# Notes to the consolidated and separate financial statements

Continued

## 35g. Employee cost

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

	The Group and Company	
	2016	2015
	₦'m	₦'m
Salaries & wages	9,330	3,774
	9,330	3,774

## 36. Commitments and contingencies

### 36a. Operating lease commitments - group as lessee

The Group has entered into operating leases for the use of drilling rigs and rentals. The Group has no minimum lease payments to be disclosed because the total lease payment has been prepaid at inception of the lease.

### 36b. Contingent liabilities

The Group is involved in a number of legal suits as defendant. The estimated value of the contingent liabilities for the year ended 31 December 2016 is ₦4.7 billion (31 December 2015: ₦59.6 billion). No provision has been made for this potential liability in these financial statements. Management and the Group's solicitors are of the opinion that the Group will suffer no loss from these claims.

## 37. Events after the reporting period

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

The potential acquisition of an interest in OML 25 was initially identified in 2014 at which time the Group placed a sum of ₦138 billion (US\$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.

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

There was no other significant event after the statement of financial position date which could have a material effect on the state of affairs of the Group as at 31 December 2016 and on the profit or loss for the year quarter 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 2016

	The Group				The Company			
	2016		2015		2016		2015	
	N'm	%	N'm	%	N'm	%	N'm	%
Revenue	63,384		112,972		51,995		98,593	
Other income	-		459		-		459	
Finance income	15,800		2,535		26,846		1,611	
Cost of goods and other services:								
Local	(83,822)		(57,891)		(68,723)		(44,728)	
Foreign	-		(12,809)		-		(14,702)	
Valued (eroded)/added	(4,638)	100	45,266	100%	10,118	100	41,233	100%

Applied as follows:

	The Group				The Company			
	2016		2015		2016		2015	
	N'm	%	N'm	%	N'm	%	N'm	%
To employees: - as salaries and labour related expenses	5,340	-115%	5,399	12%	4,978	49%	4,529	11%
To external providers of capital: - as interest	18,270	-394%	16,553	37%	17,314	171%	15,315	37%
To Government: - as Company taxes	(536)	12%	(47)	-	(575)	-6%	-	-
Retained for the Company's future: - For asset replacement, depreciation, depletion & amortisation	15,101	-326%	14,575	32%	8,245	81%	12,720	31%
Deferred tax	2,571	-55%	(4,205)	-9%	4,996	49%	(3,245)	-8%
Loss for the year	(45,384)	979%	12,991	29%	(24,840)	-246%	11,914	29%
Valued(eroded)/ added	(4,638)	100%	45,266	100%	10,118	100%	41,233	100%

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

## Five year financial summary

As at 31 December 2016

	The Group				
	2016	2015	2014	2013	2012
	₦'m	₦'m	₦'m	₦'m	₦'m
Revenue	63,384	112,972	124,377	136,658	-
(Loss)/ profit before taxation	(47,419)	17,243	40,481	71,032	-
Income tax expense	2,035	(4,252)	-	14,399	-
(Loss)/profit for the year	(45,384)	12,991	40,481	85,431	-

	The Group				
	2016	2015	2014	2013	2012
	₦'m	₦'m	₦'m	₦'m	₦'m
<b>Capital employed:</b>					
Issued share capital	283	282	277	200	-
Share premium	82,080	82,080	82,080	-	-
Share based payment reserve	2,597	1,729	-	-	-
Capital contribution	5,932	5,932	5,932	5,932	-
Retained earnings	85,052	134,919	135,727	106,992	-
Foreign currency translation reserve	200,429	56,182	35,642	591	-
Non-controlling interest	-	(148)	-	-	-
<b>Total equity</b>	<b>376,373</b>	<b>280,976</b>	<b>259,658</b>	<b>113,715</b>	<b>-</b>
<b>Represented by:</b>					
Non-current assets	462,402	295,735	182,162	107,852	-
Current assets	202,274	249,462	261,864	96,712	-
Non-current liabilities	(141,473)	(131,786)	(48,247)	(22,391)	-
Current liabilities	(146,830)	(132,435)	(136,121)	(68,458)	-
<b>Net assets</b>	<b>376,373</b>	<b>280,976</b>	<b>259,658</b>	<b>113,715</b>	<b>-</b>

## Five year financial summary

As at 31 December 2016

	The Company				
	2016	2015	2014	2013	2012
	N'm	N'm	N'm	N'm	N'm
Revenue	51,995	98,593	121,246	135,068	97,078
(Loss)/ profit before taxation	(29,261)	15,159	43,529	71,025	45,956
Income tax expense	4,421	(3,245)	-	14,399	(28,998)
Loss/profit for the year	(24,840)	11,914	43,529	85,424	16,958

	The Company				
	2016	2015	2014	2013	2012
	N'm	N'm	N'm	N'm	N'm
<b>Capital employed:</b>					
Issued share capital	283	282	277	200	107
Share premium	82,080	82,080	82,080	-	-
Share based payment reserve	2,597	1,729	-	-	-
Capital contribution	5,932	5,932	5,932	5,947	6,211
Foreign translation reserve	193,499	45,618	36,086	580	-
Retained earnings	106,670	136,456	138,768	106,886	21,921
<b>Total equity</b>	<b>391,061</b>	<b>272,097</b>	<b>263,143</b>	<b>113,613</b>	<b>28,239</b>
<b>Represented by:</b>					
Non-current assets	277,618	167,517	152,396	97,740	66,238
Current assets	404,274	348,199	293,558	102,681	73,533
Non-current liabilities	(137,722)	(115,850)	(45,994)	(21,019)	(43,707)
Current liabilities	(153,109)	(127,769)	(136,817)	(65,789)	(67,825)
<b>Net assets</b>	<b>391,061</b>	<b>272,097</b>	<b>263,143</b>	<b>113,613</b>	<b>28,239</b>

## Supplementary financial information (unaudited)

For the year ended 31 December 2016

### 38. Estimated quantities of proved plus probable reserves

	Oil & NGLs MMbbls	Natural Gas Bscf	Oil Equivalent MMboe
At 31 December 2015	208.9	1,573.2	480.2
Revisions	(9.8)	5.6	(8.8)
Discoveries and extensions	-	-	-
Acquisitions	-	-	-
Production	(3.7)	(34.7)	(9.7)
<b>At 31 December 2016</b>	<b>195.4</b>	<b>1,544.1</b>	<b>461.7</b>

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.

### 39. Capitalised costs related to oil producing activities

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Capitalised costs:				
Unproved properties	-	-	-	-
Proved properties	463,043	334,959	351,448	202,091
Total capitalised costs	463,043	334,959	351,448	202,091
Accumulated depreciation	89,601	49,237	86,822	44,312
<b>Net capitalised costs</b>	<b>373,442</b>	<b>285,722</b>	<b>264,626</b>	<b>157,779</b>

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.

### 40. Concessions

The original, expired and unexpired terms of concessions granted to the Group as at 31 December 2016 are:

		Original	Term in years expired	Unexpired
Seplat	OML 4, 38 & 41	10	7	3
Newton	OML 56	10	7	3
Seplat East Swamp	OML 53	30	19	11
Seplat Swamp	OML 55	30	19	11

## Supplementary financial information (unaudited)

For the year ended 31 December 2016 - continued

### 41. Results of operations for oil producing activities

	The Group		The Company	
	2016 ₦'m	2015 ₦'m	2016 ₦'m	2015 ₦'m
Revenue	63,384	112,972	51,995	98,593
Other income	-	459	-	459
Production and administrative expenses	(97,120)	(82,703)	(74,347)	(72,189)
Depreciation & amortisation	(13,683)	(13,485)	(6,909)	(11,704)
(Loss)/ profit before taxation	(47,419)	17,243	(29,261)	15,159
Taxation	2,035	(4,252)	4,421	(3,245)
Profit after taxation	(45,384)	12,991	(24,840)	11,914

### 42. Exchange rates used in translating accounts to Naira

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

	Basis	₦/\$
Fixed assets - opening balances	Historical rate	Historical
Fixed assets - additions	Average rate	308.00
Fixed assets - closing balances	Closing rate	305.00
Current assets	Closing rate	305.00
Current liabilities	Closing rate	305.00
Equity	Historical rate	On the date of issue
Income and Expenses:		
Jan- May	Average rate	199.17
June	Average rate for June	227.00
July - Sept	Average rate	308.00
Sept-Dec	Average rate	305.00
Jan - Dec	Overall average rate	255.00

### 43. Compliance with FRC Rule 1

In compliance with the regulatory requirement in Nigeria that the CFO signing the annual report and financial statements must be a member of a professional accountancy body recognized by an Act of the National Assembly in Nigeria, the CFO of Seplat- Roger Brown, has been granted a waiver by the Financial Reporting Council of Nigeria to sign the 2016 annual report and financial statements without indicating any FRC registration number with the certification.